

WESTERN PACIFIC TRUST COMPANY

Management's Discussion and Analysis of
Results of Operations and Financial Position
For the nine months ended September 30, 2022
(Expressed in Canadian Dollars)

The following is management's discussion and analysis ("MD&A"), dated November 23, 2022, 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 nine months ended September 30, 2022. This discussion should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company and the notes thereto for the nine months ended September 30, 2022 (the "Financial Statements").

Basis of Presentation

The Company's condensed interim 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, there are no new IFRS standards that have been recently issued that would have any significant impact to the Company's 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. Additional information with respect to the Company can be obtained from the Company's website at 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 ("TFSAs"), 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.

Results of Operations

The following selected consolidated financial data for the nine month periods ended September 30, 2020 to September 30, 2022 should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the respective periods.

	Nine months ended September 30		
	2022	2021	2020
Total revenue	\$ 1,082,577	\$ 859,759	\$ 811,799
Total general and administrative expenses	841,197	741,610	703,254
Income before amortization, finance expense, share-based payments and income taxes	241,380	118,149	108,545
Amortization	(5,338)	(5,666)	(7,067)
Finance expense	(21,404)	(13,621)	(14,058)
Amortization of deferred gain on subordinated loans	2,181	2,289	2,124
Share-based payments	-	-	(1,244)
Net income before income taxes	216,819	101,151	88,300
Income taxes	58,500	-	-
Net income	\$ 158,319	\$ 101,151	\$ 88,300
Earnings per share (basic)	\$ 0.0043	\$ 0.0021	\$ 0.0016
Earnings per share (diluted)	\$ 0.0041	\$ 0.0019	\$ 0.0014

Income 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 During the Nine Months Ended September 30, 2022

Revenues

The Company recorded an increase in total revenue of \$222,818 compared to the same period in 2021. Fees received in respect to self-administered plans increased by \$88,144. In addition, interest income increased by \$141,196 and trust services fee and consulting income decreased by \$6,522 compared to the first nine months of 2021.

Expenses

Total general and administrative expenses increased overall by \$99,587 in the first nine months of 2022 compared to 2021. This is mainly attributable to increases in salaries and benefits expense of \$56,574; computer consulting and software of \$19,177; accounting and audit fees of \$9,847; interest expense of \$7,891; rent of \$6,815 and consulting fees of \$5,360. The increase is offset by a decrease in compliance and regulatory expenses of \$6,407.

The share-based payments expense is the accrued amount in respect of the unvested options that were granted on June 11 and September 13, 2018. These stock options were fully vested on 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
		\$	\$	\$	\$
Q3/22	September 30, 2022	362,930	50,281	0.0013/0.0012	2,784,172
Q2/22	June 30, 2022	308,905	15,899	(0.0000)	2,719,372
Q1/22	March 31, 2022	410,742	92,139	0.0030/0.0027	2,664,004
Q4/21	December 31, 2021	256,609	744,423	0.0291/0.0263	2,610,883
Q3/21	September 30, 2021	244,875	(2,142)	(0.0007)	1,877,202
Q2/21	June 30, 2021	263,540	14,283	(0.0001)	1,594,241
Q1/21	March 31, 2021	351,344	89,010	0.0029/0.0026	1,587,119
Q4/20	December 31, 2020	247,846	(11,621)	(0.0011)	1,528,107

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 third quarter of 2022 due to an increase in investment and interest income.

During the last quarter of the 2021 fiscal year, the Company recorded deferred income tax asset on the statement of financial position and deferred income tax recovery on the statement of comprehensive income due to a change in estimate which has been accounted for prospectively. Therefore, income tax expense of \$27,000 on the net income of \$101,151 was not included in the nine months ended September 30, 2021.

Significant variances in previous quarters are discussed as follows:

Total revenue and net income both decreased for the **second quarter of 2022** due to seasonal fluctuation in self-administered plan revenue from the first to second quarter.

Total revenue and net income both increased for the **first quarter of 2022** due to an increase in self-administered plan business.

For the **first quarter of 2022**, the net income and comprehensive income includes income tax expenses of \$34,000.

Total revenue increased for the **last quarter in 2021** compared to the third quarter of 2021 as a result of an increase in self-administered plan revenue.

The increase in net income in the **last quarter of 2021** is due to the recovery of deferred income tax of \$740,000 in addition to an increase in self-administered plan revenue.

Total assets increased in the **third quarter of 2021** compared to the second quarter of 2021 primarily due to the increase in subordinated loans of \$295,000.

Total revenue and net income (loss) decreased for the **third quarter of 2021** compared to the second quarter of 2021, mainly due to the lower self-administered plan revenue, lower interest income from investments and an increase in expenses for salaries and benefits and consulting fees.

Total revenue and net income both decreased for the **second quarter of 2021** due to seasonal fluctuation in self-administered plan revenue from the first to second quarter.

Total revenue and net income both increased for the **first quarter of 2021** due to an increase in self-administered plan business prior to the annual RRSP contribution deadline of March 1, 2021.

Outlook

The COVID-19 pandemic resulted in governments worldwide enacting emergency measures to curb the spread of the virus and stabilize economic conditions, the ultimate efficacy of which has taken many months to determine. Those measures caused material economic disruptions to businesses giving rise to a slowdown in business activity. The related negative impact resulted in limited growth and substantially lower interest rates throughout 2021, significantly decreasing the Company's interest income, which in turn had a negative impact on revenue and profits. However, during the first three quarters of 2022, revenue continued to grow, reflecting not only an increase in business, but a substantial increase in interest income as a result of several interest rate adjustments by the Bank of Canada during the period to offset inflation. Notwithstanding the rising cases of COVID-19, flu and other respiratory viruses beginning to make an impact across the country, there is cautious optimism in the outlook for 2023, as business continues to increase steadily and interest rates rise incrementally.

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.

Western Pacific Trust Company continues to earn increasing recognition in the private capital markets as a trustee for self-administered plans holding eligible private investments. While the Company offers competitive pricing, it is the commitment to offering knowledgeable and responsive service delivered on a consistent basis which distinguishes the company in the marketplace.

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

Wholly-owned subsidiaries 1128668 BC Ltd. and 1211263 BC Ltd. 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 September 30, 2022, the Company had a calculated Capital Base in excess of the Required Capital Base.

Capital Resources

As at September 30, 2022, the Company had working capital of \$1,904,342 (December 31, 2021: \$1,513,315) available to fund its operations.

During the nine months ended September 30, 2022, 1,275,000 stock options were exercised for 1,275,000 common shares for gross proceeds of \$107,549.

During the first three quarters of 2022, the Company repaid subordinated loans of \$128,140 of which \$67,500 were to related parties. \$60,000 of the repayment of the subordinated loans to related parties were applied to a portion of the proceeds for the exercise of the 1,275,000 stock options.

As at September 30, 2022, the Company had subordinated debt outstanding in the aggregate amount of \$606,027. The subordinated loans include \$280,000 with interest at 6% per annum of which \$100,000 are from related parties; \$242,500 subordinated loans with interest at 5% per annum with \$37,500 from related parties; and \$83,527 of the subordinated loans are from 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.

Related parties include directors and officers of the Company. Share-based payments consist of stock option issuances.

The following transactions with related parties for the nine months ended September 30, 2022 and 2021 were in the normal course of operations and were measured at the fair value of the services provided:

	Nine months ended	
	September 30, 2022	September 30, 2021
Management salaries	\$ 111,233	\$ 111,312
Directors' fees	29,750	32,625
Consulting fees paid to a company controlled by a director	78,960	73,600
Professional fees for consultant	41,947	33,819
Total compensation	\$ 261,890	\$ 251,356

Finance expense includes interest of \$7,079 (September 30, 2021: \$4,096) for subordinated loans. Total interest of \$8,660 (September 30, 2021: \$4,862) and dividends of \$23,044 (September 30, 2021: \$23,044) has been paid to directors and close family members of directors.

At September 30, 2022, the Company has \$23,008 (December 31, 2021: \$32,691) in accounts payable and accrued liabilities due to an officer, directors of the Company, and companies controlled by directors. In addition, \$137,500 (December 31, 2021: \$205,000) of subordinated loans are due to directors or close family members of directors of the Company and accrued interest of \$263 (September 30, 2021: \$868) has been included in finance expense.

During the nine months ended September 30, 2022, \$67,500 of the subordinated loans from related parties have been repaid and stock options of 1,275,000 were exercised with 1,275,000 common shares issued.

Financial Instruments

As at September 30, 2022, 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 unaudited condensed interim consolidated financial statements include a discussion of the Company's financial instruments and the related risks.

Risks and Uncertainties

COVID-19

For the past two years there has been increased risk due to the COVID-19 pandemic, and Management continues to consider the pandemic as an additional risk factor to its operations. As an essential service provider, the Company continues to adjust and adapt to the impact of the pandemic and the Government's related fiscal interventions. As the situation evolves, Management continues to monitor the impact on operations. See Outlook section above for further detail.

Russia-Ukraine Crisis

Russia's invasion of Ukraine has injected a new uncertainty into the global economy, the impact of which is difficult to predict, as its outcome and longevity are unknown. With rising oil and commodity prices, the developing situation remains fluid, and the impact on Canadian consumer confidence in the face of a potentially significant inflationary threat is difficult to assess at this time.

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 26,293,558 Common shares, 400 Series I Preferred shares and 130,550 Series II Preferred shares issued and outstanding. The terms of the preferred shares are described in the condensed interim 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"). During the first three quarters of 2022, 1,275,000 stock options were exercised and 100,000 stock options expired unexercised.

As at the date of this report a further 150,000 stock options expired unexercised. There are currently a total 1,100,000 shares under option, and 3,903,711 shares available for issuance under the Plan.

Leased Premises

In June 2022, the Company renewed the lease agreement for the existing premises effective March 1, 2023 for a term of five years to mature February 29, 2028. The base rent for the first two years will be \$6,230 per month, \$6,453 per month for the third and fourth years and \$6,675 per month for the fifth year. In addition, the Company acquired additional contiguous office space with the lease for the additional space which commenced on November 1, 2022 for a term of five years and four months, maturing February 29, 2028. The base rent for the additional space will be \$1,750 per month for the first and second years, \$1,813 per month for the third and fourth years, and \$1,875 per month for the remaining term.

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:

Anthony Liscio, DDS (Chair)
Alison Alfer
Bruce H. Bailey, CPA, CA
G. Benjamin Cutler

John C.A. de Wit, CPA, CA
J. Cowan McKinney, FCPA, FCA
Steven O. Youngman, B.Comm., LL.B (Deputy Chair)