KNIGHTSWOOD FINANCIAL CORP.

AUDITORS’ REPORT AND FINANCIAL STATEMENTS

December 31, 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Knightswood Financial Corp.:**

We have audited the accompanying financial statements of Knightswood Financial Corp., which comprise the statements of financial position as at December 31, 2016 and 2015 and the statements of comprehensive income, changes in equity, and cash flows for the years then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Knightswood Financial Corp. as at December 31, 2016 and 2015, and the results of their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

April 11, 2017
Vancouver, British Columbia

Chartered Professional Accountants

KNIGHTSWOOD FINANCIAL CORP.
Statements of Financial Position

As at December 31	note	2016	2015
ASSETS			
Current assets:			
Cash and cash equivalents		$ 306,803	$ 566,712
Accounts receivables		-	69
Income taxes receivable		56,000	-
Due from related parties	*5 (b)*	52,544	53,929
		415,347	620,710
Non-current assets:			
Available-for-sale investment	*6*	-	100,000
Investee companies	*5*	1,598	1,024
		$ 416,945	$ 721,734
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade and other payables		$ 32,958	$ 24,421
Income tax payable		-	2,636
		32,958	27,057
Shareholders' equity:			
Share capital	*7*	1,758,106	1,758,106
Contributed surplus		190,041	190,041
Deficit		(1,564,160)	(1,334,583)
Accumulated other comprehensive income		-	81,113
		383,987	694,677
		$ 416,945	$ 721,734

Subsequent events (note 17)

Approved on behalf of the Board of Directors

(signed) "Maurice Levesque"
Director

(signed) "Stephen McCoach"
Director

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

KNIGHTSWOOD FINANCIAL CORP.
Statements of Income (Loss) and Comprehensive Income (Loss)

For the years ended December 31	note	2016	2015
Revenues:			
Administration fee	5 (b)	$ 231,233	$ 257,208
Expenses:			
General and administrative	10	502,550	134,320
Operating	11	88,089	82,067
		590,639	216,387
Income (loss) from operations		(359,406)	40,821
Non-operating income:			
Finance income		2,716	3,362
Gain from sale of investment	6	81,113	-
Income (loss) before tax		(275,577)	44,183
Income tax expense (recovery)	12	(46,000)	11,636
Net income (loss)		(229,577)	32,547
Other comprehensive income, net of taxes			
Re-measurement of investment to fair value	6	(70,568)	70,568
Deferred tax recovery		(10,545)	10,545
Total comprehensive income (loss)		$ (310,690)	$ 113,660
Earnings (loss) per share:	13		
Basic		$ (0.025)	$ 0.004
Diluted		(0.025)	0.004

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

KNIGHTSWOOD FINANCIAL CORP.
Statements of Changes in Equity

	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
Balance at January 1, 2016	$ 1,758,106	$ 190,041	$ (1,334,583)	$ 81,113	$ 694,677
Net loss	-	-	(229,577)	-	(229,577)
Reversal of fair value re-measurement upon sale of investment	-	-	-	(81,113)	(81,113)
Balance, December 31, 2016	$ 1,758,106	$ 190,041	$ (1,564,160)	$ -	$ 383,987

	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
Balance at January 1, 2015	$ 1,758,106	$ 190,041	$ (1,367,130)	$ -	$ 581,017
Net income	-	-	32,547	-	32,547
Other comprehensive income	-	-	-	81,113	81,113
Balance, December 31, 2015	$ 1,758,106	$ 190,041	$ (1,334,583)	$ 81,113	$ 694,677

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

KNIGHTSWOOD FINANCIAL CORP.
Statements of Cash Flows

For the years ended December 31	2016	2015
Operating activities		
Net income (loss)	$ (229,577)	$ 32,547
Adjustments for item not affecting cash		
Income tax expense (recovery)	(46,000)	11,636
Gain from sale of investment	(81,113)	-
Changes in non-cash working capital items		
Accounts receivable	69	23
Trade and other payables	8,537	(2,372)
Due from related parties	1,385	4,006
Cash generated from (used in) operations	(346,699)	45,840
Income tax paid	(12,636)	(13,241)
Net cash provided by (used in) operating activities	(359,335)	32,599
Investing activities		
Proceeds from sale of investment	100,000	-
Acquisition of Investee Companies	(700)	(210)
Disposition of Investee Companies	126	11
Net cash provided by (used in) investing activities	99,426	(199)
Net increase (decrease) in cash and cash equivalents	(259,909)	32,400
Cash and cash equivalents, beginning of year	566,712	534,312
Cash and cash equivalents, end of year	$ 306,803	$ 566,712

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

1. Description of business

Knightswood Financial Corp. (the "Company") was incorporated under the laws of the Province of British Columbia on August 24, 1987. The Company's common shares are listed on the TSX Venture Exchange under the symbol KWF.

The registered and records office and the head office of the Company are located at Suite 3030, 650 West Georgia Street, Vancouver, British Columbia, V6B 4N7.

The Company is a publicly traded investment and merchant banking company that seeks to provide investor returns through dividends, investment fees and capital appreciation. Historically, in order to create and grow its investment capital without diluting its shareholders, the Company's investments were in private companies (the "Investee Companies") so as to provide them with the ability to issue debt instruments that are eligible for registered plans as defined in the *Income Tax Act* (Canada). The Company receives investment fees from each Investee Company based on the amount of the outstanding debt securities issued by the Investee Company. This income commences when an Investee Company has a first closing on its debt offering and ceases when all the outstanding debt securities are redeemed, which may not occur for many years. The Investee Companies use the fund raised at their own discretion, without reliance on the resources of the Company. All of the Investee Companies are independently managed and operated by their respective management companies. The Company takes a non-active role in the operation or management of the Investee Companies and as such, the accounts of the Company and the Investee Companies are not consolidated as the Company does not meet the definition of control under IFRS.

The Company currently has one reportable operating segment, being that of providing administrative services to its Investee Companies.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with and using accounting policies in full compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee, effective for the Company's reporting for the year ended December 31, 2016.

These financial statements were approved and authorized for issue by the Board of Directors on April 11, 2017.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis with the exception of available-for-sale investment which is measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars which is the Company's functional currency.

(d) Use of estimates and judgements

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and assumptions. Areas requiring estimates and judgements are as follows:

2. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

Key sources of estimation uncertainty

(i) Fair value of available-for-sale investment

The Company estimates the fair value of its investment in the shares of a private company by reference to available sources and determines the range of reasonable fair value measurements and the probabilities of various estimates within the range. When the information from available sources within the range of reasonable fair value measurement and the probabilities of the various estimates cannot be reasonably assessed, the Company estimates the fair value using its own judgment. The actual fair value of the investment may differ significantly from the Company's carrying amount.

(ii) Measurement of deferred tax assets and liabilities

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Critical judgements

(i) Determination of control of the Investee Companies

The Company relies on its interpretation of the definition of control under IFRS in determining whether consolidation of the financial statements of the Company and the Investee Companies is required. From a legal perspective, the Company controls all the Investee Companies as it owns either all or a majority of the voting rights in the Investee Companies. Under IFRS, control exists if, and only if, an investor has all the following three elements:

- power over the investee
- exposure, or rights, to variable returns from its involvement with the investee; and
- ability to use its power over the investee to affect the amount of the investor's returns.

The Company has determined it does not have control over the Investee Companies under IFRS.

3. Significant accounting policies

(a) Basis of consolidation

The accounts of the Company and the Investee Companies are not consolidated as the Company does not have control over the Investee Companies per the definition of control under IFRS 10, *Consolidated Financial Statements*.

(b) Cash and cash equivalents

Cash is cash balances held with banks. Cash equivalents are highly liquid investments with original maturities of three months or less or demand deposits that are readily convertible to known amounts of cash.

(c) Trade and other receivables

Upon initial recognition, receivables are measured at fair value and subsequently carried at amortized cost less an allowance for uncollectible amounts. An allowance for uncollectible amounts is provided when an account is more than 90 days overdue or there is evidence that the account is impaired. The carrying amount of the account is reduced by an allowance and the loss is recognized in profit or loss.

(d) Available-for-sale investment

Investments in equity instruments, other than investments in Investee Companies, are classified as available-for-sale. Fair value is determined using valuation techniques with unobservable market inputs at the end of the reporting period, or other valuation techniques. Changes in the fair value of the investment are recognized in other comprehensive income and accumulated in reserve in equity. The reserve is reversed and gains and losses are realized when the investment is sold. Where there is a significant or prolonged decline in fair value which constitutes objective evidence of impairment, the full amount of the impairment, including any amount previously recognized in other comprehensive income or loss, is recognized in profit or loss.

(e) Investee Companies

Investments in Investee Companies are classified as available-for-sale. As the Investee Companies do not have quoted market prices in an active market, the Company determines the fair value by reference to the put option price stipulated in an option agreement with each of the Investee Companies. The put option price is generally the amount the Company paid for the shares of the Investee Companies, between $1 and $100.

(f) Stock-based payments

The Company's stock options vest as to 1/6 every three months after the grant date. Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value which is recognized as an expense with a corresponding increase in contributed surplus over the vesting period. The Company estimates the value of the stock options using the Black-Scholes option pricing model. Upon exercise of stock options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

(g) Revenue recognition

The Company recognizes administration fees from the Investee Companies when they have met specific criteria as stipulated in their respective administrative agreement and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

3. Significant accounting policies (continued)

(h) Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares issued and outstanding during the period. Diluted earnings per share are calculated using the treasury method and if converted method, as applicable, which requires the calculation of diluted earnings per share by assuming that outstanding stock options with an average market price that exceeds the average exercise price of the options for the period, are exercised and the assumed proceeds are used to repurchase shares of the Company at the average market price of the common shares for the period.

In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive.

(i) Income taxes

Income tax expense comprises current and deferred tax. Current taxes are recognized for the estimated income taxes payable for the current period. The tax rates used to compute the amount are those that are enacted or substantively enacted at the end of each reporting period. Current tax assets and liabilities are offset only when there is a legally enforceable right of offset, and the Company intends either to settle on a net basis or to realize asset and settle liability simultaneously.

Deferred tax liabilities are recognized in the current period for temporary differences between the tax and accounting bases of assets and liabilities. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are offset only if they relate to income taxes levied by the same taxation authority and the Company has a legally enforceable right to set off current tax assets against current tax liabilities.

(j) Financial instruments

All financial instruments are initially recorded at fair value. Subsequent measurement of a financial instrument is determined based on its classification. When applicable, further information about the assumptions made in determining the fair value is disclosed in the note specific to that financial instrument.

The Company classifies its financial instruments into one of the following categories: at fair value through profit or loss, loans and receivables, available-for-sale or other financial liabilities.

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Available-for-sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income until the assets are disposed of at which time the amounts are recognized in profit or loss. Loans and receivables and other financial liabilities are initially recorded at fair value and subsequently measured at amortized cost.

The Company classifies its cash and cash equivalents, trade and other receivables as loans and receivables, which are measured at amortized cost. Available-for-sale investment and Investee Companies are classified as available-for-sale, which are measured at fair value. Trade and other payables are classified as other financial liabilities and are measured at amortized cost.

The carrying value of the Company's cash and cash equivalents, trade and other receivables and trade and other payables approximate fair value due to their immediate or short-term nature.

3. Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial instruments recognized at fair value are classified in fair value hierarchy levels as follows:

- Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 – valuation techniques with unobservable market inputs (involves assumptions and estimates by management of how the market would price the assets or liabilities).

The Company's available-for-sale investment and investee companies are financial instruments classified in the fair value hierarchy as Level 3. There have been no changes between Levels during the year.

4. Recent accounting pronouncement and future accounting policy changes

The Company did not adopt any new accounting standard changes or amendments in 2016 that had a material impact on the Company's financial statements.

The following is an overview of accounting standard changes that the Company will be required to adopt in future years:

IFRS 15, *Revenue from Contracts with Customers,* is effective for entities with accounting periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 15 provides a framework for how revenue is recognized in a contract and how to account for contract modifications. The standard discusses the amount of revenue to recognize as function of the consideration expected to be entitled in exchange for the transfer of goods and services. At this time, the Company cannot reasonably determine the impact of adopting the future accounting standards to its financial reporting.

IASB issued IFRS 9, *Financial Instruments,* which is effective for entities with accounting periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement* by using a single model approach to determine whether a financial asset is measured at amortized cost or fair value. The Company intends to adopt IFRS 9 in its financial year beginning on July 1, 2018. At this time, the Company cannot reasonably determine the impact of adopting the future accounting standards to its financial reporting.

5. Investee Companies

The Investee Companies are unconsolidated structured entities as defined under IFRS 12, referred to as structured entities not controlled by an entity. The Company is a party to a put option regarding each Investee Company, which allows the Company to sell all the shares of the Investee Company to a third party affiliated with the Investee Company. The option price is generally the amount the Company paid for the shares of the Investee Company, between $1 and $100.

At December 31, 2016 and 2015, the Company did not have an interest in any of the Investee Companies. The maximum exposure to loss from the Company's interest in the Investee Companies is the cost of the shares which was $1,598 at December 31, 2016 (December 31, 2015 - $1,024).

5. Investee Companies (continued)

(a) Acquisitions and dispositions

During the year ended December 31, 2016, the Company acquired 60% of the issued and outstanding shares of a company for $600 and 90% of the issued and outstanding shares of a start-up company for $90. Also during the year, the Company dissolved an Investee Company which had never commenced operations since incorporation and disposed of an Investee Company for $51 which ceased operations after it redeemed all its bonds in 2015. No gain or loss was recorded from these dispositions.

During the year ended December 31, 2015, the Company acquired all the issued and outstanding common shares of Investee Companies for an aggregate of $210. These new Investee Companies were start-up companies and did not have any assets or liabilities at the time they were acquired by the Company.

At December 31, 2016, the Company had 22 Investee Companies (December 31, 2015 – 21 Investee Companies).

(b) Transactions with Investee Companies

The administrative agreement into which the Company and each individual Investee Company entered provides that the Investee Company pays to the Company a fee determined based upon the outstanding debenture balance of the Investee Company at the end of a period. For the year ended December 31, 2016, the Company reported administration fees of $231,233 (2015 - $257,208). At December 31, 2016, $52,544 (December 31, 2015 - $53,929) was outstanding from the Investee Companies.

6. Available-for-sale investment

The Company's available-for-sale investment consisted of common shares of a privately-held company, which was related to the Company by common directors. The fair value of the investment was $18,887 when acquired in 2008 and the value was re-assessed to $100,000 at December 31, 2015 resulting in $81,113 in other comprehensive income for the year ended December 31, 2015. In March 2016, the Company sold the investment to an entity, related to the Company by certain directors in common, for $100,000 and realized a gain of $81,113.

7. Share capital

Until January 6, 2017, the Company was authorized to issue 100,000,000 common shares with no par value. At December 31, 2016 and 2015, there were 3,011,667 common shares issued and outstanding prior to the Stock Split (note 17 (g)). In January 2017, at a meeting of the shareholders of the Company, the authorized share capital of the Company was approved to increase to an unlimited number of common shares.

The number of issued and outstanding common shares have been retroactively adjusted to 9,035,001 in order to effect the Stock Split approved subsequent to the year ended December 31, 2016 (note 17 (g)).

8. Stock-based payments

The Company has a stock option plan (the "Plan") to provide incentives to directors, employees and consultants of the Company. Prior to an amendment to the Plan approved by the shareholders of the Company at a meeting held in January 2017 (note 17 (a)), the maximum number of common shares reserved for issuance was 632,334 shares and the total number of options awarded in any 12-month period was not to exceed 5% of the issued and outstanding common shares to any one individual or 2% to any one consultant or employee. No options were granted or exercised during the year ended December 31, 2016. At December 31, 2016, 602,333 options were available for grant under the Plan. There were no issued and outstanding options at December 31, 2016 and 2015. See also note 17 (c) for options granted subsequent to December 31, 2016.

9. Related party balances and transactions

(a) Transactions with and compensation of key management personnel including directors

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company. Key management personnel include members of the Board of Directors, executive officers and the President. Compensation of key management personnel may include short-term and long-term benefits. Short-term benefits include salaries, bonuses and medical benefits. Long-term benefits include stock options or post-employment benefits. The Company did not issue stock options to key management personnel in 2016 and 2015. There were no short-term benefits paid to key management personnel other than the amounts disclosed below.

Elcyc Holdings Ltd. ("Elcyc"), a company owned and controlled by the President and director of the Company, provides management consulting services to the Company on a month to month basis. For the year ended December 31, 2016, the Company incurred $30,000 in management consulting fees and $11,013 in business development fee (2015 – management fee of $30,000 and business development fee of $1,500). Also during the year, the Company paid a management bonus of $125,000 to Elcyc (2015 - $nil). At December 31, 2016, $8,350 was outstanding to Elcyc (December 31, 2015 - $nil).

Canterra Capital Corp. ("Canterra"), a company owned and controlled by a director of the Company, provides management consulting services to the Company on a month to month basis. For the year ended December 31, 2016, the Company incurred $30,000 in management consulting fees and $342 in business development fee (2015 – management fee of $30,000 and business development fee of $1,500). Also during the year, Canterra charged the Company $2,250 in management rent (2015 - $nil). In 2016, the Company paid a management bonus of $125,000 to Canterra (2015 - $nil). At December 31, 2016, $6,250 was outstanding to Canterra (December 31, 2015 - $nil).

In 2016, the Company paid a bonus of $5,000 to an executive officer of the Company (2015 - $nil).

The Company pays a monthly fee to the directors for the services provided. For the year ended December 31, 2016, the Company incurred $29,750 in directors' fees (2015 - $34,000). Also during the year, the Company paid a bonus of $20,000 to directors (2015 - $nil) and a retiring allowance of $100,000 to a director (2015 - $nil). No amount was outstanding to the directors at December 31, 2016 (December 31, 2015 - $nil).

Below table summarizes compensation of key management personnel:

For the years ended December 31,		2016		2015
Short-term benefits	$	476,105	$	94,000
Long-term benefits		-		-
	$	476,105	$	94,000

9. Related party balances and transactions (continued)

(b) Other related party balances and transactions

Trilogy Bancorp Ltd. ("Trilogy"), a corporation having certain common directors with the Company, provides administrative services and office space to the Company for an agreed-upon amount on a month to month basis. For the year ended December 31, 2016, the Company incurred fees of $60,000 (2015 - $64,000). At December 31, 2016, there was no amount owing to Trilogy (December 31, 2015 - $nil).

During the year ended December 31, 2016, Qwest Investment Management Corp., a company controlled by the President and director of the Company, charged the Company management rent of $2,250 (2015 - $nil).

Balances and transactions between the Company and the Investee Companies are disclosed in note 5.

10. General and administrative

For the years ended December 31,	2016	2015
Administration fee (note 9 (b))	$ 37,800	$ 40,320
Directors' fee (note 9 (a))	29,750	34,000
Management fee and bonuses (note 9 (a))	435,000	60,000
	$ 502,550	$ 134,320

11. Operating

For the years ended December 31,	2016	2015
Audit and legal fees	$ 23,911	$ 21,905
Bad debt	-	17,500
Business development (note 9 (a))	11,355	3,000
Marketing and travel	3,506	2,973
Office and miscellaneous	7,255	2,087
Rent (note 9 (b))	26,700	23,680
Transfer agent and filing fee	15,362	10,922
	$ 88,089	$ 82,067

12. Income taxes

The following table reconciles the expected income taxes (recovery) at the Canadian statutory income tax rates to the amounts recognized in the statements of financial position as at December 31, 2016 and 2015. The presentation of the prior year income tax note has been updated to conform with the current year presentation.

	2016	2015
Income (loss) before tax expense (recovery)	$ (275,577)	$ 44,183
Statutory tax rate	26.00%	26.00%
Expected income tax expense (recovery)	(71,650)	11,488
Increase in income tax expense resulting from:		
Non-(taxable) deductible items	(10,391)	148
Difference in tax rates	1,078	-
Change in deferred tax asset not recognized	34,963	-
Current tax expense (recovery)	(46,000)	-
Deferred tax expense	-	-
Total tax expense (recovery)	$ (46,000)	$ 11,636

Deferred taxes reflect the tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax values for tax purposes. The deferred tax asset (liability) and unrecognized deductible temporary differences at December 31, 2016 and 2015 are as follows:

	2016	2015
Available for sale assets	$ -	$ (10,545)
Capital losses	-	10,545
Deferred tax asset (liability)	$ -	$ -

At December 31, 2016, the Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards of approximately $175,029 (2015 - $nil), expiring in 2036, which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities.

At December 31, 2016, the Company has not recognized a deferred tax asset in respect of net capital loss carryforwards of approximately $479,689 (2015 - $439,132) which may be carried forward indefinitely to apply against future capital gains for Canadian income tax purposes, subject to the final determination by taxation authorities.

	2016	2015
Non-capital losses	$ 175,029	$ -
Capital losses	479,689	520,245
Total unrecognized deductible temporary differences	$ 654,718	$ 520,245

13. Basic and diluted earnings (loss) per share

		2016		2015
Net income (loss) for the year	$	(229,577)	$	32,547
Weighted average number of shares:				
Issued and outstanding [1]		9,035,001		9,035,001
Effects of shares issued		-		-
		9,035,001		9,035,001
Earnings (loss) per share:				
Basic	$	(0.025)	$	0.004
Diluted		(0.025)		0.004

[1] The number of issued and outstanding common shares have been retroactively adjusted in order to effect the Stock Split approved subsequent to the year ended December 31, 2016 (note 17 (g)).

14. Risk management

The Company has exposure to the following risks from its use of financial instruments. The Board of Directors approves and monitors the risk management processes.

(a) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances for settlement of financial liabilities on their due dates. The Company's financial liabilities are comprised of trade and other payables. At December 31, 2016, the Company did not have payables that were past due for over 90 days.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and cash equivalents and receivables are exposed to credit risk. The Company reduces its credit risk on cash and cash equivalents by placing these instruments with institutions of high credit worthiness.

Included in due from related parties are outstanding fees from the Investee Companies. The Company mitigates the credit risk by entering into agreements with the Investee Companies and reviewing its exposure to credit risk on a regular basis. Pursuant to the agreements, the fees are due within 30 days after the end of an agreed period. As at December 31, 2016, the total amount of administrative fee owing from the Investee Companies was $70,044 (December 31, 2015 - $71,429) of which $17,500 was considered uncollectible and an allowance for the same amount had been provided (December 31, 2015 - $17,500). No administrative fee was 90 days past due at December 31, 2016 (December 31, 2015 - $2,625).

The carrying amount of cash and cash equivalents and due from related parties represents the maximum exposure to credit risk.

(c) Market interest rate risk

The majority of the Company's financial assets and liabilities are non-interest bearing. While maintaining the liquidity necessary to meet operating cash flow requirements, the Company parks excess funds in investment vehicles having fixed interest rates. As a result, fluctuations in market interest rates are not expected to have a significant impact on the Company's operations.

15. Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company considers its capital structure to include working capital and shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company may issue new shares or debt, acquire or dispose of assets to maintain or adjust its capital structure.

The Company is dependent on expected business growth, changes in the business environment and capital markets as its source of operating capital. The Company is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management in the year. There were no new issuances of shares or debt financing during the year ended December 31, 2016.

16. Economic dependence

For the year ended December 31, 2016, of the eighteen Investee Companies from which the Company earned fees, nine Investee Companies accounted for 84% of the total revenues (2015 - ten Investee Companies for 74%).

17. Subsequent events

(a) Change in authorized share capital and fixed stock option plan

In January 2017, at a meeting of the shareholders of the Company, it was approved that the authorized share capital of the Company would be increased from 100,000,000 to an unlimited number of common shares. Also at the meeting, it was approved to amend the Plan to allow for the issuance of stock options for up to 20% of the number of common shares issued and outstanding upon the completion of private placements described below.

(b) Private placements

In January 2017, the Company closed a non-brokered private placement and distributed 20,309,182 special warrants ("Special Warrants") priced at $0.055 per Special Warrant for gross proceeds of $1,117,005. Each Special Warrant entitled the holder to receive one unit ("Unit") of the Company, with each Unit consisting of one common share ("Share") and one Share purchase warrant ("Warrant"), with each Warrant entitling the holder to purchase one additional Share at $0.07 until January 20, 2019. In February 2017, the British Columbia Securities Commission issued a final receipt for the Company's non-offering prospectus (the "Prospectus"), which qualified the issuance of 20,309,182 Shares and 20,309,182 Warrants of the Company upon conversion of the Special Warrants.

In March 2017, the Company closed two non-brokered private placements and distributed a total of 25,510,656 Units priced at $0.055 per Unit for gross proceeds of $1,403,088. Each Unit consists of one Share and one Warrant, with each Warrant entitling the holder to purchase one additional Share at $0.07 until March 2019.

To the date of this report and prior to the Stock Split (note 17 (g)), 1,456,827 Warrants had been exercised.

17. Subsequent events (continued)

(c) Grant of stock options

On March 15, 2017, prior to the Stock Split (note 17 (g)), the Company granted 4,238,695 stock options ("Stock Options") to new consultants of the Company, with each Stock Option permitting the holder to acquire one common share of the Company at a price of $0.075 per share. Subsequent to the Stock Split, the Company has 12,716,085 Stock Options outstanding with an exercise price of $0.025 per share. The Stock Options expire five years from the date of grant.

(d) Assignment agreement

In January 2017, the Company and Knightswood Holdings Ltd. ("Holdings") entered into an assignment agreement under which the Company transferred all of its right, title and interest in the Investee Companies and all the contracts it has with the Investee Companies to Holdings. Holdings is a wholly owned subsidiary of the Company incorporated for the purpose of holding the Company's equity interest in the Investee Companies and administering the contracts between the Company and the Investee Companies.

(e) Business management agreement

On March 1, 2017, the Company and each of Elcyc and Canterra (collectively the "Operator") entered into a business management agreement (the "Management Agreement") under which the Operator is engaged to operate the business of Holdings, which includes overseeing the holding and administration of the Investee Companies for a term of five years. In exchange for the services provided, the Operator is entitled to receive all the net income of Holdings less $1,000 per annum per Investee Company, which will be paid to the Company. Pursuant to the Management Agreement, the Company will not commit its management or resources to Holdings nor will it be involved in or have the power to direct the activities of Holdings. The Operator will be solely responsible for managing the business operations and financial affairs, making decisions and setting out policies of Holdings.

Also under the Management Agreement, the Operator is granted an option to acquire all of the equity and contractual interests held by the Company in Holdings (the "Option") for the lesser of $25,000 and $1,000 for each Investee Company as of the date the Option is exercised. The Management Agreement may be terminated early upon the exercise of Option by the Operator, by mutual written agreement, by the Operator with at least 60 days' notice, or by the Company with a 60-day notice if the Operator has materially breached the Management Agreement.

(f) Management bonus payments

In January 2017, the Company paid a management bonus of $125,000 to each of Canterra and Elcyc and $5,000 to an officer of the Company.

(g) Stock split

On April 7, 2017, the Company completed a forward split of its common shares (the "Stock Split") on the basis of three post-split shares for one issued and outstanding common share upon the receipt of approval from the TSX Venture Exchange. As at the date of this report, and following the completion of the Stock Split, the number of outstanding common shares was 150,864,996. Also, subsequent to the Stock Split and as at the date of this report, the Company has 133,089,033 Warrants outstanding, each entitling the holder to purchase one additional Share at $0.0233 per Share.