

BRADSTONE CAPITAL CORP.

Consolidated Financial Statements

December 31, 2017 & 2016

(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: "**Lucas Ewart**"
Chief Executive Officer

Toronto, Ontario
April 30, 2018

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, 2017 and 2016, and the consolidated statements of changes in equity, operations and comprehensive loss, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained 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, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Mississauga, Ontario
April 30, 2018

MNP LLP
Chartered Professional Accountants
Licensed Public Accountants

MNP

Bradstone Capital Corp.
Consolidated Statements of Financial Position
(In Canadian Dollars)

	December 31, 2017	December 31, 2016
Assets		
Cash and restricted cash	\$ 259,173	\$ 508,878
Accrued interest receivable (note 5)	32,946	66,086
Prepaid expenses	650	-
Accounts receivable (note 6)	104,458	65,623
Bridge loans (note 5)	211,370	534,014
Portfolio investments (note 6)	1,569,229	1,096,409
Other receivables	-	75,191
	<u>\$ 2,177,826</u>	<u>\$ 2,346,201</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 77,721	\$ 44,840
Current income tax liability (note 9)	-	13,651
	<u>77,721</u>	<u>58,491</u>
Deferred income tax liability (note 9)	<u>3,934</u>	<u>115,734</u>
Shareholders' Equity		
Share capital (note 7 (b))	3,235,409	3,161,582
Contributed surplus (note 7(c))	35,343	35,343
Deficit	<u>(1,174,581)</u>	<u>(1,024,949)</u>
Total shareholders' equity	<u>2,096,171</u>	<u>2,171,976</u>
	<u>\$ 2,177,826</u>	<u>\$ 2,346,201</u>

On Behalf of the Board:

"Jason Ewart" _____ Director

"Alec Regis" _____ Director

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

Bradstone Capital Corp.
Consolidated Statements of Changes in Equity
For the years ended December 31, 2017 and 2016
(In Canadian Dollars)

	Share Capital	Contributed Surplus	Deficit	Total
	\$	\$	\$	\$
Balance, December 31, 2015	3,161,582	-	(393,464)	2,768,118
Issuance of stock options		35,343	-	35,343
Net (loss) for the year		-	(631,485)	(631,485)
Balance December 31, 2016	3,161,582	35,343	(1,024,949)	2,171,976
Issuance of shares	73,827	-	-	73,827
Net (loss) for the year	-	-	(149,632)	(149,632)
Balance December 31, 2017	3,235,409	35,343	(1,174,581)	2,096,171

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

Bradstone Capital Corp.

Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31, 2017 and 2016**(In Canadian Dollars)**

	2017	2016
Investment income and management fees		
Change in value of portfolio investments	\$ (24,622)	\$ 239,215
Gain (loss) on sale of portfolio investments	142,453	(456,225)
Change in value of derivatives	-	(55,290)
Writedown on loans	(79,319)	-
Management fees	-	46,750
Interest income	89,928	86,701
Loan fees	-	23,000
Dividend income	3,690	1,387
Foreign exchange (loss)	(56,590)	(33,338)
	<u>75,540</u>	<u>(147,800)</u>
Expenses		
Audit and legal fees	33,220	26,756
Consulting fees (note 11)	267,703	247,000
Filing and listing fees	22,158	39,310
Interest expense	24,005	9,779
Office expense	3,537	1,900
Stock based compensation (notes 7(c) and 11)	-	35,343
	<u>350,623</u>	<u>360,088</u>
Loss before income tax	(275,083)	(507,888)
Income tax (recovery) provision		
- Current (note 9)	(13,651)	13,651
- Deferred (note 9)	(111,800)	109,946
Net loss and comprehensive loss for the year	\$ (149,632)	\$ (631,485)
Net loss per share – basic and diluted (note 8)	\$ (0.01)	\$ (0.02)
Weighted average number of shares outstanding – basic and diluted	29,256,655	28,883,241

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

Bradstone Capital Corp.
Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and 2016
(In Canadian Dollars)

	2017	2016
Operating activities		
Net loss for the year	\$ (149,632)	\$ (631,485)
Deferred income taxes	(111,800)	109,946
Change in value of portfolio investments	24,622	(239,215)
Writedown of receivable	79,319	-
Change in value of derivatives	-	55,290
Stock based compensation	-	35,343
Interest income	(46,514)	7,449
Net changes in non-cash working capital balances		
Accrued interest receivable	33,140	(47,563)
Prepaid expenses	(650)	-
Accounts receivable	(38,835)	(10,623)
Accounts payable and accrued liabilities	32,881	(33,051)
Current income tax liability	(13,651)	13,651
	<u>(191,120)</u>	<u>(740,258)</u>
Investing activities		
Advances of bridge loans	-	(535,893)
Repayment of bridge loans	255,000	617,236
Purchase of other receivable	-	(144,840)
Repayment on other receivable	-	84,419
Purchase of portfolio investments	(1,701,085)	(4,369,801)
Proceeds from sale of portfolio investments	1,313,674	4,127,131
	<u>(132,411)</u>	<u>(221,748)</u>
Financing activities		
Private placement, net of costs	73,827	-
Repayment of notes payable	-	(85,000)
	<u>73,827</u>	<u>(85,000)</u>
(Decrease) increase in cash	(249,704)	(1,047,006)
Cash, beginning of year	508,878	1,555,884
Cash, end of year	\$ 259,174	\$ 508,878

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

Bradstone Capital Corp.
Notes to Consolidated Financial Statements
For the years ended December 31, 2017 and 2016
(In Canadian Dollars)

1. Nature of Business

Bradstone Capital Corp. ("BCC" or the "Company"), 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.

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 30, 2018.

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 bridge loans 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.

Bradstone Capital Corp.
Notes to Consolidated Financial Statements
For the years ended December 31, 2017 and 2016
(In Canadian Dollars)

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.
- The Black-Scholes option pricing model is used to determine the fair value of the share-based payments and utilizes subjective assumptions such as expected price volatility and expected life of the option. Discrepancies in these input assumptions can significantly affect the fair value estimate.

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.

Bradstone Capital Corp.
Notes to Consolidated Financial Statements
For the years ended December 31, 2017 and 2016
(In Canadian Dollars)

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.

Bradstone Capital Corp.
Notes to Consolidated Financial Statements
For the years ended December 31, 2017 and 2016
(In Canadian Dollars)

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:

<i>Financial instrument</i>	<i>Classification</i>
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 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.

Bradstone Capital Corp.
Notes to Consolidated Financial Statements
For the years ended December 31, 2017 and 2016
(In Canadian Dollars)

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.

Bradstone Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2017 and 2016**(In Canadian Dollars)**

3. Summary of Significant Accounting Policies – continued**H. Cash and restricted cash**

Cash consists of cash balances and highly -liquid investments with original maturities of three months or less. Restricted cash consists of cash balances which are restricted at to withdrawal or usage. As at December 31, 2017, \$Nil (December 31, 2016 - \$31,868) restricted cash is included in cash and restricted cash on the statements of financial position.

I. Share-based payments

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted. In situations where equity instruments are issued to non-employees and some of all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity-settled transaction at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in contributed surplus.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as a measure at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings or loss per share.

J. Loss per share

Basic 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 loss available to shareholders for the year by the diluted weighted average number of multiple and subordinate shares outstanding during the year. 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: Classification and Measurement*

IFRS 9 replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, on the classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

Under IFRS 9, for financial liabilities measured at fair value under the fair value option, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income ("OCI"), with the remainder of the change recognized in profit and loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively with some exemptions.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15, *Revenue from Contracts with Customers*, issued by the IASB in May 2014, is applicable to all revenue contracts and provides a model for the recognition and measurement of gains or losses from sales of some non-financial assets. The core principle is that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively [for example, service revenue and contract modifications] and improve guidance for multiple-element arrangements. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively, with earlier adoption permitted. Entities will transition following either a full or modified retrospective approach. The Company is currently evaluating the impact of the above standard on its consolidated financial statements.

IFRS 16, *Leases*

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, *Leases*, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. The new standard is effective for annual periods beginning on or after January 1, 2019, which is when the Company intends to adopt IFRS 16 in its consolidated financial statements. The extent of the impact of adoption of the standard has not yet been determined.

Bradstone Capital Corp.
Notes to Consolidated Financial Statements
For the years ended December 31, 2017 and 2016
(In Canadian Dollars)

5. Bridge loans

		Due Date	Stated Interest Rate	December 31 2017	December 31 2016
Individual (US\$160,518)	(a)	December 31, 2017	prime \$	201,370 \$	215,528
Individual	(b)	December 31, 2018	12%	10,000	15,000
Company	(c)	May & Nov 2019	15%	-	250,000
Company	(d)	December 31, 2017	8%	-	53,486
Total				\$ 211,370 \$	534,014

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 7). As at December 31, 2017, \$22,684 (2016 - \$18,460) in interest has been accrued. The bridge loan was due on March 31, 2016 and was extended to December 31, 2017. The loan terms are currently being negotiated.
- (b) As at December 31, 2017, \$2,328 (2016 - \$1,110) in interest has been accrued. The loan is secured by a promissory note, a corporate guarantee and equipment. The loan is due on December 31, 2018.
- (c) As at December 31, 2017, \$Nil (2016 - \$5,281) in interest has been accrued. The loan was secured by a promissory note and a corporate guarantee.
- (d) As at December 31, 2017, \$7,934 (2016 - \$3,375) in interest has been accrued. The loan was secured by a convertible promissory note and a corporate guarantee. The convertible promissory note was converted to common shares on December 29, 2017 (note 6).

6. Portfolio Investments

	December 31 2017	December 31 2016
Common shares in Marathon Mortgage Corp. (a)	\$ 756,806	\$ 551,820
Investments in Luminor Medical Technologies Inc. (b)	395,860	282,350
Other marketable securities	416,563	262,239
Total	\$ 1,569,229	\$ 1,096,409

- (a) As at December 31, 2017, the Company owned 3,358,636 (2016 - 2,948,663) common shares of Marathon Mortgage Corp. ("MMC") being 16% (2016 - 18%) of the common shares of MMC.

During the year ended December 31, 2017, the Company purchased 409,973 (2016 - 652,373) common shares of MMC at \$0.50 per share. No gain or loss has been recognized on the revaluation of the common share of MMC as at December 31, 2017.

- (b) As at December 31, 2017, the Company owned 891,000 (2016 - 280,000) common shares and 195,500 (2016 - 140,000) common share purchase warrants of Luminor Medical Technologies Inc. ("Luminor").

During the year ended December 31, 2016, the Company purchased 280,000 Units of Luminor comprising one common share and one half common share purchase warrant at \$0.15 per Unit.

Bradstone Capital Corp.
Notes to Consolidated Financial Statements
For the years ended December 31, 2017 and 2016
(In Canadian Dollars)

6. Portfolio Investments - continued

During the year ended December 31, 2017, the Company purchased 111,000 Units of Luminor comprising one common share and one half common share purchase warrant at \$0.225 per Unit.

Additionally, on December 28, 2017, the Company converted its \$100,000 bridge loan (note 5(d)) into common shares of Luminor at \$0.20 per common share for a total of 500,000 common shares.

7. 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.

b) Shares issued and outstanding:

For the years ended December 31	SVS		MVS	
	Number of Shares	Amount	Number of Shares	Amount
Balance December 31, 2015	20,215,481	\$ 2,146,132	8,667,354	\$ 1,015,450
Issued in connection with Amalgamation	406	-	-	-
Converted from MVS to SVS (i)	778,419	91,198	(778,419)	(91,198)
Balance December 31, 2016	20,994,306	2,237,330	7,888,935	924,252
Converted from MVS to SVS (i)	1,994,659	233,690	(1,994,659)	(233,690)
Private placement financing (ii)	631,000	73,827	-	-
Balance December 31, 2017	23,619,965	2,544,847	5,894,276	690,562

(i) During the year 1,994,659 (2016 - 778,419) MVS were converted on a one for one basis to 1,994,659 (2016 - 778,419) SVS.

(ii) On May 29, 2017, the Company issued 631,000 common shares in a non-brokered private placement financing at a price of \$0.13 per share for gross proceeds of \$82,030. The Company incurred \$8,203 in share issue costs.

c) Stock Options

The Company has a stock option plan (the "Plan") under which the Company may grant options to directors, officers, employees and consultants. The maximum number of common shares reserve for issue under the Plan at any point in time may not exceed 10% of the number of shares issued and outstanding. As at December 31, 2017, the Company had 455,610 (December 31, 2016 - 199,431) options available for issuance under the Plan.

The continuity of outstanding stock options for the years ended December 31, 2017 and 2016 is as follows:

	Number of stock options	Weighted average exercise price per share \$
Balance, December 31, 2015	-	-
Granted	1,900,000	0.07
Balance, December 31, 2016 and 2017	1,900,000	0.07

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7. Share Capital - continued

c) Stock Options – continued

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the share-based payments for the stock options issued during the year ended December 31, 2016:

Grant Date	May 27, 2016
Number of options	1,900,000
Exercise Price	\$0.07
Expected life in years	5
Volatility	100.00%
Risk-free interest rate	0.78%
Dividend yield	0.00%
Vesting	Immediately
Fair value of options granted	\$35,343

During the year ended December 31, 2017, the Company recognized \$Nil (2016 - \$35,343) of stock based compensation related to stock options granted in 2016.

8. 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.

9. Income Taxes

The following table reconciles the expected income tax provision at the Canadian federal and provincial statutory rate of 26.5% (2016 – 26.5%) to the amounts recognized in the statement of operations and comprehensive (loss) income:

	December 31, 2017	December 31, 2016
(Loss) income before income taxes	\$ (275,083)	\$ (507,888)
Basic tax amount at 26.5%	(72,900)	(134,591)
Tax rate changes and other adjustments	(15,910)	21,118
Permanent differences	(990)	152,655
Temporary differences not recognized	(35,670)	84,415
Income tax provision (recovery)	\$ (125,470)	\$ 123,597

The Company's income tax (recovery) is allocated as follows:

Current	\$ (13,651)	\$ 13,651
Deferred	(111,800)	109,946
	\$ (125,451)	\$ 123,597

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9. Income Taxes - continued

The Company's future tax liability relates to the excess of the book value of the portfolio investments over their tax value, in the amount of \$121,450 (2016 - \$92,560) and note payable of \$nil (2016 - \$23,170). This liability is partially offset by the Company's non-capital losses available to offset future years' taxable income in the amount of \$117,520 (2016 - \$nil). Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	December 31, 2017	December 31, 2016
Non-capital losses carried forward	\$ 967,690	\$ 345,130
Share issuance costs	<u>6,560</u>	<u>-</u>

Non-capital loss carry-forwards expire in 2037 and share issuance costs will be fully amortized in 2021. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

10. 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.

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10. 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 \$604,285 (2016 - \$1,174,601).

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, 2017 the Company has cash of \$259,173 (2016 - \$508,878) to meet current financial liabilities of \$70,491 (2016 - \$58,491). 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, 2017, one (2016 – one) of the Company's bridge loans 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 (2016 - \$16,000) in net income. The Company does not hedge against this foreign currency risk.

11. Transactions with related parties

(a) During the year ended December 31, 2016, the Company completed a secured loan for \$100,000 with a company with an officer who is also an officer of the Company. In 2017 the loan was converted into commons shares (note 5(d))

(b) Compensation of key management personnel

The remuneration expense of directors and other members of key management personnel during the years ended December 31, 2017 and 2016 as follows:

	December 31, 2017	December 31, 2016
Salaries & benefits	\$ 120,000	\$ 127,000
Stock based compensation	-	35,343
	\$ 120,000	\$ 162,343