# CHINOOK TYEE INDUSTRY LIMITED
(formerly Global Railway Industries Ltd.)

# CONSOLIDATED FINANCIAL STATEMENTS

## DECEMBER 31, 2013

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

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## INDEPENDENT AUDITOR'S REPORT

**To the shareholders of Chinook Tyee Industry Ltd.**

We have audited the accompanying consolidated financial statements of Chinook Tyee Industry Ltd. (formerly Global Railway Industries Ltd.), which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statement of comprehensive loss, changes in shareholders' equity and cash flows for the year 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.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditor's 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 audit is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Chinook Tyee Industry Ltd. as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

***Other Matter***

The consolidated financial statements of Chinook Tyee Industry Ltd. for the year ended December 31, 2012, were audited by another auditor who expressed an unmodified opinion on those statements on March 11, 2013.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
April 29, 2014

**CHINOOK TYEE INDUSTRY LIMITED**
(formerly Global Railway Industries Ltd.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013
(Expressed in Canadian Dollars)

| | Notes | 2013 | 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | | $ 396,931 | $ 650,969 |
| Short-term deposits | | 2,003,390 | 3,527,048 |
| Accounts receivable and prepaid expenses | 5 | 24,101 | 41,559 |
| Loans receivable | 6 | 650,619 | |
| | | 3,075,041 | 4,219,576 |
| Prepaid expenses | 5 | 61,463 | - |
| Loans receivable | 6 | 744,069 | - |
| **Total assets** | | $ 3,880,573 | $ 4,219,576 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 8 | $ 241,811 | $ 72,026 |
| Loan payable | 9 | 226,866 | - |
| Provision payable | 12 | - | 254,985 |
| Total liabilities | | 468,677 | 327,011 |
| **Equity** | | | |
| Share capital | 10 | 26,071,953 | 26,387,766 |
| Share based payment reserve | | 2,744,438 | 2,744,438 |
| Foreign currency reserves | | (8,486) | - |
| Deficit | | (25,577,421) | (25,239,639) |
| Equity attributable to owners | | 3,230,484 | 3,892,565 |
| Non-controlling interest | | 181,412 | - |
| Total equity | | 3,411,896 | 3,892,565 |
| **Total liabilities and equity** | | $ 3,880,573 | $ 4,219,576 |

**On behalf of the Board:**

/s/ Tom Kusumoto Director /s/ Kenneth MacLeod Director

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

**CHINOOK TYEE INDUSTRY LIMITED**
(formerly Global Railway Industries Ltd.)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
YEARS ENDED DECEMBER 31,
(Expressed in Canadian Dollars)

| | Notes | 2013 | 2012 |
|---|---|---|---|
| **Revenue** | | | |
| Interest | | $ 52,956 | $ 74,458 |
| Consulting | | 16,046 | - |
| | | 69,002 | 74,458 |
| **EXPENSES** | | | |
| Directors' fees | | 49,000 | 73,894 |
| General and administrative costs | 11 | 590,472 | 460,407 |
| Interest | | 2,858 | - |
| Regulatory fees and shareholder communication | | 40,853 | 67,552 |
| | | 683,183 | 601,853 |
| Loss before other items and income taxes | | (614,181) | (527,395) |
| Foreign exchange gain | | 39,915 | - |
| Other items | 12 | 254,985 | (200,000) |
| Loss before income taxes | | (319,281) | (727,395) |
| Income tax recovery | 16 | - | 20,939 |
| **Loss for the year** | | (319,281) | (706,456) |
| **Other comprehensive loss** | | | |
| Foreign currency translation differences on foreign operations | | (22,679) | - |
| **Comprehensive loss for the year** | | $ (341,960) | $ (706,456) |
| **Loss for the year attributable to :** | | | |
| Owners | | $ (337,782) | $ (706,456) |
| Non-controlling interest | | 18,501 | - |
| **Loss for the year** | | $ (319,281) | $ (706,456) |
| **Comprehensive loss for the year attributable to:** | | | |
| Owners | | $ (346,267) | $ (706,456) |
| Non-controlling interest | | 4,307 | - |
| **Comprehensive loss for the year attributable to:** | | $ (341,960) | $ (706,456) |
| **Weighted average number of common shares outstanding** | | 3,526,348 | 3,816,016 |
| Loss per common share attributable to owners, basic and diluted | | $ (0.10) | $ (0.19) |

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

**CHINOOK TYEE INDUSTRY LIMITED**
(formerly Global Railway Industries Ltd.)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31,
(Expressed in Canadian Dollars)

| | Equity attributable to owners | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of common shares issued | Share capital | Share-based payment reserve | Foreign currency translation reserve | Deficit | Total equity atrributable to owners | Non-controlling interest | Total equity |
| Balance, January 1, 2012 | 3,816,016 | $ 26,387,766 | $ 2,744,438 | $ - | $ (18,427,557) | $ 10,704,647 | $ - | $ 10,704,647 |
| Loss for the year | - | - | - | - | (706,456) | (706,456) | - | (706,456) |
| Dividends paid (note 10) | - | - | - | - | (6,105,626) | (6,105,626) | - | (6,105,626) |
| Balance, December 31, 2012 | 3,816,016 | 26,387,766 | 2,744,438 | - | (25,239,639) | 3,892,565 | - | 3,892,565 |
| Loss for the year | - | - | - | - | (337,782) | (337,782) | 18,501 | (319,281) |
| Share repurchase (note 10) | (343,275) | (315,813) | - | - | - | (315,813) | - | (315,813) |
| Foreign currency translation | - | - | - | (8,486) | - | (8,486) | (14,193) | (22,679) |
| Foreign currency translation re: non-controlling interest on acquisition of subsidiary | - | - | - | - | - | - | (18,683) | (18,683) |
| | | | | - | | | | |
| Purchase of subsidiary (note 4) | - | - | - | - | - | - | 195,787 | 195,787 |
| Balance, December 31, 2013 | 3,472,741 | $ 26,071,953 | $ 2,744,438 | $ (8,486) | $ (25,577,421) | $ 3,230,484 | $ 181,412 | $ 3,411,896 |

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

**CHINOOK TYEE INDUSTRY LIMITED**
(formerly Global Railway Industries Ltd.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31,
(Expressed in Canadian Dollars)

| | Notes | | 2013 | | 2012 |
|---|---|---|---|---|---|
| **CASH PROVIDED BY (USED IN):** | | | | | |
| **OPERATING ACTIVITIES** | | | | | |
| Loss for the year | | $ | (319,281) | $ | (706,456) |
| Items not affecting cash: | | | | | |
| Income tax recovery | | | - | | (20,939) |
| Foreign exchange | | | (39,915) | | - |
| Accrued interest on short-term deposits | | | (21,837) | | (74,458) |
| Interest capitalized to loans | | | 17,711 | | - |
| | | | (363,322) | | (801,853) |
| Changes in non-cash working capital items | | | | | |
| Receivables and prepaids | | | (44,005) | | 180,383 |
| Escrow receivables | | | - | | 4,167,084 |
| Accounts payable and accrued liabilities | | | 169,785 | | (151,543) |
| Provisions | 12 | | (254,985) | | (252,389) |
| | | | (492,527) | | 3,141,682 |
| **INVESTING ACTIVITIES** | | | | | |
| Interest received | | | 31,119 | | 76,588 |
| Proceeds from sale of short-term investments | | | 5,311,935 | | 4,282,905 |
| Purchase of short-term investments | | | (3,800,000) | | (5,029,882) |
| Purchase of equity accounted investments | | | (529,000) | | - |
| Cash acquired on purchase of subsidiary | | | 28,606 | | - |
| Loans receivable | | | (451,084) | | - |
| | | | 591,576 | | (670,389) |
| **FINANCING ACTIVITIES** | | | | | |
| Dividends paid | | | - | | (6,105,626) |
| Repurchase and cancellation of share capital | 10 | | (315,813) | | - |
| | | | (315,813) | | (6,105,626) |
| Effect of foreign exchange on cash | | | (37,274) | | - |
| Change in cash during the year | | | (254,038) | | (3,634,333) |
| Cash, beginning of the year | | | 650,969 | | 4,285,302 |
| Cash, end of the year | | $ | 396,931 | $ | 650,969 |
| Supplemental disclosure with respect to cash flows: | | | | | |
| Cash received during the year for interest | | $ | 31,119 | $ | 74,458 |
| Cash paid during the year for interest | | $ | 2,858 | $ | - |

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

## 1. NATURE OF OPERATIONS

Chinook Tyee Industry Limited ("the Company") is domiciled in the Province of British Columbia, Canada with its registered and head office located at Suite 1000, 925 West Georgia Street, Vancouver, British Columbia, Canada V6C 3L2.

The Company is listed on the NEX, a separate board of the TSX Venture Exchange in Canada, under the ticker symbol "XCX.H". The Company is currently seeking to identify and evaluate potential businesses with a view of completing a change of business under the policies of the TSX Venture Exchange.

On January 31, 2013, at a special meeting of the Company's shareholders, the shareholders passed special resolutions to revoke the Certificate of Intent to Dissolve issued to the Company by the Registrar of Corporations of Alberta on October 14, 2011 and to continue the Company from the jurisdiction of Alberta to the jurisdiction of British Columbia. The Company was continued to the jurisdiction of British Columbia on April 16, 2014.

On August 13, 2013, the Company changed its name to Chinook Tyee Industry Limited from Global Railway Industries Ltd.

## 2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared on an accrual basis in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") and with the accounting policies and selected annual disclosures disclosed in note 3.

The consolidated financial statements were authorized for issue by the Board of Directors on April 29, 2014.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Basis of consolidation

The Company consolidates subsidiaries over which it has control, where control is the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

These consolidated financial statements include the accounts of Chinook Tyee Industry Limited, its wholly-owned subsidiaries 0979307 B.C. Ltd. ("0979307", which is inactive) and Chinook Tyee (Switzerland) GmbH ("Chinook Swiss"), its 54% owned subsidiary Boreal Taiga Biofuels Limited ("BTBL") and BTBL's 100% owned subsidiary, BT Biofuels Europe GmbH ("BTBE"). BTBE holds 50% of jointly controlled Asiamerica AG ("Asiamerica"). All inter-company transactions and balances have been eliminated upon consolidation.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets and changes in net assets of subsidiaries attributable to non-controlling interests are presented as a component of equity. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as acquisition or disposal transactions.

These consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for investments in associates and jointly controlled entities that are accounted for using the equity method and certain financial instruments and investments which are measured at fair value.

### Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These financial statements are presented in Canadian dollars, which is the Company's presentation currency.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

**Basis of preparation**

The functional currency of the Company, 0979307 and BTBL is the Canadian dollar. The functional currency of BTBE, Chinook Swiss, the Company's jointly controlled entity, Asiamerica, Asiamerica's equity accounted investment DYVA Holdings AG ("DYVA") and DYVA's 55% controlled investment in Xanthus Holdings PLC ("Xanthus PLC") is the Euro.

<u>Transactions and balances:</u>

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive income in the period in which they arise.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

<u>Foreign operations:</u>

The financial results of foreign operations whose functional currency is different from the Company's presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at the reporting date;
- equity is translated at historical rates; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of the financial statements of foreign operations from the functional currency to the presentation currency are adjusted directly to the Company's foreign currency translation reserve in the statement of comprehensive loss. These differences are recognized in the profit or loss and reversed from the foreign currency translation reserve in the period in which the operation is disposed of.

**Use of estimates and assumptions**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and contingent assets and liabilities. Significant estimates include the fair value measurements and assumptions relating to financial instruments, cost and purchase allocations to projects and investments, determining components of cost and changes in equity accounted investments, foreign exchange, accruals, related party and non-monetary transactions, current and deferred income taxes and the recoverability of receivables and loans receivable.

The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised. Actual results could significantly differ from those estimates.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

### Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments applying to the Company's financial statements include the assessment of the Company's influence in associates, determination of the nature of joint arrangements, and determination of functional currency.

### Cash

Cash consists of cash on hand.

### Short-term deposits

Short-term deposits consist of highly liquid, interest bearing investments with maturities at purchase date of greater than three months.

### Financial Instruments

Financial assets and liabilities are classified into one of six categories: designated as fair value through profit and loss ("FVTPL"), held-to-maturity, loans and receivables, available-for-sale ("AFS") financial assets or financial liabilities at amortized cost. All financial instruments, including derivatives, are measured at the statement of financial position date at fair value except for loans and receivables, held-to-maturity investments and financial liabilities, which are measured at amortized cost.

The Company's financial instruments consist of cash, accounts receivable, short-term investments, equity-accounted investments, loans receivable, trade and other payables and loan payable.

Cash and short-term investments are classified as held-for-trading and measured at face value, representing fair value. Accounts receivable are classified as receivables and measured at amortized cost. Trade and other payables, which are measured at amortized cost are classified as other financial liabilities.

### Equity accounted investments

Equity accounted investments are those entities in which the Company has significant influence, but does not have legal or other rights to exercise control over the financial and operating policies of the investees. Significant influence is presumed to exist when the company holds between 20 percent and 50 percent of the voting power of another entity. Jointly controlled entities are those over which the company has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for by the equity method, whereby the original cost of the investment is adjusted for the Company's share of earnings or losses less dividends since significant influence was acquired. When net accumulated losses from an equity accounted investment exceed its carrying amount, the investment balance is reduced to $nil and additional losses are not provided for unless the Company is committed to provide other financial support to the investee. The Company resumes accounting for its portion of income (loss) of the investment when the entity subsequently reports net income and the Company's share of that net income exceeds the share of net losses not recognized during the period the equity method was suspended.

The Company determines at each reporting date whether there is objective evidence that the investments in associates are impaired. The financial statements of associates are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies of associates in line with those of the Company.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

### Revenue recognition

Income or loss from equity accounted investments is reflected in the statements of comprehensive income (loss) each reporting period. Dividend income is recorded on the dividend date in the statements of comprehensive income (loss). Dividends received from equity accounted investments are recorded as a reduction of the carrying value of the equity accounted investment. Interest income and other income are recorded on an accrual basis.

Fees for services are recognized when the service is performed providing there is reasonable expectation of collection.

### Income taxes

Income tax expense comprises current and deferred tax. Current and deferred tax is recognized in profit and loss except to the extent that it relates to items recognized directly in equity or in reserves as part of shareholders' equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the asset can be realized.

Deferred income tax assets and deferred income tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

### Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net income (loss) attributable to the equity owners of the Company by the weighted average number of common shares outstanding during the reporting period.

Diluted earnings (loss) per share is determined by dividing the net income (loss) attributable to the equity owners of the Company by the weighted average number of common shares outstanding, adjusted for the dilutive effect of all potential common shares issuances upon exercise of options, warrants and similar instruments. For the periods presented the Company had no dilutive instruments.

### New standards and interpretations

**IFRS 10 – *Consolidated Financial Statements* -** replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and Standing Interpretations Committee (SIC)-12, Consolidation - Special Purpose Entities. IFRS 10 defines the principle of control, establishes control as the basis for determining when entities are to be consolidated and provides guidance on how to apply the principle of control to identify whether an investor controls an investee. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. The Company adopted IFRS 10 effective January 1, 2013, assessed its consolidation conclusions and determined that the adoption of IFRS 10 did not result in any change in the current consolidation of subsidiaries.

**3. SIGNIFICANT ACCOUNTING POLICIES** (cont'd...)

**New standards and interpretations** (cont'd…)

**IFRS 11** - ***Joint Arrangements*** **–** supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities - Non-monetary Contributions by Venturers. IFRS 11 establishes principles for financial reporting by parties to a joint arrangement and requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. The Company adopted IFRS 11 effective January 1, 2013, assessed its consolidation conclusions and determined that the adoption of IFRS 11 did not result in any change in the prior disclosures for the Company.

**IFRS 12 -** ***Disclosure of Interests in Other Entities*** - establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. The Company adopted IFRS 12 effective January 1, 2013. The Company assessed its disclosure on January 1, 2013 and determined that the adoption of IFRS 12 did not result in any change in the disclosures for the Company.

**IFRS 13 -** ***Fair Value Measurement*** - provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

**IAS 1** - ***Presentation of Items of Other Comprehensive Income*** **-** The Company has adopted the amendments to IAS 1 effective January 1, 2013. These amendments required the Company to group other comprehensive loss items by those that will be reclassified subsequently to net loss and those that will not be reclassified. These changes did not result in any adjustments to other comprehensive loss or comprehensive loss. All items in other comprehensive income are expected to reverse through income when the item is realized or disposed of.

**Accounting standards issued or amended, but not yet effective**

The International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") issued the following standards that have not been applied in preparing these consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period.

The Company is currently assessing the impact that the new and amended standards will have on its consolidated financial statements.

**IFRIC 21 –** ***Levies*** **–** provides guidance on accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to paying a levy and when a liability should be recognized. IFRIC 21 is effective for annual periods commencing January 1, 2014.

**IFRS 9 -** ***Financial instruments: classification and measurement*** – this is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value with changes in fair value through profit and loss. In addition, this new standard has been updated to include guidance on financial liabilities and de-recognition of financial instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

(Expressed in Canadian Dollars)

## 4. ACQUISITION OF 54% OWNED SUBSIDIARY

On September 18, 2013, the Company acquired 54% of the issued and outstanding shares of BTBL from North Group Finance Limited ("North Group"). The acquisition is considered to be an investment in a subsidiary and not a business combination as BTBL is a holding company whose only investment is participation in loans and investments through related entities including a jointly controlled entity, ultimately in a German publicly traded Company, Xanthus PLC, whose shares trade on the Frankfurt Exchange.

Through a series of entities and security instruments, the investment is held and secured directly and/or indirectly by shares of Xanthus PLC and pledges of third party loan assets of Xanthus PLC (note 7).

The acquisition has been recorded as follows:

| | | |
|---|---|---|
| Cash purchase price | $ | 529,000 |
| Less: intercompany advance receivable | | (243,432) |
| Net assets acquired | $ | 285,568 |
| Fair value of net assets acquired | $ | 481,355 |
| Less: non-controlling interest | | (195,787) |
| Net value assigned to the purchased equity | $ | 285,568 |

BTBL's earnings (losses) have been included from the acquisition date.

## 5. ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Canadian sales tax receivable | $ | - | $ | 28,059 |
| VAT receivable | | 180 | | - |
| Interest receivable | | 3,812 | | - |
| Prepaid expenses | | 81,572 | | 13,500 |
| | | 85,564 | | 41,559 |
| Less non-current prepaid expenses | | (61,463) | | - |
| Current accounts receivable and prepaid expenses | $ | 24,101 | $ | 41,559 |

## 6. LOANS RECEIVABLE

| | | 2013 | | 2012 |
|---|---|---|---|---|
| (a) Xanthus Spec 1 Limited (EUR 48,650) | $ | 71,623 | $ | - |
| (b) DYVA (EUR 393,286) | | 578,996 | | |
| (c) Asiamerica (EUR 505,413) | | 744,069 | | - |
| | | 1,394,688 | | - |
| Less: current loans receivable | | (650,619) | | - |
| Total loans receivable | $ | 744,069 | $ | - |

(Expressed in Canadian Dollars)

**6. LOANS RECEIVABLE** (cont'd…)

(a) During the year ended December 31, 2013, BTBE provided a loan to Xanthus Spec 1 Limited (note 7) for EUR 150,000. The loan bears interest at 8% capitalized quarterly, principal due January 14, 2014 and is secured by a pledge of 44,000 shares of UDG United Digital Group GmbH. Subsequent to year end, the maturity date of the loan was extended to January 14, 2016.

(b) Chinook Swiss provided a loan in the form of a revolving credit line to DYVA (note 7) to a maximum amount of EUR 700,000. The loan has been granted for an unlimited period, but the lender can terminate with three months notice. The loan bears interest at 8.5% capitalized quarterly and is secured by an assignment of 10,940,242 shares of Xanthus PLC (Frankfurt Stock Exchange Symbol: XNH).

(c) BTBE provided an unsecured loan to Asiamerica (note 7) bearing interest at 2% per annum capitalized quarterly and due December 1, 2017.

**7. EQUITY ACCOUNTED INVESTMENTS HELD BY SUBSIDIARY**

**Xanthus Group**

Xanthus PLC, which is listed on the Entry Standard of the Frankfurt Stock Exchange and on Xetra under the trading symbol "XNH", and its wholly-owned subsidiaries including, Xanthus SPEC 1 Limited, are collectively referred to as the "Xanthus Group".

During the year ended December 31, 2013, the Company purchased a 54% ownership interest in BTBL through the acquisition of equity and debt totalling $529,000 from North Group, a company listed on the TSX Venture Exchange which owns 39% of the Company. BTBL has invested in the restructuring of the Xanthus Group.

BTBL, through its 100% owned subsidiary, BTBE, owns 50% of jointly controlled Asiamerica, Asiamerica holds a 50% interest in DYVA and DYVA owns 55% of Xanthus PLC. The Company has recorded an equity income of $nil for the year ended December 31, 2013, as the attributable losses to date exceed the carrying amount of the investment in Asiamerica.

The non-controlling shareholder in BTBL holds an equal shareholding in Asiamerica and participated equally in the mezzanine loan financing of the jointly-controlled investee company (note 6).

**8. TRADE AND OTHER PAYABLES**

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Trade payables (note 13) | $ | 174,220 | $ | 6,869 |
| Accrued liabilities | | 67,591 | | 65,157 |
| | $ | 241,811 | $ | 72,026 |

**9. LOAN PAYABLE**

| | | 2013 | | 2012 |
|---|---|---|---|---|
| BTBL loan from BTBL's non-controlling shareholder, unsecured and bearing no interest, 154,100 Euro | $ | 226,866 | $ | - |

(Expressed in Canadian Dollars)

## 10. CAPITAL AND OTHER COMPONENTS OF EQUITY

| | Shares | | Amount |
|---|---|---|---|
| Authorized | | | |
| Unlimited number of voting common shares, no par value | | | |
| Unlimited number of preferred shares, issuable in one or more series, designations, rights, privileges restrictions and conditions determined by Board of Directors | | | |
| Issued | | | |
| Common shares | | | |
| Balance December 31, 2012 and January 1, 2012 | 3,816,016 | $ | 26,387,766 |
| Repurchase and cancellation of shares | (343,275) | | (315,813) |
| Balance, December 31, 2013 | 3,472,741 | $ | 26,071,953 |

On February 27, 2013, 343,275 common shares were repurchased from dissenting shareholders for $315,813 and returned to treasury for cancellation.

On August 8, 2013, at an annual general and special meeting of the Company's shareholders, the shareholders passed a resolution to consolidate all of the Company's issued Class A Voting Common Shares on the basis of four (4) pre-consolidation Common Shares being consolidated into one (1) Common Share. For presentation purposes comparative share amounts have been restated retrospectively.

### Share Options

There were no share options outstanding as at December 31, 2013 and December 31, 2012.

### Share-based payment reserve

Share-based payment reserve is increased by the compensation expense recorded for share options granted to key management of the Company and is reduced for options exercised by the related compensation expense previously recognized.

### Dividends

On May 14, 2012, the Company paid a dividend of $0.40 per qualifying common share for a total of $6,105,626.

## 11. GENERAL AND ADMINISTRATIVE COSTS

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Office and supplies | $ | 81,591 | $ | 31,749 |
| Professional fees | | 384,468 | | 357,383 |
| Rent and insurance | | 61,493 | | 71,275 |
| Salaries and benefits | | 62,920 | | - |
| | $ | 590,472 | $ | 460,407 |

(Expressed in Canadian Dollars)

## 12. OTHER ITEMS

| | 2013 | 2012 |
|---|---|---|
| Provisions (reversal) | $ (254,985) | $ 200,000 |

The Company made a provision of $254,985 for a tax refund payment received by a former subsidiary in a prior year. During the year ended December 31, 2013, the provision was reversed as the liability obligation and an indemnity agreement related to the provision had expired.

On October 30, 2012, the Company signed a settlement and release agreement relating to the 2011 sale of a subsidiary to release $450,000 held in escrow to the buyer and the remaining escrow balance, including any earned interest, to the Company. The buyer has released the Company from all claims and any further claims of any nature against the Company under the share purchase agreement. Charges to the provision of $200,000 in 2012 were recorded to other items in the consolidated statements of comprehensive loss.

## 13. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2013 and December 31, 2012, the Company entered into the following related party transactions:

(a) Paid or accrued directors fees of $49,000 (2012 - $73,894) to non-executive directors of the Company.

(b) Paid or accrued consulting fees of $48,135 (2012 – $Nil) to the Chief Financial Officer of the Company.

(c) Paid $60,750 (2012 - $180,000) for management services provided by a company owned by the Company's former acting President and former Chief Executive Officer. The management service contract was cancelled during the year.

(d) Purchased a controlling interest in BTBL through the acquisition of equity and debt for $529,000 from North Group (note 4).

(e) As of December 31, 2013, North Group and its subsidiary owned 1,349,950 common shares of the Company representing approximately 39% of the shares issued and outstanding.

(f) Included in accounts payable at December 31, 2013 is $144,447 payable to North Group. The payable was repaid in January 2014.

## 14. CAPITAL MANAGEMENT

The Company’s capital is comprised of shareholders’ equity less reserves and liabilities. Cash, short-term investments, loans receivable and equity-accounted investments are managed for liquidity and operational requirements in conjunction with budgeted or expected capital needs. The Company’s objective when managing capital is to maintain its ability to retain sufficient liquidity to make investments as opportunities arise and to continue to meet ongoing expenditure and operational needs.

(Expressed in Canadian Dollars)

## 14. CAPITAL MANAGEMENT (cont'd…)

The Company manages the capital structure and makes adjustments to its capital management strategies when economic conditions or risk characteristics of its capital change. To maintain or adjust the capital structure, the Company may consider the issuance of shares, acquire or dispose of assets or adjust the amount of cash or short-term investments held.

Currently, the Company's strategy is to monitor economic conditions and capital markets and to allocate operating capital for investment opportunities arising from market conditions.

The Company expects its current and available capital resources will be sufficient to meet operational needs through its 2014 operating period.

The Company is not subject to externally imposed capital requirements. The Company's overall capital management strategy remains unchanged from the prior year.

## 15. FINANCIAL INSTRUMENTS

Fair value

The Company's financial instruments consist of cash, short-term deposits, accounts receivable, loans receivable, equity accounted investments, trade and other payables and loans payable.

All financial assets recognized at fair value are classified into three fair value hierarchy levels as follows:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2 – Inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs (i.e. quoted prices for similar assets or liabilities).

Level 3 – Prices or valuation techniques with significant unobservable market inputs.

The Company's financial assets are measured at fair value by level within the fair value hierarchy as of December 31, 2013 as follows:

| | Balance | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Cash | $ 396,931 | $ 396,931 | $ - | $ - |
| Short-term deposits | $ 2,003,390 | $ 2,003,390 | $ - | $ - |
| Receivables and prepaids | $ 85,564 | $ - | $ - | $ 85,564 |
| Loans receivable | $ 1,394,688 | $ - | $ - | $ 1,394,688 |
| Trade and other payables | $ 241,811 | $ - | $ - | $ 241,811 |
| Loan payable | $ 226,866 | $ - | $ - | $ 226,866 |

The Company is exposed in varying degrees to financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of investment policies, counterparty credit limits and liquidity concerns. The more significant risk exposure and the way in which such exposure is managed are provided below.

## 15. FINANCIAL INSTRUMENTS (cont'd…)

### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash and short-term deposits held in bank accounts. The majority of cash is deposited in bank accounts held with major banks in Canada. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies.

### Currency risk

The Company holds cash in Canadian, Euro, Swiss Francs and US currencies and makes investments in foreign companies, equities and financial instruments. Accordingly, there is risk of losses from volatility in foreign currency fluctuations.

The Company's 54% interest in BTBL is subject to foreign currency risk, which may adversely affect the Company's financial position, results of operations and cash flows. The following table summarizes the geographical distribution of the Company's financial instruments in Canadian dollars at December 31, 2013:

| | US Dollar | Euro | Swiss Franc | CDN Dollar |
|---|---|---|---|---|
| Cash, short-term deposits and accounts receivable | 0% | 8% | 0% | 92% |
| Loans receivable | 0% | 100% | 0% | 0% |
| Trade and other payables | 0% | 60% | 3% | 37% |
| Loan payable | 0% | 100% | 0% | 0% |

### Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of its investment in money market funds included in cash is limited as the money market funds may be redeemed at any time without penalty. The Company's loans receivable have fixed interest rates and are not affected by changes in interest rates and the Company's loan payable bears no interest and is not affected by changes in interest rates.

### Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet financial obligations as they fall due. The Company manages liquidity risk through management of its capital structure as outlined in note 14.

(Expressed in Canadian Dollars)

## 16. INCOME TAXES

Income tax expense varies from the amount that would be computed by applying a combined federal and provincial income tax rate of 25.75% (2012 – 26.5%) to income before taxes as follows:

| | 2013 | 2012 |
|---|---|---|
| Loss before income taxes | $ (319,281) | $ (727,395) |
| Expected income tax recovery | $ (82,215) | $ (192,760) |
| Impact of acquisition of subsidiaries | (332,825) | - |
| Change in valuation allowance | 414,901 | 215,105 |
| Impact of tax rate changes and differences | 18,277 | 10,909 |
| Impact of foreign exchange rates | (18,639) | - |
| Other items | 501 | (54,193) |
| | $ - | $ (20,939) |

The significant components of the Company's deferred income tax assets and liabilities are as follows:

| | 2013 | 2012 |
|---|---|---|
| Capital loss carry-forwards | $ 1,207,690 | $ 1,161,240 |
| Non-capital loss carry-forwards | 938,207 | 596,334 |
| Marketable securities and long-term investments | 20,908 | - |
| Other | 9,499 | 3,829 |
| Net deferred tax assets | 2,176,304 | 1,761,403 |
| Less: valuation allowance | (2,176,304) | (1,761,403) |
| | $ - | $ - |

The Company has non-capital tax losses carried forward approximating $2,200,000 in Canada, expiring from 2026 through 2033 and indefinite life non-capital losses carried forward in Germany approximating EUR 734,000 that can potentially be used to reduce future taxable income.

The Company has gross capital losses approximating $9,300,000 available for deduction against future capital gains that if not utilized will carry forward indefinitely.

Deferred tax assets have not been recognized because management believes it is not sufficiently probable that future taxable profits will be available against which the Company can utilize the benefits.

(Expressed in Canadian Dollars)

## 17. SEGMENTED INFORMATION

The Company operates in Canada primarily in one business segment for its investing activities. Since the acquisition of BTBL in September 2013, the Company's investments are now located in Canada, Germany and Switzerland and the Company's geographic distribution of results, assets and liabilities is as follows:

| **2013** | Canada | Germany | Switzerland | Total |
|---|---|---|---|---|
| Interest revenue | $ 39,318 | $ 5,978 | $ 7,660 | $ 52,956 |
| Consulting | - | 16,046 | - | 16,046 |
| | $ 39,318 | $ 22,024 | $ 7,660 | $ 69,002 |
| | | | | |
| Segmented loss before other items and income taxes | $ (597,666) | $ (16,125) | $ (390) | $ (614,181) |
| Foreign exchange gain | 39,915 | - | - | 39,915 |
| Provision recovery | 254,985 | - | - | 254,985 |
| Net loss for the year | $ (302,766) | $ (16,125) | $ (390) | $ (319,281) |
| | | | | |
| Net loss for the year attributable to: | | | | |
| Owners | $ (302,766) | $ - | $ (390) | $ (303,156) |
| Non-controlling interest | (8,707) | (7,418) | - | (16,125) |
| Net loss for the year | $ (311,473) | $ (7,418) | $ (390) | $ (319,281) |
| | | | | |
| Total assets | $ 2,439,190 | $ 834,436 | $ 606,947 | $ 3,880,573 |
| Total liabilities | $ 440,331 | $ 19,987 | $ 8,359 | $ 468,677 |