# BRADSTONE CAPITAL CORP.
# (formerly HPB Investments Inc.)

**Consolidated Financial Statements**

**December 31, 2015 & 2014**

(Expressed in Canadian dollars)

**Management's Responsibility for Financial Reporting**

The accompanying consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards. These consolidated financial statements contain estimates based on management's judgment. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained.

The Audit Committee of the Board of Directors reviews the results of the annual audit and the consolidated financial statements prior to submitting the consolidated financial statements to the Board for approval.

The Company's auditors, MNP LLP, are appointed by the shareholders to conduct an audit and their report follows.

Signed: ***"Chris Carmichael"***
Chief Executive Officer

Toronto, Ontario
April 29, 2016

# Independent Auditors' Report

To the Shareholders of Bradstone Capital Corp.

We have audited the accompanying consolidated financial statements of Bradstone Capital Corp., which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of operations and comprehensive (loss) income, 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 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 financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained 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 Bradstone Capital Corp. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

**Chartered Professional Accountants**
**Licensed Public Accountants**

Mississauga, Ontario
April 29, 2016

**Bradstone Capital Corp.**
(formerly HPB Investments Inc.)
Consolidated Statements of Financial Position
**(In Canadian Dollars)**

| | December 31 2015 | December 31 2014 |
|---|---|---|
| **Assets** | | |
| Cash | $ 1,555,884 | $ - |
| Accrued interest receivable (note 5) | 18,523 | 6,116 |
| Accounts receivable (note 6) | 55,000 | 73,981 |
| Bridge loans (note 5) | 615,357 | 186,217 |
| Portfolio investment (note 6) | 225,633 | 3,002,159 |
| Investment derivative (note 7) | 466,400 | - |
| | $ 2,936,797 | $ 3,268,473 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | $ 77,891 | $ 19,910 |
| Note payable – current portion (note 8) | 42,500 | - |
| | 120,391 | 19,910 |
| Deferred income tax liability (note 11) | 5,788 | 20,212 |
| Note payable (note 8) | 42,500 | - |
| | 168,679 | 40,122 |
| **Shareholders' Equity** | | |
| Share capital (note 9) | 3,161,582 | 3,046,352 |
| (Deficit) retained earnings | (393,464) | 181,999 |
| Total shareholders' equity | 2,768,118 | 3,228,351 |
| | $ 2,936,797 | $ 3,268,473 |

On Behalf of the Board

"Jason Ewart" Director

"Chris Carmichael" Director

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

**Bradstone Capital Corp.**
(formerly HPB Investments Inc.)
Consolidated Statements of Changes in Equity
**For the years ended December 31**
**(In Canadian Dollars)**

| | Share Capital | Retained earnings | Total |
|---|---|---|---|
| | $ | $ | $ |
| **Balance, January 1, 2014** | - | - | - |
| Shares issued (note 9) | 3,046,352 | - | 3,046,352 |
| Net income for the year | - | 181,999 | 181,999 |
| **Balance, December 31, 2014** | 3,046,352 | 181,999 | 3,228,351 |
| Shares issued on amalgamation | 115,230 | - | 115,230 |
| Net (loss) for the year | - | (575,463) | (575,463) |
| **Balance December 31, 2015** | 3,161,582 | (393,464) | 2,768,118 |

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

**Bradstone Capital Corp.**
(formerly HPB Investments Inc.)
Consolidated Statements of Operations and Comprehensive (Loss) Income
**For the years ended December 31**
**(In Canadian Dollars)**

| | 2015 | 2014 |
|---|---|---|
| **Revenue** | | |
| Change in value of portfolio investments | $ (120,604) | $ 251,883 |
| Change in value of derivatives (note 7) | (50,400) | - |
| Interest income | 11,152 | 6,116 |
| Loan fees | 2,300 | - |
| Foreign exchange gain | 37,194 | 31,391 |
| | (120,358) | 289,390 |
| **Expenses** | | |
| Audit and legal fees | 9,357 | 87,179 |
| Bad debt expense | 73,981 | - |
| Office expense | 626 | - |
| Listing costs (note 1) | 385,565 | - |
| | 469,529 | 87,179 |
| **(Loss) income before income tax** | (589,887) | 202,211 |
| Income tax provision - deferred (Note 11) | 14,424 | (20,212) |
| **Net (loss) income and other comprehensive (loss) income for the year** | $ (575,463) | $ 181,999 |
| **Net (loss) income per share – basic and diluted** (note 10) | $ (0.02) | $ 0.01 |
| **Weighted average number of shares outstanding – basic and diluted** | 26,002,078 | 24,791,022 |

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

**Bradstone Capital Corp.**
(formerly HPB Investments Inc.)
Consolidated Statements of Cash Flows
**For the years ended December 31**
**(In Canadian Dollars)**

| | 2015 | 2014 |
|---|---|---|
| **Operating activities** | | |
| Net (loss) income for the year | $ (575,463) | $ 181,999 |
| Deferred income taxes | (14,424) | 20,212 |
| Change in value of portfolio investments | 120,604 | (251,883) |
| Change in value of derivatives | 50,400 | - |
| Foreign exchange gain | (37,194) | (31,391) |
| Listing costs | 385,565 | - |
| Accrued loan fees | (2,300) | - |
| Bad debt expense | 73,981 | - |
| Net changes in non-cash working capital balances | | |
| Accrued interest receivable | (12,407) | (6,116) |
| Accounts receivable | - | 67,269 |
| Accounts payable and accrued liabilities | 9,357 | 19,910 |
| | (1,881) | - |
| **Investing activities** | | |
| Advances of bridge loans | (241,200) | - |
| Cash acquired in Amalgamation | 4,651 | |
| Advances to Bradstone Capital Corp. | (141,363) | - |
| Proceeds from sale of portfolio investments | 1,935,677 | - |
| | 1,557,765 | - |
| **Financing activities** | - | - |
| **Increase in cash** | 1,555,884 | - |
| **Cash,** beginning of year | - | - |
| **Cash,** end of year | $ 1,555,884 | $ - |

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

## 1. Nature of Business and Reverse Takeover Transaction

### Nature of Business

Bradstone Capital Corp. ("BCC" or the "Company" and formerly “HPB Investment Inc.”), through its wholly owned subsidiary, Bradstone Financial Corp., invests in companies across many industries such as oil and gas, mining, manufacturing, retail, financial services, technology, and biotechnology.

The Company is a public company incorporated and domiciled in Ontario, Canada. The Company's registered office is located at 273 Tweed Street, Cobourg, Ontario K9A 2Z4.

The Company’s subordinate voting shares commenced trading on the Canadian Securities Exchange ("CSE") on March 14, 2016.

### Reverse Takeover Transaction

BCC was incorporated pursuant to the provisions of the Business Corporations Act (Ontario) on April 18, 1997.

On December 31, 2015 (the “Amalgamation Date”), BCC, 2457104 Ontario Inc., a wholly-owned subsidiary of Bradstone (“2457104 OntCo”) and Bradstone Financial Corp. (“BFC”) completed a three-cornered amalgamation whereby BFC amalgamated with 2457104 OntCo and BCC issued one multiple voting share and one subordinate voting share for each multiple voting share and subordinate voting share, respectively, of BFC outstanding (the “Amalgamation”). Upon completion of the Amalgamation, BCC changed its name from HPB Investment Inc. to Bradstone Capital Corp.

Although the Amalgamation resulted in BFC becoming a wholly-owned subsidiary of BCC, the Amalgamation constitutes a reverse acquisition of BCC and has been accounted for as a reverse acquisition transaction in accordance with guidance provided in IFRS 2 “Share-based Payment”. As BCC did not qualify as a business according to the definition in IFRS 3 “Business Combinations”, this reverse acquisition transaction does not constitute a business combination; rather, it is treated as a deemed issuance of subordinate voting shares by BFC for the net assets of BCC. The resulting consolidated statement of financial position is presented as a continuance of BFC’s operations and the comparative figures presented before the Amalgamation are those of BFC. The results of operations, the cash flows, and the assets and liabilities of BCC have been included in these consolidated financial statements since December 31, 2015, the Amalgamation Date.

The 2,880,757 subordinate voting shares (the “Deemed Equity Instruments”) owned by the shareholders of the Company as at the Amalgamation Date were considered a deemed issue of subordinate voting shares by BFC to acquire BCC’s net assets. In accordance with IFRS 2, the excess of the fair value of the Deemed Equity Instruments issued by BFC over the value of the net assets of BCC was recognized in the consolidated statement of loss and comprehensive loss, as listing costs.

**(In Canadian Dollars)**

## 1. Nature of Business and Reverse Takeover Transaction (continued)

### Reverse Takeover Transaction (continued)

The fair values of the Deemed Equity Instruments granted as consideration for the net assets of BCC are as follows:

| | | |
|---|---|---|
| **Consideration:** | | |
| 2,880,757 subordinate voting shares (note 9(b)(ii)) | $ | 115,230 |
| | | |
| **Net assets (deficiency) acquired:** | | |
| Cash | | 4,651 |
| Accounts payable and accrued liabilities | | (48,623) |
| Note payable | | (85,000) |
| Due to Bradstone Financial Corp. | | (141,363) |
| | | (270,335) |
| **Listing costs** | **$** | **385,565** |

## 2. Basis of Presentation

*Statement of Compliance*

These consolidated financial statements, including comparative periods, have been prepared, using International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The reporting currency used for the consolidated financial statements is Canadian dollars. The functional currency used by the Company is Canadian dollars.

These consolidated financial statements were approved by the Company's Board of Directors on April 29, 2016.

## 3. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared by management in accordance with IFRS. Outlined below are those policies considered particularly significant for the Company.

A. Use of Estimates

The preparation of these consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the year. Financial statement items subject to significant management judgment include:

- Provision for losses on note receivable – Management exercises judgement to determine whether indicators of impairment exist, and if so, management must estimate the timing and amount of future cash flows from the note receivable.

- Valuation of investment derivative - Management exercises judgement in determine assumptions used in the Black-Scholes option pricing model used to value this derivative.

**3. Summary of Significant Accounting Policies - continued**

A. Use of Estimates - continued

- Valuation of the portfolio investments – Management exercises judgment to determine whether a change in fair value has occurred, and if so, management must estimate the timing and amount of future cash flows.

While management believes that the estimates and assumptions are reasonable, actual results may differ materially from those estimates.

B. Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e. the date that the Company commits to purchase or sell the asset. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

The Company classifies its financial instruments by category to their nature and to their characteristics. Management determines the classification when the instruments are initially recognized, which is normally the date of the transaction.

(i) Financial Assets

Financial assets must be classified into one of four categories: fair value through profit or loss (FVTPL), held-to-maturity, loans and receivables and available for sale.

a) Loans and Receivables:

Accrued interest receivable, accounts receivable and bridge loans are designated as loans and receivables which are measured at amortized cost, subject to impairment reviews.

b) Portfolio Investments

Privately-held investments are initially recorded at the transaction price, being the fair value at the time of acquisition. Thereafter, at each reporting period, the fair value of an investment may (depending upon the circumstances) be adjusted using one or more of the valuation indicators described below. These are included in Level 3 of the fair value hierarchy.

The determinations of fair value of the Company's privately-held investment at other than initial cost is subject to certain limitations. Financial information for private companies in which the Company has investments may not be available and, even if available, that information may be limited and/or unreliable.

Use of the valuation approach described below may involve uncertainties and determinations based on the Company's judgment and any value estimated from these techniques may not be realized or realizable.

**3. Summary of Significant Accounting Policies – continued**

b) Portfolio Investments - continued

The following circumstances are used to determine if the fair value of a privately held investment should be adjusted upward or downward at the end of each reporting period. In addition to the events described below, which may affect a specific investment, the Company will take into account general market conditions when valuing privately-held investments in its portfolio.

Absent the occurrence of any of these events or any significant change in general market conditions indicates generally that the fair value of the investment has not materially changed.

The fair value of a privately-held investment may be adjusted upward if:

- there has been a significant subsequent equity financing provided by outside investors at a valuation above the current value of the investee company; or
- there have been significant corporate, political or operating events affecting the investee company that, in management's opinion, have a positive impact on the investee company's prospects and therefore its fair value. In these circumstances, the adjustment to the fair value of the investment will be based on management's judgment and any value estimated may not be realized or realizable.

The fair value of a privately-held investment may be adjusted downward if:

- there has been a significant subsequent equity financing provided by outside investors at a valuation below the current value of the investee company;
- the investee company is placed into receivership or bankruptcy;
- based on financial information received from the investee company, it is apparent to the Company that the investee company is unlikely to be able to continue as a going concern; or
- there have been significant corporate, political or operating events affecting the investee company that, in management's opinion, have a negative impact on the investee company's prospects and therefore its fair value. The amount of the change to the fair value of the investment is based on management's judgment and any value estimated may not be realized or realizable.

The resulting values for non-publicly traded investments may differ from values that would be realized if a ready market existed. In addition, the amounts at which the Company's privately-held investments could be disposed of currently may differ from the carrying value assigned.

c) Investment Derivative

Investment derivatives comprise options to acquire an equity interest in private or public companies and are carried at fair value through profit or loss. These instruments are fair valued on initial recognition using the Black-Scholes option pricing model and are revalued at the end of every reporting period with the change in fair value recorded in profit or loss. The Company classifies its investment derivatives as either level 2 or level 3 financial instruments within the fair value hierarchy depending on whether the variables used in the valuation model were based on observable or non-observable market inputs.

**3. Summary of Significant Accounting Policies – continued**

*Fair value hierarchy*

Financial assets measured at fair value or where their fair value is disclosed in the notes must be classified into one of the three hierarchy levels set forth below for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair value of assets and liabilities.

- Level 1: Inputs are unadjusted quoted prices of identical instruments in active markets;
- Level 2: Valuation models which utilize predominately observable market inputs; and
- Level 3: Valuation models which utilize predominately non-observable market inputs.

The classification of a financial asset in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

The Company's fair value financial instruments are classified as follows:

| *Financial instrument* | *Classification* |
|---|---|
| Cash | Level 1 |
| Portfolio investments | Level 3 |
| Investment derivatives | Level 3 |

(ii) Financial Liabilities

Financial liabilities must be classified into one of two categories: FVTPL and other financial liabilities.

Accounts payable and accrued liabilities and the note payable are designated as other financial liabilities which are measured at amortized cost.

C. Provisions

The Company recognizes provisions when a legal or constructive obligation exists as a result of past events, when it is probable that there will be an outflow of economic benefits from the entity, and a reliable estimate of the amount of the obligation can be made. When a provision is expected to settle beyond the immediate term, the provision is measured at the present value of future cash flows, discounted at prevailing market interest rates. With the passage of time, additional expenses are recorded as the provision accretes.

D. Impairment of Loans and Provision for Loan Losses

Loans are considered to be impaired when there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the loan, the estimated future cash flows of the loan have been affected. Objective evidence of impairment of a loan could include: significant financial difficulty of the borrower, breach of contract, such as a default or delinquency in interest or principal payments; or it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

At least at the end of each reporting period, management assesses whether there are indicators that loan loss provisions are required for each loan in the Company's loan portfolio based on economic and market trends, the impairment status of loans, market value of the asset, and appraisals, if any, of the security underlying loans receivable. If these factors indicate that the carrying value of loans may not be recoverable, or the repayment of contractual amounts due may be delayed, management compares the carrying value of the affected loans with the discounted present value of their estimated future cash flows. To the extent that discounted estimated future cash flows are less than the loan carrying value, a specific loan loss provision is recorded. Any subsequent recognition of interest income on a loan for which a specific loan loss provision exists is calculated at the discount rate used in determining the provision, which may differ from the contracted loan interest rate.

**3. Summary of Significant Accounting Policies – continued**

D. Impairment of Loans and Provision for Loan Losses - continued

Should the cash flow assumptions used to determine the original loan loss provision change, the loan loss provision may be reversed. A loan loss provision is reversed only to the extent that the revised carrying value of the loan does not exceed its amortized cost that would have been recorded had no loan loss provision been recognized.

E. Revenue Recognition

Interest income is recorded on an accrual basis using the effective interest rate method. Under the effective interest rate method, the interest rate realized is not necessarily the same as the stated loan interest rate. When a loan is classified as impaired, the original expected timing and amount of future cash flows may be revised to reflect new circumstances. These revised cash flows are discounted using the original effective interest rate to determine the impaired carrying value of the loan. Interest income is thereafter recognized on this impaired carrying value using the effective interest rate. Additional changes to the amount or timing of future cash flows could result in further loan losses, or the reversal of prior loan losses, which would also impact the amount of subsequent interest income recognized. Interest and fees collected in advance are recorded as deferred revenue and recognized in income as set out above. Loan commitment, origination, structuring fees and bonuses are recorded as income over the life of the loan.

Purchases and sales of investments are recognized on the settlement date. Realized gains and losses on disposal of investments and unrealized gains and losses in the value of investments are reflected in the statement of comprehensive loss.

Upon disposal of an investment, previously recognized unrealized gains or losses are reversed to recognize the full realized gain or loss in the period of disposition. All transaction costs associated with the acquisition and disposition of investments measured at FVTPL are expensed to the statement of comprehensive income as incurred. Dividend income is recorded on the ex-dividend date and when the right to receive the dividend has been established. Interest income, other income and income from securities lending are recorded on an accrual basis.

F. Foreign Currency Translation

Monetary assets and liabilities denominated in currencies other than Canadian dollars are translated into Canadian dollars at the rate of exchange in effect at the end of the reporting period. Non-monetary assets and liabilities are translated at the historical rates. Revenues and expenses are translated at the transaction exchange rate. Foreign currency gains and losses resulting from translation are reflected in profit or loss.

G. Income Taxes

Income tax expense comprises current and deferred components.

Current income tax expense is the expected tax payable for the current year’s taxable income based on rates enacted or substantively enacted at the period end and any adjustments to previous estimates.

Deferred income taxes are calculated using the asset and liability method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts and the tax bases of existing assets and liabilities. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in expected future tax rates is recognized in net (loss) income in the period that includes the date of substantive enactment of the revised tax rates. Deferred tax assets are recognized to the extent that it is probable that they will be realized.

## 3. Summary of Significant Accounting Policies – continued

H. Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted average number of multiple and subordinate voting shares outstanding during the period.

Diluted earnings per share is calculated by dividing net earnings available to shareholders for the period by the diluted weighted average number of multiple and subordinate shares outstanding during the period. The diluted weighted average number of shares includes the potential dilution from shares issuable through stock options, if dilutive. This assumes that the proceeds from any shares issued on the exercise of stock options are used by the Company to repurchase and cancel shares at the average market price of the Company's share price for the period. As such, where the strike price of stock options exceeds the average market price of the Company's shares for the reporting period, the inclusion of these shares under the treasury stock method would be anti-dilutive, so these shares are excluded from the calculation of the weighted average number of diluted shares outstanding.

## 4. New and Revised Standards and Interpretations

Pronouncements effective for annual periods beginning on or after January 1, 2018

IFRS 9 Financial Instruments was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. A new hedge accounting model is introduced and represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. Earlier application is permitted.

The Company is currently assessing the impact of this new pronouncement that is not yet effective, but does not expect that will have a significant impact on the consolidated financial statements.

**(In Canadian Dollars)**

## 5. Bridge loans

| | | Due Date | Stated Interest Rate | | December 31 2015 | | December 31 2014 |
|---|---|---|---|---|---|---|---|
| Individual (US$160,518) | (a) | March 31, 2016 | prime | $ | 222,167 | $ | 186,217 |
| Individuals | (b) | December 31, 2016 | 12% | | 371,200 | | - |
| Individual | (c) | December 15, 2015 | 12% | | 22,000 | | - |
| Total | | | | $ | 615,357 | $ | 186,217 |

The fair values of the notes receivable are estimated to be approximately equivalent to their carrying values as the market rate of interest approximates the effective interest rate.

(a) The note receivable, original amount of $296,076 (US$287,576), (due from a former director of the Company's previous parent Company, Fountain Asset Corp. ("Fountain")) was transferred from Fountain on January 17, 2014. Consideration consisted of the issuance of 1,684,767 subordinate voting shares of the Company and 842,384 multiple voting shares of the Company (see note 9). During 2014 the Company received $141,250 (US$127,058) in principal repayments on this note, leaving $222,167 (2014 - $186,217) (US $160,518 2015 and 2014) outstanding. As at December 31, 2015, $13,013 (2014 - $6,116) in interest has been accrued. The bridge loan was not repaid on March 31, 2016 as its terms are being re-negotiated.

(b) As at December 31, 2015, $4,195 (2014 - $Nil) in interest has been accrued. These loans are secured by promissory notes and marketable securities.

(c) As at December 31, 2015, $1,315 (2014 - $Nil) in interest has been accrued. The loan is secured by a promissory note, a corporate guarantee and equipment. The bridge loan was repaid in January 2016.

## 6. Portfolio Investments

| | | December 31 2015 | | December 31 2014 |
|---|---|---|---|---|
| Common shares in Marathon Mortgage Corp. | $ | 225,633 | $ | 252,159 |
| Preferred shares in Marathon Mortgage Corp. | | - | | 2,750,000 |
| Total | $ | 225,633 | $ | 3,002,159 |

As at December 31, 2015, the Company owned 2,013,890 (2014 – 1,913,890) common shares of Marathon Mortgage Corp. ("MMC") being 13% (2014 – 19%) of the common shares of MMC and Nil (2014 – 2,750,000) preferred shares of MMC.

During the year, the Company disposed of 2,750,000 preferred shares of MMC for gross proceeds of $2,200,000 and an option to re-purchase 500,000 preferred shares of MMC at $0.50 per share for one year valued at $516,000 (note 7). The Company incurred commissions of $78,378 on these dispositions. The Company also disposed of 225,000 common shares of MMC for proceeds of $17,500. $55,000 of the proceeds were included in accounts receivable at December 31, 2015 and were collected in 2016 and $150,000 were received in the form of a bridge loan receivable (note 5(b)).

**(In Canadian Dollars)**

## 7. Investment Derivative

During 2015, the Company sold 2,750,000 preferred shares in MMC (note 6). In respect with the sale of 1,000,000 of these shares (which were sold at $0.50 per share), the Company retained the right to repurchase these shares at $0.50 per share at any time over the next twelve months and then immediately resell these shares. This option to acquire the shares at a fixed price represents a derivative asset. This asset has been valued, both at the date of initial recognition and at December 31, 2015, using the Black-Scholes option model with the following assumptions:

| | | Inception | | December 31 2015 |
|---|---|---|---|---|
| Exercise price | $ | 0.50 | $ | 0.50 |
| Stock price | $ | 1.00 | $ | 0.95 |
| Risk free interest rate | | 0.87% | | 0.87% |
| Expected life - years | | 1.00 | | 0.90 |
| Expected volatility | | 50% | | 50% |
| Dividend rate | | nil | | nil |
| Value of derivative | $ | 516,800 | $ | 466,400 |

As a result of the increase in value of the derivative from inception date to December 31, 2015, the Company has recorded a loss of $50,400 (2014 – Nil), categorized as “Change in value of derivatives” in the statement of (loss) income and comprehensive (loss) income.

## 8. Note Payable

On December 31, 2015 the Company issued a note payable to a Director of the Company in the amount of $85,000 (2014 - $nil) secured by a general security agreement and bearing interest at 5% per annum. Principlal repayments of $42,500 are due on December 31, 2016 and the remaining $42,500 is due on June 30, 2017.

## 9. Share Capital

a) *Authorized:*

Unlimited multiple voting shares (“MVS”)
Unlimited subordinate voting shares (“SVS”)

The rights of MVS and SVS shares are identical other than voting rights. MVS shares are entitled to four votes per share whereas SVS shares are entitled to one vote per share.

**(In Canadian Dollars)**

## 9. Share Capital (continued)

b) *Shares issued and outstanding:*

| For the years ended December 31, | SVS | | MVS | |
|---|---|---|---|---|
| | **Number of Shares** | **Amount** | **Number of Shares** | **Amount** |
| Balance, December 31, 2013 | - | $ - | - | $ - |
| Issued for note receivable (note 5) | 197,384 | 197,384 | 98,692 | 98,692 |
| Issued for MMC investment | 1,833,518 | 1,833,518 | 916,758 | 916,758 |
| | 2,030,902 | 2,030,902 | 1,015,450 | 1,015,450 |
| Share split (i) | 15,303,822 | - | 7,651,904 | - |
| **Balance December 31, 2014** | 17,334,724 | 2,030,902 | 8,667,354 | 1,015,450 |
| Issued in connection with Amalgamation (ii) | 2,880,757 | 115,230 | - | - |
| **Balance December 31, 2015** | 20,215,481 | $ 2,146,132 | 8,667,354 | $ 1,015,450 |

(i) On March 7, 2014, the articles were amended to affect a share split whereby all of the issued and outstanding SVS and MVS were split on a 1 to 8.5354806 basis.

(ii) On December 31, 2015, the Company issued 2,880,757 SVS to the respective shareholders of HPB Investments Inc. under the Amalgamation (note 1). A fair value of $115,230 was assigned to the SVS based on the post Amalgamation opening trading price of these shares.

## 10. Earnings per Share

Earnings per share has been calculated using the weighted average number of SVS and MVS outstanding during the year. As there are no potentially dilutive financial instruments outstanding, diluted income per share is the same as basic earnings per share.

**(In Canadian Dollars)**

### 11. Income Taxes

The following table reconciles the expected income tax provision at the Canadian federal and provincial statutory rate of 26.5% (2014 – 25.5%) to the amounts recognized in the statement of operations and comprehensive (loss) income:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| (Loss) income before income taxes | $ (589,887) | $ 202,211 |
| Basic tax amount at 26.5% | (156,320) | 53,586 |
| Tax rate changes and other adjustments | 9,148 | - |
| Permanent differences | 126,070 | (33,374) |
| Temporary differences not recognized | 6,678 | - |
| Income tax (recovery) provision | $ (14,424) | $ 20,212 |

The Company has no unrecognized deferred tax assets.

The Company's future tax liability relates to the excess of the book value of the portfolio investment over its tax value, in the amount of $225,442 (2014 - $251,883). This liability is partially offset by the Company's non-capital losses available to offset future years' taxable income in the amount of $82,989 (2014 – 49,672) which expire in 2034 and 2035 and its net capital losses of $7,861 (2014 – Nil) which may be carried forward indefinitely.

### 12. Risk Management

The primary goals of the Company's risk management programs are to ensure that the outcomes of activities involving elements of risk are consistent with the Company's objectives and risk tolerance, and to maintain an appropriate risk/reward balance while protecting the Company's financial operations from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through aligning risk tolerance with the Company's business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventative controls and transferring risk to third parties.

Capital Management

The Company considers the items included in shareholders' equity as capital. The Company's capital management objectives are to maintain a strong and efficient capital structure to provide liquidity to support continued asset growth. A strong capital position also provides flexibility in considering accretive growth opportunities. It is the intention of the Company in the long term to pay out a portion of its future annual earnings to shareholders in the form of dividends. There has been no change in the capital management approach from the prior year.

Risk Management

The success of the Company is dependent upon its ability to assess and manage all forms of risk that affect its operations. The Company is exposed to many factors that could adversely affect its business, financial conditions or operating results. Developing policies and procedures to identify risk and the implementation of appropriate risk management policies and procedures is the responsibility of senior management and the Board of Directors. The Board directly, or through its committees, reviews and approves these policies and procedures, and monitors their compliance with them through ongoing reporting requirements. A description of the Company's most prominent risks follows.

**12. Risk Management - continued**

Credit Risk

Concentration of credit risk may arise from exposures to a single debtor or to a group of debtors having similar characteristics such that their ability to meet their current obligations is expected to be affected similarly by changes in economic or other conditions. The Company is exposed to credit risk on its cash, accrued interest receivable, accounts receivable, and bridge loans. The Company's maximum exposure to credit risk is $2,244,764 (2014 - $266,314).

Market Risk

The Company is exposed to certain market risk that the value of, or future cash flows from, the Company's financial assets will significantly fluctuate due to changes in market prices. The value of the financial assets can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is required to mark to market its fair value through profit or loss investments at the end of each reporting period. This process could result in significant write-downs of the Company's portfolio investment over one or more reporting periods, particularly during periods of overall market instability, which would have a significant unfavorable effect on the Company's financial position.

Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash to meet its obligations as they become due. As at December 31, 2015 the Company has cash of $1,555,884 to meet current financial liabilities of $120,391. Accordingly, the Company is not exposed to liquidity risk.

Currency Risk

The Company is exposed to certain currency risks that the value of certain financial instruments will fluctuate due to changes in foreign exchange rates. At December 31, 2015, one of the Company's notes receivable is denominated in US dollars. A 10% fluctuation in the US dollar foreign exchange closing rate would have resulted in a fluctuation of approximately $16,000 in net income. The Company does not hedge against this foreign currency risk.