

WESTERN PACIFIC TRUST COMPANY

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

NINE MONTHS ENDED SEPTEMBER 30, 2019
(Unaudited)

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WESTERN PACIFIC TRUST COMPANY

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

NINE MONTHS ENDED SEPTEMBER 30, 2019
(Unaudited)

Notice of disclosure of non-auditor review of condensed interim consolidated financial statements pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators.

The accompanying condensed interim consolidated financial statements of Western Pacific Trust Company for the period ended September 30, 2019 have been prepared in accordance with International Financial Reporting Standards and are the responsibility of the Company's management. The Company's independent auditors have not performed a review of these condensed interim consolidated financial statements.

WESTERN PACIFIC TRUST COMPANY**Condensed Interim Consolidated Statements of Financial Position**

(Expressed in Canadian Dollars)

	Note	(Unaudited) September 30, 2019	December 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents		\$ 883,490	\$ 912,036
Accounts receivable	5	83,904	58,681
Interest receivable		79,850	57,766
Prepaid expenses		17,340	19,914
		1,064,584	1,048,397
Deposits	4.3, 15	104,322	99,658
Restricted cash	6	5,873	5,843
Right-of-use asset	7	211,163	-
Property and equipment	8	28,147	30,217
Intangible assets	9	21,233	19,606
		\$ 1,435,322	\$ 1,203,721
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	14	\$ 59,443	\$ 73,307
Deferred revenue		24,701	6,122
Deferred lease inducement	15	-	4,228
Lease liability – current portion	7	55,672	-
Subordinated loan – current portion	10	11,527	11,527
Preferred shares	11	-	100,000
		151,343	195,184
Lease liability	7	164,480	-
Subordinated loans	10,14	46,539	74,773
Deferred gain on subordinated loans	10	23,461	35,227
		385,823	305,184
SHAREHOLDERS' EQUITY			
Common shares	11	1,536,734	1,536,734
Preferred shares, net of share issue costs	11	1,278,575	1,180,905
Reserves		355,332	359,264
Accumulated deficit		(2,121,142)	(2,178,366)
		1,049,499	898,537
		\$ 1,435,322	\$ 1,203,721

Approved on behalf of the Board

“J. Cowan McKinney”
Director

“Steven Youngman”
Director

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements

WESTERN PACIFIC TRUST COMPANY
Condensed Interim Consolidated Statements of
Comprehensive Income/(Loss)
(Expressed in Canadian Dollars)
(Unaudited)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2019	2018	2019	2018
Revenue					
Consulting and trust service fee income		\$ 22,432	\$ 12,361	\$ 40,987	\$ 32,651
Self-Administered Plan fee income		175,093	164,853	627,984	584,790
Interest		43,154	40,453	134,100	102,895
		240,679	217,667	803,071	720,336
General and administrative expenses	14,17	227,994	220,976	679,323	654,097
Income/(loss) from operations		12,685	(3,309)	123,748	66,239
Amortization of property and equipment	8	(1,510)	(639)	(4,532)	(2,493)
Amortization of intangible assets	9	(1,409)	(1,507)	(3,512)	(3,633)
Finance expense	10,14	(5,032)	(3,204)	(17,810)	(9,551)
Amortization of deferred gain on subordinated loans	10	668	647	2,004	1,906
Share-based payments	12,14	(1,007)	(2,402)	(2,988)	(2,897)
Net income/(loss) and comprehensive income/(loss)		\$ 4,395	\$ (10,414)	\$ 96,910	\$ 49,571
Earnings/(loss) per share, basic	11	\$ (0.0005)	\$ (0.0010)	\$ 0.0020	\$ 0.0002
Earnings per share, diluted	11	-	-	\$ 0.0018	\$ 0.0002
Weighted average number of common shares outstanding		25,018,558	25,018,558	25,018,558	25,018,558

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements

WESTERN PACIFIC TRUST COMPANY

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

(Unaudited)

	Share Capital				Reserves		Total Shareholders' Equity
	Common Shares	Amount	Preferred Shares	Amount	Share-Based Payments	Accumulated Deficit	
Balance, December 31, 2017	25,018,558	\$ 1,536,734	120,950	\$ 1,180,905	\$ 360,377	\$ (2,157,155)	\$ 920,861
Share-based payments	-	-	-	-	2,897	-	2,897
Dividends paid on preferred shares	-	-	-	-	-	(45,356)	(45,356)
Transfer of options forfeited	-	-	-	-	(6,920)	6,920	-
Net income for the period	-	-	-	-	-	49,571	49,571
Balance, September 30, 2018	25,018,558	\$ 1,536,734	120,950	\$ 1,180,905	\$ 356,354	\$ (2,146,020)	\$ 927,973
Balance, December 31, 2018	25,018,558	\$ 1,536,734	120,950	\$ 1,180,905	\$ 359,264	\$ (2,178,366)	\$ 898,537
Preferred shares issued	-	-	10,000	100,000	-	-	100,000
Share issue costs on preferred shares	-	-	-	(2,330)	-	-	(2,330)
Share-based payments	-	-	-	-	2,988	-	2,988
Dividends paid on preferred shares	-	-	-	-	-	(46,606)	(46,606)
Transfer of options forfeited	-	-	-	-	(6,920)	6,920	-
Net income for the period	-	-	-	-	-	96,910	96,910
Balance, September 30, 2019	25,018,558	\$ 1,536,734	130,950	\$ 1,278,575	\$ 355,332	\$ (2,121,142)	\$ 1,049,499

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements

WESTERN PACIFIC TRUST COMPANY
Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
(Unaudited)

	Nine months ended September 30,	
	2019	2018
Operating activities		
Net income for the period	\$ 96,910	\$ 49,571
Items not involving cash:		
Interest accrued	(22,084)	(7,663)
Amortization of property and equipment and intangible assets	8,044	6,126
Amortization of deferred gain on subordinated loans	(2,004)	(1,906)
Accretion expense on subordinated loans	2,004	1,906
Amortization of right-of-use asset	46,350	-
Interest on lease liability	8,919	-
Deferred lease inducement	(4,228)	4,695
Share-based payments	2,988	2,897
	136,899	55,626
Changes in non-cash working capital balances		
Accounts receivable	(25,223)	(6,639)
Deposits and restricted cash	(4,694)	(12,898)
Prepaid expenses	2,574	(2,160)
Accounts payable and accrued liabilities	(13,864)	(21,191)
Deferred revenue	18,579	-
Net cash provided by operating activities	114,271	12,738
Investing activities		
Property and equipment and intangible assets acquired	(7,601)	(17,306)
Net cash used in investing activities	(7,601)	(17,306)
Financing activities		
Lease liability payments	(46,280)	-
Proceeds (Repayment) of subordinated loans	(40,000)	40,000
Repayment of preferred shares liability	(100,000)	-
Proceeds from issuance of preferred shares, net of share issue costs	97,670	-
Dividends paid	(46,606)	(45,356)
Net cash used in financing activities	(135,216)	(5,356)
Decrease in cash and cash equivalents during the period	(28,546)	(9,924)
Cash and cash equivalents, beginning of the period	912,036	959,249
Cash and cash equivalents, end of the period	\$ 883,490	\$ 949,325
Non-cash activities:		
Right-of-use-asset	\$ 257,513	\$ -
Lease liability	\$ 257,513	\$ -

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements

WESTERN PACIFIC TRUST COMPANY
Notes to the Consolidated Financial Statements
Nine Months ended September 30, 2019 and 2018
(Expressed in Canadian Dollars)
(Unaudited)

1. Corporate Information

Western Pacific Trust Company (the “Company”) has been listed on the TSX Venture Exchange since 1999 under stock symbol “WP”.

The Company is a British Columbia incorporated, publicly traded, non-deposit-taking independent trust company licensed under the *Financial Institutions Act* in British Columbia and the *Loan and Trust Corporations Act* in Alberta to conduct trust business in both provinces. The Company is not authorized to receive or hold funds on deposit. The Company may invest in corporations that carry on businesses described in Chapter 141 of the *Financial Institutions Act*.

The Company acts as Trustee for Self-Administered Registered Retirement Savings Plans (“RRSP”), which permit investors the tax-deferred benefits of a registered plan while maintaining control over their investment choices. The Company also offers self-administered Tax-Free Savings Accounts (“TFSA”), within which clients can earn tax-free investment income during their lifetime. Qualified investments for both the RRSP and TFSA self-administered accounts include securities in eligible Canadian-controlled private corporations, private mutual fund trusts, venture capital corporations, unlisted public companies, as well as arm’s length mortgages.

One of the Company’s wholly-owned subsidiaries, WP Private Equity Transfers Inc. (“WPPET”), a British Columbia incorporated company, provides transfer agency services for non-listed, non-reporting issuers.

Another wholly-owned subsidiary WP Private Health Inc. (“WPPH”), a British Columbia incorporated company, also registered in Alberta, provides private health plans to small business owners.

The Company also owns 100% of the shares of a private company; 1128668 BC Ltd., with no existing assets or liabilities, to act as Collateral Agent for a certain client in the conduct of its bond business. During the quarter, the Company acquired an additional wholly-owned subsidiary 1211263 BC Ltd., with no assets and liabilities also to act as an agent for its bond business for a certain client. These wholly-owned subsidiaries, 1128668 BC Ltd. and 1211263 BC Ltd. will be maintained solely for the purpose of offering these services to these clients. The costs of the annual maintenance of these subsidiaries will be absorbed by the clients, pursuant to the contract between the parties.

The Company had a net income of \$96,910 for the period ended September 30, 2019 (September 30, 2018: \$49,571) and has an accumulated deficit of \$2,121,142 as of September 30, 2019 (December 31, 2018: \$2,178,366). At September 30, 2019, the Company has cash of \$883,490 (December 31, 2018: \$912,036) and working capital of \$913,241 (December 31, 2018: \$853,213).

These condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issue on November 18, 2019.

2. Basis of preparation

2.1 Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

WESTERN PACIFIC TRUST COMPANY
Notes to the Consolidated Financial Statements
Nine Months ended September 30, 2019 and 2018
(Expressed in Canadian Dollars)
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2. Basis of preparation (continued)

2.2 Basis of presentation

These financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are recorded at fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The Company's interim results are not necessarily indicative of its results for the full year.

2.3 Critical accounting judgments and estimates

The preparation of consolidated financial statements in accordance with IFRS requires management to make certain critical accounting estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the accompanying disclosures. Actual results could differ from these judgments and estimates. Estimates and underlying assumptions are reviewed on an ongoing basis based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The impacts of changes to estimates are recognized in the period they are revised and in future periods affected. The critical judgment and assumptions applied in the preparation of these condensed interim consolidated financial statements and other major sources of measurement uncertainty are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2018.

3. Summary of significant accounting policies

3.1 Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its integrated wholly-owned subsidiaries, WPPET, WPPH, 1128668 BC Ltd., and 1211263 BC Ltd. All material intercompany balances have been eliminated in these consolidated financial statements. Subsidiaries are all entities over which the Company has control. Control is based on whether an investor has power over the investee, exposure of rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of returns.

3.2 Significant accounting policy in effect

The Company recognizes an asset representing the right to use the leased assets, and a liability for its obligation to make lease payments. The lease asset is initially measured at cost and is then depreciated over the term of the lease.

The lease liability is initially measured at the present value of the unpaid lease payments. The interest expense on a lease liability is recorded in financing expense.

3.3 Other significant accounting policies

For a complete summary of significant accounting policies, please refer to the audited consolidated financial statements for the year ended December 31, 2018.

WESTERN PACIFIC TRUST COMPANY
Notes to the Consolidated Financial Statements
Nine Months ended September 30, 2019 and 2018
(Expressed in Canadian Dollars)
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4. Financial instruments

4.1 Categories of financial instruments

The Company has classified its financial instruments as follows under IFRS 9 compared to the Company's previous accounting policy under IAS 39:

	IAS 39	IFRS 9
Financial Asset		
Cash and cash equivalents	Fair value through profit or loss ("FVTPL")	FVTPL
Trade accounts receivable, interest receivables and deposits (other than rental deposit)	Loans and receivable	Amortized cost
Restricted cash	Held-to-maturity	Amortized cost
Financial Liability		
Trade accounts payable and accrued liabilities, preferred shares liability and subordinated loans	Other financial liabilities under amortized cost	Amortized cost

4.2 Fair value

The fair values of the financial instruments, other than cash, the preferred shares liability and current portion of subordinated loans, approximate their carrying value as at September 30, 2019 and December 31, 2018 due to the demand nature or short-term maturity of these instruments. Subordinated loans approximate fair value as they are based on current market rates of interest. Cash is valued in accordance with level 1 of the fair value hierarchy.

4.3 Financial risk management objectives and policies

The risks associated with the Company's financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages credit risk in respect of cash by purchasing highly liquid, short-term investment-grade securities held at a major Canadian financial institution in accordance with the Company's investment policy. Trade accounts receivable are due from clients. The Company manages credit risk in respect to accounts receivable by reviewing the credit risk of the counterparty to the arrangement and has made any necessary provisions related to credit risk at September 30, 2019 and December 31, 2018.

Concentration of credit risk exists with respect to the Company's cash as the majority of amounts are held at a single major Canadian chartered bank. The Company's concentration of credit risk and maximum exposure thereto is as follows:

WESTERN PACIFIC TRUST COMPANY
Notes to the Consolidated Financial Statements
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4. Financial instruments (continued)

4.3 Financial risk management objectives and policies (continued)

a) Credit risk (continued)

	September 30, 2019	December 31, 2018
Cash	\$ 171,497	\$ 42,208
Cash in interest bearing account	711,993	869,828
Total cash and cash equivalents	883,490	912,036
Deposits held by credit card processor	85,490	80,826
Deposit held by lessor (note 15)	18,832	18,832
Total deposits	104,322	99,658
Restricted cash	5,873	5,843
Accounts receivable	83,904	58,681
Interest receivable	79,850	57,766
	\$ 1,157,439	\$ 1,133,984

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves to meet its liquidity requirements. At September 30, 2019, the Company had accounts payable and accrued liabilities of \$59,443 (December 31, 2018: \$73,307), which are due for payment within three months, preferred shares of \$Nil (December 31, 2018: \$100,000), which are due on demand, current portion of lease liability of \$55,672 and lease liability of \$164,480 until the lease term ending 2023, current portion of subordinated loan of \$11,527 (December 31, 2018: \$11,527), due on demand, and subordinated loans of \$46,539 (December 31, 2018: \$74,773), which are due for payment in 2026 and 2027.

c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

i) Interest rate risk

Interest rate risk consists of two components:

- a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- b) To the extent that changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company is not exposed to any significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

WESTERN PACIFIC TRUST COMPANY
Notes to the Consolidated Financial Statements
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4. Financial instruments (continued)

4.3 Financial risk management objectives and policies (continued)

c) Market risk (continued)

ii) Foreign currency risk

The Company is not exposed to significant foreign currency risk.

iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is not exposed to other price risk.

The Company's exposure to and management of credit risk, liquidity risk and market risk related to financial instruments above have not changed materially for the nine months ended September 30, 2019.

5. Accounts receivable

The Company's trade accounts receivable is aged as follows:

	September 30, 2019	December 31, 2018
Less than 1 month	\$ 9,426	\$ 9,988
1 to 3 months	19,843	5,349
More than 3 months	54,635	43,344
	<u>\$ 83,904</u>	<u>\$ 58,681</u>

Management reviews the collectability of the accounts receivable on a monthly basis and provides allowance on amounts that are not collectable.

6. Restricted cash

The Company's restricted cash consists of a cashable guaranteed investment certificate held as security for the SEDAR program, with interest at 0.50% per annum, and maturing March 25, 2020. The investment is renewed annually.

WESTERN PACIFIC TRUST COMPANY
Notes to the Consolidated Financial Statements
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(Expressed in Canadian Dollars)
(Unaudited)

7. Right-of-use asset

	<u>Premises Lease</u>
Cost	
As at January 1, 2019	\$ -
Addition for the period	257,513
As at September 30, 2019	<u>\$ 257,513</u>
Accumulated amortization	
As at January 1, 2019	\$ -
Charge for the period	46,350
As at September 30, 2019	<u>\$ 46,350</u>
Net book value	
As at September 30, 2019	<u>\$ 211,163</u>

The right-of-use asset and lease liability relate to the premises lease as described in Note 15 Commitments for Expenditures.

	<u>Lease Liability</u>
Cost	
As at January 1, 2019	\$ -
Additions for the period	257,513
As at September 30, 2019	<u>\$ 257,513</u>
Lease payments	
As at January 1, 2019	\$ -
Payments for the period	46,280
Interest expense for the period	(8,919)
As at September 30, 2019	<u>\$ 37,361</u>
Balance	
Current portion	\$ 55,672
Long-term portion	164,480
As at September 30, 2019	<u>\$ 220,152</u>

WESTERN PACIFIC TRUST COMPANY
Notes to the Consolidated Financial Statements
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(Unaudited)

8. Property and equipment

	<u>Leasehold Improvements</u>	<u>Furniture and Equipment</u>	<u>Total</u>
Cost			
As at December 31, 2017 and December 31, 2018	\$ 32,062	\$ 184,655	\$ 216,717
Additions	-	2,462	2,462
As at September 30, 2019	\$ 32,062	\$ 187,117	\$ 219,179
Accumulated amortization			
As at December 31, 2017	\$ 32,062	\$ 150,654	\$ 182,716
Charge for the year	-	3,784	3,784
As at December 31, 2018	32,062	154,438	186,500
Charge for the period	-	4,532	4,532
As at September 30, 2019	\$ 32,062	\$ 158,970	\$ 191,032
Net book value			
As at December 31, 2018	\$ -	\$ 30,217	\$ 30,217
As at September 30, 2019	\$ -	\$ 28,147	\$ 28,147

9. Intangible assets

	<u>Software</u>
Cost	
As at December 31, 2017	\$ 48,206
Additions	358
As at December 31, 2018	48,564
Additions	5,139
As at September 30, 2019	\$ 53,703
Accumulated amortization	
As at December 31, 2017	\$ 24,102
Charge for the year	4,856
As at December 31, 2018	28,958
Charge for the period	3,512
As at September 30, 2019	\$ 32,470
Net book value	
As at December 31, 2018	\$ 19,606
As at September 30, 2019	\$ 21,233

WESTERN PACIFIC TRUST COMPANY
Notes to the Consolidated Financial Statements
Nine Months ended September 30, 2019 and 2018
(Expressed in Canadian Dollars)
(Unaudited)

10. Subordinated loans

In January 2015, the Company entered into an agreement for a revolving subordinated loan without interest and due on demand, based on 0.5% of the issuer's cash and client investments held in trust. The revolving loan advanced by its issuer is proportionate to the value of the assets of that issuer held in trust, and will increase or decrease relative to the value of the assets held. The balance payable up to September 30, 2019 is \$11,527 (December 31, 2018: \$11,527).

In March 2016, the Company entered into an agreement with one of its trust clients for an interest-free subordinated loan of \$35,000. The loan is due for repayment on March 24, 2026. In September 2016, a second interest-free subordinated loan of \$5,000 was received from the same party. This loan is due on September 2, 2026. In October 2016, a third interest-free subordinated loan of \$5,000 was received from the same party. This loan is due on October 24, 2026. In September 2017, a fourth interest-free subordinated loan of \$25,000 was received from the same party. This loan is due on September 30, 2027. These non-interest-bearing subordinated loans are recorded initially at the fair value, and are calculated based on the application of a fair value interest rate of 6%. The difference between the face value and the initial fair value of the subordinated loans payable has been recorded as a deferred gain on subordinated loans. During the period ended September 30, 2019, the Company recognized accretion expense of \$2,004 (September 30, 2018: \$1,890) included in finance expense, and a recovery from the amortization of deferred gain on subordinated loans of \$2,004 (September 30, 2018: \$1,890).

In September 2018, the Company entered into an agreement with certain directors for subordinated loans totalling \$40,000 at an interest rate of 5%. The loans were due for repayment on September 28, 2024. The difference between the face value and the initial fair value of the subordinated loans payable of \$10,152 has been recorded as a deferred gain on subordinated loans. The Company recognized accretion expense of \$16 during the period ended September 30, 2018. During the period ended September 30, 2019, the Company repaid the \$40,000 subordinated loans from directors.

	Subordinated loans	Deferred gain on subordinated loans
As at December 31, 2017	\$ 42,014	\$ 27,986
Additions during the year	40,000	-
Deferred gain on subordinated loan	(10,152)	10,152
Accretion expense	2,911	(2,911)
As at December 31, 2018	74,773	35,227
Repayment for the period	(40,000)	-
Deferred gain on subordinated loan	9,762	(9,762)
Accretion expense	2,004	(2,004)
As at September 30, 2019	\$ 46,539	\$ 23,461

WESTERN PACIFIC TRUST COMPANY
Notes to the Consolidated Financial Statements
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(Unaudited)

11. Share capital

11.1 Authorized:

100,000,000 common shares without par value
100,000,000 preferred shares, issuable in series

Issued and outstanding:

25,018,558 (2018: 25,018,558) common shares
61,750 (2018: 61,750) Series I preferred shares with a value of \$10 each, (2018: 51,750 Series I preferred shares in equity and 10,000 Series I preferred shares in preferred share liabilities)
69,200 (2018: 69,200) Series II preferred shares with a value of \$10 each

11.2 Preferred shares

Series I preferred shares are non-voting, redeemable, both retractable (note 11.3) and non-retractable, and earn non-cumulative dividends equal to 5% per annum of the aggregate value of \$10 per share and a non-cumulative cash payment equal to 1% per annum of the aggregate value of \$10 per share.

Series II preferred shares are non-voting, non-redeemable and earn non-cumulative dividends equal to 5% per annum of the aggregate value of \$10 per share. The Company has the right to redeem the Series II preferred shares at any time on 30 days' (the "Redemption Period") notice and at any time prior to the expiry of the redemption period, each holder of the Series II preferred shares shall have the right to convert the Series II preferred shares into common shares at a conversion ratio equal to the issue price divided by the conversion price of \$0.15 per common share, subject to adjustment.

During the period ended September 30, 2019, 10,000 Series I non-voting, redeemable, retractable preferred shares at \$10 were redeemed by the Company.

During the same period, 10,000 Series I non-voting, redeemable, non-retractable, preferred shares at \$10 per shares were issued to a director of the Company through a private placement. These shares earn non-cumulative dividends equal to 5% per annum of the aggregate value of \$10 per share and a non-cumulative cash payment equal to 1% per annum of the aggregate value of \$10 per share.

11.3 Preferred share liability

Preferred share liability of \$Nil (2018: \$100,000) relates to 10,000 redeemable and retractable Series I preferred shares issued in 2011, which the Company has classified as a financial liability. During the quarter ended September 30, 2019, these preferred shares were redeemed by the Company at \$100,000 and removed as a liability.

WESTERN PACIFIC TRUST COMPANY
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11. Share capital (continued)

11.4 Earnings per share

The following is a reconciliation of the numerator in calculating basic and diluted income per share:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Income/(loss) before adjustment for preferred shares dividends	\$ 4,395	\$ (10,414)	\$ 96,910	\$ 49,571
Amount paid as preferred share dividends	(16,368)	(15,118)	(46,606)	(45,356)
Adjusted income/(loss)	(11,973)	(25,532)	50,304	4,215
Earnings/(loss) per share, basic	\$ (0.0005)	\$ (0.0010)	\$ 0.0020	\$ 0.0002
Earnings per share, diluted	-	-	\$ 0.0018	\$ 0.0002

12. Share-based payments

12.1 Stock options

The Company has a stock option plan (the "Plan") under which it is authorized to grant options to directors, employees and consultants enabling them to acquire up to 20% of the issued and outstanding common stock of the Company. The minimum exercise price of any options granted under the Plan cannot be less than the discounted market price (the last closing price of the shares on the Exchange less a maximum 25% discount). The options are granted for up to a ten-year term. Vesting provisions may be imposed at the time of the grant of options at the discretion of the board of directors, except for consultants acting in an investor relations capacity where vesting provisions are prescribed.

As of the date of these consolidated financial statements, no options have been exercised.

12.2 Outstanding stock options

Details of the Company's stock options outstanding as of September 30, 2019 and December 31, 2018 and changes during the respective periods are as follows:

	Number Outstanding	Weighted Average Exercise Price
As at December 31, 2017	2,725,000	\$ 0.09
Granted	100,000	\$ 0.11
Forfeited	(100,000)	\$ 0.10
As at December 31, 2018	2,725,000	\$ 0.09
Forfeited	(100,000)	\$ 0.10
As at September 30, 2019	2,625,000	\$ 0.09

On June 11, 2018, 75,000 stock options were granted to a director. The stock options have an exercise price of \$0.12 with an expiry date of June 11, 2022. The stock options vested at 1/3 at December 31, 2018, with the balance to vest 1/3 at December 31, 2019 and 1/3 at December 31, 2020. On September 13, 2018, an additional 25,000 stock options with an exercise price of \$0.07 and an expiry date of September 13, 2022, were granted to a director. These most recently granted options vested as to

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12. Share-based payments (continued)

12.2 Outstanding stock options (continued)

8,000 shares at December 31, 2018, with the balance to vest 8,000 shares at December 31, 2019 and 9,000 shares at December 31, 2020.

During the quarter ended September 30, 2019, 100,000 stock options were forfeited due to the resignation of a director. Share based payment of \$6,920 has been allocated from contributed surplus to deficit.

Share-based payments consists of \$2,988 (December 31, 2018: \$5,807) to a director.

As at September 30, 2019, the following stock options issued to directors and employees of the Company were outstanding:

Expiry Date	Exercise Price	Options Outstanding	Fair Value at Grant Date	Remaining Contractual Life (yrs)	Options Exercisable
November 18, 2022	\$ 0.07	815,030	\$ 0.06	3.16	815,030
November 26, 2022	\$ 0.10	1,709,970	\$ 0.07	3.16	1,709,970
June 11, 2022	\$ 0.12	75,000	\$ 0.13	2.70	25,000
September 13, 2022	\$ 0.07	25,000	\$ 0.07	2.96	8,000
		2,625,000		3.14	2,558,000

As at December 31, 2018, the following stock options issued to directors and employees of the Company were outstanding:

Expiry Date	Exercise Price	Options Outstanding	Fair Value at Grant Date	Remaining Contractual Life (yrs)	Options Exercisable
November 18, 2022	\$ 0.07	815,030	\$ 0.06	3.88	815,030
November 26, 2022	\$ 0.10	1,809,970	\$ 0.07	3.91	1,809,970
June 11, 2022	\$ 0.12	75,000	\$ 0.13	3.45	25,000
September 13, 2022	\$ 0.07	25,000	\$ 0.07	3.70	8,000
		2,725,000		3.89	2,658,000

13. Capital disclosures

The Company considers its shareholders' equity and short-term debt – preferred shares and subordinated loans to be its capital, which, as at September 30, 2019, amounted to \$1,131,026 (2018: \$1,120,064).

The Company's objective of managing capital is to safeguard the Company's ability to continue as a going concern so that it can provide returns for shareholders.

The Company maintains sufficient capital to meet its future needs, taking into consideration economic risks inherent in its businesses and regulatory requirements.

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13. Capital disclosures (continued)

Under the *Financial Institutions Act* of British Columbia, the Company is required to meet the regulatory capital as prescribed by the Financial Institutions Commission ("FICOM"). To satisfy the requirements, the Company is required to maintain a minimum capital determined by multiplying the total value of the assets that the Company holds in trust by 0.5%. The Company has complied with the capital requirements as prescribed by FICOM as at September 30, 2019.

The Company reviews the sufficiency of its capital as appropriate and makes necessary adjustments to its capital primarily by raising adequate financing.

There have been no changes to the Company's approach to capital management for the nine months ended September 30, 2019.

14. Related party transactions and balances

The Company's related parties consist of its key management personnel, including its directors, and their close family members and entities controlled by key management personnel. All transactions with related parties are in the normal course of operations. Amounts due to or from related parties are subject to normal trade terms and conditions.

During the nine months ended September 30, 2019 and 2018, the Company incurred the following charges related to management compensation:

	September 30, 2019	September 30, 2018
Management salaries	\$ 94,087	\$ 84,242
Directors' fees	33,000	33,000
Consulting fees paid to companies controlled by directors	63,000	63,000
Professional fees for consultant	30,100	35,481
Share-based payments	2,988	2,897
Total compensation	\$ 223,175	\$ 218,620

Dividends of \$36,369 (September 30, 2018: \$43,031) and interest and waiver fees of \$2,934 (September 30, 2018: \$3,416), included in finance expense, have been paid to directors and close family members of directors.

At September 30, 2019, the Company has \$21,560 (December 31, 2018: \$35,045) in accounts payable and accrued liabilities due to an officer and directors of the Company and companies controlled by directors.

During the nine months ended September 30, 2019, subordinated loans of \$40,000 were repaid to certain Directors (note 10) and 10,000 Series I preferred shares at \$10 per shares were issued to a director (note 11.2).

Compensation for key management is for short-term benefits only. Key management personnel do not receive any post-employment or other long-term benefits.

15. Commitments for expenditures

In October 2017, the Company entered into a renewed five-year lease for premises at its current location, in Vancouver, British Columbia. Under the terms of the lease, the Company is responsible for basic rent plus operating costs and property taxes commencing March 1, 2018. The Company's commitment for minimum rental payments, calculated based on basic rent is \$5,785 per month for the first two years, \$6,008 per month for the last three years. The current lease includes free base rent periods for the months of March 2018,

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15. Commitments for expenditures (continued)

February 2019 and February 2020 (see note 7 for right-of-use asset and lease liability relating to the premises lease).

The operating costs, which are calculated each year, were \$4,583 (2018: \$4,365) per month and are expected to increase by 5% for each year until the end of the lease term.

The security deposit of \$18,832 (note 4.3) paid in August 2012 continues to be held by the lessor.

The Company also has a non-cancellable operating lease for equipment expiring in June 2022. Cash commitments for minimum lease payments in relation to non-cancellable operating leases for equipment and premises as at September 30, 2019, are payable as follows:

Not later than 1 year	\$	125,382
Later than 1 year and not later than 5 years		328,615
	\$	453,997

The commitments for basic rent for premises lease are included in lease liability.

16. Operating segments

The Company operates in one industry segment, the financial services industry, and all operations and assets are situated in Canada.

17. General and administrative expenses

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Salaries and benefits	\$ 98,410	\$ 93,389	\$ 298,143	\$ 276,271
Professional fees	39,194	37,702	117,765	121,455
Rent	28,874	29,985	87,007	89,572
Office and administration	43,124	40,961	116,206	108,251
E&O insurance	3,625	3,466	10,769	10,057
Directors' fees	10,500	11,500	33,000	33,000
Compliance and regulatory	4,267	3,973	16,433	15,491
	\$ 227,994	\$ 220,976	\$ 679,323	\$ 654,097
