

WESTERN PACIFIC TRUST COMPANY
CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
December 31, 2023 and 2022

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF WESTERN PACIFIC TRUST COMPANY

Opinion

We have audited the consolidated financial statements of Western Pacific Trust Company and its subsidiaries (the "Company"), which comprise:

- ◆ the consolidated statements of financial position as at December 31, 2023 and 2022;
- ◆ the consolidated statements of comprehensive income for the years then ended;
- ◆ the consolidated statements of changes in shareholders' equity for the years then ended;
- ◆ the consolidated statements of cash flows for the years then ended; and
- ◆ the notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and 2022, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters to communicate in our auditors' report.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ◆ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ◆ Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

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- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ◆ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ◆ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ◆ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Karen Ka Yee Cheng.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia

March 27, 2024

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WESTERN PACIFIC TRUST COMPANY
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at	Note	December 31, 2023	December 31, 2022
ASSETS			
Current assets			
Cash and cash equivalents	4.3	\$ 2,220,636	\$ 1,922,643
Accounts receivable	4.3, 5	94,514	87,826
Interest receivable	4.3	205,775	155,835
Prepaid expenses		16,153	9,854
		2,537,078	2,176,158
Deposits	4.3, 14	113,254	119,705
Right-of-use asset	6	326,404	406,381
Property and equipment	7	28,943	22,061
Intangible assets	8	10,265	10,150
Deferred income tax asset	17	888,800	1,046,800
		\$ 3,904,744	\$ 3,781,255
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	13	\$ 77,675	\$ 98,409
Deferred revenue		9,811	11,095
Lease liability – current portion	6	71,062	66,927
		158,548	176,431
Lease liability	6	284,686	355,747
Subordinated loans	9, 13	617,314	660,116
Deferred gain on subordinated loans	9	64,086	38,384
		1,124,634	1,230,678
SHAREHOLDERS' EQUITY			
Common shares	10	1,726,883	1,726,883
Preferred shares	10, 13	1,272,584	1,272,584
Reserves		275,365	275,365
Accumulated deficit		(494,722)	(724,255)
		2,780,110	2,550,577
		\$ 3,904,744	\$ 3,781,255

Approved on behalf of the Board

“Anthony Liscio”
Director

“Steven Youngman”
Director

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

WESTERN PACIFIC TRUST COMPANY
Consolidated Statements of Comprehensive Income
(Expressed in Canadian Dollars)

		For the years ended	
	Note	December 31, 2023	December 31, 2022
Revenue			
Consulting and trust service fee income		\$ 32,712	\$ 48,663
Self-Administered Plan fee income		1,170,107	1,126,810
Interest		740,157	348,538
		1,942,976	1,524,011
General and administrative expenses	13,16	1,283,612	1,140,121
		659,364	383,890
Income from operations			
Amortization of property and equipment	7	(6,355)	(4,845)
Amortization of intangible assets	8	(2,225)	(2,538)
Finance expense	6,9,13	(70,063)	(45,361)
Amortization of deferred gain on subordinated loans	9	3,755	3,037
		\$ 584,476	\$ 334,183
Net income before income taxes			
Deferred income tax recovery	17	-	400,000
Income tax expense	17	(158,000)	(93,200)
		\$ 426,476	\$ 640,983
Net income and comprehensive income			
Earnings per share, basic	10	\$ 0.014	\$ 0.022
Earnings per share, diluted	10	\$ 0.014	\$ 0.022
Weighted average number of common shares outstanding		26,293,558	25,826,777

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

WESTERN PACIFIC TRUST COMPANY
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Share Capital		Reserves			Total Shareholders' Equity	
	Common Shares	Amount	Preferred Shares	Amount	Share-Based Payments		Accumulated Deficit
Balance, December 31, 2021	25,018,558	\$ 1,536,734	130,950	\$ 1,272,584	\$ 357,965	\$ (1,299,763)	\$ 1,867,520
Common shares issued	1,275,000	190,149	-	-	(82,600)	-	107,549
Dividends paid on preferred shares	-	-	-	-	-	(65,475)	(65,475)
Net income for the year	-	-	-	-	-	640,983	640,983
Balance, December 31, 2022	26,293,558	\$ 1,726,883	130,950	\$ 1,272,584	\$ 275,365	\$ (724,255)	\$ 2,550,577
Balance, December 31, 2022	26,293,558	\$ 1,726,883	130,950	\$ 1,272,584	\$ 275,365	\$ (724,255)	\$ 2,550,577
Dividends paid on preferred shares	-	-	-	-	-	(65,475)	(65,475)
Dividends paid on common shares	-	-	-	-	-	(131,468)	(131,468)
Net income for the year	-	-	-	-	-	426,476	426,476
Balance, December 31, 2023	26,293,558	\$ 1,726,883	130,950	\$ 1,272,584	\$ 275,365	\$ (494,722)	\$ 2,780,110

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

WESTERN PACIFIC TRUST COMPANY**Consolidated Statements of Cash Flows**

(Expressed in Canadian Dollars)

	For the years ended December 31,	
	2023	2022
Operating activities		
Net income for the year	\$ 426,476	\$ 640,983
Items not involving cash:		
Amortization of property and equipment and intangible assets	8,580	7,383
Amortization of deferred gain on subordinated loans	(3,755)	(3,037)
Accretion expense on subordinated loans	3,755	3,037
Amortization of right-of-use asset	79,977	65,395
Deferred income tax recovery	-	(400,000)
Income tax expense	158,000	93,200
Interest on lease liability	26,934	16,472
	699,967	423,433
Changes in non-cash working capital balances		
Interest receivable	(49,940)	(146,743)
Accounts receivable	(6,688)	(23,409)
Deposits	6,451	(8,196)
Prepaid expenses	(6,299)	(1,411)
Accounts payable and accrued liabilities	(20,734)	18,946
Deferred revenue	(1,284)	(1,746)
Net cash provided by operating activities	621,473	260,874
Investing activities		
Property and equipment assets acquired	(13,237)	(9,368)
Intangible assets acquired	(2,340)	-
Net cash used in investing activities	(15,577)	(9,368)
Financing activities		
Lease liability payments	(93,860)	(75,353)
Proceeds from subordinated loans	98,000	269,000
Repayment of subordinated loans	(115,100)	(81,292)
Dividends paid	(196,943)	(65,475)
Common shares issued	-	49,174
Net cash provided by (used in) financing activities	(307,903)	96,054
Increase in cash and cash equivalents during the year	297,993	347,560
Cash and cash equivalents, beginning of the year	1,922,643	1,575,083
Cash and cash equivalents, end of the year	\$ 2,220,636	\$ 1,922,643
Non-cash transactions:		
Right-of-use-asset subject to lease	\$ -	\$ 399,663
Options exercised against loan repayment	\$ -	\$ 58,375
Fair value of stock options exercised in share capital	\$ -	\$ 82,600
Cash paid during the year for:		
Interest	\$ 38,589	\$ 31,580
Income taxes paid	\$ -	\$ -
Cash and cash equivalents consist of:		
Cash	\$ 191,312	\$ 348,284
Term deposits	\$ 2,029,324	\$ 1,574,359

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

WESTERN PACIFIC TRUST COMPANY
Notes to the Consolidated Financial Statements
Years ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

1. Corporate Information

Western Pacific Trust Company (the “Company”) has been listed on the TSX Venture Exchange (“Exchange”) since 1999 under the 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 Section 141 of the *Financial Institutions Act*.

The Company acts as Trustee for Self-Administered Registered Retirement Savings Plans (“RRSP”), which permits 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 corporate registry services for unlisted, 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 has two additional 100% owned private subsidiaries: 1128668 BC Ltd. and 1211263 BC Ltd., both of which act as Collateral Agent for different clients in the conduct of their respective bond businesses. These wholly owned subsidiaries are maintained solely for the purpose of offering these services to these clients. The annual maintenance costs of these subsidiaries are absorbed by the clients, pursuant to the contract between the parties.

These consolidated financial statements were approved by the Board of Directors and authorized for issue on March 27, 2024.

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”).

IAS 1, Presentation of Financial Statements (“IAS 1”) and IFRS Practice Statement 2: In February 2021, the IASB issued amendments to IAS 1 and the IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on the application of materiality judgements to accounting policy disclosures. The amendments to IAS 1 replace the requirement to disclose ‘significant’ accounting policies with a requirement to disclose ‘material’ accounting policies. Guidelines and illustrative examples are added in the Practice Statement to assist in the application of materiality concept when making the judgements about accounting policy disclosures. Effective January 1, 2023, the Company adopted these amendments prospectively. These amendments had no material impact to these consolidated financial statements.

WESTERN PACIFIC TRUST COMPANY
Notes to the Consolidated Financial Statements
Years ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

2. Basis of Preparation (continued)

2.2 Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are recorded at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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 judgments and assumptions applied in the preparation of these consolidated financial statements and other major sources of measurement uncertainty are disclosed in note 3.

3. Summary of material accounting policies

3.1 Basis of consolidation

These 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 judgments and estimates

a) Collectability of receivables

Receivables comprise amounts due from consulting and trust service fee income and Self-Administered Plan fee income. The receivables are reviewed on a regular basis to determine their collectability and amounts deemed uncollectable are provided for. At December 31, 2023 and 2022, management is of the opinion that the Company's accounts receivable balance is collectable.

b) Amortization of property and equipment and intangible assets

Property and equipment and intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is calculated on a declining-balance basis for computer software and furniture and equipment. Amortization rates used are based on standard rates for the corresponding assets and reflect management's best estimate of the useful lives of these assets.

WESTERN PACIFIC TRUST COMPANY
Notes to the Consolidated Financial Statements
Years ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

3. Summary of material accounting policies (continued)

3.2 Significant accounting judgments and estimates (continued)

c) Deferred income tax assets

In assessing the probability of realizing income tax assets, management makes estimates of expected future taxable income. Management believes that its estimates are reasonable, but actual results may differ. The determination of income tax expense and the composition of deferred income tax assets and liabilities involves judgment and estimates as to the future taxable earnings, expected timing of reversals of deferred income tax assets and liabilities, and interpretations of tax laws. The Company is subject to assessments by tax authorities who may interpret the tax law differently. Changes in these interpretations, judgments, and estimates may materially affect the final amount of deferred income tax provisions, deferred income tax assets and liabilities, and results of operations.

d) Interest rate

The Company estimates a fair value interest rate in determining the fair value of long-term subordinated loans payable, right-of-use assets and lease liability. The determination of the fair value interest rate is subjective and changes to the business or market rates of interest could materially affect the fair value estimated.

3.3 Revenue recognition

Consulting and trust services fee income and Self-Administered Plan fee income are recognized when services are provided.

Interest income is accrued on a time-apportioned basis by reference to the carrying value using the effective interest rate method. The Company also accrues and recognizes interest income earned on funds held in trust.

3.4 Property and equipment

Property and equipment are stated at cost less accumulated amortization and accumulated impairment losses. The cost of an item of property and equipment consists of the purchase price, with any costs directly attributable to bringing the asset to the location and condition necessary for its intended use.

Amortization is provided at rates calculated to write off the cost of property and equipment less their estimated residual value. Furniture and equipment are amortized at 20% per year, on a declining-balance basis. An item of property and equipment is derecognized upon disposal, when held for resale, or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statements of comprehensive income.

3.5 Intangible assets

Intangible assets consist of trust management operations software. It is a finite-lived intangible asset being amortized 20% per year, on a declining-balance basis. The Company evaluates the recoverability of identifiable intangible assets whenever events or changes in circumstances indicate that an intangible asset's carrying value may not be recoverable.

WESTERN PACIFIC TRUST COMPANY
Notes to the Consolidated Financial Statements
Years ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

3. Summary of material accounting policies (continued)

3.6 Taxation

The Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward, to the extent it is probable the Company will realize the benefit. Income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on tax assets and liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted or substantively enacted. The amount of income tax assets is reviewed each reporting period and is reduced to the extent it is no longer probable the benefit will be realized.

3.7 Share-based payments

The Company has a stock option plan that is described in note 11. Stock options to employees are measured at the fair value of the instruments issued and amortized over the vesting period. Stock option payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The offset to the recorded cost is to share-based payments reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital.

3.8 Earnings per share

Basic earnings per share is computed by dividing the net earnings available to common shareholders less the dividends declared on preferred shares by the weighted average number of common shares outstanding during the period. The diluted earnings per share reflects the potential dilution of common share equivalents, such as outstanding stock options, in the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

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

3. Summary of material accounting policies (continued)

3.9 Financial instruments

(i) Financial assets

Initial recognition and measurement

Financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset is measured initially at fair value, net of transaction costs that are directly attributable to its acquisition or issue, except for financial assets at FVTPL where transaction costs are expensed. On initial recognition, a financial asset is classified and measured at (i) amortized cost; (ii) fair value through profit or loss; or (iii) fair value through other comprehensive income ("FVTOCI"). A financial asset is measured at amortized cost if it meets the conditions that i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and iii) is not designated as fair value through profit or loss.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets measured at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value therein, recognized in profit and loss.

Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment allowance.

(ii) Derecognition

A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets is derecognized when:

- The contractual rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

WESTERN PACIFIC TRUST COMPANY
Notes to the Consolidated Financial Statements
Years ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

3. Summary of material accounting policies (continued)

3.9 Financial instruments (continued)

(iii) Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(iv) Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. A financial liability is derecognized when it is extinguished, discharged, cancelled, or when it expires. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities subsequently measured at amortized cost. All interest-related charges are reported in profit or loss within interest expense, if applicable.

(v) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Inputs for assets or liabilities that are not based on observable market data.

3.10 Leases

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset (the "ROU"), the Company assesses whether:

- The contract involves the use of an identified asset, either explicitly or implicitly, including consideration of supplier substitution rights;
- The Company has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset.

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

3. Summary of material accounting policies (continued)

3.10 Leases (continued)

The Company applies the exemption not to recognize right-of-use assets and lease liabilities for leases relating to low-value assets. The ROU asset is initially measured based on the initial amount of the lease liability plus any initial direct costs incurred less any lease incentives received. The ROU asset is depreciated to the end-of-the-useful-life or the lease term, whichever comes earlier, using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise the option. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method and remeasured when there is a change in future lease payments.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a lease renewal signed, change in future lease payments arising from a change in an index or a rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

3.11 Preferred shares

The Series I Preferred shares issued by the Company contain provisions that allow the holders of the preferred shares to put those shares to the Company for redemption ("right of retraction"). The holder of the Series I Preferred shares has waived their right of retraction, and the associated preferred shares are presented as equity of the Company. The Series II Preferred shares issued by the Company are non-retractable.

4. Financial instruments

4.1 Categories of financial instruments

The Company has classified its financial instruments as follows under IFRS 9 *Financial Instruments*:

	IFRS 9
Financial Asset	
Cash and cash equivalents	Fair value through profit or loss
Accounts receivable, interest receivable, and deposits	Amortized cost
Financial Liability	
Accounts payable and accrued liabilities, lease liability, and subordinated loans	Amortized cost

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4. Financial instruments (continued)

4.2 Fair value

The fair values of the financial instruments, other than cash and cash equivalents, approximate their carrying value as at December 31, 2023 and 2022 due to the demand nature or short-term maturity of these instruments. Subordinated loans approximate fair value as these are based on current market rates of interest. Cash and cash equivalents are 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 mitigating 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 and cash equivalents 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 December 31, 2023 and 2022.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents 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:

	December 31, 2023	December 31, 2022
Cash and cash equivalents	\$ 2,220,636	\$ 1,922,643
Deposits	113,254	119,705
Accounts receivable	94,514	87,826
Interest receivable	205,775	155,835
	<u>\$ 2,634,179</u>	<u>\$ 2,286,009</u>

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 December 31, 2023, the Company had accounts payable and accrued liabilities of \$77,675 (2022: \$98,409), which are due for payment within three months, current portion of lease liability of \$71,062 (2022: \$66,927) and lease liability of \$284,686 (2022: \$355,747) until the lease term ending February 2028, and subordinated loans of \$617,314 with undiscounted amounts of \$681,400 (2022: \$660,116 with undiscounted amount of \$698,500), which are due for payment from 2031 to 2032.

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4. Financial instruments (continued)

4.3 Financial risk management objectives and policies (continued)

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 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 exposed to interest rate cash flow risk due to cash equivalents held in term deposits with interest at the market rate.

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 management of credit risk, liquidity risk, and market risk related to financial instruments above have not changed materially for the year ended December 31, 2023.

5. Accounts receivable

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

	December 31, 2023	December 31, 2022
Less than 1 month	\$ 14,703	\$ 11,825
1 to 3 months	6,625	9,859
More than 3 months	73,186	66,142
	<u>\$ 94,514</u>	<u>\$ 87,826</u>

Management reviews the collectability of the accounts receivable on a monthly basis and provides allowance on amounts that are not collectable. Allowance for doubtful accounts of \$18,698 (2022: \$6,109) has been included in general and administrative expenses.

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6. Right-of-use asset

Right-of-use asset

Value of right-of-use asset as at December 31, 2021	\$ 72,113
Lease renewals and addition	399,663
Depreciation	(65,395)
Value of right-of-use asset as at December 31, 2022	\$ 406,381
Depreciation	(79,977)
Value of right-of-use asset as at December 31, 2023	\$ 326,404

Lease liability

Lease liability as at December 31, 2021	\$ 81,892
Lease renewals and addition	399,663
Lease payments	(75,353)
Lease interest	16,472
Lease liability as at December 31, 2022	\$ 422,674
Lease payments	(93,860)
Lease interest	26,934
Lease liability as at December 31, 2023	\$ 355,748

Current portion	\$ 71,062
Long-term portion	284,686
	\$ 355,748

7. Property and equipment

Furniture and Equipment

Cost

As at December 31, 2021	\$ 188,013
Additions	9,368
As at December 31, 2022	197,381
Additions	13,237
As at December 31, 2023	\$ 210,618

Accumulated amortization

As at December 31, 2021	\$ 170,475
Charge for the year	4,845
As at December 31, 2022	175,320
Charge for the year	6,355
As at December 31, 2023	\$ 181,675

Net book value

As at December 31, 2022	\$ 22,061
As at December 31, 2023	\$ 28,943

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8. Intangible assets

	Software
Cost	
As at December 31, 2021 and 2022	\$ 53,702
Additions	2,340
As at December 31, 2023	\$ 56,042
Accumulated amortization	
As at December 31, 2021	\$ 41,014
Charge for the year	2,538
As at December 31, 2022	43,552
Charge for the year	2,225
As at December 31, 2023	\$ 45,777
Net book value	
As at December 31, 2022	\$ 10,150
As at December 31, 2023	\$ 10,265

9. Subordinated loans

	December 31, 2023	December 31, 2022
Non-interest bearing ⁽¹⁾	\$ 71,189	\$ 68,616
Non-interest bearing ⁽⁴⁾	22,725	-
Interest bearing at 5% per annum ⁽²⁾	156,000	140,000
Interest bearing at 7% per annum ⁽³⁾	367,400	451,500
Total long-term subordinated loans, net of deferred gain	\$ 617,314	\$ 660,116

	Subordinated loans	Deferred gain on subordinated loans
Balance at December 31, 2021	\$ 569,167	\$ 43,026
Advanced of subordinated loans	269,000	23,165
Repayment of subordinated loans	(139,667)	(24,770)
Accretion expense	-	(3,037)
Balance at December 31, 2022	\$ 698,500	\$ 38,384
Advances of subordinated loans	98,000	29,457
Repayment of subordinated loans	(115,100)	-
Accretion expense	-	(3,755)
Balance at December 31, 2023	\$ 681,400	\$ 64,086

⁽¹⁾ Subordinated loans are recorded initially at the fair value and are calculated based on the fair value interest rate of 5% to 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. Maturity dates commence June 15, 2031 through October 16, 2033.

⁽²⁾ Subordinated loans with interest at 5% and maturity dates commencing June 1, 2032.

⁽³⁾ Subordinated loans include related parties with interest at 7% with maturity dates commencing on July 2031 through December 2032.

⁽⁴⁾ Subordinated loan is recorded initially at the fair value and are calculated based on the fair value interest rate of 9%. The difference between the face value and the initial fair value of the subordinated loan payable has been recorded as a deferred gain on subordinated loans. Maturity date is October 16, 2033.

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10. Share capital

10.1 Authorized:

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

Issued and outstanding:

26,293,558 (2022: 26,293,558) common shares (see note 11.1)
400 (2022: 400) Series I preferred shares with a value of \$10 each
130,550 (2022: 130,550) Series II preferred shares with a value of \$10 each

10.2 Preferred shares

Series I preferred shares are non-voting, redeemable by the Company, are 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, redeemable by the Company 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.

10.3 Earnings per share

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

	For the years ended December 31,	
	2023	2022
Income before adjustment for preferred shares dividends	\$ 426,476	\$ 640,983
Amount paid as preferred share dividends	(65,475)	(65,475)
Adjusted income	\$ 361,001	\$ 575,508
Earnings per share - basic	\$ 0.014	\$ 0.022
Earnings per share - diluted	\$ 0.014	\$ 0.022

10.4 Dividend paid on common shares

On October 13, 2023, the Company paid a dividend of \$0.005 per common share on the total common shares outstanding, for a total of \$131,468 (2022: \$nil).

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11. Share-based payments

11.1 Stock options

The Company's new 20% fixed stock option plan (the "Plan") came into effect during the second quarter of 2023 following approval by the shareholders on May 31, 2023 and final regulatory approval. The new stock option plan incorporates certain requirements of the Exchange and allows the Company to grant stock options to eligible persons as defined under the new stock option plan. The maximum number of common shares issuable under the plan shall be 5,258,711. Stock options issued to insiders (as a group) are limited to 10% of the total issued and outstanding common shares, and any one optionee, a limit 5% of the issued and outstanding common shares. Any options granted to consultants and investor relations providers (as a group) shall not exceed 2% of the Company's issued and outstanding common shares 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.

Details of the Company's stock options outstanding as of December 31, 2023 and 2022 and changes during the respective periods are as follows:

	Number Outstanding	Weighted Average Exercise Price
Balance at December 31, 2021	2,625,000	\$ 0.09
Exercised	(1,275,000)	0.08
Expired	(1,350,000)	0.11
Balance at December 31, 2022 and 2023	-	\$ -

On May 10, 2022, stock options of 609,970 with an exercise price of \$0.10 and stock options of 665,030 with an exercise price of \$0.07 were exercised and 1,275,000 common shares were issued. The fair value of the stock options exercised of \$82,600 has been reallocated from share-based payments reserve to share capital. Of the total proceeds of \$107,549 from the exercise of stock options, \$58,375 were from the repayment of subordinated loans.

12. Capital disclosures

The Company considers its shareholders' equity and subordinated loans to be its capital, which, as at December 31, 2023, amounted to \$3,461,510 (2022: \$3,249,077). The Company maintains sufficient capital to meet its future needs, taking into consideration economic risks inherent in its businesses and regulatory requirements.

Under the *Financial Institutions Act* of British Columbia, the Company is required to meet the regulatory capital as prescribed by the BC Financial Services Authority ("BCFSA"). 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 BCFSA as at December 31, 2023.

The Company reviews the sufficiency of its capital as appropriate and makes any 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 year ended December 31, 2023.

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13. 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 years ended December 31, 2023 and 2022, the Company incurred the following charges related to management compensation:

	December 31, 2023	December 31, 2022
Management salaries	\$ 162,318	\$ 150,283
Directors' fees	58,750	40,250
Consulting fees paid to a company controlled by a director	114,800	106,680
Professional fees for consultant	48,944	52,580
Total compensation	\$ 384,812	\$ 349,793

During the year ended December 31, 2023, the Company paid dividends on Preferred Shares of \$30,725 (2022: \$30,725) and paid interest on subordinated loans of \$11,989 (2022: \$10,303) to directors and close family members of directors. Finance expense includes interest for subordinated loans of \$12,025 (2022: \$9,260) to directors and close family members of directors. In addition, \$31,000 of subordinated loans at 7% per annum were advanced by related parties and \$50,100 of subordinated loans at 7% per annum were repaid to related parties.

At December 31, 2023, the Company has \$40,844 (2022: \$32,402) in accounts payable and accrued liabilities due to an officer, directors of the Company, and companies controlled by directors. In addition, \$137,400 (2022: \$156,500) of subordinated loans are due to directors or close family members of directors of the Company and accrued interest for subordinated loans of \$835 (2022: \$799) has been included in accounts payable and accrued liabilities.

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

14. Commitments for expenditures

The Company has lease agreements for its head office which mature on February 29, 2028 with annual based rent and operating costs which increase 2% to 5% over the term of the leases. A security deposit of \$18,832 (note 4.3) is held by the lessor.

Cash commitments for minimum lease payments in relation to leased premises as at December 31, 2023 are payable as follows:

Not later than 1 year	\$ 94,420
Later than 1 year and not later than 5 years	312,450
	\$ 406,870

15. Operating segments

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

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16. General and administrative expenses

	For the years ended December 31,	
	2023	2022
Salaries and benefits (note 13)	\$ 587,932	\$ 541,529
Professional fees (note 13)	211,406	194,020
Lease costs	76,926	57,922
Amortization of right-of-use assets (note 6)	79,977	65,395
Office and administration	229,295	201,763
E&O insurance	16,747	16,747
Directors' fees (note 13)	58,750	40,250
Compliance and regulatory	22,579	22,495
	\$ 1,283,612	\$ 1,140,121

17. Income taxes

Deferred income tax asset at December 31, 2021	\$ 740,000
Addition for the year	400,000
Tax assets utilized for the year	(93,200)
Deferred income tax asset at December 31, 2022	\$ 1,046,800
Income tax expense for the year	(158,000)
Deferred income tax asset at December 31, 2023	\$ 888,800

Income tax expense for the year ended December 31, 2023 has been recorded using the statutory rate of 27% (2022: 27%) on net income before income taxes.

The reconciliation of income taxes computed at statutory rates to the reported income tax provision is as follows:

	For the years ended December 31,	
	2023	2022
Net income before income tax	\$ 584,476	\$ 334,183
Income tax statutory rate	27%	27%
Income tax expense at Canadian statutory rate	157,808	90,229
Other items	269	1,820
Change in timing differences	5,289	1,018
Tax losses and tax offsets recognized	(5,366)	(399,867)
Income tax expense (recovery)	\$ 158,000	\$ (306,800)

Current statutory tax rates consist of 12% (2022: 12%) for British Columbia tax and 15% (2022: 15%) for federal corporate tax for a total tax rate of 27%.

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17. Income taxes (continued)

The Company recognizes the benefit of unused tax losses and deductible temporary differences if it is probable they will be realized. Management estimated future taxable income that will be available to recognize tax losses and tax offsets and recognized previously unrecognized deferred income tax assets with the balance of \$888,800 remaining at the end of 2023 (2022: \$1,046,800). The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	December 31,	
	2023	2022
Non-capital losses carried forward	\$ 231,422	\$ 232,260
Capital losses carried forward	5,723	5,723
Share issue costs	1,199	2,863
Unused losses and deductible temporary differences	\$ 238,344	\$ 240,846

The Company's non-capital losses of \$2,479,769 are available to be carried forward and applied against future years' taxable income. The losses expire as follows:

Year	Amount
2026	\$ 34,312
2027	122,184
2028	171,415
2029	402,072
2030	411,086
2031	244,225
2032	369,505
2033	329,221
2034	153,501
2035	109,997
2036	128,079
2037 to 2043	4,172
	\$ 2,479,769