

## WESTERN PACIFIC TRUST COMPANY

Management's Discussion and Analysis of  
Results of Operations and Financial Position  
For the year ended December 31, 2019  
(Expressed in Canadian Dollars)

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The following is management's discussion and analysis ("MD&A"), dated March 25, 2020, of the consolidated financial condition and results of operations of Western Pacific Trust Company and its wholly-owned subsidiaries, WP Private Equity Transfers Inc. ("WPPET"), WP Private Health Inc. ("WPPH"), 1128668 BC Ltd. and 1211263 BC Ltd. (collectively "WPTC" or the "Company") for the year ended December 31, 2019. This discussion should be read in conjunction with the audited consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2019 (the "Financial Statements").

### **Basis of Presentation**

The Company's consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The IASB continues to amend and add to current IFRS standards and interpretations. As of the date of this MD&A, the new IFRS standards that have been recently issued that have any significant impact to the Company have been noted in Note 3.11 of the consolidated financial statements.

### **Forward Looking Statements**

This MD&A contains certain forward-looking statements. All statements, included herein, other than statements of historical fact, including without limitation statements regarding the future plans and objectives of the Company, are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will provide accurate information, and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed in Company documents filed from time-to-time with the regulatory authorities and on [www.SEDAR.com](http://www.SEDAR.com). Additional information with respect to the Company can be obtained from the Company's website at [www.westernpacifictrust.com](http://www.westernpacifictrust.com).

### **Overview**

Western Pacific Trust Company is a non-deposit taking financial institution which is licensed under the **Financial Institutions Act ("FIA")** in British Columbia as a Trust Company. WPTC is also registered extra-provincially in Alberta as a non-deposit taking Trust Company.

#### *Self-Administered Plans*

WPTC Self-Administered Plans permit investors the tax-deferred benefits of a registered plan while maintaining control over their investment choices. In addition to self-administered Registered Retirement Savings Plans ("RRSPs"), WPTC offers self-administered Tax-Free Savings Accounts ("TFSA's"), self-administered Registered Retirement Income Funds ("RRIFs"), and self-administered Locked-In Retirement Accounts ("LIRAs"), within which clients can earn tax-free investment income during their lifetime. Qualified investments for RRSPs and all other self-administered accounts include, but are not limited to, securities in eligible Canadian controlled private corporations, private mutual fund trusts, venture capital corporations, unlisted public companies, as well as arm's length mortgages.

#### *Trust Services*

As part of its trust services, WPTC offers strategic counsel, organizational assistance and consults with clients' legal advisors in the establishment and administration of various forms of trusts, an effective vehicle and flexible tool for present and future management of assets.

### *Client Consulting Services*

The Company provides a range of Accounting, Administrative and Corporate Secretarial services to select clients on a fee-for-service basis.

### *Transfer Agency Services*

The Company provides transfer agent and registrar services to unlisted and non-reporting issuer companies. These services are provided through the company's wholly-owned subsidiary, WPPET, a British Columbia incorporated company.

### *Collateral Agency Services*

The Company acts as Collateral Agent for clients in the conduct of their bond business. The wholly-owned subsidiaries, 1128668 BC Ltd. and 1211263 BC Ltd., are maintained solely for the purpose of offering these services to these clients. The costs of the annual maintenance of these subsidiaries are absorbed by the clients, pursuant to the contract between the parties.

## **Selected Annual Information and Results of Operations**

The following selected consolidated financial data for the three most recently completed financial years should be read in conjunction with the Company's audited consolidated financial statements for the respective years. The Company's consolidated financial statements and the financial information set out below are prepared in accordance with IFRS as issued by the IASB. The Company's significant accounting policies are disclosed in note 3 to the Company's audited consolidated financial statements for the year ended December 31, 2019. The Company's functional and reporting currency is the Canadian dollar.

### Statements of Financial Position-selected information

	As at December 31,		
	2019	2018	2017
Total current assets	\$ 1,117,060	\$ 1,048,397	\$ 1,054,981
Total non-current assets	352,245	155,324	132,601
<b>Total assets</b>	<b>\$ 1,469,305</b>	<b>\$ 1,203,721</b>	<b>\$ 1,187,582</b>
Total current liabilities	\$ 170,354	\$ 195,184	\$ 196,721
Total non-current liabilities	218,370	110,000	70,000
<b>Total equity</b>	<b>1,080,581</b>	<b>898,537</b>	<b>920,861</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,469,305</b>	<b>\$ 1,203,721</b>	<b>\$ 1,187,582</b>

The increase in non-current assets in 2019 compared to 2018 is due to the January 1, 2019 adoption of IFRS 16 *Leases* reporting, pursuant to which the Company recognizes an asset representing the right of use of the leased premises.

The increase in current assets in the 2019 and 2018 fiscal years is due to an increase of cash and cash equivalents and accounts receivable.

The increase in non-current assets in 2018 compared to 2017 reflects an increase in deposits held by the credit card processor and the purchase of new computer equipment.

The decrease in current liabilities for 2019 compared to 2018 is attributable to the inclusion of the current portion of lease liability, as required under IFRS 16, for the Company's obligation to make lease payments per the lease agreement, offset by the repayment of preferred share liabilities redeemed during 2019.

The increase in non-current liabilities in 2019 compared to 2018 is due to the addition of the long-term portion of lease liability in accordance with IFRS 16. The increase is offset by the repayment of certain subordinated loans during the year. The increase in non-current liability in 2018 compared to 2017 is due to subordinated loans advanced to the Company in 2018.

## Statements of Comprehensive Income (Loss)

Years ended December 31,

	2019	2018	2017
Total revenue	\$ 1,086,977	\$ 941,026	\$ 832,261
Total general and administrative expenses	(908,550)	(883,546)	(816,887)
Income before amortization, finance expense and share-based payments	178,427	57,480	15,374
Amortization	(11,110)	(8,640)	(10,121)
Finance expense	(19,968)	(10,689)	(4,175)
Share-based payments	(3,995)	(5,807)	(8,301)
Net income/(loss)	\$ 143,354	\$ 32,344	\$ (7,223)
Earnings/(loss) per share (basic and diluted)	\$ 0.003	\$ (0.001)	\$ (0.003)

Net income/(loss) before amortization, finance expense and share-based payments is a non-GAAP financial measure which has no standard meaning under IFRS. Management is of the opinion that certain investors use this information, in addition to more conventional measures prepared in accordance with IFRS, to evaluate the Company's performance and ability to generate liquidity through operating cash flows.

**Results of Operations****Revenues**

Total revenue continues to grow year over year. Revenue in 2019 increased by \$145,951 (15.51%) compared to 2018, primarily due to the increase in self-administered plan fee income of \$109,736 (14.6%) over the previous year. In addition, investment income grew by \$26,669 (18%) compared to 2018. During the last quarter of the 2018 fiscal year, the Company re-invested funds held in GICs and negotiated more favourable interest rates resulting in higher interest income for the 2019 fiscal year compared to 2018. Consulting and trust service fee income has also increased in 2019 by \$9,546 (21.9%) compared to the previous year.

**Expenses**Comparison of 2019 fiscal year to 2018 fiscal year

The total general and administrative expenses increased overall by \$25,004 (2.83%) in 2019 compared to 2018. This is primarily due to an increase in staff, staff salaries and the cost of benefits of \$29,577 (8.02%). Interest expense increased by \$8,779 (100%) due to the implementation of the IFRS 16 requirement to recognize imputed interest expense on a lease liability. Advertising/promotional fees increased by \$7,620 (201.59%) in 2019 compared to 2018. The remainder of the increase in 2019 compared to 2018 is due to increases in the following expenses: \$5,371 (14.98%) for computer software; \$4,917 (14.41%) for office and administration; and \$2,470 (28.59%) for amortization. The overall difference in the increase in general and administrative expenses in 2019 compared to 2018 is offset by a reduction in business development expense of \$6,000 (-100%) and professional fees of \$5,640 (-7.09%).

Comparison of 2018 fiscal year to 2017 fiscal year

The total general and administrative expenses increased overall by \$66,659 (8.16%) in 2018 compared to 2017. This is primarily due to an increase in staff salaries and the cost of benefits of \$22,846 (6.60%). Directors' fees increased by \$8,625 (22.26%) due to the election of an additional board member, as well as an increase in directors' meetings during the year and the related directors' meeting attendance fees. Professional fees increased by \$9,135 (5.92%) in 2018 compared to 2017 due to an increase in fees paid to consultants, and an increase of \$2,326 (14.18%) for compliance and regulatory. The remainder of the increase in 2018 compared to 2017 is due to increases in expenses for rent, office and administration, and insurance. The overall difference in the increase in general and administrative expenses in 2018 compared to 2017 is offset by a reduction in business development expense of \$7,500 (-55.56%).

The share-based payments expense in fiscal 2019 and 2018 is the amortized amount in respect of the unvested options that were granted on June 11, 2018 and September 13, 2018. The amount in 2017 relates to the options granted on November 19, 2015. The decrease is due to the grade-vesting method used to record the expense which decreases as time passes. The options granted on November 19, 2015 have all

vested as at December 31, 2017. For the options granted in 2018, 66,000 of these options have vested as at December 31, 2019 and 34,000 options will vest at December 31, 2020.

### Summary of Quarterly Results

The following is selected financial information for the last eight quarters.

Quarter ended		Total revenue	Net income (loss) and comprehensive income (loss)	Net income (loss) per share (basic and diluted)	Total assets
		\$	\$	\$	\$
Q4/19	December 31, 2019	283,906	46,444	0.001	1,469,305
Q3/19	September 30, 2019	240,679	4,395	(0.001)	1,435,322
Q2/19	June 30, 2019	241,110	765	(0.001)	1,435,978
Q1/19	March 31, 2019	321,282	91,750	0.003	1,511,559
Q4/18	December 31, 2018	220,690	(17,227)	(0.001)	1,203,721
Q3/18	September 30, 2018	217,667	(10,414)	(0.001)	1,218,198
Q2/18	June 30, 2018	208,363	(11,925)	(0.001)	1,185,084
Q1/18	March 31, 2018	294,306	71,910	0.002	1,259,930

#### Revenue and net income (loss) for each quarter

The fluctuations in total revenue from quarter to quarter are due primarily to seasonal variations in revenue from self-administered plans.

Total revenue and net income both increased for the last quarter compared to the third quarter of 2019 as a result of an increase in self-administered plan revenue.

Total revenue decreased slightly for the third quarter compared to the second quarter of 2019 due to a decrease in self-administered plan revenue. Net income increased for the third quarter ended September 30, 2019 compared to the second quarter of 2019 due to a reduction in expenses for salaries and benefits.

Total revenue and net income both decreased for the second quarter of 2019 compared to the first quarter of 2019 due to the seasonal fluctuation in self-administered plan revenue from the first to second quarter. The decrease in total assets for the second quarter of 2019 is attributable to the decrease in cash as a result of cash used for payments of the annual directors' fees and dividends during the quarter.

Significant variances in previous quarters are discussed as follows:

Total revenue and net income both increased for the first quarter of 2019 as a result of the increase in self-administered plan business prior to the annual RRSP contribution deadline of March 1, 2019 and interest income from investments in term deposits. The increase in total assets for the first quarter of 2019 is due to the January 1, 2019 adoption of IFRS 16 – Leases.

The growth in total revenue for the last quarter in 2018 compared to the third quarter in 2018 is due to the increase in interest income from investments in term deposits. The increase in net loss for the last quarter in 2018 is due to increases in travel, computer consulting, and maintenance expense.

Total revenue increased for the third quarter compared to the second quarter of 2018, largely due to the increase in investment income. The loss for the third quarter ended September 30, 2018 also reflects seasonal fluctuation in self-administered plan revenue and increased expenses, primarily for salaries and benefits and computer maintenance.

Total revenue and net income both decreased for the second quarter of 2018, due to seasonal fluctuation in self-administered plan revenue from the first to second quarter. The decrease in total assets for the second quarter of 2018 is due to the decrease in cash as a result of cash used for payments of the annual directors' fees and dividends during the quarter.

## **Outlook**

### **COVID-19**

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in a widespread health crisis that has affected economies and financial markets around the world resulting in an economic downturn. This outbreak may also cause staff shortages, reduced customer demand, increased government regulations or interventions, all of which may negatively impact the business, financial condition or results of operations of the Company. The duration and impact of the COVID-19 outbreak is unknown at this time and it is not possible to reliably estimate the length and severity of these developments.

### **Self-Administered Plans**

Trustee services for Self-Administered Plans are required for any issuer wishing to offer RRSP or TFSA eligible securities, as well as for investors wishing to purchase a private market security in an RRSP or TFSA. Such investments include, but are not limited to, private Mutual Fund Trusts, eligible Canadian Controlled Private Corporations, Eligible Business Corporations, Venture Capital Corporations and arm's length mortgages.

Annual trustee fees earned from each plan build year-over-year for the life of the plan, creating a continuing revenue base for each succeeding year. Transactional fees earned on new accounts increase in proportion to the numbers of plans opened, in addition to transaction fees generated for new purchases in existing accounts.

The 2019 year saw a 15.5% increase in total revenue, and an increase of 2.83% in general and administrative expenses over the same period in 2018. This resulted in a net income for the year ended December 31, 2019 of \$143,354, compared to a net income of \$32,344 for the same period in 2018.

Western Pacific Trust Company is steadily gaining increased recognition in the private capital markets as a trustee for self-administered plans holding qualified investments. While the Company offers competitive pricing, it is the commitment to offering knowledgeable and responsive service delivered on a consistent basis which distinguishes our company in the market place.

### **Client Consulting Services**

The Company offers a range of administrative and accounting services to select clients.

### **Transfer Agency Services**

The Company provides transfer agent and registrar services to unlisted and non-reporting issuer companies. These services are provided through the company's wholly-owned subsidiary, WPPET, a British Columbia incorporated company.

### **Private Health Plans**

Through its wholly-owned subsidiary, WP Private Health Inc., the Company offers private health care plans for small business owners. Not insurance, rather a tax planning tool, these plans help clients who own small corporations to save taxes, and reduce the after tax cost of health care for themselves and their families.

### **Collateral Agent Services**

Through wholly-owned subsidiaries 1128668 BC Ltd. and 1211263 BC Ltd., these Companies provide Collateral Agent services to clients in the conduct of their bond business.

## **Liquidity**

### **Western Pacific Trust Company - Capital Adequacy**

As a trust company, the Company is governed by the BC Financial Services Authority (“BCFSA”) pursuant to the *Financial Institutions Act* (British Columbia). The Company is required to submit to the BCFSA, on a quarterly basis, within 30 days of each quarter end, a Financial Return” in which a Capital Adequacy calculation is required to set forth the Primary Capital (Shares, Retained Earnings and Reserves) and the Secondary Capital (Subordinated Debt and Other equity investments) to arrive at the Company's Capital Base. The Required Capital Base is calculated as 0.5% of the Assets Held in Trust.

As at December 31, 2019, the Company had a calculated Capital Base in excess of the Required Capital Base.

### **Capital Resources**

As at December 31, 2019, the Company had working capital of \$946,706 (December 31, 2018: \$853,213) available to fund its operations.

As at December 31, 2019, the Company had subordinated debt outstanding in the aggregate amount of \$81,527. The subordinated loans consist of \$11,527 and \$70,000 from two unrelated parties and bear no interest.

### **Off-Balance Sheet Arrangements**

Other than Self-Administered Plan revenues beyond the reporting period and interest income held in term deposits from trust assets, the Company does not have any off balance sheet items that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

### **Transactions with Related Parties**

Pursuant to the requirements of the Financial Institutions Act, WPTC's Conduct Review Committee is required to approve all related party transactions of the Company and report same to the Directors at meetings of the Board, which are held quarterly.

Management personnel includes directors and officers of the Company. Management salaries include compensation and benefits paid to directors, officers and consultants of the Company in the normal course of business. Share-based payments consist of stock option issuances.

The following transactions with related parties for the years ended December 31, 2019 and 2018 were in the normal course of operations and were measured at the fair value of the services provided:

	Years ended	
	December 31, 2019	December 31, 2018
Management salaries	\$ 125,450	\$ 112,180
Directors' fees	45,500	47,375
Consulting fees paid to a company controlled by a director	84,000	84,000
Professional fees for consultant	42,438	45,369
Share-based payments	3,995	5,807
<b>Total compensation</b>	<b>\$ 301,383</b>	<b>\$ 294,731</b>

### **Financial Instruments**

As at December 31, 2019, the Company had not entered into any derivative financial instruments as a method of managing market risks associated with interest rates and foreign exchange fluctuations. Note 4 to the audited consolidated financial statements include a discussion of the Company's financial instruments and the related risks.

### **Risks and Uncertainties**

#### *Dependence on major clients*

Plans opened for the Company's three largest issuer clients comprise a significant percentage of total revenues. Although these issuers are large entities, as such, any disruption in the Company's relationships with these major clients or any decrease in revenue from them, could have an adverse effect on the Company.

#### *Tax laws*

The tax laws in Canada and abroad are continually changing.

#### *Dependence on key personnel*

Loss of certain members of the executive team or key management members of the Company could have a disruptive effect on the implementation of the Company's business strategy and the efficient running of

day-to-day operations until their replacements are found. The Company may be unable to retain its key employees or attract, assimilate, retain or train other necessary qualified employees, which may restrict its growth potential.

### **Outstanding Share Information**

As at the date of this report there are 25,018,558 Common shares, 61,750 Series I Preferred shares and 69,200 Series II Preferred shares issued and outstanding. The terms of the preferred shares are described in the audited consolidated financial statements.

### **Share Purchase Options**

A total of 5,003,711 Common shares are reserved for issuance under the Company's Stock Option Plan (the "Plan").

As at the date of this report, there are a total 2,625,000 shares under option, and 2,378,711 shares reserved and available for issuance under the Plan.

As of December 31, 2019, 2,625,000 options were outstanding with 2,591,000 options fully vested and 34,000 options unvested. During the quarter ended September 30, 2019, 100,000 options were forfeited following the resignation of a director. Of the 2,625,000 outstanding options, 1,709,970 granted November 27, 2012, are exercisable at a price of \$0.10 per share until expiry November 26, 2022; while 815,030 options granted on November 19, 2015, are exercisable at a price of \$0.07 per share until expiry November 18, 2022. During the 2018 fiscal year, 75,000 options were granted on June 11, 2018 at an exercise price of \$0.12 per share until expiry June 11, 2022, with vesting periods of 25,000 on December 31, 2018, 25,000 on December 31, 2019 and 25,000 at December 31, 2020. An additional 25,000 options were granted to a director on September 13, 2018 at an exercise price of \$0.07 per share until expiry September 13, 2022, with vesting periods of 8,000 shares on December 31, 2018; 8,000 shares on December 31, 2019; and 9,000 shares at December 31, 2020. Of the options granted during the 2018 fiscal year, 25,000 of the options granted on June 11, 2018 and 8,000 of the options granted on September 13, 2018 vested as at December 31, 2019.

### **Proposed Transactions**

As of the date of this report, there are no significant transactions, acquisition or disposition of businesses or assets currently being discussed or transacted.

### **Directors**

As of the date of this report, the Board of Directors is composed of the following:

J. Cowan McKinney, FCPA, FCA (Chair)  
Alison Alfer  
Bruce H. Bailey, CPA, CA  
G. Benjamin Cutler

John C.A. de Wit, CPA, CA  
Anthony Liscio, DDS  
Steven O. Youngman, B.Comm., LL.B (Deputy Chair)