

PORT RENFREW DEVELOPMENT TRUST

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Canadian dollars)

Contents

Auditor's Report	2
Financial Statements	
Consolidated Statement of Financial Position	4
Consolidated Statement of Comprehensive Income	5
Consolidated Statement of Unitholders' Equity	6
Consolidated Statement of Cash Flows	7
Notes to the Consolidated Financial Statements	8



David L. Patrino

PROFESSIONAL CORPORATION

CHARTERED ACCOUNTANT

Independent Auditor's Report

To the Unitholders of Port Renfrew Development Trust

Opinion

I have audited the consolidated financial statements of Port Renfrew Development Trust, which comprise the balance sheet as at December 31, 2018 and 2017, and the statements of loss, deficit and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Port Renfrew Development Trust as at December 31, 2018 and 2017, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of my report. I am independent of the Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

My objective is 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 auditor's report that includes my 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, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the 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 my 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 Fund's internal control.
- 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 Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund 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.

I 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 I identify during my audit.



Calgary, Alberta
April 26, 2019

David L Patrino Professional Corporation
Chartered Accountant

Port Renfrew Development Trust
Consolidated Statement of Financial Position
(Expressed in Canadian dollars)
December 31, 2018

	Note	2018	2017
		\$	\$
ASSETS			
Non-Current Assets			
Due from related party	6	16,024	48,983
Property, plant and equipment	5	20,300	26,100
		36,324	75,083
Current Assets			
Cash		45,493	25,445
Accounts receivable		38,120	17,552
Inventory	4	5,425,052	4,965,707
Deposits		5,390	5,390
		5,514,055	5,014,094
Total Assets		5,550,379	5,089,177
LIABILITIES AND PARTNERS' CAPITAL			
Liabilities			
Accounts payable and accrued liabilities		903,784	726,057
Short term loans	7	304,198	279,198
Current portion of long term loan	8	7,672	7,007
		1,215,654	1,012,262
Non-Current			
Loan	8	103,566	111,204
UNITHOLDERS' EQUITY			
Unitholders' equity		4,231,159	3,965,711
Total liabilities and Unitholders' Equity		5,550,379	5,089,177

Subsequent events (note 11)

JASON BROWN,
TRUSTEE

Port Renfrew Development Trust
Consolidated Statement of Comprehensive Income
(Expressed in Canadian dollars)
Year ended December 31, 2018

	Note	2018	2017
		\$	\$
Expenses:			
Financing costs		13,843	12,114
General and administrative costs		85,866	175,734
Loss and comprehensive income		99,709	187,848
Loss per Unit (basic and diluted)		0.18	0.38
Weighted average number of Units outstanding (basic and diluted)		529,533	494,599

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

Port Renfrew Development Trust
Consolidated Statement of Unitholders' Equity
(Expressed in Canadian dollars)
Year ended December 31, 2018

	NOTE	TRUST UNITS	TRUST UNITS	(LOSS)	TOTAL
		Number	\$	\$	\$
Balance at December 31, 2016		451,255	3,643,344	(89,372)	3,553,972
Issuance of units for cash:					
Class C		68,868	605,087	-	605,087
Redemption of units for cash:					
Class A		(550)	(5,500)	-	(5,500)
Loss for the year		-	-	(187,848)	(187,848)
Balance at December 31, 2017		519,573	4,242,931	(277,220)	3,965,711
Issuance of units for cash:					
Class C	9	34,991	415,157	-	415,157
Redemption of units for cash:					
Class B	9	(5,000)	(50,000)	-	(50,000)
Loss for the year		-	-	(99,709)	(99,709)
Balance at December 31, 2018		549,564	4,608,088	(376,929)	4,231,159

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

Port Renfrew Development Trust
Consolidated Statement of Cash Flows
(Expressed in Canadian dollars)
Year ended December 31, 2018

	Note	2018	2017
		\$	\$
Operations:			
Loss for the year		(99,709)	(187,848)
Items not affecting cash:			
Amortization		5,800	2,900
Change in non-cash working capital	12	(302,186)	(490,235)
Cash outflow from operating activities		(396,095)	(675,183)
Investing Activities			
Purchase of equipment		-	(29,000)
Due from related parties		32,959	(13,319)
Cash outflow from investing activities		32,959	(42,319)
Financing activities:			
Issuance of units for cash		415,157	605,087
Redemption of units for cash		(50,000)	(5,500)
Proceeds from loan		25,000	121,000
Loan repayments		(6,973)	(2,789)
Repayment of short term loans		-	(21,042)
Cash inflow from financing activities		383,184	696,756
Cash generated (used) in the year		20,048	(20,746)
Cash and cash equivalents at beginning of year		25,445	46,191
Cash and cash equivalents at end of year		45,493	25,445

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

Port Renfrew Development Trust

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

Year ended December 31, 2018

1. NATURE OF OPERATIONS

Port Renfrew Development Trust (the "Fund") is an unincorporated open-ended trust established by the Fund's Deed of Trust dated January 17, 2012. The Deed of Trust was amended and restated on December 20, 2013. The Fund has elected to be a "mutual fund trust" for the purposes of the Income Tax Act (Canada). The Fund was formed to raise funds pursuant to an offering memorandum for the purposes of acquiring units in Port Renfrew Business Trust (the "Business Trust"). The Trustee of the Fund are Jason Brown and Karl Ablack. The Fund's head office and address for service is located at PO Box 9 Stn Main, Suite 104, 105 1st Street West, Cochrane AB T4C 1A4.

The Business Trust is an unincorporated open-ended trust established by the Business Trust's Deed of Trust dated January 17, 2012. The Deed of Trust was amended and restated on December 20, 2013. The Business Trust was formed for the purposes of acquiring units in Port Renfrew Management LP (the "Partnership"), a Canadian limited partnership. The Trustee of the Business Trust is Valhalla Capital Group Ltd ("Valhalla"). The Business Trust's head office and address for service is located at PO Box 9 Stn Main, Suite 104, 105 1st Street West, Cochrane AB T4C 1A4.

The Partnership is a limited partnership formed under the Partnership Act (Alberta) to acquire and develop five parcels of real property located in Port Renfrew, British Columbia. The Partnership was established by and among Port Renfrew Management Ltd. (the "General Partner") and Jason Brown as the initial Limited Partner, pursuant to the terms of the Limited Partnership Agreement dated January 17, 2012. The Limited Partnership Agreement was amended and restated on December 20, 2013. The Partnership's head office and address for service is located at 96 Gleneagles View, Cochrane, Alberta. T4C 1P2.

The Trustees and General Partner are all subject to common control.

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies set out below were consistently applied unless otherwise noted.

The consolidated financial statements were approved and authorized for issue by the Trustee on April 26, 2019.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical costs basis.

c) Functional and presentation currency

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

d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Port Renfrew Development Trust
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
Year ended December 31, 2018

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised and in any future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently in the preparation of these consolidated financial statements

a) **Basis of consolidation**

The consolidated financial statements comprise the financial statements of Port Renfrew Development Trust, Port Renfrew Business Trust and Port Renfrew Management Limited Partnership. Control exists when the Fund has the power to govern the financial and operating policies of an entity so as to benefit from its activities. The financial statements are consolidated from the date that control commences and continue to be consolidated until the date that control ceases.

Intra-group transactions and balances are eliminated in preparing the consolidated financial statements. The consolidated financial statements reflect the financial position, results of operations and cash flows of the Fund and its subsidiaries.

b) **Cash**

Cash consists of cash on hand and cash held at banks.

b) **Inventory**

Inventory is stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the development process as well as suitable portions of related development overheads. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

c) **Revenue recognition**

Revenue is measured at the fair value of the consideration received or to be received, after deducting trade discounts, rebates and sales related taxes and duties. Revenue is recognized when the significant risks and rewards of ownership have been transferred, generally at the date of transfer of ownership title.

The risks and rewards of ownership are transferred when the Fund no longer has effective control over the goods sold, when the amount of revenue can be measured reliably, when it is probable that the economic benefits associated with the transaction will flow to the Fund, and when the costs incurred or to be incurred in respect of the transaction can be measured reliably and recovery is reasonable assured.

c) **Profit (loss) per unit**

Basic and diluted profit (loss) per Unit is calculated by dividing profit (loss) by the weighted average number of Units outstanding during the reporting period.

d) **Property, plant and Equipment**

Property, plant and equipment are stated at cost less accumulated amortization. Property, plant and equipment are amortized over their estimated useful lives at the following rates and methods:

Equipment	5 years	straight-line method
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Port Renfrew Development Trust
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
Year ended December 31, 2018

e) **Future Changes in accounting Policies**

A number of new standards and amendments to standards and interpretations are not effective for the year ended December 31, 2018 and have not been applied in preparing these unconsolidated financial statements. None of these is expected to have a significant impact on the unconsolidated financial statements of the Fund.

On October 31, 2018 the IASB issued amendments to IAS1 Presentation of Financial Statements and IAS8 Accounting Policies, Changes in Accounting Estimates and Errors to clarify the definition of "material". The amendments are applied prospectively on or after January 1, 2020 and are not expected to have a significant impact on the Fund's financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued and have future effective dates are either not applicable or are not expected to have a significant impact on the Fund's consolidated financial statements.

4. INVENTORY

	2018	2017
Land	\$ 2,815,270	\$ 2,815,270
Development costs	2,386,277	1,949,046
Cabin	223,505	201,391
Total inventory	\$ 5,425,052	\$ 4,965,707

5. PROPERTY, PLANT & EQUIPMENT

			2018	2017
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment	29,000	8,700	20,300	26,100

The equipment is held as security for a loan (Note 8).

6. DUE FROM (TO) RELATED PARTIES

The amounts due from (to) related parties, related through common officers and directors of the Fund, is unsecured and non-interest bearing.

7. SHORT TERM LOAN

The Partnership indirectly acquired Parcel A of real property located in Port Renfrew, British Columbia for a purchase price of \$1,744,000. The acquisition was partly financed by a Vendor Take Back Mortgage of \$1,269,094, which is secured by these lands. The Vendor Take Back mortgage was assigned to HSBC Bank Canada. The Vendor Take Back mortgage bears interest at the rate of 7% per annum and is repayable in monthly instalments of \$105,000 with a maturity date of February 1, 2014. The amount outstanding at December 31, 2018 amounts to \$156,198.

The Partnership indirectly acquired Parcels B, C, D and E of real property located in Port Renfrew, British Columbia for a purchase price of \$1,250,000. The acquisition was partly financed by a Vendor Take Back Mortgage of \$1,100,000, which is secured by these lands. The Vendor Take Back mortgage was assigned to HSBC Bank Canada. The Vendor Take Back mortgage bears interest at the rate of 7% per annum and is repayable in monthly

Port Renfrew Development Trust
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
Year ended December 31, 2018

instalments of \$105,000 with a maturity date of January 1, 2015. The amount outstanding at December 31, 2018 amounts to \$50,000.

The Partnership received a loan of \$98,000 at an interest rate of 8% per annum repayable on demand. The loan outstanding at December 31, 2018 amounts to \$98,000.

8. LOANS

	2018	2017
First Capital loan bearing interest at 10.15% per annum, repayable in monthly blended payments of \$679. The lease matures on August 21, 2020 and is secured by 2017 Bombardier 8MH600	\$ 11,873	18,450
Loan bearing interest at 8% per annum, repayable in monthly blended payments of \$700. The loan matures on June 7, 2020 and is secured by a cottage (excluding land) located in Port Renfrew, B.C.	\$ 99,365	99,761
	111,238	118,211
Amounts payable within one year	(7,672)	
	103,566	

Principal payments are approximately:

2019	7,672
2020	103,566
	111,238

Port Renfrew Development Trust
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
Year ended December 31, 2018

9. UNITHOLDERS EQUITY

The Amended and Restated Deed of Trust dated December 20, 2013 provides that an unlimited number of Class A trust units ("Class A"), an unlimited number of Class B trust units ("Class B") and an unlimited number of Class C trust units ("Class C") may be issued. Each Unit is redeemable, subject to applicable laws and represents an equal undivided beneficial interest in Class A Unit Distributable Income, Class B Unit Distributable Income and Class C Unit Distributable Income, as applicable from the Fund and in the net assets of the Fund in the event of termination or winding up of the Fund. Each Unit entitles the holder to one vote at all meetings of unitholders. The issued Units are not subject to future calls or assessments.

The number of units issued and outstanding are as follows:

	Units	Amount
CLASS A	Number	\$
Units outstanding, January 1, 2018	311,361	2,455,701
Units outstanding, December 31, 2018	311,361	2,455,701
CLASS B		
Units outstanding, January 1, 2018	45,624	423,249
Units redeemed	(5,000)	(50,000)
Units outstanding, December 31, 2018	40,624	373,249
CLASS C		
Units outstanding, January 1, 2018	162,588	1,363,981
Units issued for cash	34,991	415,157
Units outstanding, December 31, 2018	197,579	1,779,138

Units issued pursuant to the offerings are net of issue costs of \$1,024,877.

The Class B Unitholders have been offered the option of electing to convert their existing Class B shares to either:

1. Amended Class B Units which have the same rights, privileges, restrictions and conditions as the existing Class C Units; or
2. Redeem their Class B units

During the year 13,000 Class B unit holders elected to redeem their units of which 5,000 units have been paid out; leaving 8,000 units to be redeemed as and when the Fund has sufficient cash resources.

Port Renfrew Development Trust
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
Year ended December 31, 2018

10. RELATED PARTY TRANSACTIONS

A company which owns the share capital of the General Partner provided management services totalling \$120,000 (2017 - \$120,000) which is included in inventory. Included in trade payable and accrued liabilities is \$371,861 (2017 - \$374,718) relating to these services.

A company controlled by a close family member of the trustee, acts as the sales agent for the trust units. During the year, this company earned \$48,723 (2017-\$68,868) in commissions from the sale of trust units. An amount of \$4,999 payable to this related party is included in Accounts Payable.

A company controlled by a Director of the General Partner provided a loan of \$98,000 at an interest rate of 8% per annum repayable on demand. The loan outstanding at December 31, 2018 amounts to \$98,000.

During the year the Directors of the General Partner received \$200,000 (2017: \$200,000) in fees, which is included in inventory. A total of \$353,000 is included in trade payables and accrued liabilities at December 31, 2018 relating to these services.

A close family member of a director of the General Partner co-signed the capital lease included in Note 8.

The transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

11. SUBSEQUENT EVENTS

Subsequent to the year end, the Fund obtained financing totalling \$80,000, the terms and conditions of which are currently being negotiated.

The Partnership entered into a lease agreement for the purchase of three sea containers at a monthly cost of \$407 plus GST for a period of 48 months.

12. CHANGE IN NON CASH WORKING CAPITAL

	2018	2017
Accounts receivable	(20,568)	(15,390)
Inventory	(459,345)	(685,410)
Accounts payable and accrued liabilities	177,727	215,565
Deposit	-	(5,000)
	(302,186)	(490,235)

Port Renfrew Development Trust
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
Year ended December 31, 2018

13. CAPITAL MANAGEMENT

The Fund's capital management policy is to maintain a strong capital base that optimizes the Fund's ability to grow maintain investor and creditor confidence and to provide a platform to create value for its unitholders. The Fund intends to maintain a flexible capital structure to maximize its ability to pursue additional investment opportunities, which considers the Fund's early stage of development and the requirement to sustain future development of the business.

The Fund will manage its capital structure and make changes to it in light of changes to economic conditions and the risk characteristics of the nature of the business. The Fund considers its capital structure to include unitholders equity and working capital. In order to maintain or adjust the capital structure, the Fund may from time to time issue shares, seek debt financing and adjust its capital spending to manage its current and projected capital structure.

The Fund currently has no debt outstanding other than accounts payable and accrued liabilities, short term loan and amounts due to a related parties and it monitors capital based on its current working capital, projected cash flow from operations and anticipated capital expenditures.

14. FINANCIAL RISK MANAGEMENT

a) Overview

The Fund's planned operations will expose it to a variety of financial risks that arise as a result of its operating and financing activities:

- (1) credit risk
- (2) liquidity risk; and
- (3) market risk

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risks and the Fund's management of capital.

The Fund employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Fund's business objectives and risk tolerance levels. While the trustees have the overall responsibility for the establishment and oversight of the Fund's risk management framework, management has the responsibility to administer and monitor these risks.

b) Credit Risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Fund's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, being cash and cash equivalent of \$45,493, accounts receivable of \$38,120, deposits of \$5,390 and due from related parties of \$16,024.

The Fund continuously monitors defaults of customers and other counterparties and incorporates this into its credit risk controls. The Fund's policy is to deal only with creditworthy customers and counterparties.

Port Renfrew Development Trust
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
Year ended December 31, 2018

The Fund's management considers that all the above financial assets are not impaired or past due the reporting date under review are of good credit quality. None of the Fund's financial assets are secured by collateral or other credit enhancements.

c) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they are due. The Fund's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. The Fund's ongoing liquidity will be impacted by various external events and conditions.

The Fund's financial liabilities at of the reporting date consist of accounts payable and accrued liabilities of \$903,784 current portion of long term loan of \$7,672 and short term loans of \$304,198.

The Fund expects to repay its financial liabilities in the normal course of operations and to Trust future operational and capital requirements through future operational cash flows, as well as future equity raises.

d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Fund's net income or the value of financial instruments. The objective of the Fund is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns.

e) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest rate on the Fund's short term loan is fixed for the term.

The Fund's had no interest rate swaps or financial contracts in place as at or during the period ended December 31, 2018.