

**CHINOOK TYEE INDUSTRY LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

**(Expressed in Canadian Dollars)**



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Chinook Tye Industry Limited:

We have audited the accompanying consolidated financial statements of Chinook Tye Industry Limited, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of comprehensive income (loss), changes in equity 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.

### Auditor's 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 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 audits 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 Tye Industry Limited as at December 31, 2015 and 2014, and its financial performance and its cash flows for the for the years then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "DMCL".

DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada  
April 29, 2016

**CHINOOK TYEE INDUSTRY LIMITED**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2015**  
(Expressed in Canadian Dollars)

	Notes	2015	2014
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	\$ 261,231	\$ 980,827
Accounts receivable and prepaid expenses	5	22,992	58,459
		284,223	1,039,286
Prepaid expenses	5	33,084	15,693
Investment loan receivable	6	3,216,697	2,570,209
<b>Total assets</b>		<b>\$ 3,534,004</b>	<b>\$ 3,625,188</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	7	\$ 100,667	\$ 62,074
<b>Equity</b>			
Share capital	8	895,401	895,401
Share based payment reserve		2,744,438	2,744,438
Foreign currency translation reserves		161,505	(57,334)
Deficit		(368,007)	(19,391)
Total equity		3,433,337	3,563,114
<b>Total liabilities and equity</b>		<b>\$ 3,534,004</b>	<b>\$ 3,625,188</b>

**Subsequent Event (Note 14)**

**On behalf of the Board:**

/s/ Tom Kusumoto Director      /s/ Greg MacRae Director

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

**CHINOOK TYEE INDUSTRY LIMITED**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**YEARS ENDED DECEMBER 31,**  
**(Expressed in Canadian Dollars)**

	Notes	2015	2014
<b>Income</b>			
Interest income		\$ 2,858	\$ 120,090
Merchant banking income		-	82,900
		2,858	202,990
<b>Expenses</b>			
Corporate governance expenses	10	43,864	39,000
General and administration expenses	9	288,122	405,328
Interest		99	135
Public company expenses		19,435	43,367
		351,520	487,830
Loss before other items		(348,662)	(284,840)
Gain on sale of subsidiary	6	-	706,312
Foreign exchange gain (loss)		46	(32,342)
		(348,616)	389,130
<b>Income (loss) for the year</b>			
<b>Other comprehensive income (loss)</b>			
Foreign currency translation differences on foreign operations		218,839	(65,510)
		\$ (129,777)	\$ 323,620
<b>Comprehensive income (loss) for the year</b>			
<b>Income (loss) for the year attributable to:</b>			
Owners		\$ (348,616)	\$ 408,871
Non-controlling interest		-	(19,741)
		\$ (348,616)	\$ 389,130
<b>Income (loss) for the year</b>			
<b>Comprehensive income (loss) for the year attributable to:</b>			
Owners		\$ (129,777)	\$ 343,361
Non-controlling interest		-	(19,741)
		\$ (129,777)	\$ 323,620
<b>Comprehensive income (loss) for the year</b>			
<b>Weighted average number of common shares outstanding</b>		3,405,932	3,459,928
Income (loss) per common share attributable to owners, basic and diluted		\$ (0.10)	\$ 0.12
		\$ (0.10)	\$ 0.12

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

**CHINOOK TYEE INDUSTRY LIMITED**  
**CONSOLIDATED STATEMENT 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 attributable to owners	Non- controlling interest	Total equity
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
Income (loss) for the year	-	-	-	-	408,871	408,871	(19,741)	389,130
Share repurchase (note 8)	(66,809)	(27,393)	-	-	-	(27,393)	-	(27,393)
Reduction of deficit against share cap:	-	(25,149,159)	-	-	25,149,159	-	-	-
Foreign currency translation	-	-	-	(48,848)	-	(48,848)	-	(48,848)
Elimination of non-controlling interest on sale of subsidiary	-	-	-	-	-	-	(161,671)	(161,671)
Balance, December 31, 2014	3,405,932	895,401	2,744,438	(57,334)	(19,391)	3,563,114	-	3,563,114
Loss for the year	-	-	-	-	(348,616)	(348,616)	-	(348,616)
Foreign currency translation	-	-	-	218,839	-	218,839	-	218,839
Balance, December 31, 2015	3,405,932	\$ 895,401	\$ 2,744,438	\$ 161,505	\$ (368,007)	\$ 3,433,337	\$ -	\$ 3,433,337

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

**CHINOOK TYEE INDUSTRY LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31,**  
**(Expressed in Canadian Dollars)**

	<u>2015</u>	<u>2014</u>
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES</b>		
Income (loss) for the year	\$ (348,616)	\$ 389,130
Items not affecting cash:		
Gain on sale of subsidiary	-	(706,312)
Non-cash loan fee	-	(73,320)
Interest capitalized to loans	(72)	(99,236)
	<u>(348,688)</u>	<u>(489,738)</u>
Changes in non-cash working capital items		
Receivables and prepaids	18,076	11,412
Accounts payable and accrued liabilities	38,593	(179,737)
	<u>(292,019)</u>	<u>(658,063)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of equity accounted investments	-	(850)
Advances to equity accounted investee	(406,665)	(727,742)
	<u>(406,665)</u>	<u>(728,592)</u>
<b>FINANCING ACTIVITIES</b>		
Repurchase and cancellation of share capital	-	(27,393)
	<u>(20,912)</u>	<u>(5,446)</u>
Effect of foreign exchange on cash	(719,596)	(1,419,494)
Change in cash and cash equivalents during the year	980,827	2,400,321
Cash and cash equivalents, beginning of the year	<u>\$ 261,231</u>	<u>\$ 980,827</u>
Cash and cash equivalents, end of the year	<u>\$ 2,787</u>	<u>\$ 19,137</u>
Supplemental disclosure with respect to cash flows:		
Cash received during the year for interest	\$ 99	\$ 135
Cash paid during the year for interest	<u>\$ 261,231</u>	<u>\$ 980,827</u>

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

**1. NATURE OF OPERATIONS**

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

The reporting currency of Chinook's consolidated financial statements is the Canadian dollar ("C\$").

**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, 2016.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of consolidation**

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.

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.

For the year ended December 31, 2015, these consolidated financial statements include the accounts of Chinook and its 99% owned subsidiary Mercury Partners & Company plc ("MPC") and the accounts of Chinook's inactive wholly-owned subsidiaries, which are anticipated to be dissolved in the future (collectively referred to as "Chinook"). The inactive wholly-owned subsidiaries include Chinook Tye (Switzerland) GmbH ("Chinook Swiss"), Boreal Taiga Biofuels Limited ("BTBL"), BT Biofuels Europe GmbH ("BTBE") and Asiamerica AG ("AA AG") (collectively referred to as "Chinook Inactive Subsidiaries").

MPC and its European joint investment partner ("EJP") equally fund and own 50% of the share capital of Asiamerica Limited ("MPC JV"), which is accounted for using the equity method.

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.

**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.

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

**Basis of preparation**

The functional currency of the Company is the Canadian dollar (“\$”). The functional currency of the Company’s 99% owned subsidiary, MPC, 50% owned, MPC JV, and its wholly-owned subsidiaries is the Euro (“€”). The functional currencies of Chinook Inactive Subsidiaries is the €.

Transactions and balances

Foreign currency transactions are translated into the 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 (loss) 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 income (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.

Foreign operations

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 income (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, changes in equity accounted investments, foreign exchange, accruals, related party 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 on associates, determination of the nature of joint arrangements and determination of functional currency.

**Financial instruments**

Financial assets and liabilities are classified into one of five categories: fair value through profit and loss, held-to-maturity, loans and receivables, available-for-sale 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 and cash equivalents, accounts receivable, equity-accounted investments, investment loans receivable and trade and other payables.

Cash and cash equivalents, accounts receivable and investment loans 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 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. Joint arrangement entities are those over which the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. Joint ventures are joint arrangements, whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associates and joint ventures 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.

Profits or losses resulting from transactions between the Company and its associates are eliminated to the extent of the interest in the associate. 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.

**Revenue recognition**

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

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

**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 offset 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.

**Reserves**

Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising on translation of the financial statements of subsidiaries and equity accounted investments of the Company that have a functional currency other than the Canadian dollar.

**New accounting standards, amendments and interpretations**

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2015 and have not been applied in preparing these consolidated financial statements. These new standards are not expected to have a significant effect on the consolidated financial statements of the Company.

**CHINOOK TYEE INDUSTRY LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Expressed in Canadian Dollars)

**4. CASH AND CASH EQUIVALENTS**

	2015	2014
Cash at bank	\$ 261,231	\$ 98,219
Guaranteed investment certificates, maturing within 90 days	-	882,608
	<u>\$ 261,231</u>	<u>\$ 980,827</u>

**5. ACCOUNTS RECEIVABLE AND PREPAID EXPENSES**

	2015	2014
Prepaid expenses	\$ 56,076	\$ 68,132
Other receivables	-	6,020
	<u>56,076</u>	<u>74,152</u>
Less non-current prepaid expenses	(33,084)	(15,693)
Current accounts receivable and prepaid expenses	<u>\$ 22,992</u>	<u>\$ 58,459</u>

**6. INVESTMENT LOAN RECEIVABLE**

Chinook has an unsecured demand loan from MPC for €2,111,512 / \$3,216,697 (2014 - €1,818,716 / \$2,570,209), which bears interest at 0.0025% (2014 - \$Nil). MPC and EJIP have unsecured demand loans from MPC JV, which bears interest at 0.0025% (2014 - \$Nil). The primary assets of MPC JV include collateralized, interest-bearing loans secured with first collateral claims on German real estate loan receivables and shareholdings in German listed stocks and other collateral. Subsequent to year-end, MPC JV settled one of its outstanding loans (note 14).

During fiscal 2014, Chinook reorganized how it held its European investments, which involved Chinook selling its associated loans and shareholdings of AA-AG, BTBL, BTBE, and Chinook Swiss to MPC for a €1,818,716 loan receivable. EJIP's investments were organized in the same manner resulting in a loan receivable under the same terms and conditions as Chinook's structure. The reorganization did not involve the payment of cash, but did result in an accounting gain of \$706,312 being the excess of the estimated fair value of the assets received or retained over the carrying value of the subsidiary disposed of.

MPC JV is accounted for using the equity method. On reorganization, no value was attributed to the equity accounted investment and its carrying value is \$nil (2014 - \$Nil).

All inter-company transactions and balances have been eliminated upon consolidation.

**7. TRADE AND OTHER PAYABLES**

	2015	2014
Trade payables	\$ 28,757	\$ 12,529
Accrued liabilities	71,910	49,545
	<u>\$ 100,667</u>	<u>\$ 62,074</u>

**CHINOOK TYEE INDUSTRY LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**  
(Expressed in Canadian Dollars)

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**8. CAPITAL AND OTHER COMPONENTS OF EQUITY**

As of December 31, 2015, the Company had 3,405,932 Class A Voting Common Shares (“common shares”) issued and outstanding, which trade on TSX Venture Exchange in Canada under the trading symbol “XCX”. The Company has not granted or issued or have any outstanding stock options, warrants or other dilutive security.

During 2014, the Company repurchased and cancelled from odd-lot shareholders, 66,809 common shares for \$27,393 and reduced the share capital account by \$25,149,159 as an offset against the deficit.

**Share-based payment reserve**

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

**9. GENERAL AND ADMINISTRATION EXPENSES**

	Note	2015	2014
Office and supplies		\$ 70,832	\$ 111,355
Professional fees	10	110,033	180,850
Rent and insurance		44,673	44,893
Salaries and benefits		62,584	68,230
		<u>\$ 288,122</u>	<u>\$ 405,328</u>

**10. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2015, the Company paid board meeting and service fees of \$43,864 (2014 - \$39,000) to independent directors of the Company.

During the year ended December 31, 2015, the Company paid or accrued accounting fees of \$55,015 (2014 - \$44,875) to its Chief Financial Officer’s consulting company.

Included in accounts payable at December 31, 2015 is \$33,833 owing to two officers of the Company for accounting fees and expenses incurred on behalf of the Company.

**11. 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.

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.

**11. CAPITAL MANAGEMENT (cont'd...)**

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 2016 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.

**12. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, short-term deposits, accounts receivable, loans receivable and accounts payable.

As at December 31, 2015, the Company did not have any financial assets recognized at fair value.

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 is described below.

**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 investments are 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, 2015:

	Euro	Swiss Franc	CDN Dollar	Total
Cash, short-term deposits and accounts receivable	24%	2%	74%	100%
Loans receivable	100%	0%	0%	100%
Trade and other payables	0%	1%	99%	100%

**12. FINANCIAL INSTRUMENTS (cont'd...)**

**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 11.

**13. INCOME TAXES**

Income tax expense varies from the amount that would be computed by applying a combined federal and provincial income tax rate of 26% (2014 - 26%) to income before taxes as follows:

	2015	2014
Income (loss) before income taxes	\$ (348,616)	\$ 389,130
Expected income tax expense (recovery)	\$ (91,127)	\$ 80,605
Change in valuation allowance	246,492	5,092
Impact of tax rate changes and differences	-	73,768
Impact of foreign exchange rates	-	35,844
Non-taxable items	271	(170)
True-up of tax pools	(155,636)	(195,139)
	<u>\$ -</u>	<u>\$ -</u>

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

	2015	2014
Capital loss carry-forwards	\$ 1,135,359	\$ 1,320,998
Non-capital loss carry-forwards	827,745	843,520
Other	1,300	16,878
Net deferred tax assets	1,964,404	2,181,396
Less: valuation allowance	(1,964,404)	(2,181,396)
	<u>\$ -</u>	<u>\$ -</u>

The Company has non-capital tax losses carried forward approximating \$3,225,941 in Canada, expiring from 2026 through 2035.

The Company has gross capital losses approximating \$8,733,531 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.

**14. SUBSEQUENT EVENT**

MPC JV settled a loan resulting in MPC JV directly owning a loan secured by real estate loans and control of the holding company that is owed the real estate loans. In addition, MPC JV owns a controlling shareholding in a German investment company listed on the Frankfurt Stock Exchange.