

GENCAN CAPITAL INC.

Condensed Interim Financial Statements

Six Month Periods Ended March 31, 2017 and 2016

(Unaudited)

(Expressed in Canadian Dollars)

Notice of no auditor review

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 condensed interim financial statements (in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor).

Gencan Capital Inc.
Condensed Interim Statements of Financial Position
As at March 31, 2017 and September 30, 2016
(Unaudited)

	March 31 2017	September 30 2016
Assets		
Current assets		
Cash	\$ 592,703	\$ 613,063
Accounts receivable	72,560	132,432
Prepaid expenses and deposits	19,903	22,552
	<u>685,166</u>	<u>768,047</u>
Equipment	1,934,352	1,988,688
Total assets	<u>\$ 2,619,518</u>	<u>\$ 2,756,735</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 15,487	\$ 54,037
Deferred rent	28,085	28,892
Loan payable	2,557,970	2,557,970
Deferred income taxes	4,898	30,830
	<u>2,606,440</u>	<u>2,671,729</u>
Shareholders' Equity		
Capital stock	10	10
Retained earnings	13,068	84,996
Total shareholders' equity	<u>13,078</u>	<u>85,006</u>
Total liabilities and shareholders' equity	<u>\$ 2,619,518</u>	<u>\$ 2,756,735</u>

See accompanying notes to the condensed interim financial statements

Gencan Capital Inc.

Condensed Interim Statements of Income (Loss) and Comprehensive Income (Loss)

For the six month periods ended March 31, 2017 and 2016

(Unaudited)

	Three months ended		Six months ended	
	March 31 2017	March 31 2016	March 31 2017	March 31 2016
Revenue				
Solar energy generation	\$ 75,975	\$ 75,978	\$ 148,553	\$ 155,370
Expenses				
Operating costs	24,197	19,503	44,676	39,432
Administrative and general	54,284	59,136	96,382	113,163
Interest	25,229	25,510	51,019	51,300
Amortization	27,168	27,168	54,336	54,336
	130,878	131,317	246,413	258,231
Loss before income taxes	(54,903)	(55,339)	(97,860)	(102,861)
Income taxes recovery				
Deferred	(14,549)	(14,665)	(25,932)	(27,285)
Net loss, also being comprehensive loss	\$ (40,354)	\$ (40,674)	\$ (71,928)	\$ (75,576)
Loss per share				
Basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted average number of common shares				
Basic and diluted	16,092,284	16,628,716	16,092,284	16,628,716

See accompanying notes to the condensed interim financial statements

Gencan Capital Inc.

Condensed Interim Statements of Changes in Equity For the six month periods ended March 31, 2017 and 2016 (Unaudited)

	Capital Stock		Retained Earnings	Total Equity
	Common shares			
	Number of shares	Amount		
Balance at September 30, 2015	100	\$ 10	\$ 53,548	\$ 53,558
Common share split on October 23, 2015	16,628,616	-	-	-
Net loss	-	-	(75,576)	(75,576)
Balance at March 31, 2016	16,628,716	\$ 10	\$ (22,028)	\$ (22,018)
Balance at September 30, 2016 (see note below)	16,092,284	\$ 10	\$ 84,996	\$ 85,006
Net loss	-	-	(71,928)	(71,928)
Balance at March 31, 2017	16,092,284	\$ 10	\$ 13,068	\$ 13,078

Note: The Company cancelled 536,432 common shares on May 10, 2016

Gencan Capital Inc.

Condensed Interim Statements of Cash Flows

For the six month periods ended March 31, 2017 and 2016

(Unaudited)

	2017	2016
Operating activities		
Net loss	\$ (71,928)	\$ (75,576)
Adjustments to reconcile net loss to net cash flows:		
Amortization	54,336	54,336
Deferred income taxes	(25,932)	(27,285)
Deferred rent	(807)	(807)
Interest expense	51,019	51,300
	6,688	1,968
Changes in non-cash components of working capital:		
Accounts receivable	59,872	59,749
Prepaid expenses and deposits	2,649	14,042
Accounts payable and accrued liabilities	(38,550)	(52,518)
Net cash flows from operating activities	30,659	23,241
Financing activities		
Interest paid	(51,019)	(51,300)
Net cash flows used in financing activities	(51,019)	(51,300)
Investing activities	-	-
Net decrease in cash	(20,360)	(28,059)
Cash, beginning of period	613,063	475,483
Cash, end of period	\$ 592,703	\$ 447,424

See accompanying notes to condensed interim financial statements

Gencan Capital Inc.

Notes to the Condensed Interim Financial Statements

For the six month periods ended March 31, 2017 and 2016

(Unaudited)

1. NATURE OF OPERATIONS

Nature of operations

Gencan Capital Inc. (“the Company”) is a Canadian company and the holder of a Solar Energy Feed-In Tariff Program Contract with an interest in solar energy generation equipment located in Ontario, Canada. The Company was incorporated on October 31, 2013 and has its registered office address at 106 Avenue Road, Toronto, Ontario, M5R 2H3.

On August 17, 2015, the Company changed its name from Genterra Energy Inc. and on October 30, 2015, pursuant to a Plan of Arrangement (announced on July 21, 2015 between the Company and Genterra Capital Inc. (“GCI”)), the Company was spun-off as a public company and its shares were listed on the Canadian Securities Exchange under the symbol “GCA”. GCI currently retains a 78% controlling interest in the Company.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

(a) Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”). These statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company’s annual audited financial statements for the fiscal year ended September 30, 2016, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB.

These condensed interim financial statements were authorized for issue by the Board of Directors on May 23, 2017.

The policies applied in these condensed interim financial statements are based on IFRS issued and outstanding as of the date of authorization.

(b) Basis of preparation

These condensed interim financial statements are presented in Canadian dollars. The financial statements are prepared on the historical cost basis.

These condensed interim financial statements follow the same significant accounting policies and critical judgments in the application of those policies as described in the Company’s audited financial statements for the fiscal year ended September 30, 2016 and have been applied consistently in the preparation of these condensed interim financial statements.

New Accounting Standards Not Yet Effective

IFRS 9, *Financial Instruments: Classification and Measurement*, introduces new requirements for the classification and measurement of financial instruments, a single forward-looking expected loss impairment model and a substantially reformed approach to hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management has not yet considered the potential impact of the adoption of IFRS 9.

IFRS 15, *Revenue Recognition*, provides a single, comprehensive revenue recognition model for all contracts with customers. It contains a single principles based five step approach that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. It also contains new disclosure requirements. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management has not yet considered the potential impact of the adoption of IFRS 15.

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IFRS 16, *Leases*: introduces a new standard replacing IAS 17 Leases, which results in bringing many leases that are considered operating leases under IAS 17 onto the balance sheet. Lessor accounting remains largely unchanged. IFRS 16 is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 has also been applied. Management has not yet considered the potential impact of the adoption of IFRS 16.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of these condensed interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The condensed interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- (i) the recoverability of accounts receivable and prepayments totaling \$92,463 (September 30, 2016: \$154,984);
- (ii) the estimated useful lives of solar energy generation equipment totaling \$1,934,352 (September 30, 2016: \$1,988,688) and the related amortization for the three and six month periods ended March 31, 2017 of \$27,168 and \$54,336 (March 31, 2016: \$27,168 and \$54,336);
- (iii) the provision for income taxes recovery for the three and six month periods ended March 31, 2017 of \$14,549 and \$25,932 (March 31, 2016: \$14,665 and \$27,285).

4. FAIR VALUE MEASUREMENTS AND DISCLOSURES

Fair Value Measurement

The Company does not have any financial assets or liabilities measured at fair value.

Fair Value Disclosures

Fair value represents management's estimates of the market value at a given point in time, which may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of judgement and therefore cannot be determined with precision.

The carrying values of the cash, accounts receivable, accounts payable and accrued liabilities approximate their respective fair values due to the short-term nature of these instruments.

The carrying value and fair value of the loan payable is as follows:

	March 31, 2017		September 30, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Loan payable	\$ 2,557,970	\$ 2,597,202	\$ 2,557,970	\$ 2,625,694

The Company uses the government of Canada bond yield curve plus an adequate constant credit spread to discount the above financial instruments in order to determine fair value. The fair value of the loan payable is based upon level 2 fair value hierarchy inputs.

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5. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, Officers of the Company, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

The Company entered into transactions and had outstanding balances with various companies related by virtue of common ownership and management. These transactions were in the normal course of operations and were measured at the amount of consideration established and agreed to by the related parties.

Significant related party transactions for the six months ended March 31, 2017 and 2016 and balances as of March 31, 2017 and September 30, 2016 not disclosed elsewhere in these condensed interim financial statements are as follows:

The Company's solar energy generation project is located on the roof of a property owned by GCI. The roof is being rented by the Company from GCI for \$52,813 per annum ending in August 2034.

The Company has entered into an agreement with Highroad Estates Inc. ("Highroad"), a company of which certain directors and officers are also directors and officers of the Company, to manage this operation for \$60,000 per annum.

The Company has entered into an administrative services agreement with GCI for \$6,000 per annum.

Under the above agreements, management fees of \$30,000 (2016: \$30,000) were charged by and paid to Highroad and rent of \$26,407 (2016 \$26,407) and administrative services fees of \$3,000 (2016: \$3,000) were charged by and paid to GCI.

Directors fees of \$25,000 (2016: \$25,000) were paid to independent directors.

Loan payable at March 31, 2017 of \$2,557,970 (September 30, 2016: \$2,557,970) is due to GCI on August 1, 2019 and bears interest at 4% per annum. During the six months ended March 31, 2017, \$51,019 (2016: \$51,300) of interest was charged and paid under this loan and no amount of interest payable is outstanding as at March 31, 2017.

The Company did not directly pay any remuneration to key management (other than to independent directors as noted above) for the six months ended March 31, 2017 or 2016. Key management remuneration (other than director's fees) is included in the above management and administration fees.