



**GUNPOWDER CAPITAL CORP.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**(EXPRESSED IN CANADIAN DOLLARS)  
(UNAUDITED – PREPARED BY MANAGEMENT)**

**FOR THE THREE & SIX MONTHS ENDED JUNE 30, 2018 AND 2017**

### **NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited CONDENSED INTERIM financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited CONDENSED INTERIM financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**GUNPOWDER CAPITAL CORP.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Expressed in Canadian Dollars)

As at,

|   | Notes  | June 30,<br>2018    | December 31,<br>2017 |
|---|--------|---------------------|----------------------|
| <b>ASSETS</b>                                     |        |                     |                      |
| <b>CURRENT</b>                                    |        |                     |                      |
| Cash  |        | \$ 1,144,379        | \$ 992,755           |
| Accounts and other receivables                    | 4, 5   | 357,867             | 97,449               |
| Prepaid expenses                                  |        | 52,669              | 40,615               |
| Notes receivable                                  | 5      | 889,255             | 1,097,240            |
| US real estate participation loans                | 6      | 472,294             | 312,428              |
| <b>Total current assets</b>                       |        | <b>2,916,464</b>    | <b>2,540,487</b>     |
| LONG TERM PREPAIDS                                | 8      | -                   | 88,425               |
| EQUIPMENT   | 7      | 44,815              | 31,481               |
| BUILDINGS AND IMPROVEMENTS                        | 8      | 4,559,827           | 2,900,815            |
| LOANS RECEIVABLE                                  | 14     | 54,839              | 1,077,532            |
| LONG-TERM NOTES RECEIVABLE                        | 5      | 245,571             | 250,667              |
| LONG-TERM INVESTMENTS                             | 9      | 484,512             | 474,769              |
| <b>TOTAL ASSETS</b>                               |        | <b>\$ 8,306,028</b> | <b>\$ 7,364,176</b>  |
| <b>LIABILITIES</b>                                |        |                     |                      |
| <b>CURRENT</b>                                    |        |                     |                      |
| Accounts payable and accrued liabilities          | 14     | \$ 293,225          | \$ 386,435           |
| Mortgages payable - current portion               | 10     | 457,587             | 404,065              |
| Loans payable - current portion                   | 11     | 62,385              | 57,535               |
| <b>Total current liabilities</b>                  |        | <b>813,197</b>      | <b>848,035</b>       |
| LONG-TERM MORTGAGES PAYABLE                       | 10     | 2,734,695           | 1,512,556            |
| LONG-TERM LOANS PAYABLE                           | 11     | 73,873              | 102,929              |
| <b>TOTAL LIABILITIES</b>                          |        | <b>3,621,765</b>    | <b>2,463,520</b>     |
| <b>SHAREHOLDERS' EQUITY</b>                       |        |                     |                      |
| Preferred shares                                  | 12 (a) | 5,291,445           | 5,291,445            |
| Common shares                                     | 12 (a) | 6,763,871           | 6,703,871            |
| Contributed surplus                               | 12(c)  | 1,570,047           | 1,570,047            |
| Warrants  | 12(b)  | 632,535             | 356,535              |
| Deficit   | 12(d)  | (9,573,635)         | (9,021,242)          |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                 |        | <b>4,684,263</b>    | <b>4,900,656</b>     |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |        | <b>\$ 8,306,028</b> | <b>\$ 7,364,176</b>  |

Description of business (Note 1)

Going concern (Note 2(d))

Subsequent events (Note 20)

**APPROVED ON BEHALF OF THE BOARD:**Signed "Frank Kordy"  
DIRECTORSigned "Stephen Mlot"  
DIRECTOR*The accompanying notes are integral part to these condensed interim consolidated financial statements.*

**GUNPOWDER CAPITAL CORP.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Expressed in Canadian Dollars)

|   | Notes | Three months ended<br>June 30, |                     | Six months ended<br>June 30, |                     |
|---|-------|--------------------------------|---------------------|------------------------------|---------------------|
|   |       | 2018                           | 2017                | 2018                         | 2017                |
| <b>INCOME</b>                                     |       |                                |                     |                              |                     |
| Rental  |       | \$ 97,322                      | \$ 33,174           | \$ 178,558                   | \$ 56,405           |
| Advisory services                                 |       | 91,994                         | 69,111              | 113,039                      | 70,016              |
| Payment processing services                       |       | 58,218                         | 69,020              | 145,801                      | 90,067              |
| Interest  |       | 93,924                         | 83,879              | 206,396                      | 132,887             |
| <b>TOTAL INCOME</b>                               |       | <b>341,458</b>                 | <b>255,184</b>      | <b>643,794</b>               | <b>349,375</b>      |
| <b>EXPENSES</b>                                   |       |                                |                     |                              |                     |
| Management fees                                   | 14    | 84,300                         | 134,500             | 240,600                      | 209,250             |
| Consulting and other professional fees            |       | 88,434                         | 65,327              | 195,602                      | 123,270             |
| General, office and administrative                |       | 62,498                         | 65,815              | 147,798                      | 112,406             |
| Property taxes and maintenance                    |       | 70,303                         | 25,195              | 135,070                      | 44,964              |
| Mortgage and loan interest                        |       | 31,142                         | 10,858              | 58,786                       | 17,972              |
| Amortization                                      |       | 31,228                         | 12,069              | 58,399                       | 22,080              |
| Marketing and investor relations                  |       | 22,153                         | 7,931               | 47,581                       | 17,758              |
| Legal and audit fees                              |       | 41,742                         | 31,571              | 43,742                       | 39,071              |
| Travel and accommodations                         |       | 17,180                         | 12,562              | 26,200                       | 20,659              |
| Non-recoverable input tax credits                 | 4     | 15,301                         | 34,216              | 21,445                       | 34,216              |
| Transfer agent and filing fees                    |       | 9,195                          | 43,856              | 19,186                       | 52,298              |
| Bank service charges                              |       | 1,790                          | 1,794               | 3,496                        | 3,393               |
| Share-based compensation                          | 14    | -                              | 31,000              | -                            | 31,000              |
| <b>NET (LOSS) BEFORE OTHER ITEMS</b>              |       | <b>(133,808)</b>               | <b>(221,510)</b>    | <b>(354,111)</b>             | <b>(378,962)</b>    |
| Realized gain on investments                      | 6, 9  | 16,990                         | -                   | 21,443                       | -                   |
| Unrealized gain (loss) on investments             | 9     | (16,208)                       | 24,320              | (9,829)                      | 15,068              |
| Accretion on financial instruments                | 5, 10 | (5,746)                        | 11,411              | (5,491)                      | 22,697              |
| Foreign exchange gain (loss)                      |       | 14,521                         | (16,228)            | 39,147                       | (16,275)            |
| <b>TOTAL OTHER ITEMS</b>                          |       | <b>9,557</b>                   | <b>19,503</b>       | <b>45,270</b>                | <b>21,490</b>       |
| <b>LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b> |       | <b>\$ (124,251)</b>            | <b>\$ (202,007)</b> | <b>\$ (308,841)</b>          | <b>\$ (357,472)</b> |
| Weighted average number of shares outstanding     |       |                                |                     |                              |                     |
| - basic and diluted                               |       | 31,398,168                     | 29,156,992          | 31,155,560                   | 28,287,952          |
| Basic and diluted loss per share                  | 13    | (0.00)                         | (0.01)              | (0.01)                       | (0.01)              |

*The accompanying notes are integral part to these condensed interim consolidated financial statements.*

**GUNPOWDER CAPITAL CORP.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Expressed in Canadian Dollars)

|  | Notes | Number of<br>shares | Preferred<br>shares | Common<br>shares    | Contributed<br>surplus | Warrants          | Deficit               | Total               |
|--|-------|---------------------|---------------------|---------------------|------------------------|-------------------|-----------------------|---------------------|
| <b>Balance, December 31, 2016</b>                          |       | <b>27,613,996</b>   | <b>\$ 2,047,400</b> | <b>\$ 6,500,868</b> | <b>\$ 1,539,047</b>    | <b>\$ 239,438</b> | <b>\$ (8,171,446)</b> | <b>\$ 2,155,307</b> |
| Issuance of common shares (net<br>of share issue costs)    |       | 3,001,000           | -                   | 270,100             | -                      | -                 | -                     | 270,100             |
| Issuance of warrants                                       |       | -                   | -                   | (75,273)            | -                      | 75,273            | -                     | -                   |
| Issuance of preferred shares (net<br>of share issue costs) | 12    | 197,940             | 1,766,005           | -                   | -                      | -                 | -                     | 1,766,005           |
| Common shares issued for debt                              | 14    | 500,000             | -                   | 50,000              | -                      | -                 | -                     | 50,000              |
| Share-based compensation                                   |       | -                   | -                   | -                   | 31,000                 | -                 | -                     | 31,000              |
| Expiry of warrants   |       | -                   | -                   | -                   | -                      | -                 | -                     | -                   |
| Dividends  | 12    | -                   | -                   | -                   | -                      | -                 | (113,395)             | (113,395)           |
| Net loss for the period                                    |       | -                   | -                   | -                   | -                      | -                 | (357,472)             | (357,472)           |
| <b>Balance, June 30, 2017</b>                              |       | <b>31,312,936</b>   | <b>\$ 3,813,405</b> | <b>\$ 6,745,695</b> | <b>\$ 1,570,047</b>    | <b>\$ 314,711</b> | <b>\$ (8,642,313)</b> | <b>\$ 3,801,545</b> |
| Issuance of warrants                                       |       | -                   | -                   | (41,824)            | -                      | 41,824            | -                     | -                   |
| Issuance of preferred shares (net<br>of share issue costs) | 12    | 208,700             | 1,928,040           | -                   | -                      | -                 | -                     | 1,928,040           |
| Repurchase of preferred shares                             |       | (45,000)            | (450,000)           | -                   | -                      | -                 | -                     | (450,000)           |
| Dividends  | 12    | -                   | -                   | -                   | -                      | -                 | (399,246)             | (399,246)           |
| Net loss for the period                                    |       | -                   | -                   | -                   | -                      | -                 | 20,318                | 20,318              |
| <b>Balance, December 31, 2017</b>                          |       | <b>31,476,636</b>   | <b>\$ 5,291,445</b> | <b>\$ 6,703,871</b> | <b>\$ 1,570,047</b>    | <b>\$ 356,535</b> | <b>\$ (9,021,242)</b> | <b>\$ 4,900,656</b> |
| Common shares issued for debt                              | 12    | 600,000             | -                   | 60,000              | -                      | -                 | -                     | 60,000              |
| Issuance of warrants                                       |       | -                   | -                   | -                   | -                      | 276,000           | -                     | 276,000             |
| Dividends  | 12    | -                   | -                   | -                   | -                      | -                 | (243,552)             | (243,552)           |
| Net loss for the period                                    |       | -                   | -                   | -                   | -                      | -                 | (308,841)             | (308,841)           |
| <b>Balance, June 30, 2018</b>                              |       | <b>32,076,636</b>   | <b>\$ 5,291,445</b> | <b>\$ 6,763,871</b> | <b>\$ 1,570,047</b>    | <b>\$ 632,535</b> | <b>\$ (9,573,635)</b> | <b>\$ 4,684,263</b> |

The accompanying notes are integral part to these condensed interim consolidated financial statements.

**GUNPOWDER CAPITAL CORP.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars)

|  | Three months ended<br>June 30, |                  | Six months ended<br>June 30, |                    |
|--|--------------------------------|------------------|------------------------------|--------------------|
|  | 2018                           | 2017             | 2018                         | 2017               |
| <b>CASH FLOW PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>  |                                |                  |                              |                    |
| Net loss for the period                                      | \$ (124,251)                   | \$ (202,007)     | \$ (308,841)                 | \$ (357,472)       |
| Items not involving cash:                                    |                                |                  |                              |                    |
| Amortization   | 20,410                         | 12,124           | 47,581                       | 22,080             |
| Non-cash consulting income                                   | (50,412)                       | (61,611)         | (50,412)                     | (61,611)           |
| Bad debt expense   | -                              | 10,831           | 33,894                       | 10,831             |
| Share-based compensation                                     | -                              | 31,000           | -                            | 31,000             |
| Unrealized loss on investments                               | 16,208                         | (24,320)         | 9,829                        | (15,068)           |
| Realized gain on investments                                 | (16,990)                       | -                | (21,443)                     | -                  |
| Accretion on notes receivable                                | 6,051                          | (11,411)         | 5,796                        | (22,697)           |
| Foreign exchange   | (11,307)                       | 9,427            | (29,868)                     | 10,404             |
| Changes in working capital items other than cash:            | -                              | -                | -                            | -                  |
| Accounts and other receivables                               | (227,491)                      | (40,412)         | (294,312)                    | 387,724            |
| Prepaid expenses   | (8,098)                        | (53,843)         | (12,054)                     | (67,782)           |
| Accounts payable and accrued liabilities                     | 1,299                          | 399,011          | (37,860)                     | 415,758            |
| <b>CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>       | <b>(394,581)</b>               | <b>68,789</b>    | <b>(657,690)</b>             | <b>353,167</b>     |
| <b>CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES</b> |                                |                  |                              |                    |
| Proceeds from issuance of preferred shares                   | -                              | 404,500          | -                            | 1,741,400          |
| Proceeds from issuance of warrants                           | 300,000                        | -                | 300,000                      | -                  |
| Share issue costs  | (24,000)                       | (57,800)         | (24,000)                     | (243,395)          |
| Proceeds from issuance of common shares                      | -                              | 300,100          | -                            | 300,100            |
| Cash dividends paid to preferred shareholders                | (121,276)                      | (72,446)         | (243,552)                    | (113,395)          |
| Proceeds from loan payable                                   | -                              | 50,000           | -                            | 50,000             |
| Repayment of loan payable                                    | (11,584)                       | -                | (22,940)                     | -                  |
| Repayment of mortgages payable                               | (18,651)                       | (6,377)          | (33,085)                     | (10,629)           |
| <b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>       | <b>124,489</b>                 | <b>617,977</b>   | <b>(23,577)</b>              | <b>1,724,081</b>   |
| <b>CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES</b> |                                |                  |                              |                    |
| US real estate participation loans                           | 218,963                        | -                | (132,065)                    | -                  |
| Funds loaned for notes receivable                            | (91,167)                       | (168,803)        | (141,562)                    | (174,604)          |
| Repayments received for notes receivable                     | 160,127                        | 42,576           | 381,023                      | 126,580            |
| Funds loaned for loans receivable                            | (55,000)                       | (360,614)        | (5,000)                      | (745,672)          |
| Repayments received for loans receivable                     | 1,021,538                      | -                | 1,031,643                    | -                  |
| Purchase of investments                                      | -                              | -                | (100,000)                    | -                  |
| Proceeds from sale of investments                            | -                              | -                | 131,642                      | -                  |
| Purchase of buildings  | (73,587)                       | (82,328)         | (326,283)                    | (295,012)          |
| Purchase of equipment  | (4,469)                        | (2,328)          | (6,507)                      | (4,937)            |
| <b>CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES</b> | <b>1,176,405</b>               | <b>(571,497)</b> | <b>832,891</b>               | <b>(1,093,645)</b> |
| <b>CHANGE IN CASH</b>  | <b>906,313</b>                 | <b>115,269</b>   | <b>151,624</b>               | <b>983,603</b>     |
| Cash, beginning of the period                                | 238,066                        | 995,953          | 992,755                      | 127,619            |
| Cash, end of the period                                      | \$ 1,144,379                   | \$ 1,111,222     | \$ 1,144,379                 | \$ 1,111,222       |

*The accompanying notes are integral part to these condensed interim consolidated financial statements.*

## **GUNPOWDER CAPITAL CORP.**

### **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

**(Unaudited, in Canadian Dollars)**

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#### **1. DESCRIPTION OF BUSINESS**

Gunpowder Capital Corp. (“GPC” or the “Company”) is merchant bank and advisory services firm. Gunpowder Capital Corp. has been in business since May 2016 when it implemented its new business model under the leadership of a new management team.

The Company is a reporting issuer in Ontario, Alberta and British Columbia and its common shares trades under the symbol “GPC” and its “Class – A” preferred shares trades under the symbol “GPC.PR.A” on the Canadian Securities Exchange. The Company’s common shares also trade on the Frankfurt Stock Exchange under “YS6N” and on the OTCQB Market under the trading symbol “GNPWF”.

As a merchant bank and advisory services firm, GPC provides financial capital and capital markets advisory services. The Company offers a variety of financing options including mezzanine debt, bridge loans, convertible debentures and straight loans as well as equity financing. GPC’s goal when investing is to as best as possible ensure the preservation of capital and structure upside for our stakeholders through participation opportunities such as royalties, equity or options. GPC’s main focus with advisory services is to assist companies that are interested in going public, however, GPC is also involved with capital markets advisory services and advising on mergers and acquisitions.

The Company’s corporate office and principal place of business is 8 King Street East, Suite 1005, Toronto, Ontario, Canada, M5C 1B5.

The condensed interim consolidated financial statements of the Company for the three and six months ended June 30, 2018 and 2017 were authorized for issuance in accordance with a resolution of the board of directors on August 29, 2018.

During the three and six months ended June 30, 2018, GPC incorporated two new wholly-owned subsidiaries, 1021 Henry Ford Centre Inc. and Blue Water Farms Inc.

#### **2. BASIS OF PRESENTATION**

##### *(a) Basis of consolidation*

These condensed interim consolidated financial statements include the accounts of the Company and its controlled subsidiaries. Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully condensed interim consolidated from the date control is transferred to the Company and are de-condensed interim consolidated from the date control ceases. The condensed interim consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

**GUNPOWDER CAPITAL CORP.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2018 AND 2017

**(Unaudited, in Canadian Dollars)****2. BASIS OF PRESENTATION - continued***(a) Basis of consolidation (continued)*

The following companies have been condensed interim consolidated within the condensed interim consolidated financial statements:

| <u>Company</u>                             | <u>Registered</u> | <u>Principle activity</u>       |
|--|-------------------|---------------------------------|
| Gunpowder Capital Corp.                    | Canada            | Parent company                  |
| GP Realty Inc. <sup>(1)</sup>              | Canada            | Holding company                 |
| 57 Wellington St. Inc. <sup>(2)</sup>      | Canada            | Real estate rental company      |
| 63 Wellington Street Inc. <sup>(2)</sup>   | Canada            | Real estate rental company      |
| 1209 Hickory Road Inc. <sup>(2)</sup>      | Canada            | Real estate rental company      |
| 559 Assumption Road Inc. <sup>(2)</sup>    | Canada            | Real estate rental company      |
| 934 Maisonville Road Inc. <sup>(2)</sup>   | Canada            | Real estate rental company      |
| 1571 Hickory Road Inc. <sup>(2)</sup>      | Canada            | Real estate rental company      |
| 935 Albert Street Inc. <sup>(2)</sup>      | Canada            | Real estate rental company      |
| 663 Marentette Ave. Inc. <sup>(2)</sup>    | Canada            | Real estate rental company      |
| 491 Louis Ave. Inc. <sup>(2)</sup>         | Canada            | Real estate rental company      |
| 1 Balfour Place Inc. <sup>(2)</sup>        | Canada            | Real estate rental company      |
| 53 McClary Ave. Inc. <sup>(2)</sup>        | Canada            | Real estate rental company      |
| 1021 Henry Ford Centre Inc. <sup>(2)</sup> | Canada            | Real estate rental company      |
| Blue Water Farms Inc. <sup>(3)</sup>       | Canada            | Real estate rental company      |
| GP Financial Services Corp. <sup>(1)</sup> | Canada            | Payment processing company      |
| GP Self Storage Inc. <sup>(1)</sup>        | Canada            | Storage facility rental company |

<sup>(1)</sup> 100% owned by the parent company.

<sup>(2)</sup> 100% owned by GP Realty Inc.

<sup>(3)</sup> Joint venture 50% owned by the the parent company.

*(b) Statement of compliance to international financial reporting standards*

The unaudited condensed interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") 34, Interim Financial Reporting ("IAS34") and apply the same accounting policies and application as disclosed in the annual consolidated financial statements for the year ended December 31, 2017 other than noted below. They do not include all of the information and disclosures required by IFRS for annual statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these unaudited condensed interim consolidated financial statements. Operating results for the periods ended June 30, 2018 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2018. For further information, see the Company's audited consolidated financial statements including the notes thereto for the year ended December 31, 2017.

*(c) Basis of measurement*

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair value as explained in these condensed interim consolidated financial statements. These condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

**GUNPOWDER CAPITAL CORP.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2018 AND 2017

**(Unaudited, in Canadian Dollars)**

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**2. BASIS OF PRESENTATION - continued***(d) Going concern of operations*

The Company incurred a net loss of \$124,251 and \$308,841 during the three and six months ended June 30, 2018 respectively (three and six months of 2017 - \$202,007 and \$357,472 respectively) and, as of that date the Company's deficit was \$9,573,635 (December 31, 2017 - \$9,021,242).

These unaudited condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying condensed interim consolidated financial statements. Such adjustments could be material. The Company may periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

*(e) Significant accounting estimates and judgments*

The preparation of these unaudited condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities at the date of the unaudited condensed interim consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual outcomes could differ from these estimates. The unaudited condensed interim consolidated financial statements include estimates, which, by their nature, are uncertain. The impact of such estimates are pervasive throughout the unaudited condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The areas involving a higher degree of judgment or complexity, or areas where the assumptions and estimates are significant to the financial statements were the same as those applied to the Company's audited consolidated financial statements for the year ended December 31, 2017.

**3. CHANGES IN ACCOUNTING POLICIES AND PRONOUNCEMENTS**

Except as described below, the accounting policies applied in these unaudited condensed interim consolidated financial statements are the same as those applied in the Company's annual audited consolidated financial statements as at and for the years ended December 31, 2017 and 2016. The changes in accounting policies will also be reflected in the Company's annual consolidated financial statements as at and for the year ending December 31, 2018.

*(a) IFRS 9 – Financial Instruments*

On January 1, 2018, the Company adopted IFRS 9 – Financial Instruments ("IFRS 9") which replaced IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39"). The standard is effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard on January 1, 2018 utilizing the modified retrospective exemption which does not require the restatement of prior periods. The provision is computed as of January 1, 2018 and opening retained earnings (deficit) for January 1, 2018 are adjusted to reflect the change in provision. The comparative figures for 2017 are not adjusted.

## **GUNPOWDER CAPITAL CORP.**

### **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

**(Unaudited, in Canadian Dollars)**

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#### **3. CHANGES IN ACCOUNTING POLICIES AND PRONOUNCEMENTS – continued**

##### *(a) IFRS 9 – Financial Instruments – continued*

###### (i) Financial Assets

Under IFRS 9, financial assets are classified into one of the following categories:

- those to be measured subsequently at fair value (either through other comprehensive income (“OCI”), or through the consolidated statement of income (loss)), and
- those to be measured at amortized cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

The Company measures financial assets (except for those classified as fair value through profit or loss) at its fair value plus transaction costs. Transaction costs of financial assets carried at fair value through profit or loss (“FVPL”) are expensed in the consolidated statement of income (loss).

###### Debt instruments

Subsequent measurement of debt instruments depends on the Company’s business model for managing the financial asset and the cash flow characteristics of the financial asset. There are three measurement categories into which the Company classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is recognized using the effective interest method. Foreign exchange gains and losses as well as any gain or loss arising on derecognition are recognized in the consolidated statement of income (loss).
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (“FVOCI”). Movements in the carrying amount are recorded through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in the consolidated statement of income (loss). When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to the consolidated statement of income (loss).
- **FVPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in the consolidated statement of income (loss).

###### Equity instruments

Unless an election is made, the Company subsequently measures all equity investments at fair value. Where the Company has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the consolidated statement of income (loss) following the derecognition of the investment.

Changes in the fair value of financial assets at FVPL are recognized in the consolidated statement of income (loss). Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

**GUNPOWDER CAPITAL CORP.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2018 AND 2017

**(Unaudited, in Canadian Dollars)****3. CHANGES IN ACCOUNTING POLICIES AND PRONOUNCEMENTS – continued***(a) IFRS 9 – Financial Instruments – continued*Impairment

Under IFRS 9, the Company assesses on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(ii) Financial Liabilities

Under IFRS 9, the Company's financial liabilities are classified into one of the two categories: at FVPL or at amortized cost.

- **FVPL:** Financial liabilities carried at FVPL are initially recorded at fair value and transaction costs are expensed in the consolidated statement of income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial liabilities held at FVPL are recognized in the consolidated statement of income (loss) in the period in which they arise, except for changes in fair value resulting from an entity's own credit risk which are recognized in other comprehensive income (loss). The deferred payments liability has been classified as a FVPL financial liability. The Company has determined that changes in its credit risk has not materially impacted the fair value of the deferred payments liability.
- **Financial liabilities at amortized cost:** Financials liabilities carried at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

The following table shows the classification and carrying value of the Company's financial instruments on adoption of IFRS 9:

|  | Measurement Category        |                 | January 1, 2018 Carrying Amount |                 |            |
|--|-----------------------------|-----------------|---------------------------------|-----------------|------------|
|  | Original<br>(IAS 39)        | New<br>(IFRS 9) | Original<br>(IAS 39)            | New<br>(IFRS 9) | Difference |
| <b>Financial assets:</b>                 |                             |                 |                                 |                 |            |
| Cash                                     | Loans and receivables       | Amortized cost  | 992,755                         | 992,755         | -          |
| Accounts and other receivables           | Loans and receivables       | Amortized cost  | 97,449                          | 97,449          | -          |
| Loans receivable                         | Loans and receivables       | Amortized cost  | 1,077,532                       | 1,077,532       | -          |
| Notes receivable                         | Loans and receivables       | Amortized cost  | 1,347,907                       | 1,347,907       | -          |
| US real estate participation loans       | Loans and receivables       | Amortized cost  | 312,428                         | 312,428         | -          |
| Long-term investments                    | FVTPL                       | FVTPL           | 474,769                         | 474,769         | -          |
| <b>Financial liabilities:</b>            |                             |                 |                                 |                 |            |
|  | <b>Classification:</b>      |                 |                                 |                 |            |
| Accounts payable and accrued liabilities | Other financial liabilities | Amortized cost  | 381,061                         | 381,061         | -          |
| Due to related parties                   | Other financial liabilities | Amortized cost  | 5,374                           | 5,374           | -          |
| Loans payable                            | Other financial liabilities | Amortized cost  | 160,464                         | 160,464         | -          |
| Mortgages payable                        | Other financial liabilities | Amortized cost  | 1,916,621                       | 1,916,621       | -          |

*(b) Other changes in accounting policies*

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions.

IFRS 2 – Share-based payments (“IFRS 2”) was amended by the IASB in June 2016 to clarify the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

**GUNPOWDER CAPITAL CORP.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2018 AND 2017

**(Unaudited, in Canadian Dollars)****3. CHANGES IN ACCOUNTING POLICIES AND PRONOUNCEMENTS – continued***(b) Other changes in accounting policies – continued*

IFRS 15 – Revenue From Contracts With Customers (“IFRS 15”) replaced IAS 18 - Revenue, IAS 11 - Construction contracts, and some revenue-related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The adoption of IFRS 15 did not have any material impact on the condensed interim financial statements.

*(c) Standards, amendments and interpretations not yet effective*

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2019. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined.

IFRS 16 – Leases (“IFRS 16”) was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 has also been applied.

**4. ACCOUNTS AND OTHER RECEIVABLES**

|                                      | <b>June 30,</b> | <b>December 31,</b> |
|--------------------------------------|-----------------|---------------------|
|                                      | <b>2018</b>     | <b>2017</b>         |
| Trade receivables (Note 5(i))        | \$ 88,685       | \$ 101,002          |
| HST receivables (i)                  | 7,250           | 8,268               |
| Other receivables                    | 265,886         | 43                  |
| Allowance for doubtful accounts      | (3,954)         | (11,864)            |
| Total accounts and other receivables | \$ 357,867      | \$ 97,449           |

- (i) Only HST input tax credits which are deemed refundable are recorded as HST receivables. When it can be reasonably estimated that a portion of the input tax credits is not eligible for refund, the amount is recorded as an expense. For the three and six months ended June 30, 2018, \$15,301 and \$21,445 was recorded as a non-recoverable input tax credits expense in the condensed interim consolidated statements of loss and comprehensive loss (three and six months ended June 30, 2017 - \$34,216 and \$34,216).

**GUNPOWDER CAPITAL CORP.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2018 AND 2017

**(Unaudited, in Canadian Dollars)****4. ACCOUNTS AND OTHER RECEIVABLES - continued**

| Aging analysis of trade receivables: | <b>June 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--------------------------------------|--------------------------|------------------------------|
| 1-30 days                            | \$ 37,712                | \$ 62,851                    |
| 31 - 60 days                         | 8,475                    | 4,000                        |
| 61 - 90 days                         | 8,302                    | 2,920                        |
| Greater than 90 days                 | 34,196                   | 31,231                       |
|                                      | <b>\$ 88,685</b>         | <b>\$ 101,002</b>            |

**5. NOTES RECEIVABLE**

|   | <b>June 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|---|--------------------------|------------------------------|
| Franchise Holdings International Inc. (i) | \$ 196,055               | \$ 191,497                   |
| Loan portfolio (ii)                       | 242,492                  | 652,703                      |
| 1123568 BC Ltd. (iii)                     | 184,620                  | 184,620                      |
| PMG-Patriot, Inc. (iv)                    | 358,633                  | 358,633                      |
| Advantagewon Oil Corporation (v)          | 431,428                  | 256,533                      |
| Other (vi)                                | 80,231                   | 61,867                       |
|   | <b>\$ 1,493,459</b>      | <b>\$ 1,705,853</b>          |
| Less: provision for notes receivable      | (358,633)                | (357,945)                    |
| <b>Total notes receivable</b>             | <b>\$ 1,134,826</b>      | <b>\$ 1,347,908</b>          |
| Classification:                           |                          |                              |
| Short-term notes receivable               | \$ 889,255               | \$ 1,097,241                 |
| Long-term notes receivable                | 245,571                  | 250,667                      |
|   | <b>\$ 1,134,826</b>      | <b>\$ 1,347,908</b>          |

- (i) On July 23, 2016, the Company was engaged by Franchise Holdings International Inc. ("FHI") to assist with the listing of FHI shares on the Canadian Securities Exchange. The Company has one common officer with FHI. Upon successful completion FHI will issue 6 million common shares to the Company. As part of the relationship with FHI, the Company has agreed to loan up to \$300,000 to FHI at an interest rate of 18% per annum. At June 30, 2018, the balance outstanding on this loan was \$112,039 (December 31, 2017 - \$111,173). An additional amount of \$13,756 outstanding from FHI was recorded as accounts and other receivables at June 30, 2018 for monthly repayment of interest (December 31, 2017 - \$18,494).

On July 26, 2016, the Company issued a secured promissory note to Truxmart Inc., a subsidiary of FHI for an amount up to \$59,000 with a maturity date of July 13, 2018. On October 1, 2016, the Company issued a secured promissory note to FHI for USD \$22,500 (\$33,383) with a maturity date of October 1, 2018. Both of these notes bear interest at a rate of 18% per annum. At June 30, 2018, the balance outstanding on these notes was \$84,016 (December 31, 2017 - \$80,323). An additional amount of \$16,551 outstanding from FHI was recorded as accounts and other receivables at June 30, 2018 for monthly repayment of interest which have not been repaid (December 31, 2017 - \$8,998).

These loans above are secured by a general security agreement over FHI as well as a charge on the assets of the business.

## **GUNPOWDER CAPITAL CORP.**

### **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

**(Unaudited, in Canadian Dollars)**

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#### **5. NOTES RECEIVABLE – continued**

- (ii) On November 23, 2016, the Company entered into two purchase and sale agreements with companies to acquire loan portfolios. The portfolios included four loans with interest rates ranging from 12% to 24%. Included in these loan portfolios is a \$90,000 loan to Advantagewon Oil Corporation (“AOC”), a company with a common officer as the Company. The maturity date of the loans in these loan portfolios range from August 1, 2017 to June 30, 2037. The carrying value of the loans on November 23, 2016 was \$743,432. The Company issued 69,200 “Class – A” preferred shares with an estimated fair value of \$10 per share for total consideration of \$692,000 for the portfolio. The difference between the consideration given and the face value of the loans is related to one specific loan and has been recorded as a reduction to the fair value of the loan. This amount will be accreted to profit (loss) until April 10, 2018 when the loan matures. Accretion of \$nil and \$4,237 was recorded for the three and six months ended June 30, 2018 (three and six months ended June 30, 2017 - \$11,411 and \$22,697) in the condensed interim consolidated statements of loss and comprehensive loss.

During the six months ended June 30, 2018, \$332,065 was repaid to the Company in relation to these loans.

During the six months ended June 30, 2018, the AOC loan noted above for \$90,000 was combined with other loans to AOC as described in Note 5(v).

On January 16, 2017, the Company entered into a purchase and sale agreement to acquire a loan portfolio. This portfolio included two loans with rates ranging from 10% to 12%. The maturity date of the loans in this loan portfolio ranged from June 30, 2018 to June 30, 2037. The carrying value of the loans on January 16, 2017 was \$238,000. The Company issued 23,800 “Class – A” preferred shares with an estimated fair value of \$10 per share for total consideration of \$238,000 for the portfolio. During the year ended December 31, 2017, one of the loans in the portfolio was fully repaid.

At June 30, 2018, the balance outstanding on the above loan portfolios was \$240,150 plus accrued interest of \$2,342 (December 31, 2017 - \$646,864 plus accrued interest of \$5,839).

- (iii) On October 5, 2017, the Company entered into a loan agreement with an unrelated party where the Company loaned a total of \$181,000. The loan bears interest at a rate of 24% per annum has a maturity date of October 1, 2018. The loan is secured first by a second mortgage charge on the building owned by the borrower, a general security agreement and a charge against the assets of the borrower. The Company also received 116,500 common shares of the borrower. These common shares had an estimated fair value of \$nil on the day of receipt and as at June 30, 2018 (December 31, 2018 - \$nil). At June 30, 2018 the balance outstanding on this loan was \$181,000 plus accrued interest of \$3,620 (December 31, 2016 - \$181,000 plus accrued interest of \$3,620).
- (iv) On July 4, 2017, the Company loaned USD\$160,000 (\$209,032) to PMG-Patriot, Inc. (“Patriot”). The loan bears interest at a rate of 18% per annum and has a maturity date of January 1, 2019. Patriot will also pay the Company a royalty of 1.5% based on gross revenue of Patriot. The loan is secured by a first charge and security interest in all of the present and after-acquired personal property and assets of the borrower pursuant to a general security agreement.

On October 23, 2017, the Company entered into an agreement to acquire a secured note of Patriot with a face value of USD \$138,000 (\$172,023). The secured note bears interest of 5% per annum and has a maturity date of July 1, 2020. The Company has agreed to acquire the note for USD \$120,000 (\$149,585). The discount of the of the note of USD 18,321 (\$23,003) will be amortized over the term of the loan.

**GUNPOWDER CAPITAL CORP.**

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

**(Unaudited, in Canadian Dollars)**

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**5. NOTES RECEIVABLE - continued**

On October 24, 2017, the Company loaned USD\$25,000 (\$31,825) to Patriot. The loan bears interest at a rate of 18% per annum and has a maturity date of January 1, 2019. The loan is secured by a first charge and security interest in all of the present and after-acquired personal property and assets of the borrower pursuant to a general security agreement.

On December 1, 2017, the Company entered into a loan agreement amendment with Patriot for all three loans described above whereas Patriot agreed to pay interest at 1.5% per month on the outstanding balances and commence repayment of the loan at a minimum of USD \$1,000 per month beginning on February 1, 2018.

At December 31, 2017, the balance outstanding on the Patriot loans was USD \$285,209 (\$357,945) plus accrued interest of \$688 (December 31, 2016 - \$nil). An impairment loss of \$357,945 was recorded on this loan on the condensed interim consolidated statement of loss and comprehensive loss for the year ended December 31, 2017 as the present value of the estimated future cash flows from the loan was not determinable.

- (v) On November 24, 2017, the Company entered into a loan agreement with AOC where the Company loaned AOC a total of USD \$200,500 (\$256,961). The loan bears interest at a rate of 1% per month and is to be repaid from the net proceeds of AOC's next fundraising. The loan is secured by a first charge and security interest in all of the present and after-acquired property of the borrower and a general security agreement provided by the borrower.

On May 25, 2018, the Company entered into a loan agreement amendment with AOC to combine the loans above and the \$90,000 loan as described in Note 5(ii) together. The new combined loan is for \$350,000 bearing an interest rate of 14% per annum. The loan is secured by a first charge and security interest in all of the present and after-acquired property of the borrower and a general security agreement provided by the borrower. The Company recorded a gain of \$1,509 in relation to the amendment.

On June 15, 2018, the Company entered into a loan agreement with AOC for USD \$45,000 (\$60,179) and \$27,600. The loan bears interest of 15% per annum and monthly principal repayments of \$5,000 begin in September 2018. In relation to this loan, AOC issued 300,000 share purchase warrants to the Company. Each warrant will allow the Company to purchase one common share of AOC for \$0.06 for one year. These warrants were valued with the Black-Scholes method and had a fair value of \$50,412 on the date of receipt. The value of these warrants has been recorded in the condensed interim consolidated statements of loss and comprehensive loss as advisory revenue.

At June 30, 2018, the balance outstanding on this combined loan was \$425,374 plus accrued interest of \$6,054 (December 31, 2017 – USD \$200,500 (\$251,640) plus accrued interest of \$4,893).

Subsequent to June 30, 2018, this loan was fully repaid by AOC with 65,560 Class – A preferred shares of the Company owned by AOC. These shares have a fair value of \$655,600.

- (vi) On May 22, 2017, the Company loaned \$50,000 to 2230164 Ontario Inc. ("2230164"), a company with an officer in common with FHI. The loan bears interest at a rate of 18% and is secured by a general security agreement over 2230164 as well as a charge on the assets of the business. Subsequent to May 22, 2017, the Company loaned 2230164 a further \$10,000 with the same terms as the original loan. At June 30, 2018, the outstanding balance of this loan was \$49,067 (December 31, 2017 - \$61,867). See Note 9(ii). An additional amount of \$11,829 outstanding from 2230164 was recorded as accounts and other receivables at June 30, 2018 for monthly repayment of interest which have not been repaid (December 31, 2017 - \$nil).

## GUNPOWDER CAPITAL CORP.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

(Unaudited, in Canadian Dollars)

#### 5. NOTES RECEIVABLE - continued

On March 19, 2018, the Company loaned \$50,000 Bitblox Technologies Inc. ("Bitblox"). The loan bears interest at a rate of 24% per annum and has a maturity date of three months subsequent to the issuance of the loan. At June 30, 2018, the outstanding balance of this loan was \$30,000 plus accrued interest of \$1,164 (December 31, 2017 - \$nil).

#### 6. US REAL ESTATE PARTICIPATION LOANS

During the year ended December 31, 2017, the Company invested in three rehabilitation properties in the United States for USD\$52,698 (\$66,782), USD\$90,725 (\$115,104) and USD\$157,421 (\$197,324), respectively. During the three and six months ended June 30, 2018, the Company invested in a fourth rehabilitation property in the United States for USD \$362,779 (\$471,425). The Company has provided financing for the purchase of the properties and will be repaid upon the sale of the properties as well as receive a share of the gross profits from the sale. One of the properties was sold during the year ended December 31, 2017. Two properties were sold in the six months ended June 30, 2018 for a gain of USD \$21,739 (\$27,576) (2017 - \$nil) recorded in the condensed interim consolidated statements of loss and comprehensive loss. The remaining property is intended to be sold in the short term.

#### 7. EQUIPMENT

|   | Renovations      | Equipment        | Computers       | Total            |
|---|------------------|------------------|-----------------|------------------|
| Cost as at December 31, 2017                        | -                | 54,177           | 10,908          | 65,085           |
| Additions   | 12,727           | 4,596            | -               | 17,323           |
| <b>Cost as at June 30, 2018</b>                     | <b>12,727</b>    | <b>58,773</b>    | <b>10,908</b>   | <b>82,408</b>    |
| Accumulated depreciation as at December 31, 2017    | -                | (25,200)         | (8,404)         | (33,604)         |
| Charge for the period                               | (205)            | (3,035)          | (749)           | (3,989)          |
| <b>Accumulated depreciation as at June 30, 2018</b> | <b>(205)</b>     | <b>(28,235)</b>  | <b>(9,153)</b>  | <b>(37,593)</b>  |
| Net book value as at December 31, 2017              | -                | 28,977           | 2,504           | 31,481           |
| <b>Net book value as at June 30, 2018</b>           | <b>\$ 12,522</b> | <b>\$ 30,538</b> | <b>\$ 1,755</b> | <b>\$ 44,815</b> |

#### 8. BUILDINGS AND IMPROVEMENTS

|   | 57<br>Wellington  | 63<br>Wellington  | 1209<br>Hickory   | 559<br>Assumption | 1571<br>Hickory   | 935<br>Albert     | 663<br>Marenette  | 491<br>Louis      | 1<br>Balfour      | 53<br>McClary     | 1021<br>Henry<br>Ford | Madoc<br>Self<br>Storage | Total              |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------------|--------------------------|--------------------|
| Cost as at December 31, 2017                        | \$ 474,267        | \$ 788,389        | \$ 144,958        | \$ 157,660        | \$ 209,834        | \$ 155,802        | \$ 312,126        | \$ 404,710        | \$ -              | \$ -              | \$ -                  | \$ 308,071               | \$2,955,817        |
| Additions   | 320               | 7,809             | -                 | -                 | 1,475             | 3,063             | -                 | -                 | 664,350           | 743,250           | 293,155               | -                        | 1,713,422          |
| <b>Cost as at March 31, 2018</b>                    | <b>474,587</b>    | <b>796,198</b>    | <b>144,958</b>    | <b>157,660</b>    | <b>211,309</b>    | <b>158,865</b>    | <b>312,126</b>    | <b>404,710</b>    | <b>664,350</b>    | <b>743,250</b>    | <b>293,155</b>        | <b>308,071</b>           | <b>4,669,239</b>   |
| Accumulated depreciation as at<br>December 31, 2017 | (17,659)          | (18,021)          | (2,185)           | (1,977)           | (1,961)           | (1,305)           | (1,851)           | (526)             | -                 | -                 | -                     | (9,517)                  | (55,002)           |
| Charge for the period                               | (5,932)           | (9,877)           | (1,812)           | (1,971)           | (2,635)           | (1,973)           | (3,902)           | (5,054)           | (7,564)           | (8,055)           | (1,784)               | (3,851)                  | (54,410)           |
| <b>Acc. depreciation as at March 31, 2018</b>       | <b>(23,591)</b>   | <b>(27,898)</b>   | <b>(3,997)</b>    | <b>(3,948)</b>    | <b>(4,596)</b>    | <b>(3,278)</b>    | <b>(5,753)</b>    | <b>(5,580)</b>    | <b>(7,564)</b>    | <b>(8,055)</b>    | <b>(1,784)</b>        | <b>(13,368)</b>          | <b>(109,412)</b>   |
| Net book value as at December 31, 2017              | \$ 456,608        | \$ 770,368        | \$ 142,773        | \$ 155,683        | \$ 207,873        | \$ 154,497        | \$ 310,275        | \$ 404,184        | \$ -              | \$ -              | \$ -                  | \$ 298,554               | \$2,900,815        |
| <b>Net book value as at March 31, 2018</b>          | <b>\$ 450,995</b> | <b>\$ 768,300</b> | <b>\$ 140,961</b> | <b>\$ 153,712</b> | <b>\$ 206,713</b> | <b>\$ 155,587</b> | <b>\$ 306,373</b> | <b>\$ 399,130</b> | <b>\$ 656,786</b> | <b>\$ 735,194</b> | <b>\$ 291,371</b>     | <b>\$ 294,703</b>        | <b>\$4,559,827</b> |

During the six months ended June 30, 2018, the Company completed the purchase of its third and fourth residential properties located in London, Ontario and its seventh residential property located in Windsor, Ontario.

Deposits to additional properties not yet acquired are included in long-term prepaids. As at June 30, 2018, these deposits amounted to \$nil (December 31, 2017 - \$88,425).

**GUNPOWDER CAPITAL CORP.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2018 AND 2017

**(Unaudited, in Canadian Dollars)****8. BUILDINGS AND IMPROVEMENTS**

The cost and other capitalized expenses of each property is as follows:

|                              | Date of purchase | Cost                | Other capitalized expenses | Total capitalized costs |
|------------------------------|------------------|---------------------|----------------------------|-------------------------|
| 57 Wellington Street         | 6/28/2016        | \$ 430,000          | \$ 44,587                  | \$ 474,587              |
| 63 Wellington Street         | 1/31/2017        | 725,000             | 63,389                     | 788,389                 |
| 1209 Hickory Road            | 5/24/2017        | 135,000             | 9,958                      | 144,958                 |
| 559 Assumption Road          | 6/29/2017        | 149,900             | 7,760                      | 157,660                 |
| 1571 Hickory Road            | 8/16/2017        | 199,900             | 11,409                     | 211,309                 |
| 935 Albert Street            | 8/31/2017        | 150,000             | 8,865                      | 158,865                 |
| 663 Marrentette Ave          | 10/6/2017        | 300,000             | 12,126                     | 312,126                 |
| 491 Louis Ave                | 12/13/2017       | 395,000             | 9,710                      | 404,710                 |
| 1 Balfour Place              | 1/17/2018        | 625,000             | 39,350                     | 664,350                 |
| 53 McClary Ave               | 1/26/2018        | 700,000             | 42,626                     | 742,626                 |
| 1021 Henry Ford Centre Drive | 4/8/2018         | 285,000             | 8,155                      | 293,155                 |
| Madoc Self Storage           | 10/6/2016        | 299,000             | 9,071                      | 308,071                 |
|                              |                  | <b>\$ 4,393,800</b> | <b>\$ 267,006</b>          | <b>\$ 4,660,806</b>     |

**9. LONG-TERM INVESTMENTS**

|  | June 30, 2018 |                   | December 31, 2017 |                   |
|--|---------------|-------------------|-------------------|-------------------|
|  | # of shares   | Fair market value | # of shares       | Fair market value |
| Cannabis Royalties & Holdings Corp. (i)    | -             | -                 | 28,850            | 107,610           |
| Franchise Holdings International Inc. (ii) | 1,627,287     | 40,589            | 1,627,287         | 28,389            |
| Payfare Inc. (iii)                         | 333,334       | 50,000            | 333,334           | 50,000            |
| Advantagewon Oil Corp. (iv)                | 132,548       | 46,008            | 132,548           | 9,278             |
| Cheetah Canyon Resources Corp. (v)         | 1,698,850     | 101,931           | 1,698,850         | 93,437            |
| Meryllion Resources Corporation (vi)       | 2,000,000     | 61,601            | 2,000,000         | 141,055           |
| Bitblox Technologies Inc. (vii)            | 1,900,000     | 145,000           | 900,000           | 45,000            |
| Chess Supersite Corp (viii)                | 300,000       | 39,383            | -                 | -                 |
| Total long-term investments                |               | \$ 484,512        |                   | \$ 474,769        |

- (i) On July 26, 2015, the Company had an agreement with Rock Vapor Technologies Inc. ("RVT") to purchase 80,000 shares of RVT at a cost of USD\$1.25 per share for a total purchase price of USD\$100,000 (\$138,000). These shares were sold by RVT in pursuant to the terms of Regulation S of the Securities Act of 1933, as amended. The shares will be restricted indefinitely until Rock Vapor Technologies Inc. takes the necessary steps to become a publicly traded entity, at which time the restrictions may only be lifted pursuant to an effective registration statement or exemption statement or an exemption to the registration requirements. While restricted, the shares may not be traded in the United States or in Canada.

During the year ended December 31, 2016, RVT entered into an agreement with Cannabis Royalties & Holdings Corp. ("CRHC") (CSE:CRZ) to sell certain assets of RVT to CRHC for 375,000 common shares of CRHC. As a result of this agreement, the Company's RVT shares were swapped for 28,850 common shares of CRHC.

**GUNPOWDER CAPITAL CORP.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**(Unaudited, in Canadian Dollars)**

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**9. LONG-TERM INVESTMENTS - continued**

During the six months ended June 30, 2018, all of the Company's common shares of CRHC were sold for \$131,642 and an unrealized loss of \$30,390 (2017 - \$nil) previously recognized was reversed and a realized loss of \$6,358 (2017 - \$nil) was recorded in the condensed interim consolidated statements of loss and comprehensive loss

- (ii) On September 16, 2016, the Company acquired 50,000 common shares of FHI as part of a capital market consulting agreement with FHI for \$nil cost to the Company. These shares had an estimated fair value of USD \$7,500 (\$9,675) on the date of acquisition based on the quoted market share price of FHI on the date of acquisition.

In relation to the note receivable described in Note 5(i), FHI issued 1,577,287 shares of FHI to the Company at a subscription price of USD\$0.001 (\$0.00134) as payable for consulting services provided. The fair market value of these shares was estimated at USD\$47,319 (\$63,735) on the date of acquisition based on the quoted market share price of FHI on the date of acquisition.

As at June 30, 2018, FHI's quoted share price was USD \$0.019 (\$0.025). As a result, an unrealized gain of \$12,588 was recorded for the three months ended June 30, 2018 and an unrealized gain of \$10,750 was recorded for the six months ended June 30, 2018 (three and six months ended June 30, 2017 – unrealized gain of \$20,477 and \$20,462).

- (iii) On August 30, 2016, the Company acquired 333,334 common shares of Payfare Inc. for \$50,000, a private company in the business of payment processing.
- (iv) On October 20, 2016, the Company acquired 1,666,667 common shares of Advantagewon Oil Corporation ("AOC") for consideration of 2,500,000 common shares of the Company. The estimated fair value of the investment on the date of purchase was \$112,500 based the closing quoted market share price of the Company's common shares on the day before the transaction. As at December 31, 2016, AOC's shares were valued at \$150,000 based on the share price from a private placement occurring near December 31, 2016. AOC has two officers and one Director in common with the Company. AOC completed its process of going public on July 14, 2017 and on that date, 1,534,119 of these shares were distributed to shareholders of the Company as a dividend valued at \$199,435 based on the quoted market price of the AOC shares on the day the shares were distributed. At June 30, 2018, AOC's quoted share price was \$0.05. As a result, an unrealized gain of \$928 was recorded for the three months ended June 30, 2018 and an unrealized loss of \$2,651 was recorded for the six months ended June 30, 2018 (three and six months ended June 30, 2017 – \$nil).

As part of the service agreement between AOC and the Company, AOC issued 3,000,000 common shares to the Company upon completion of its going public process. The fair market value of these shares was estimated at \$420,000 on the date of acquisition based on the quoted market share price of AOC on the date of acquisition and \$420,000 was recorded as consulting income for the year ended December 31, 2017. During the year ended December 31, 2017, the Company entered into an agreement to dispose of 3,000,000 to a holder of the Company's Preferred "Class – A" shares in exchange for 45,000 "Class – A" shares and recognized a realized gain of \$30,000.

In relation to a loan agreement as described in Note 5(v), the Company received 300,000 share purchase warrants of AOC. These warrants were valued with the Black-Scholes method and had a fair value of \$50,412 on the date of receipt. As at June 30, 2018, these warrants had a fair value of \$39,318. As a result, a unrealized loss of \$11,031 was recorded for the three and six months ended June 30, 2018 (three and six months ended June 30, 2017 – \$nil).

**GUNPOWDER CAPITAL CORP.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**(Unaudited, in Canadian Dollars)****9. LONG-TERM INVESTMENTS - continued**

- (v) On June 13, 2017, Cheetah Canyon Resources Corp. (formerly “Cardiff Energy Corp.”) (“Cardiff”, “Cheetah”) (TSXV:CHTA) issued 1,000,000 common shares of Cardiff to the Company as part the loan repayment with a fair value of \$80,000 based on their quoted market price on the date of issuance. On July 12, 2017, a further 698,850 shares of Cheetah with a fair value of \$69,885 based on their quoted market price on the day of issuance to fully repay the loan. As at June 30, 2018, Cheetah’s quoted share price was \$0.06. As a result, an unrealized gain of \$nil and \$8,494 was recorded for the three and six months ended June 30, 2018 (three and six months ended June 30, 2017 - \$20,000).
- (vi) On August 1, 2017, the Company subscribed for 2,000,000 units of Meryllion Resources Corporation (“Meryllion”) (CSE: MYR) at \$0.025 per unit. Each unit is comprised of one common share of Meryllion and one half common share purchase warrant. Each whole warrant entitles the Company to acquire one common share of Meryllion for \$0.05 for a period of 18 months from the date of acquisition. As at June 30, 2018, Meryllion’s quoted share price was \$0.025 and the warrants were valued at \$0.012 using the Black-Scholes valuation method. As a result, an unrealized loss of \$41,898 and \$37,556 was recorded for the three and six months ended June 30, 2018 (2017 - \$nil).
- (vii) On December 13 and 20, 2017, the Company subscribed for 400,000 token units and 500,000 token units of Bitblox at \$0.05 per token unit. Each token unit is comprised of one digital token and one warrant that is exercisable into one common share of Bitblox for no additional consideration immediately prior to certain events. Each digital token may entitle the Company to receive a proportionate share of Bitblox’s quarterly profit share to be determined by Bitblox’s board of directors. On January 29, 2018, the Company subscribed for 10,000,000 token units of Bitblox at \$0.10 per token unit. These token units have the same terms as above. There was no material change in the values of the token units and digital tokens as at June 30, 2018 due to the short amount of time that had passed since the purchase of the shares.
- (viii) On February 6, 2018, the Company received 300,000 common shares of Chess Supersite Corp. (“Chess”) as payment for outstanding accounts receivable of \$33,900. The fair market value of these shares was estimated at USD \$3,690 (\$4,648) on the date of acquisition based on the quoted market share price of Chess on the date of acquisition and \$29,252 was recorded as bad debt in the three months ended June 30, 2018. At June 30, 2018, the quoted market price of Chess was USD \$0.10 (\$0.13) and as a result, an unrealized gain of \$5,206 and \$10,468 was recorded for the three and six months ended June 30, 2018 (2017 - \$nil).

**10. MORTGAGES PAYABLE**

|  | Principal amount    | Annual interest | Term of mortgage | Amortization life | Fair value at       |                     |
|--|---------------------|-----------------|------------------|-------------------|---------------------|---------------------|
|  |                     |                 |                  |                   | June 30, 2018       | December 31, 2017   |
| 57 Wellington Street, London, Ontario      | \$ 279,500          | 4.75%           | 36 months        | 300 months        | \$ 267,719          | \$ 270,895          |
| 63 Wellington Street, London, Ontario      | 543,750             | 4.20%           | 60 months        | 300 months        | 526,788             | 533,259             |
| 1209 Hickory Road, Windsor, Ontario        | 101,250             | 4.65%           | 60 months        | 300 months        | 98,490              | 99,849              |
| 559 Assumption Road, Windsor, Ontario      | 112,425             | 4.65%           | 60 months        | 300 months        | 109,399             | 110,929             |
| 1571 Hickory Road, Windsor, Ontario        | 149,925             | 4.20%           | 12 months        | 300 months        | 146,030             | 147,978             |
| 935 Albert Street, Windsor, Ontario        | 105,000             | 4.55%           | 60 months        | 240 months        | 96,207              | 96,442              |
| 663 Marentette Ave, Windsor, Ontario       | 210,000             | 4.55%           | 60 months        | 240 months        | 200,410             | 203,122             |
| 491 Louis Ave, Windsor, Ontario            | 316,000             | 3.10%*          | 60 months        | 300 months        | 311,781             | 316,000             |
| 1 Balfour Place, Windsor Ontario           | 393,919             | 3.63%           | 60 months        | 360 months        | 505,681             | -                   |
| 53 McClary Ave, Windsor, Ontario           | 514,650             | 3.63%**         | 60 months        | 360 months        | 568,016             | -                   |
| 1021 Henry Ford Centre Drive, Windsor, Ont | 228,000             | 3.05%           | 60 months        | 360 months        | 227,223             | -                   |
| Madoc storage facility                     | 146,250             | 4.63%           | 60 months        | 180 months        | 134,538             | 138,147             |
| <b>Total mortgages payable</b>             | <b>\$ 3,100,669</b> |                 |                  |                   | <b>\$ 3,192,282</b> | <b>\$ 1,916,621</b> |

\*Variable interest rate of prime rate minus 0.10%

\*\*Variable interest rate of prime rate minus 0.40%

**GUNPOWDER CAPITAL CORP.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

(Unaudited, in Canadian Dollars)

**10. MORTGAGES PAYABLE - continued**

|                                 | For the six months ended June 30, |                   |
|---------------------------------|-----------------------------------|-------------------|
|                                 | 2018                              | 2017              |
| Balance, beginning of year      | \$ 1,916,621                      | \$ 422,147        |
| Proceeds from mortgages payable | 1,298,713                         | 543,750           |
| Repayments                      | (33,085)                          | (4,252)           |
| Accretion of transactions costs | 10,033                            | -                 |
| <b>Balance, end of period</b>   | <b>\$ 3,192,282</b>               | <b>\$ 961,645</b> |

## Classification:

|                              |                     |                   |
|------------------------------|---------------------|-------------------|
| Short-term mortgages payable | \$ 457,587          | \$ 25,935         |
| Long-term mortgages payable  | 2,734,695           | 935,710           |
|                              | <b>\$ 3,192,282</b> | <b>\$ 961,645</b> |

Mortgages payable are secured by general security agreements constituting a first ranking security interest in all assets, a collateral mortgage in the amount of \$3,100,669 over real property, and a first position security interest over accounts receivable and inventories.

**11. LOANS PAYABLE**

|                               | For the six months ended June 30, |             |
|-------------------------------|-----------------------------------|-------------|
|                               | 2018                              | 2017        |
| Balance, beginning of year    | \$ 160,464                        | \$ -        |
| Proceeds from loans payable   | -                                 | -           |
| Repayments                    | (22,940)                          | -           |
| Foreign exchange loss         | (1,266)                           | -           |
| <b>Balance, end of period</b> | <b>\$ 136,258</b>                 | <b>\$ -</b> |

## Classification:

|                          |                   |             |
|--------------------------|-------------------|-------------|
| Short-term loans payable | \$ 62,385         | \$ -        |
| Long-term loans payable  | 73,873            | -           |
|                          | <b>\$ 136,258</b> | <b>\$ -</b> |

On June 1, 2017, the Company borrowed \$50,000 from an unrelated party. The secured promissory note bears interest of 8% per annum and has a maturity of May 31, 2022. The note is secured by a mortgage charge on the 1209 Hickory Road property. As at June 30, 2018, the carrying value of loan is \$45,435 (2017 - \$nil).

On July 10, 2017, the Company borrowed USD \$100,000 (\$124,654) from an unrelated party. The secured promissory note bears interest of 8% per annum and has a maturity of October 1, 2019. The note is secured by a first charge and security interest in all of the present and after-acquired property and assets of the Company pursuant to a general security agreement. As at June 30, 2018, the carrying value of this loan is USD \$69,185 (\$90,823) (2017 - \$nil).

**GUNPOWDER CAPITAL CORP.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2018 AND 2017

**(Unaudited, in Canadian Dollars)****12. SHAREHOLDERS' EQUITY****a) Preferred shares and common shares**

As at June 30, 2018, the Company's authorized share capital consisted of an unlimited number of voting common shares and 2,740,925 non-voting, cumulative, "Class – A" preferred shares "Class – B" preferred shares that are redeemable at the option of the Company at fair value.

***Preferred shares***

| <b>Class-A</b>                                      | <b># of shares</b> | <b>Value of shares</b> |
|---|--------------------|------------------------|
| <b>Balance, December 31, 2017 and June 30, 2018</b> | <b>532,830</b>     | <b>\$ 5,012,585</b>    |

| <b>Class-A</b>                | <b># of shares</b> | <b>Value of shares</b> |
|-------------------------------|--------------------|------------------------|
| Balance, December 31, 2016    | 204,740            | \$ 2,047,400           |
| "Class - A" shares issued (i) | 164,390            | 1,643,900              |
| Share issue costs             | -                  | (156,755)              |
| <b>Balance, June 30, 2017</b> | <b>369,130</b>     | <b>\$ 3,534,545</b>    |

- (i) On January 16, 2017, the Company issued 23,800 "Class – A" preferred shares at \$10 per share to acquire a loan portfolio from a company with a common officer with the Company. See Note 5(ii).

During the six months ended June 30, 2017, the Company issued a total of 164,390 "Class – A" preferred shares at \$10 per share for total proceeds of \$1,643,900.

Share issue costs of \$156,755 were incurred in relation to the issuances in the six month period ended June 30, 2017.

| <b>Class-B</b>                                      | <b># of shares</b> | <b>Value of shares</b> |
|---|--------------------|------------------------|
| <b>Balance, December 31, 2017 and June 30, 2018</b> | <b>33,550</b>      | <b>\$ 278,860</b>      |

| <b>Class-B</b>                                     | <b># of shares</b> | <b>Value of shares</b> |
|--|--------------------|------------------------|
| Balance, December 31, 2016                         | -                  | \$ -                   |
| "Class - B" shares issued in private placement (i) | 33,550             | 335,500                |
| Share issue costs                                  | -                  | (56,640)               |
| <b>Balance, June 30, 2017</b>                      | <b>33,550</b>      | <b>\$ 278,860</b>      |

- (i) During the six month period ended June 30, 2017, the Company issued a total of 33,550 "Class – B" preferred shares at \$10 per share for total proceeds of \$335,500.

Share issue costs of \$56,640 were incurred in relation to this issuance.

**GUNPOWDER CAPITAL CORP.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2018 AND 2017

**(Unaudited, in Canadian Dollars)****12. SHAREHOLDERS' EQUITY - continued****a) Preferred shares and common shares*****Common shares***

|   | <b># of shares</b> | <b>Value of shares</b> |
|---|--------------------|------------------------|
| Balance, December 31, 2017              | 30,910,256         | 6,703,871              |
| Shares issued in settlement of debt (i) | 600,000            | 60,000                 |
| <b>Balance, June 30, 2018</b>           | <b>31,510,256</b>  | <b>\$ 6,763,871</b>    |

|  | <b># of shares</b> | <b>Value of shares</b> |
|--|--------------------|------------------------|
| Balance, December 31, 2016                           | 27,409,256         | 6,500,868              |
| Common shares issued in private placement (ii)       | 3,001,000          | 300,100                |
| Value of warrants granted in private placements (ii) | -                  | (75,273)               |
| Common shares issued in settlement of debt (iii)     | 500,000            | 50,000                 |
| Cost of issue  | -                  | (30,000)               |
| <b>Balance, June 30, 2017</b>                        | <b>30,910,256</b>  | <b>\$ 6,745,695</b>    |

- (i) During the six month period ended June 30, 2018, the Company issued a total of 600,000 common shares with an estimated fair value of \$0.10 per share to settle debts owed to an officer and a consultant of the Company.
- (ii) During the six months ended June 30, 2017, the Company closed a non-brokered private placement raising gross proceeds of \$300,100 through the issuance of 3,001,000 units at \$0.10 per unit. Each unit is comprised of one common share of the Company plus one common share warrant. Each warrant entitles the holder to acquire one common share of the Corporation for \$0.15 for a period of 36 months from the closing date. The fair value of the 3,001,000 warrants was estimated as \$75,273 using the Black-Scholes option pricing model with the following assumptions: 135% expected volatility; a risk-free interest rate of 0.72%; an expected dividend yield of Nil%; and 36 months expected term. A corporation controlled by an officer of the Company subscribed to 1,000 of the units of this private placement.

A total of \$30,000 of share issue costs were incurred in relation to the common shares issued above.

- (iii) The Company issued an aggregate of 500,000 common shares with an estimated fair value of \$0.10 per share to settle debts owed to an officer and a consultant of the Company.

**GUNPOWDER CAPITAL CORP.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

(Unaudited, in Canadian Dollars)

**12. SHAREHOLDERS' EQUITY - continued****b) Warrants**

There was no activity in warrants in the six month periods ended June 30, 2018 and 2017.

The following warrants were in existence as at June 30, 2018:

| # of warrants | Fair value of warrants | Weighted average exercise price | Expiry Date       |
|---------------|------------------------|---------------------------------|-------------------|
| 179,500       | \$ 10,573              | 0.15                            | February 28, 2019 |
| 25,000        | 1,473                  | 0.15                            | March 29, 2019    |
| 192,500       | 11,338                 | 0.15                            | April 19, 2019    |
| 1,537,500     | 90,559                 | 0.15                            | April 29, 2019    |
| 1,193,490     | 70,298                 | 0.15                            | May 16, 2019      |
| 50,000        | 2,945                  | 0.15                            | May 24, 2019      |
| 382,147       | 52,252                 | 0.25                            | December 21, 2019 |
| 3,001,000     | 117,097                | 0.15                            | May 17, 2020      |
| 10,000,000    | 276,000                | 0.12                            | April 18, 2022    |
| 16,561,137    | \$ 632,535             |                                 |                   |

**c) Contributed surplus**

|  |                     |
|--|---------------------|
| <b>Balance, December 31, 2016</b>      | <b>\$ 1,539,047</b> |
| Share-based compensation               | 31,000              |
| <b>Balance, June 30, 2017 and 2018</b> | <b>\$ 1,570,047</b> |

**Stock options**

As at June 30, 2018, the Company's outstanding stock options are as follows:

| # of options outstanding and exercisable | Fair value at grant date | Exercise price | Expiry Date      | Expected volatility | Expected life (years) | Expected dividend yield | Risk-free interest rate |
|--|--------------------------|----------------|------------------|---------------------|-----------------------|-------------------------|-------------------------|
| 200,000                                  | \$ 14,100                | 0.10           | July 11, 2021    | 161%                | 5                     | 0%                      | 0.53%                   |
| 100,000                                  | 3,500                    | 0.10           | December 1, 2021 | 156%                | 5                     | 0%                      | 1.07%                   |
| 1,550,000                                | 179,000                  | 0.12           | May 5, 2026      | 143%                | 10                    | 0%                      | 0.98%                   |
| 400,000                                  | 31,000                   | 0.10           | June 19, 2027    | 131%                | 10                    | 0%                      | 1.54%                   |
| 2,250,000                                | \$ 227,600               |                |                  |                     |                       |                         |                         |

**Employee share option plan**

The shareholders of the Company approved the Company's existing stock option plan, the "Plan", to be administered by the directors of the Company. Under the Plan, the Company may grant to directors, officers, employees and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital. The plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases.

There were no stock options granted during the six months ended June 30, 2018 (six months ended June 30, 2017 – 400,000 stock options granted).

**GUNPOWDER CAPITAL CORP.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2018 AND 2017

**(Unaudited, in Canadian Dollars)****12. SHAREHOLDERS' EQUITY – continued****d) Dividends**

On January 4, 2018, the Company declared and paid a dividend of \$0.20 per “Class – A” preferred shares and “Class – B” preferred shares for a total of \$122,276. On April 4, 2018, the Company declared and paid a dividend of \$0.20 per “Class – A” preferred shares and “Class – B” preferred shares for a total of \$121,276.

Subsequent to June 30, 2018, the Company declared and paid a dividend of \$0.20 per “Class – A” preferred shares and “Class – B” preferred shares for a total of \$109,314.

**13. BASIC AND DILUTED LOSS PER SHARE**

Shares issuable from options and warrants were excluded from the computation of diluted loss per share because their effect would be anti-dilutive for three and six months ended June 30, 2018 and 2017.

**14. RELATED PARTY TRANSACTIONS***JIT Financial Inc.*

During the year ended December 31, 2017, the Company loaned \$31,538 to JIT Financial Inc. (“JIT”), in which the Company acquired a 12.5% ownership stake. As result of this stake, the Company appointed one of its officers to the Board of Directors of JIT. JIT is in the cash clearing business. The loan bears interest at a rate of 10% per annum and the Company charges a royalty of \$0.05 per transaction on certain transactions processed by JIT. The loan is repayable on a basis of \$0.25 per transaction on certain transactions processed by JIT. The loan is secured by a first charge and security interest in all of the present and after-acquired personal property and assets of the borrower pursuant to a general security agreement.

During the year ended December 31, 2017, the Company loaned \$1,000,000 to JIT, through a promissory note and a number of amendments of the promissory note. The loan bears interest at a rate of \$0.30 per transaction on certain transactions processed by JIT. The loan is secured by a first charge and security interest in all of the present and after-acquired personal property and assets of the borrower pursuant to a general security agreement. During the six months ended June 30, 2018, this loan was fully repaid to the Company.

*Other related parties*

During the three and six month periods ended June 30, 2018 and 2017, the Company entered into the following transactions in the ordinary course of business with related parties that are not subsidiaries of the Company.

|                                 | <b>Revenue earned from services</b> |             |                                  |             |
|---------------------------------|-------------------------------------|-------------|----------------------------------|-------------|
|                                 | <b>Three months ended June 30,</b>  |             | <b>Six months ended June 30,</b> |             |
|                                 | <b>2018</b>                         | <b>2017</b> | <b>2018</b>                      | <b>2017</b> |
| Meryllion Resources Corporation | \$ 7,500                            | \$ -        | \$ 15,000                        | \$ -        |
| Bitblox Technologies Inc.       | 17,000                              | -           | 34,000                           | -           |

The Company has two common officers with Meryllion Resources Corporation and Bitblox Technologies Inc. Included in accounts receivable are \$11,325 owing from Meryllion and \$13,560 owing from Bitblox as at June 30, 2018 (2017 - \$nil).

**GUNPOWDER CAPITAL CORP.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2018 AND 2017

**(Unaudited, in Canadian Dollars)****14. RELATED PARTY TRANSACTIONS – continued***Compensation of key management personnel of the Company*

The remuneration of directors and other members of key management personnel during the periods were as follows:

|                      | Three months ended June 30, |           | Six months ended June 30, |            |
|----------------------|-----------------------------|-----------|---------------------------|------------|
|                      | 2018                        | 2017      | 2018                      | 2017       |
| Short-term benefits  | \$ 94,800                   | \$ 74,500 | \$ 147,600                | \$ 128,000 |
| Share-based payments | -                           | 15,500    | -                         | 15,500     |

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

As at June 30, 2018, the Company owed \$nil (2017 - \$5,374) to an officer of the Company. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

See Notes 5(i), 5(v) and 12(a).

**15. SEGMENTED INFORMATION**

As at June 30, 2018, the Company has five reportable segments; corporate, merchant banking, real estate, consulting and advisory and payment processing. The merchant banking segment provides loans to third parties and earns interest income. The real estate segment acquires rental properties for capital appreciation and earns rental income. The consulting and advisory segment provides advisory services to third party corporations and earns service income. The corporate segment is responsible for the overall investments operations of the Company excluding investments in rental properties. The corporate segment also includes all overhead costs.

| June 30, 2018      | Corporate  | Merchant banking | Real estate  | Consulting and advisory | Payment processing | Total        |
|--------------------|------------|------------------|--------------|-------------------------|--------------------|--------------|
| <u>Assets</u>      |            |                  |              |                         |                    |              |
| Canada             | \$ 584,165 | \$ 23,467        | \$ 4,559,827 | \$ -                    | \$ -               | \$ 5,167,459 |
| US                 | -          | 222,105          | -            | -                       | -                  | 222,105      |
| Non-current assets | \$ 584,165 | \$ 245,572       | \$ 4,559,827 | \$ -                    | \$ -               | \$ 5,389,564 |

| December 31, 2017  | Corporate  | Merchant banking | Real estate  | Consulting and advisory | Payment processing | Total        |
|--------------------|------------|------------------|--------------|-------------------------|--------------------|--------------|
| <u>Assets</u>      |            |                  |              |                         |                    |              |
| Canada             | \$ 506,250 | \$ 1,067,804     | \$ 2,989,240 | \$ -                    | \$ 45,995          | \$ 4,609,289 |
| US                 | -          | 214,401          | -            | -                       | -                  | 214,401      |
| Non-current assets | \$ 506,250 | \$ 1,282,205     | \$ 2,989,240 | \$ -                    | \$ 45,995          | \$ 4,823,690 |

| Revenues                | Three months ended June 30, |            | Three months ended June 30, |            |
|-------------------------|-----------------------------|------------|-----------------------------|------------|
|                         | 2018                        | 2017       | 2018                        | 2017       |
| Corporate               | \$ -                        | \$ -       | \$ -                        | \$ -       |
| Merchant banking        | 93,924                      | 83,879     | 206,396                     | 132,887    |
| Payment processing      | 58,218                      | 69,020     | 145,801                     | 90,067     |
| Real estate             | 97,322                      | 33,174     | 178,558                     | 56,405     |
| Consulting and advisory | 91,994                      | 69,111     | 113,039                     | 70,016     |
|                         | \$ 341,458                  | \$ 255,184 | \$ 643,794                  | \$ 349,375 |

**GUNPOWDER CAPITAL CORP.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2018 AND 2017

**(Unaudited, in Canadian Dollars)****16. CAPITAL MANAGEMENT**

The Company considers its capital to be shareholders' equity, which is comprised of preferred shares, common shares, contributed surplus, warrants and deficit. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company's objective when managing capital are:

- a) to allow the Company to respond to changes in economic and/or marketplace conditions by maintaining the Company's ability to purchase new investments;
- b) to give shareholders sustained growth in value by increasing shareholders' equity; while
- c) taking a conservative approach towards financial leverage and management of financial risks.

The Company's management reviews its capital structure on an on-going basis and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying investments. The Company's current capital is composed of its shareholders' equity and, to-date, has adjusted or maintained its level of capital by:

- a) raising capital through equity financings; and
- b) realizing proceeds from the disposition of its investments

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through equity capital raised by way of private placements. There can be no assurance that the Company will be able to continue raising equity capital in this manner.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company invests all capital that is surplus to its immediate operational needs in short term, liquid and highly rated financial instruments, such as cash, and short term guarantee deposits, all held with major Canadian financial institutions. The Company and its subsidiaries is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the six months ended June 30, 2018 and the year ended December 31, 2017.

**17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Financial assets and financial liabilities as at June 30, 2018 and December 31, 2017 are as follows:

|  | <b>Assets &amp;<br/>liabilities at<br/>amortized cost</b> | <b>Assets &amp;<br/>liabilities at fair<br/>value through<br/>profit and loss</b> | <b>Total</b> |
|--|---|---|--------------|
| <b>Jun 30, 2018</b>                      |   |   |              |
| Cash                                     | \$ 1,144,379  | \$ -  | \$ 1,144,379 |
| Accounts and other receivables           | 350,617   | -   | 350,617      |
| Notes receivable                         | 1,134,826   | -   | 1,134,826    |
| Loans receivable                         | 54,839  | -   | 54,839       |
| Investments                              | -   | 484,512   | 484,512      |
| Accounts payable and accrued liabilities | (293,225)   | -   | (293,225)    |
| Loans payable                            | (136,258)   | -   | (136,258)    |
| Mortgages payable                        | (3,192,282)   | -   | (3,192,282)  |

**GUNPOWDER CAPITAL CORP.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2018 AND 2017

**(Unaudited, in Canadian Dollars)****17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - continued**

|                                | <b>Assets &amp;<br/>liabilities at<br/>amortized cost</b> | <b>Assets &amp;<br/>liabilities at fair<br/>value through<br/>profit and loss</b> | <b>Total</b> |
|--------------------------------|---|---|--------------|
| <b>December 31, 2017</b>       |   |   |              |
| Cash                           | \$ 992,755  | \$ -  | \$ 992,755   |
| Accounts and other receivables | 89,182  | -   | 89,182       |
| Notes receivable               | 1,347,907   | -   | 1,347,907    |
| Loans receivable               | 1,077,532   | -   | 1,077,532    |
| Investments                    | -   | 474,769   | 474,769      |
| Preferred shares               | (381,061)   | -   | (381,061)    |
| Loans payable                  | (160,464)   | -   | (160,464)    |
| Mortgages payable              | (1,916,621)   | -   | (1,916,621)  |

The Company's has loans receivable outstanding and a significant portion of the Company's assets are currently comprised of financial instruments which can expose it to several risks, including market, liquidity, credit and currency risks. There have been no changes in the risks, objectives, policies and procedures during the six month period ended June 30, 2018 and year ended December 31, 2017. A discussion of the Company's use of financial instruments and their associated risks is provided below:

Market risk

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate because of changes in market prices. The Company is exposed to market risk in trading its investments and unfavourable market conditions could result in dispositions of investments at less than favorable prices. In addition, a significant portion of the Company's investments are in the resource sector and cryptocurrency sector. The Company mitigates this risk by attempting to have a portfolio which is not singularly exposed to any one issuer, with exception to the Company having two positions as at June 30, 2018 which made up of approximately 30% and 21%, respectively (December 31, 2017 – one position which made up 31%) of the total equity portfolio. (See Note 9).

For the three and six months ended June 30, 2018, a 10% decrease in the closing price of this concentrated position would result in an estimated increase in net loss of \$24,700 (2017 - \$15,000).

For the three and six months ended June 30, 2018, a 10% decrease (increase) in the closing prices of its other portfolio investments would result in an estimated increase (decrease) in net loss of \$23,800 (December 31, 2017 - \$13,700).

Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage. As at June 30, 2018, the Company's current liabilities totaled \$813,196 and cash totaled \$1,144,379. The Company generates cash flow from advisory fees, loan interest, rental income and payment processing services.

The Company manages liquidity risk by reviewing the amount of cash available, to ensure that it can meet its current obligations. There is no guarantee that the Company will be able to continue to meet its current obligations. See Note 2.

**GUNPOWDER CAPITAL CORP.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2018 AND 2017

**(Unaudited, in Canadian Dollars)****17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - Continued**

|  | Carrying amount | Contractual cash flows | Year 1     | Year 2-3   | Year 4-5   | Greater than 5 years |
|--|-----------------|------------------------|------------|------------|------------|----------------------|
| Accounts payable and accrued liabilities | \$ 293,225      | \$ 293,225             | \$ 293,225 | \$ -       | \$ -       | \$ -                 |
| Mortgages payable                        | 3,192,282       | 4,507,915              | 194,957    | 389,915    | 389,915    | 3,533,128            |
| Loans payable                            | 136,258         | 154,086                | 71,412     | 51,216     | 16,800     | 14,658               |
| Total                                    | \$ 3,621,765    | \$ 4,955,226           | \$ 559,594 | \$ 441,131 | \$ 406,715 | \$ 3,547,786         |

**Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts and other receivables and notes receivable.

The Company monitors the credit risk and credit standing of its customers on a regular basis. See Note 4 for an aging analysis of other receivables.

Security was obtained against specific assets of the counterparty, in case of non-performance on the notes receivable. The total carrying value of these financial instruments at June 30, 2018 was \$1,134,826 (December 31, 2017 - \$1,347,908). Three lendees make up 38%, 21% and 17% of the Company's notes receivable balance, respectively, at June 30, 2018 (December 31, 2017 – three lendees make up 21%, 19% and 15%). Management considered the potential impairment of loans and receivables and concluded that an impairment was not necessary for the three and six months ended June 30, 2018. An impairment of \$357,945 was recorded in the year ended December 31, 2017.

The Company's consulting fee revenues are primarily derived from a small number of customers within Canada. The Company did not have any customers who represented a significant portion of consulting fees revenues in the three months ended June 30, 2018 (year ended December 31, 2017 consulting fees revenue – one customer who represented 76% consulting fee revenues). There can be no assurance that all or any of the Company's customers will continue to engage in the Company's services. The loss of any such customer may have a materially negative impact on the Company business conditions and financial results.

**Currency Risk**

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and a portion of its loans receivable and investments are in United States dollars. A significant change in the currency exchange rates between the United States dollar relative to the Canadian dollar could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

***Fair value of financial instruments***

The Company has determined the carrying values of its financial instruments as follows:

- The carrying values of cash, accounts receivable, accounts payable and accrued liabilities and due to related parties approximate their fair values due to the short-term nature of these instruments.
- Notes receivable, long-term notes receivable and long-term investments are carried at amounts in accordance with the Company's accounting policies as set out in Note 3.
- Mortgages payable approximate their fair values due to the short time since they were received.
- Prior to maturity, the outstanding notes receivable are carried at their discounted value. Following their maturity, loans receivable are carried at their estimated realizable value.

**GUNPOWDER CAPITAL CORP.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**(Unaudited, in Canadian Dollars)****17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT – Continued**

The following table illustrates the classification and hierarchy of the Company's financial instruments, measured at fair value in the condensed interim consolidated statements of financial position as at June 30, 2018 and December 31, 2017:

|                             | Level 1<br>(Quoted market price) | Level 2<br>(Valuation technique - observable market inputs) | Level 3<br>(Valuation technique - non-observable market inputs) | Total      |
|-----------------------------|----------------------------------|---|---|------------|
| Investments, fair value     |                                  |   |   |            |
| Publicly traded investments | \$ 238,530                       | \$ 50,982   | \$ -  | \$ 289,512 |
| Private investments         | -                                | -   | 195,000   | 195,000    |
| June 30, 2018               | \$ 238,530                       | \$ 50,982   | \$ 195,000  | \$ 484,512 |
| Publicly traded investments | \$ 348,713                       | \$ 31,055   | \$ -  | \$ 379,768 |
| Private investments         | -                                | -   | 95,000  | 95,000     |
| December 31, 2017           | \$ 348,713                       | \$ 31,055   | \$ 95,000   | \$ 474,768 |

Level 3 Hierarchy

The following table presents the changes in fair value measurements of financial instruments classified as Level 3 for the six months ended June 30, 2018 and year ended December 31, 2017. These financial instruments are measured at fair value utilizing non-observable market inputs. The net realized losses and net unrealized gains are recognized in the condensed interim consolidated statements of loss.

|   | Six months ended<br>June 30,<br>2018 | Year ended<br>December 31,<br>2017 |
|---|--------------------------------------|------------------------------------|
| Investments classified as Level 3, fair value |                                      |                                    |
| Balance, beginning of year                    | \$ 95,000                            | \$ 200,000                         |
| Purchase at cost - shares                     | 100,000                              | 45,000                             |
| Distributed as dividend in kind               | -                                    | (150,000)                          |
| Balance, end of period                        | \$ 195,000                           | \$ 95,000                          |

Within Level 3, the Company includes private company investments which are not quoted on an exchange. The key assumptions used in the valuation of these instruments include (but are not limited to) the value at which a recent financing was done by the investee, company-specific information, trends in general market conditions and the share performance of comparable publicly-traded companies. The fair values of all of the private company investments held by the Company were determined by recent financings done by the investee other than privately-held entity for which there is no active market and for which there is no reliable estimate of fair value, the investment is carried at cost less any provision for impairment.

As valuations of investments for which market quotations are not readily available, are inherently uncertain, may fluctuate within short periods of time and are based on estimates, determination of fair value may differ materially from the values that would have resulted if a ready market existed for the investments. Given the size of the private investment portfolio, such changes may have a significant impact on the Company's financial condition or operating results.

**GUNPOWDER CAPITAL CORP.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**(Unaudited, in Canadian Dollars)****17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT – Continued**

For those investments valued based on a recent financing or transaction price, management has determined that there are no reasonably possible alternative assumptions that would change the fair value significantly as at June 30, 2018 and December 31, 2017. A +/- 25% change in the fair value of these Level 3 investments as at June 30, 2018 will result in a corresponding +/- \$48,750 (2017 - +/- \$12,500). While this illustrates the overall effect of changing the values of the unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions may differ significantly between investments, given their different terms and circumstances. The sensitivity analysis is intended to reflect the significant uncertainty inherent in the valuation of private investments under current market conditions, and the results cannot be extrapolated due to non-linear effects that changes in valuation assumptions may have on the estimated fair value of these investments. Furthermore, the analysis does not indicate a probability of changes occurring and it does not necessarily represent the Company's view of expected future changes in the fair value of these investments. Any management actions that may be taken to mitigate the inherent risks are not reflected in this analysis.

**18. SUPPLEMENTAL CASH FLOW INFORMATION**

|   | Three months ended June 30, |           | Six months ended June 30, |           |
|---|-----------------------------|-----------|---------------------------|-----------|
|   | 2018                        | 2017      | 2018                      | 2017      |
| Interest paid                                       | \$ 31,228                   | \$ 10,857 | \$ 58,399                 | \$ 17,972 |
| Preferred shares issued to acquire notes receivable | -                           | -         | -                         | 238,000   |
| Common shares issued for debt settlement            | 60,000                      | 50,000    | 60,000                    | 50,000    |

**19. CONTINGENCIES**

The Company is party to certain management contracts. These contracts contain aggregate minimum commitments of approximately \$315,000 (December 31, 2017 - \$315,000) ranging from 12 to 18 months and additional contingent payments of up to approximately \$240,000 (December 31, 2017 - \$240,000) upon the occurrence of a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these condensed interim consolidated financial statements.

The Company has discontinued mining operations in various jurisdictions and has written down the carrying value of the related assets to nominal amounts. An estimate of the total liability, if any, for which the Company might become obligated as a result of its role as operator, guarantor or indemnifier, is not determinable, nor expected to be material, and no amount has been provided for in these condensed interim consolidated financial statements.

The Company may become party to legal proceedings and other claims in the ordinary course of its operations. Litigation and other claims are subject to many uncertainties and the outcome of individual matters is not predictable. Where management can estimate that there is a loss probable, a provision is recorded in the condensed interim consolidated financial statements. Where proceedings are at a premature stage or the ultimate outcome is not determinable, then no provision is recorded. It is possible that the final resolution of any such matters may require the Company to make expenditures over an extended period of time and in a range of amounts that cannot be reasonably estimated and may differ significantly from any amounts recorded in these condensed interim consolidated financial statements. Should the Company be unsuccessful in its defense or settlement of one or more of legal actions or other claims, there could be a materially adverse effect on the Company's financial position, future expectations, and cash flows.

**GUNPOWDER CAPITAL CORP.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**(Unaudited, in Canadian Dollars)**

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**19. CONTINGENCIES - continued**

The Company leases its office under a lease agreement which commenced October 1, 2016, the following is a summary of its lease commitments for the term of the lease:

|                                  |    |         |
|----------------------------------|----|---------|
| < 1 year from reporting date     | \$ | 44,702  |
| 1 to 2 years from reporting date |    | 45,136  |
| 2 to 3 years from reporting date |    | 45,136  |
| 3 to 4 years from reporting date |    | 22,568  |
|                                  | \$ | 157,542 |

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**20. SUBSEQUENT EVENTS**

Subsequent to June 30, 2018, the Company raised \$57,500 with the issuance of 5,750 Class – A preferred shares for \$10 per share.

On July 30, 2018, the Company invested in an additional US rehabilitation property of USD \$125,655 (\$163,907).

Subsequent to June 30, 2018, the Company issued a convertible debenture of \$750,000 for consideration of 500,000 common shares of Astro Aerospace Ltd. (OTCQB: ASDN). On the date of receipt, these shares had a fair market value of USD 965,000 (\$1,263,368), resulting in a gain of \$513,368 in the transaction. The debenture has an interest rate of 10% per annum and interest is payable quarterly with common shares of the Company. The maturity date of the debenture is two years after issuance and on that that date, the debenture will automatically convert into 15,000,000 common shares of the Company.

See Notes 5(v) and 12(d).