WATERFRONT CAPITAL CORPORATION

Consolidated Financial Statements

For the years ended December 31, 2017 and 2016
(Expressed in Canadian Dollars)

Contact Information:

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Waterfront Capital Corporation

We have audited the accompanying consolidated financial statements of Waterfront Capital Corporation, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, changes in shareholders’ equity (deficiency), and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Waterfront Capital Corporation as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Waterfront Capital Corporation's ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada | Chartered Professional Accountants

February 13, 2018

WATERFRONT CAPITAL CORPORATION

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

As at December 31, 2017 and 2016

	2017	2016
ASSETS		
Current		
Cash	$ 478,696	$ 79,712
Accounts receivable	6,319	3,265
Investments (Note 4)	6,975	11,537
Prepaid expenses (Note 5)	15,128	18,892
	$ 507,118	$ 113,406
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Accounts payable and accrued liabilities (Note 5)	$ 22,603	$ 217,651
Loans payable (Note 5)	-	11,000
	22,603	228,651
Shareholders' equity (deficiency)		
Capital stock (Note 6)	9,627,279	8,766,639
Reserves	625,507	370,882
Deficit	(9,768,271)	(9,252,766)
	484,515	(115,245)
	$ 507,118	$ 113,406

Nature of operations and going concern (Note 1)

Commitments and contingencies (Note 9)

On behalf of the Board:

"Douglas L. Mason" Director

"Sead Hamzagic" Director

The accompanying notes are an integral part of these consolidated financial statements

WATERFRONT CAPITAL CORPORATION

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

For the years ended December 31, 2017 and 2016

	2017	2016
EXPENSES		
Consulting fees (Note 5)	$ 73,000	$ 68,000
Interest expense (Note 5)	2,781	1,568
Office and general (Note 5)	23,521	26,525
Professional fees (Note 5)	80,193	59,877
Regulatory and transfer agent fees	25,644	20,887
Rent (Note 5)	25,296	22,888
Share-based payments (Note 5 and 7)	254,625	-
Travel	185	406
Wages and benefits (Note 5)	30,756	25,616
	(516,001)	(225,767)
OTHER ITEMS		
Other income (Note 4)	87	9,520
Gain (loss) on investments	409	(9,701)
	496	(181)
Net loss and comprehensive loss for the year	$ (515,505)	$ (225,948)
Basic and diluted loss per common share	$ (0.02)	$ (0.01)
Weighted average shares outstanding	23,280,054	19,265,560

The accompanying notes are an integral part of these consolidated financial statements.

WATERFRONT CAPITAL CORPORATION

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in Canadian Dollars)

	Number of Common Shares	Number of Preferred Shares	Share Capital Amount	Share-based Payment Reserves	Warrant Reserve	Deficit	Total
Authorized Capital							
Unlimited number of common shares without par value							
Unlimited number of preferred shares without par value							
Balance as at December 31, 2015	**15,166,106**	**2,400,000**	**$ 8,546,639**	**$ 307,882**	**$ 63,000**	**$ (9,026,818)**	**$ (109,297)**
Private placement (Note 6)	4,400,000	-	220,000	-	-	-	**220,000**
Net loss for the year	-	-	-	-	-	(225,948)	**(225,948)**
Balance as at December 31, 2016	**19,566,106**	**2,400,000**	**$ 8,766,639**	**$ 307,882**	**$ 63,000**	**$ (9,252,766)**	**$ (115,245)**
Private placement (Note 6)	18,318,800	-	915,940	-	-	-	**915,940**
Share issue costs (Note 6)	-	-	(55,300)	-	-	-	**(55,300)**
Share-based payments	-	-	-	**254,625**	-	-	**254,625**
Net loss for the year	-	-	-	-	-	(515,505)	**(515,505)**
Balance as at December 31, 2017	**37,884,906**	**2,400,000**	**$ 9,627,279**	**$ 562,507**	**$ 63,000**	**$ (9,768,271)**	**$ 484,515**

The accompanying notes are an integral part of these consolidated financial statements

WATERFRONT CAPITAL CORPORATION
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
For the years ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	$ (515,505)	$ (225,948)
Items not affecting cash:		
Share-based payments	254,625	-
Other income	-	(9,067)
Loss (gain) on investments	(409)	9,701
	(261,289)	(225,314)
Changes in non-cash working capital items:		
Decrease (increase) in accounts receivable	(3,054)	1,577
Decrease in prepaid expenses	3,764	5,000
Decrease in accounts payable and accrued liabilities	(195,048)	(31,746)
Net cash used in operating activities	(455,627)	(250,483)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sales of securities	4,971	25,832
Net cash provided by investing activities	4,971	25,832
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on issuance of shares	880,000	220,000
Finders' fees	(19,360)	-
Loan advances	35,500	8,500
Loan repayments	(46,500)	(14,500)
Net cash provided by financing activities	849,640	214,000
Increase (decrease) in cash for the year	398,984	(10,651)
Cash, beginning of year	79,712	90,363
Cash, end of year	$ 478,696	$ 79,712
Cash paid for interest	$ 2,781	$ 1,568
Cash paid for tax	$ -	$ -

Supplemental disclosures with respect to cash flows (Note 8)

The accompanying notes are an integral part of these consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Nature of operations

The Company was incorporated under the laws of Alberta and was continued into British Columbia during the year ended December 31, 2000. The Company's principal business activity is providing business advisory services and reporting and financial services and investment assistance to public and non-public companies.

Effective January 5, 2015, the Company's wholly owned subsidiary, Waterfront Strategic Capital Corp. received regulatory approval for registration as an Exempt Market Dealer ("EMD") in the Provinces of British Columbia, Alberta and Ontario, and effective January 15, 2015 in the Province of Manitoba.

The Company's wholly owned subsidiary, Waterfront Strategic Capital Corp. received regulatory approval for a voluntary deregistration as an Exempt Market Dealer ("EMD") in the Province of British Columbia on January 12, 2017, from Alberta on December 29, 2016, from Ontario on January 18, 2017, and from Manitoba on December 29, 2016.

On February 7, 2017, the Company wound up its wholly-owned subsidiary.

Going concern

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Management believes the Company will be successful at securing additional funding so that its capital resources will be sufficient to carry its operations through the next twelve months, however, the Company has incurred significant operating losses and accumulated deficits over the past several fiscal years (2017 - $515,505; 2016 - $225,948), is currently unable to self-finance operations, has working capital of $484,515 (December 31, 2016 - deficit of $115,245), has a deficit of $9,768,271 (December 31, 2016 - $9,252,766) and has limited resources and no assurances that sufficient funding will be available to obtain the necessary financing to meet its obligations. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations and receive continued financial support from its creditors and shareholders. Management believes that the Company will be successful in raising sufficient working capital to maintain operations for the upcoming year. Management is actively engaged in the review and due diligence of its revenue and expenses and may seek to raise the necessary capital to meet new funding requirements. There can be no assurance that management's plan will be successful. If the going concern assumption were not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the consolidated statement of financial position classifications used. Such adjustments could be material.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these consolidated financial statements are based on IFRS issued and effective as of December 31, 2017. The Board of Directors approved the consolidated financial statements for issue on February 13, 2018.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3.

Basis of consolidation

These consolidated financial statements included the accounts of the Company and its wholly-owned subsidiary, Waterfront Strategic Capital Corp. up until February 7, 2017. All significant inter-company transactions and balances have been eliminated.

On February 7, 2017, the Company wound up its wholly-owned subsidiary.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information is expressed in Canadian dollars unless otherwise stated and have been rounded to the nearest dollar.

Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include the depreciation of equipment, impairment of assets, valuation of share-based payments, and recognition of deferred tax amounts.

Critical accounting estimates:

a) Impairment of assets
At each reporting period, assets, including accounts receivable and investments, are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The assessment of the carrying amount often requires estimates and assumptions such as discount rates, exchange rates and future operating performance.

2. BASIS OF PREPARATION (Continued)

Critical accounting estimates: (Continued)

b) Share-based payments
The fair value of share options granted is measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility, expected life of the options, expected dividends and the risk-free rate. These estimates will impact the amount of share-based payments recognized.

c) Income taxes
Related assets and liabilities are recognized for the estimated tax consequences between amounts included in the consolidated financial statements and their tax base using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences and, accordingly, affect the amount of the deferred tax asset or liability calculated at a point in time.

3. SIGNIFICANT ACCOUNTING POLICIES

The following are a list of significant accounting policies used by the Company.

(a) Cash

Cash includes highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(b) Financial instruments

Financial assets and financial liabilities are recognized on the consolidated statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in the consolidated statements of loss and comprehensive loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity dates. They are initially recognized at fair value and subsequently carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (Continued)

Financial assets (Continued)

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the consolidated statements of loss and comprehensive loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the consolidated statements of loss and comprehensive loss.

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in the consolidated statements of loss and comprehensive loss.

Other financial liabilities - This category includes promissory notes, amounts due to related parties, and accounts payable and accrued liabilities, all of which are initially recognized at fair value, net of transaction costs, and are subsequently stated at amortized cost using the effective interest method.

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Impairment of non-current assets

At each financial position reporting date, the Company's non-current assets are reviewed to determine whether there is any indication that the carrying value of those assets are impaired and may not be recoverable. If any such indication exists, the recoverable amount of the asset is evaluated at the level of a cash generating unit ("CGU"), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statements of loss and comprehensive loss for the year.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of loss and comprehensive loss.

(d) Capital stock

Common shares are classified as shareholders' equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(e) Share-based payment transactions

The Company's stock option plan allows employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Share-based payments to non-employees are measured at the fair value of goods or services received or at the fair value of equity instruments issued, if it is determined the fair value of the goods or services cannot be readily measured, and are recorded at the date the goods or services are received.

The fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. The fair value of the options is accrued and charged to operations with the offset credit to share-based payment reserve, over the vesting period. If and when the stock options are exercised, the applicable amounts from share-based payment reserve are transferred to share capital.

The Black-Scholes option valuation model used by the Company to determine fair values of options and similar financial instruments requires the input of highly subjective assumptions including future stock volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Revenue recognition

Security transactions are recorded on a settlement date basis. Realized gains and losses on disposal of investments and unrealized gains and losses in the value of investments are reflected in the consolidated statements of loss and comprehensive loss and are calculated on an average cost basis. Upon disposal of an investment, previously recognized unrealized gains or losses are reversed, so as to recognize the full realized gain or loss in the period of disposition. All transaction costs are expensed to the consolidated statements of loss and comprehensive loss as incurred.

Consulting, rent and administration fees are recognized when the services are rendered and collection is reasonably assured. Deposits received in advance of services rendered are recorded as deferred revenue.

Interest income is recorded on an accrual basis. Loan commitment fees are recorded over the term of the loans. Annual loan fees are recorded quarterly based on the terms of the loan agreement and adjusted to the amount agreed to by the parties. Reasonable assurance of collectability is also required for recognition as revenue.

(g) Loss per share

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common shares. The dilutive effect on loss per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(h) Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized as equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided for based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable profit; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it will not be recognized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Income taxes (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(i) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events; it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as interest expense.

(j) New and amended accounting pronouncements

A number of new standards, amendments to standards and interpretations are not yet effective as of December 31, 2017 and have not been applied in preparing these consolidated financial statements. None of these are expected to have a material effect on the consolidated financial statements of the Company.

- IFRS 9 Financial Instruments

  A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement.*

  The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

  The IASB has a tentative adoption date of periods beginning on or after January 1, 2018 for this standard.

- IFRS 15 Revenue from Contracts with Customers

  IFRS 15 outlines the principles for recognizing revenue from contracts with customers. The new standard establishes a new five-step model for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

  The new standard is effective for annual periods beginning on or after January 1, 2018, and is applicable to all entities and will supersede all current revenue recognition requirements under IFRS.

(Expressed in Canadian Dollars)

4. INVESTMENTS

Investments are marketable securities comprised of common shares in publicly traded companies as follows:

		2017		2016
Canadian International Pharma Corp. – nil common shares (December 31, 2016 – 100,033 common shares) [1]	$	-	$	6,002
BC Moly Ltd. – nil common shares (December 31, 2016 – 30,000 common shares) [2]		-		1,350
Magnum Goldcorp Inc. – 139,500 common shares (December 31, 2016 – 139,500 common shares) [1]		6,975		4,185
	$	6,975	$	11,537

[1] The investee companies have certain directors in common
[2] The investee companies had certain former directors in common

During the year ended December 31, 2016, the Company received a return of Capital from International Bethlehem Mining Corp. in the form of 139,500 shares of Magnum Goldcorp Inc. at a fair value of $9,067 which was recorded as other income.

5. RELATED PARTY TRANSACTIONS

(a) Included in prepaid expenses at December 31, 2017 is $11,000 (December 31, 2016 - $15,000) as a deposit paid to Waterfront Communications Inc., a company with certain directors in common, to cover shared employee payroll and office costs.

(b) Included in accounts payable at December 31, 2017 is $2,344 (December 31, 2016 - $161,704) due to companies controlled by directors, former directors and/or companies with certain directors in common.

(c) During the year ended December 31, 2017, the Company reimbursed Waterfront Communications Inc. (a company with certain directors in common) on a cost basis, to cover shared administrative payroll costs in the amount of $30,756 (2016 - $25,845) and shared expenses in the amount of $16,039 (2016 - $13,987).

(d) The Company entered into a loan agreement, dated October 8, 2015, pursuant to which the lender agreed to loan the Company up to $50,000 for working capital purposes. The loan agreement was provided by a company controlled by a director and each loan advance is for a term of one year with interest at a rate of 1% per month (12% per annum). The Company borrowed $8,500 and repaid $14,500 during the year ended December 31, 2016. During the year ended December 31, 2017 the Company received loan advances of $35,500. The Company repaid all outstanding loans on September 29, 2017, totalling $46,500. No loan bonus shares were issued in connection with these loans.

(Expressed in Canadian Dollars)

5. RELATED PARTY TRANSACTIONS (Continued)

(e) During the year ended December 31, 2017, the Company recovered, paid or accrued the following amounts to directors, companies or limited partnerships controlled by directors or former directors:

	2017	2016
Consulting/Director fees	$ 64,000	$ 73,000
Interest	2,781	1,568
Professional fees	-	30,000
Rent	25,296	22,888
Share-based payments	135,807	-

Compensation to the CEO, President, CFO, and Directors include the following:

	2017	2016
Consulting and professional fees	$ 64,000	$ 103,000
Share-based payments	135,807	-

6. CAPITAL STOCK

During the year ended December 31, 2017, the share transactions were completed by the Company:

- On October 13, 2017, the Company completed its non-brokered private placement and raised an aggregate of $880,000 by the issuance of 17,600,000 units (the "Units") at a price of $0.05 per Unit. Each Unit consisted of one common share and one share purchase warrant, with each warrant entitling the holding to purchase an additional common share for a period of two years at an exercise price of $0.10. All of the securities issued pursuant to this private placement are subject to a hold period expiring on February 13, 2018. In connection with the closing of the private placement, the Company has paid a finders' fee of 718,800 Units (valued of $44,925) and $19,360 in cash, being 10% of the gross proceeds raised by the Company from investors introduced to the Company.

During the year ended December 31, 2016, the share transactions were completed by the Company:

- In January and February 2016, the Company completed a non-brokered private placement (the "Private Placement") and raised an aggregate of $220,000 by the issuance of 4,400,000 units (the "Units") at $0.05 per Unit. Each Unit consisted of one common share and one share purchase warrant, with each warrant entitling the holder to purchase an additional common share for a period of two years at an exercise price of $0.06.

7. STOCK OPTIONS AND WARRANTS

Stock Options

The Company has a rolling stock option plan (as adopted and approved by shareholders on June 12, 2013), whereby it is allowed to issue options of up to 10% of the Company's issued and outstanding common shares at any given time. Under the plan, options can be granted for a maximum term of five years and vesting of stock options is at the discretion of the Board of Directors at the time options are granted.

(Expressed in Canadian Dollars)

7. STOCK OPTIONS AND WARRANTS (Continued)

Stock Options (Continued)

On October 13, 2017, the Company granted 2,940,000 incentive stock options to certain directors, officers, employees and consultants at an exercise price of $0.10 per share for a term of 5 years in accordance with the terms of the Company's stock option plan.

On October 16, 2017, the Company granted 75,000 incentive stock options to a director at an exercise price of $0.125 per share for a term of 5 years in accordance with the terms of the Company's stock option plan.

As at December 31, 2017, the following incentive stock options were outstanding:

2017	2016	Exercise Price	Expiry Date
-	75,000	$ 0.10	July 24, 2017
675,000	675,000	$ 0.10	February 15, 2018
58,000	58,000	$ 0.10	September 30, 2019
33,000	33,000	$ 0.12	January 19, 2020
2,940,000	-	$ 0.10	October 13, 2022
75,000	-	$ 0.125	October 16, 2022
3,781,000	841,000		

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2015	1,201,000	$ 0.10
Expired/Cancelled	(360,000)	$ 0.10
Outstanding, December 31, 2016	841,000	$ 0.10
Expired	(75,000)	$ 0.10
Issued	3,015,000	$ 0.10
Outstanding, December 31, 2017	3,781,000	$ 0.10

The fair value of stock options was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2017
Expected life (years)	5
Interest rate	1.71 - 1.72%
Volatility	119.70 - 123.50%
Dividend yield	0.00%

Stock based compensation recognized for options granted and vested during the year ended December 31, 2017 was $254,625 (2016 - $Nil).

(Expressed in Canadian Dollars)

7. STOCK OPTIONS AND WARRANTS (Continued)

Warrants

As at December 31, 2017, the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
3,400,000 (1)	$ 0.06	January 26, 2018
1,000,000 (1)	$ 0.06	February 3, 2018
18,318,800	$ 0.10	October 13, 2019
22,718,800		

(1) Warrants were exercised subsequent the year end and prior to the expiry date (Note 14).

Warrant transactions are summarized as follows:

	Number of Options		Weighted Average Exercise Price
Outstanding, December 31, 2015	5,512,040	$	0.20
Expired	(5,512,040)	$	0.20
Issued	4,400,000	$	0.06
Outstanding, December 31, 2016	4,400,000	$	0.06
Issued	18,318,800	$	0.10
Outstanding, December 31, 2017	22,718,800	$	0.09

8. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

The significant non-cash financing or investing transactions during the year ended December 31, 2017 included:

- Issued 718,800 units (with a value of $35,940) in connection with a private placement (Note 6).

There were no non-cash financing or investing transactions during the year ended December 31, 2016.

9. COMMITMENTS AND CONTINGENCIES

(a) The Company has entered into three 5-year term renewable agreements with companies controlled by two directors and one former director of the Company for the provision of consulting services and/or legal services at a cost of $2,500 per month ($30,000 per annum) for each of the three agreements. If any of such agreements are terminated without cause, or if there is a change in control of the Company, the Company is required to pay $150,000 to such contracted party so affected.

(b) The Company has entered into two agreements with certain directors/officers for services rendered in such capacities. If such agreements are terminated without consent of the director/officer or the director/officer resigns within 120 days following a change in control, the Company must pay $50,000 to such director/officer and allow any unvested stock options to vest.

(Expressed in Canadian Dollars)

10. CAPITAL MANAGEMENT

The Company manages its common shares and stock options as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company does not pay out dividends, other than on its Preferred Shares (see Note 6). The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 365 days or less from the original date of acquisition, selected with regard to the expected timing of expenditures from continuing operations.

To fund future operating activities the Company will need to raise funds through future share issuances, issue new debt or dispose of assets.

There have been no changes to the Company's approach to capital management during the year ended December 31, 2017. The Company is not subject to externally imposed capital requirements.

The Company expects to raise sufficient capital to carry its corporate and administrative services and operations through its current operating year.

11. FINANCIAL INSTRUMENTS

Fair value

The Company classifies its cash and investments as fair value through profit or loss; accounts receivable as loans and receivables; and accounts payable and accrued liabilities as other financial liabilities.

The carrying values of accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments.

The Company's measurement of fair value of financial instruments as at December 31, 2017 and 2016 in accordance with the fair value hierarchy is as follows:

	Total	Level 1	Level 2	Level 3
December 31, 2017				
Cash	$ 478,696	$ 478,696	$ -	$ -
Investments	$ 6,975	$ 6,975	$ -	$ -
December 31, 2016				
Cash	$ 79,712	$ 79,712	$ -	$ -
Investments	$ 11,537	$ 11,537	$ -	$ -

(Expressed in Canadian Dollars)

11. FINANCIAL INSTRUMENTS (Continued)

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

Credit risk

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its payment obligations. The Company is exposed to credit risk with respect to its cash, investments and accounts receivable.

The Company's credit risk is primarily attributable to cash and investments. Management believes that the credit risk concentration with respect to cash and investments is remote as it maintains accounts with highly-rated financial institutions.

Credit risk with respect to other receivables is considered to be moderate due to the balance being outstanding from related parties (see Note 5). Credit risk with respect to trade accounts receivable has been assessed as low from management, as the Company has strong working relationships with the parties involved.

The credit risk associated with cash is minimized substantially by ensuring that these financial assets are placed with a major financial institution with strong investment-grade ratings by a primary ratings agency.

The Company's concentration of credit risk and maximum exposure thereto is as follows:

	2017	2016
Bank accounts	$ 478,696	$ 79,712
Investments	6,975	11,537
Accounts receivable	6,319	3,265
	$ 491,990	$ 94,514

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At December 31, 2017, the Company had accounts payable and accrued liabilities of $22,603 (December 31, 2016 - $217,651) and loans payable of $nil (December 31, 2016 - $11,000). Based on the current funds held as at December 31, 2017, the Company will need to rely upon financing from shareholders and/or debt holders to obtain sufficient working capital. There is no assurance that such financing will be available on terms and conditions acceptable to the Company.

(Expressed in Canadian Dollars)

11. FINANCIAL INSTRUMENTS (Continued)

The amounts listed below are the remaining contractual maturities for financial liabilities held by the Company:

2017			
Due Date	Accounts Payable, Accrued Liabilities and Loans Payable	Due to Related Parties	Total
0 – 90 days	$ 20,259	$ 2,344	$ 22,603

2016			
Due Date	Accounts Payable, Accrued Liabilities and Loans Payable	Due to Related Parties	Total
0 – 90 days	$ 55,947	$ 161,704	$ 217,651
90 – 365 days	-	11,000	11,000

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

Interest rate risk consists of two components:

(a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

(b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company is not exposed to significant interest rate risk.

(ii) Foreign currency risk

The Company is not exposed to significant foreign currency risk.

Market risk (Continued)

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is exposed to other price risk with respect to its investments, as they are carried at fair values based on quoted market prices.

(Expressed in Canadian Dollars)

12. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes as at December 31, 2016 is as follows:

	2017	2016
Loss for the year	$ 515,505	$ 225,948
Expected income tax (recovery)	(134,000)	(59,000)
Non-deductible expenditures	66,000	(6,000)
Change in statutory, foreign tax, foreign exchange rates and other	(45,000)	13,000
Share issue costs	(5,000)	-
Adjust to prior years provision versus statutory tax returns and expiry of non-capital losses	2,000	(8,000)
Change in unrecognized deductible temporary differences	116,000	60,000
	$ -	$ -

In September 2017, the British Columbia (BC) Government proposed changes to the general corporate income tax rate to increase the rate from 11% to 12% effective January 1, 2018 and onwards. This change in tax rate was substantively enacted on October 26, 2017. The relevant deferred tax balances have been remeasured to reflect the increase in the Company's combined Federal and Provincial (BC) general corporate income tax rate from 26% to 27%.

The significant components of the Company’s unrecognized temporary differences and unused tax losses that have not been included on the consolidated statements of financial position are as follows:

	2017	Expiry Dates	2016
Temporary Differences			
Allowable capital losses	$ 2,657,000	not applicable	$ 2,585,000
Share issue costs	18,000	2035 to 2038	5,000
Non-capital losses available for future period	2,483,000	2026 to 2037	2,314,000
Marketable securities	2,000	not applicable	265,000

13. SEGMENTED INFORMATION

The Company currently operates its business in one operating segment in Canada.

14. SUBSEQUENT EVENTS

On January 24, 2018, 4,400,000 warrants were exercised at $0.06 for total proceeds of $264,000.