

**ARMADA MERCANTILE LTD.**  
**Consolidated Financial Statements**  
**February 28, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

**ARMADA MERCANTILE LTD.**

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**INDEPENDENT AUDITOR'S REPORT**

To: the Shareholders of  
Armada Mercantile Ltd.

**Opinion**

I have audited the consolidated financial statements of Armada Mercantile Ltd. (the "Company"), which comprise the consolidated statements of financial position as at February 28, 2019 and 2018, and the consolidated statement of loss and comprehensive loss, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at February 28, 2019 and 2018, and its consolidated financial performance and its consolidated cash flow for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

**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 Company in accordance with the ethical requirements that are relevant to my audit of the consolidated 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.

**Material Uncertainty Related to Going Concern**

I draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$19,373 during the year ended February 28, 2019 and, as of that date, the Company had not yet achieved profitable operations, had accumulated losses of \$7,683,057 since its inception, and expects to incur further losses in the development of its business. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. My opinion is not modified in respect of this matter.

**Other Information**

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

My opinion on the consolidated financial statements does not cover the other information and I do

not express any form of assurance conclusion thereon.

In connection with my audit of the consolidated financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I 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 IFRSs, 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.

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

My 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 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 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 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 Company'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 Company’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 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.

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.

I also provide those charged with governance with a statement that I 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 my independence, and where applicable, related safeguards.

The engagement practitioner on the audit resulting in this independent auditor’s report is Sam S. Mah, CPA, CA.

**“Sam S. Mah Inc.”**

Chartered Professional Accountant

Suite 2001 – 1177 West Hastings Street  
Vancouver, BC, Canada V6E 2K3  
June 28, 2019

**ARMADA MERCANTILE LTD.**  
**Consolidated Statements of Financial Position**  
**For the Years Ended February 28, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

| <b>As at</b>   | <b>2019</b>       | <b>2018</b>       |
|--|-------------------|-------------------|
| <b>ASSETS</b>  |                   |                   |
| <i>Current</i>                                       |                   |                   |
| Cash and cash equivalents                            | \$ 22,470         | \$ 5,483          |
| GST refundable                                       | 500               | 380               |
| Marketable securities – (Note 11)                    | 262,387           | 300,788           |
|  | <u>285,357</u>    | <u>306,651</u>    |
| <b>Investment in Oxygen Funding, Inc. – (Note 5)</b> | <u>1</u>          | <u>1</u>          |
| <b>Total assets</b>                                  | <b>\$ 285,358</b> | <b>\$ 306,652</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>          |                   |                   |
| <b>Liabilities</b>                                   |                   |                   |
| <i>Current</i>                                       |                   |                   |
| Accounts payable & accrued liabilities               | \$ 69,974         | \$ 72,225         |
| Notes payable  | 14,413            | 17,075            |
| Due to related parties – (Note 6)                    | 3,173             | 25,881            |
|  | <u>87,560</u>     | <u>115,181</u>    |
| <b>Total liabilities</b>                             | <u>87,560</u>     | <u>115,181</u>    |
| <b>Shareholders' Equity (Deficit)</b>                |                   |                   |
| Share capital – (Note 7)                             | 6,892,028         | 6,866,328         |
| Share capital subscribed – (Note 7)                  | 556,113           | 556,113           |
| Contributed surplus – (Note 8)                       | 434,714           | 434,714           |
| Deficit  | (7,685,057)       | (7,665,684)       |
|  | <u>197,798</u>    | <u>191,471</u>    |
| <b>Total liabilities and shareholders' equity</b>    | <b>\$ 285,358</b> | <b>\$ 306,652</b> |
| <b>Contingencies – (Note 12)</b>                     |                   |                   |

**Approved by the Board:**

\_\_\_\_\_  
*"Patrick Cole"*, **Director**  
*Patrick Cole*

\_\_\_\_\_  
*"Michelle Cole"*, **Director**  
*Michelle Cole*

*See accompanying notes to the consolidated financial statements*

**ARMADA MERCANTILE LTD.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**For the Years Ended February 28, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

|   | <u>2019</u>        | <u>2018</u>       |
|---|--------------------|-------------------|
| <b>Revenue</b>  |                    |                   |
| Consulting fees   | \$ 16,744          | \$ 71,005         |
| Other income and interest   | 128,790            | 5,149             |
|   | <u>145,534</u>     | <u>76,154</u>     |
| <b>Expenses</b>   |                    |                   |
| Bank charges and interest   | 1,272              | 476               |
| Listing and transfer agent  | 15,274             | 13,772            |
| Management fees - (Note 6)  | 81,522             | 71,833            |
| Office supplies and miscellaneous                                 | 10,616             | 8,661             |
| Professional fees – (Note 6)                                      | 18,962             | 18,409            |
| Rent – (Note 6)   | 12,453             | 12,358            |
| Referral fees   | 7,845              | -                 |
| Telephone   | 403                | 1,009             |
| Travel  | 13,326             | 11,192            |
| Loss on sale of marketable securities                             | 35,132             | 1,905             |
| Unrealized (incr.) decrease in marketable securities              | (37,892)           | (153,790)         |
| Foreign exchange (gain)   | 5,994              | 26,634            |
| Write-off of loans receivable                                     | -                  | 3                 |
| <b>Total</b>  | <u>164,907</u>     | <u>12,462</u>     |
| <b>Net and comprehensive income (loss) for the year</b>           | \$ <u>(19,373)</u> | \$ <u>63,692</u>  |
| <b>Earnings (loss) per share for the year – basic and diluted</b> | <u>(0.001)</u>     | <u>0.03</u>       |
| <b>Weighted average shares outstanding</b>                        | <u>17,645,088</u>  | <u>17,645,088</u> |

*See accompanying notes to the consolidated financial statements*

**ARMADA MERCANTILE LTD.**  
**Consolidated Statements of Changes in Equity**  
**For the Years Ended February 28, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

|  | Number of<br>Shares | Share Capital    | Share<br>Capital<br>Subscribed | Contributed<br>Surplus | AOC1 | Deficit            | Total          |
|--|---------------------|------------------|--------------------------------|------------------------|------|--------------------|----------------|
| <b>Balance, February 28, 2017</b>        | <b>17,422,896</b>   | <b>6,812,313</b> | <b>556,113</b>                 | <b>434,714</b>         | -    | <b>(7,729,376)</b> | <b>73,764</b>  |
| Share capital issued – private placement | 200,000             | 28,000           | -                              | -                      | -    | -                  | 28,000         |
| Share subscribed – warrants exercised    | 195,238             | 26,015           | -                              | -                      | -    | -                  | 26,015         |
| Net income for the year                  | -                   | -                | -                              | -                      | -    | 63,692             | 63,692         |
| <b>Balance, February 28, 2018</b>        | <b>17,818,134</b>   | <b>6,866,328</b> | <b>556,113</b>                 | <b>434,714</b>         | -    | <b>(7,665,684)</b> | <b>191,471</b> |
| Share capital issued – private placement | 133,000             | 25,700           | -                              | -                      | -    | -                  | 25,700         |
| Net income (loss) for the year           | -                   | -                | -                              | -                      | -    | (19,373)           | (19,373)       |
| <b>Balance, February 28, 2019</b>        | <b>17,951,134</b>   | <b>6,892,028</b> | <b>556,113</b>                 | <b>434,714</b>         | -    | <b>(7,685,057)</b> | <b>197,798</b> |

*See accompanying notes to the consolidated financial statements*

**ARMADA MERCANTILE LTD.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended February 28, 2019 and 2018**  
**(Expressed in Canadian Dollars)**

|   | 2019             | 2018            |
|---|------------------|-----------------|
| <b>Operating Activities</b>                                     |                  |                 |
| Net income (loss) for the year                                  | \$ (19,373)      | \$ 63,692       |
| Changes in non-cash working capital balances:                   |                  |                 |
| Unrealized decrease (increase) in marketable securities         | (37,892)         | (153,790)       |
| GST recoverable   | (120)            | (141)           |
| Accounts payable and accrued liabilities                        | (2,252)          | 5,552           |
| Write-off of loans receivable                                   | -                | 3               |
|   | <u>(59,637)</u>  | <u>(84,684)</u> |
| <b>Investing activities</b>                                     |                  |                 |
| Disposal of marketable securities                               | 76,294           | 12,021          |
| Investment in Oxygen Funding, Inc.                              | -                | (1)             |
|   | <u>76,294</u>    | <u>12,020</u>   |
| <b>Financing activities</b>                                     |                  |                 |
| Advances from (to) related parties                              | (22,708)         | 24,727          |
| Notes payable   | (2,662)          | (876)           |
| Share capital issued  | 25,700           | 54,015          |
|   | <u>330</u>       | <u>77,866</u>   |
| <b>Increase in cash during the year</b>                         | <u>16,987</u>    | <u>5,202</u>    |
| <b>Cash and equivalents, beginning of year</b>                  | <u>5,483</u>     | <u>281</u>      |
| <b>Cash and cash equivalents, end of year</b>                   | <u>\$ 22,470</u> | <u>\$ 5,483</u> |
| <b>Supplemental disclosure of non-cash financing activities</b> |                  |                 |
| Interest paid   | \$ -             | \$ -            |
| Taxes paid  | \$ -             | \$ -            |

*See accompanying notes to the consolidated financial statement*

## **1. Summary of Significant Accounting Policies**

### *Basis of Presentation and Statement of Compliance*

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) and include the accounts of the Company and its wholly-owned subsidiaries, Armada Group USA Inc. and Armada Finance, LLC. All inter-company transactions and balances are eliminated upon consolidation.

The Canada office and USA office of the Company are located at 590 - 1122 Mainland Street, Vancouver, BC, V6B 5L1 and 9575 Pinehurst Drive, Roseville, CA 95747.

### *Revenue Recognition*

Interest revenue earned on merchant banking loans is recognized on the accrual basis as earned and when such interest and returns on the loans can be reliably measured in terms of cash or assets readily measured in terms of cash. Certain non-monetary compensation received or receivable pursuant to these loan agreements has not been recognized as assets received or receivable as they are not yet reliably measurable. Interest revenue is not recognized on impaired loans. When a loan is classified as impaired, interest income is recognized on a cash basis only, after specific provisions for write-offs have been recovered and provided there is not further doubt about collectability of the principal balances.

Loan commitment, origination or renegotiation fees are recognized as interest revenue over the term of the loan.

Income from consulting services is recognized in the period in which the services are provided. Fees for contract execution are recognized as other income when the fees are earned.

Income from factoring contracts is realized when earned.

### *Loans Receivable*

Notes receivable are classified as impaired when there is no longer reasonable assurance of the timely collection of outstanding advances. In determining the provision for possible note receivable losses, management considers the length of time the loans have been outstanding, whether they are in arrears, the overall financial strength of the borrower and the residual value of security pledged. If necessary, a provision for losses on impaired notes receivable is made to reduce the carrying amount to the estimated realizable amount. Management has determined that a provision for losses was not necessary at February 28, 2019 and 2018 and has written-off the loans receivable.

### *Cash Equivalents*

Cash equivalents are highly liquid investments, such as term deposits with major financial institutions, having a term to maturity of three months or less at acquisition, that are readily convertible to specified amounts of cash.

**1. Summary of Significant Accounting Policies (cont'd)**

*Equipment*

Equipment is stated at cost less accumulated amortization. Amortization based on the estimated useful life of the assets is calculated as follows:

|                                   |                               |
|-----------------------------------|-------------------------------|
| Computer equipment                | - 30% declining balance basis |
| Equipment, furniture and fixtures | - 20% declining balance basis |

The carrying value of equipment is reviewed whenever events or changes in circumstance indicate the recoverable value may be less than the carrying amount. Recoverable value is based on management's estimates of undiscounted future net cash flows expected to be recovered from specific assets or groups of assets through use or future disposition. Where impairment is indicated, impairment charges are recorded in the reporting period in which impairment is determined by management.

*Functional and Presentation Currency*

The Company's functional currency is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period-end exchange rate and all income and expenses are translated at average exchange rates prevailing during the period. Non-monetary assets and liabilities are translated at the rates prevailing at the dates the assets were acquired or liabilities incurred. Exchange gains and losses arising on translation are included as a charge to operations in the period incurred.

*Deferred Income Taxes*

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income tax assets and liabilities are determined based on differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences), and losses carried forward. Deferred income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on deferred income tax assets and liabilities of a change in tax rates is included in operations in the year in which the change is substantively enacted. The amount of deferred income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

## **1. Summary of Significant Accounting Policies (cont'd)**

### **Financial Instruments**

On January 1, 2018, the Company, adopted on a modified retrospective basis, for the first time, IFRS 9 - Financial Instruments. The nature and effect of these changes are disclosed below.

IFRS 9 - Financial Instruments replaces IAS 39 - Financial Instruments Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities.

#### [i] Financial Assets

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instrument's contractual cash flow characteristics and the business models under which they are held. At initial recognition, financial assets are measured at fair value (either through Other Comprehensive Income (FVOCI), or through profit or loss (FVTPL) and those to be measured at amortized cost. Under the IFRS 9 model for classification of financial assets the Company has classified and measured its financial assets as described below:

- Cash and cash equivalents are classified as financial assets measured at fair value through profit or loss (FVTPL). Previously under IAS 39 these amounts were classified as FVTPL.
- Short-term investments are classified as financial assets measured at FVTPL. Previously under IAS 39 these amounts were classified as held-for-trading or FVTPL.
- Long-term investments are classified as financial assets measured at amortized cost. Previously under IAS 39 these amounts were classified as loans and receivables measured at amortized cost.
- Trade and other receivables are classified as financial assets at amortized cost. Previously under IAS 39, Trade and other receivables were classified as loans and receivables measured at amortized cost.

The adoption of IFRS 9 did not result in a material change in the carrying values of any of the Company's financial assets on the transition date March 1, 2018.

#### [ii] Financial Liabilities

Financial liabilities are recognized initially at fair value and in the case of financial liabilities not subsequently measured at fair value, net of directly attributable transaction costs. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled, or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. Therefore, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities. Trade and other payables are classified as financial liabilities to be subsequently measured at amortized cost. Put options are classified as financial liabilities that are measured at their fair value through profit or loss.

## **1. Summary of Significant Accounting Policies (cont'd)**

### ***Critical Accounting Estimates, Judgments, and Uncertainties***

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on the historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

#### *Critical Accounting Estimates and Assumptions*

Critical accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next financial year.

#### *Share Based payments*

The Company uses the Black-Scholes pricing model to estimate the fair value of stock options granted and warrants issued. Under this model, the Company must estimate the term, volatility and if applicable, the forfeiture rate of options granted and warrants issued.

#### *Critical Accounting Judgments*

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments.

#### *Depreciation rates*

The application of determining the useful lives of equipment are estimates by management based on assumptions about future events. Estimates and assumption made may change if new information becomes available. New information may become available during the use of the equipment that causes the Company to adjust its estimate.

### ***Risk Instrument and Risk Management***

#### ***Financial Risk Management***

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The fair values of cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments.

#### ***Financial Instrument Risk Exposure***

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

**1. Summary of Significant Accounting Policies (cont'd)**

***Credit Risk***

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's credit risk is primarily attributable to its bank accounts and accounts receivable. Bank accounts are with a Canadian Schedule 1 banks. Management believes that the credit risk with respect to receivable is remote.

***Liquidity Risk***

Liquidity risk is the risk that the Company may be unable to meet its financial obligations as they fall due or that it will be required to meet them at excessive cost. The Company reviews its working capital position regularly to ensure there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company manages its liquidity risk through private placements.

The Company's operating cash requirements including amounts projected to complete its existing capital expenditure program are continuously monitored and adjusted as input variables change. These variables include but are not limited to commodity prices, cost overruns on capital projects and changes to government regulations relating to land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the need for the Company to pursue equity issuances, obtain project or debt financing, or enter into joint arrangements. There is no assurance that the necessary financing will be available in a timely manner.

***Interest Rate Risk***

The Company is exposed to the risk that the value of financial instruments will change due to movements in market interest rates. The Company does not use derivative instruments to reduce its interest rate risk as the Company's management believes that the likely financial impact of interest rate changes does not justify using derivatives.

The only significant market risk exposure to which the Company is exposed is short-term interest rate risk. The Company's bank account earns interest income at variable rates. The Company's future interest income is exposed to short-term rates.

***Commodity Price Risk***

The Company is not subject to commodity price risk

***Environmental Risk***

The Company is not exposed to environmental risks associated with its operations.

## **1. Summary of Significant Accounting Policies (cont'd)**

### ***Loss per Share***

Basic loss per share is calculated by dividing the loss for the period by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share requires the use of the treasury stock method, which assumes that the exercise of stock options and warrants will have a dilutive effect on loss per share. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of stock options and warrants is applied to repurchase common shares at the average market price for the year.

### ***Impairment***

The Company's tangible and intangible assets are reviewed for indications of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash generating unit ("CGU"), exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the year. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

### ***Share-based Payments***

The Company issues equity instruments such as common shares, share options and warrants, for services rendered by employees and non-employees.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in statement of comprehensive loss over the vesting period, described at the period during which all the vesting conditions are satisfied.

Where equity settled share options are awarded to employees, the fair value of the options at the date of the grant is charged to the statement of the comprehensive loss over the vesting period.

## **1. Summary of Significant Accounting Policies (cont'd)**

### ***Share-based Payments (cont'd)***

Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the good or services received in the statement of comprehensive loss unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model.

All exercisable equity settled share-based payments are reflected in contributed surplus until exercised; the amount reflected in contributed surplus is credited to share capital along with the consideration paid for those shares.

Where the terms and conditions of equity settled share-based payments are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is charged to the statement of comprehensive loss over the remaining vesting period.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period.

## **2. Nature of Business and Going Concern**

The Company was incorporated under the laws of British Columbia on June 24, 1987 and is engaged in the business of investing in new and existing businesses and organizations. As at February 28, 2018, the Company is a financial services company that focuses on merchant banking primarily through its wholly-owned subsidiary Armada Group USA, Inc. On July 19, 2002, the Company incorporated Armada Group USA, Inc. to establish business operations in the United States in the financial services industry. Armada Group USA, Inc. is wholly-owned by the Company and was incorporated in the State of Delaware. On December 28, 2011, Armada Group USA, Inc., incorporated in the State of California, a wholly owned subsidiary, Armada Finance LLC. On September 20, 2013, Armada Group USA, Inc. dissolved Armada Finance LLC in the State of California. On October 24, 2013, Armada Group USA, Inc. formed Armada Finance LLC in the State of Wyoming. The principal assets in Armada Finance LLC were the Liquid Capital of America Corp. franchise. Effective December 31, 2014, all parties involved agreed to terminate the agreement.

## **2. Nature of Business and Going Concern (cont'd)**

These consolidated financial statements have been prepared in accordance with IFRS applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

As February 28, 2019, the Company has accumulated losses of \$7,685,057 (February 29, 2018: \$7,665,684) since its inception, has working capital of \$197,797 (February 28, 2018: \$191,470) and expects to continue as a going concern. However, if the Company does not continue to be profitable it may incur further losses in the development of its business, all of which may affect the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent on its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they become due.

### **New standards, interpretations and amendments**

#### *IFRS 9, Financial Instruments*

IFRS 9, Financial Instruments ("IFRS 9") replaced IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

We have assessed the classification and measurement of our financial assets and financial liabilities under IFRS 9 and concluded that the adoption of IFRS 9 did not affect the current classification of Company's financial assets and financial liabilities.

Based on Management's detailed review and analysis the effect of adopting IFRS 9 had an immaterial effect on the opening retained earnings as at March 1, 2018.

**3. New standards, interpretations and amendments - continued**

*Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions*

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Company has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Company's consolidated financial statements.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

*IFRS 15, Revenue from Contracts with Customers*

IFRS 15, Revenue from Contracts with Customers, was adopted on March 1, 2018. The standard introduces a single, principles based, five-step model for the recognition of revenue when control of goods is transferred to the customer. The five steps are: identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation and recognize revenue as each performance obligation is satisfied. IFRS 15 also requires enhanced disclosures about revenue to help users better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The Company evaluated the effect the standard had on its revenue recorded in its consolidated financial statements and determined there is no impact to the timing or amounts of revenue recognized in its consolidated statement of loss and comprehensive loss.

**Effective for periods beginning on or after January 1, 2019**

*IFRS 16, Leases*

IFRS 16 applies to the recognition, classification, measurement and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease is for a term of 12 months or less or the underlying asset has a low value. IFRS 16 supersedes IAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases – Incentives*, and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Company is currently assessing the impact that these standards will have on the Company's financial statements and have identified no leases having a term of more than 12 months. The Company will not elect to classify a short-term lease or low value lease as a right-of-use asset. The Company plans to adopt these standards as soon as they become effective for the Company's reporting period.

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**4. Loans Receivable**

As at February 28, 2019, the Company had the following loans receivable outstanding:

|                                      | <b>Feb. 28, 2019</b>     | <b>Feb. 28, 2018</b>     |
|--------------------------------------|--------------------------|--------------------------|
| Loans receivable                     | \$ 331,961               | \$ 331,961               |
| Accrued interest                     | 15,474                   | 15,474                   |
| Less: Allowable for loan losses      | (347,432)                | (347,432)                |
| Amounts written-off                  | (3)                      | (3)                      |
|                                      | <u>\$ 0</u>              | <u>\$ 0</u>              |
| Impaired loans and accrued interest: |                          |                          |
| Loans receivable                     | \$ 331,961               | \$ 331,961               |
| Interest                             | 15,474                   | 15,474                   |
| Specific allowance                   | (347,432)                | (347,432)                |
| Amounts written-off                  | (3)                      | (3)                      |
|                                      | <u>\$ 0</u>              | <u>\$ 0</u>              |
| Allowance for loan losses            | -                        | -                        |
| Balance, beginning of year           | \$ 347,432               | \$ 347,432               |
| Provision                            | -                        | -                        |
| <b>Balance, end of year</b>          | <b><u>\$ 347,432</u></b> | <b><u>\$ 347,432</u></b> |

During the year ended February 28, 2018, the loans receivable of \$3 was written-off.

**5. Investment in Oxygen Funding, Inc.**

In January 17, 2018, the Company by way of its wholly owned subsidiary, Armada Group USA, Inc. (Armada) acquired a 30% ownership in Oxygen Funding Inc. (OFI), a State of California, USA company, and in conjunction with Oxygen Funding LLC (OFL) are in the business of factoring the accounts of its clients pursuant to factoring and security agreements in consideration for the following:

- a. Armada will seek capital from its sources on a best efforts basis into OFI to replace certain capital investment in OFI's clients: \$350,000 (US) by January 25, 2018, and the remainder by February 28, 2018.
- b. OFI will file the necessary paperwork to change its S corporation status to C corporation status.
- c. All accounts factored through OFI will be underwritten and serviced by OFI.
- d. OFI will pay a broker fee whenever OFI funds a client referred by Armada or OFL.
- e. OFI shall pay Armada USA a funding fee of 50% of net earnings for any factored account funded by OFI using capital arranged by Armada.
- f. OFI shall pay OFL a servicing fee of 50% of net earnings for any factored account funded by OFI using capital arranged by Armada.
- g. In the event OFI funds factored accounts using capital not arranged by Armada, OFL shall be paid a serving fee of 100% of the net earnings.

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**5. Investment in Oxygen Funding, Inc. (cont'd)**

The Company has assessed that the fair value of the 2,423 shares of OFI, representing 30% of the total issued and outstanding common shares of OSI of 8,077 common shares, on a fully diluted basis is not determinable and has accordingly recorded a nominal value of \$1.

In April of 2017, the Company by way of its wholly owned subsidiary, Armada Group USA, Inc., (Armada) acquired a 50% ownership in Bahn, Inc. (dba Davis Commercial Finance) a State of California, USA company, a commercial finance (DCF) company headquartered in Rocklin, California which serves prospective financing needs through direct lending or brokering to other Commercial Finance Companies in consideration for \$1. Davis Commercial Finance has a California Finance Lenders License to lend to small businesses and also act as a broker to negotiate rate and terms for a client with other lenders. On January 15, 2018, Armada executed an Agreement to grant Bahn, Inc. the right to acquire Armada's 50% interest in Bahn, Inc. for a \$1. The Agreement was made possible due to Armada receiving a 30% interest in OFI as detailed in the above-mentioned January 17, 2018 Agreement with OFI.

**6. Related Party Transactions**

The following table summarizes the Company's key management compensation for the director and CEO who is responsible for planning, directing and controlling the activities of the entity and related party transactions not otherwise disclosed in these consolidated financial statements.

|  | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|
| Management fees                                  | \$ 81,522   | \$ 71,833   |
| Expenses reimbursed to a director of the Company | \$ 16,767   | \$ 18,573   |
| Rent to a director of the Company                | \$ 12,453   | \$ 12,358   |

These transactions were in the normal course of operations and are measured at the exchange value, being the consideration established and agreed to by the related parties.

As at February 28, 2019 and 2018 the amounts due to related parties were as follows:

|   | <u>2019</u>       | <u>2018</u>        |
|---|-------------------|--------------------|
| Due from (to) the president and director of the Company | <u>\$ (3,173)</u> | <u>\$ (25,881)</u> |

The balances are non-interest bearing and have no set terms of repayment.

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**7. Share Capital and Share Capital Subscribed**

Authorized:

The authorized common share capital of the Company at February 28, 2019 is 200,000,000 (Feb. 28, 2018 - 200,000,000) shares without par value. The authorized preferred share capital of the Company at February 28, 2019 is 100,000,000 (Feb. 28, 2018 - 100,000,000) shares without par value.

Issued and outstanding:

During the year-ended February 28, 2019:

On May 22, 2018, the Company completed a non-brokered private placement of 133,000 common shares at US\$0.15 per share.

During the year-ended February 28, 2018:

On May 22, 2017 the Company completed a non-brokered private placement consisting of 200,000 Units at a price of US\$0.105 per Unit. Each Unit is comprised of one share of common stock and one common stock purchase warrant, with each whole Warrant entitling the holder to purchase an additional share of common stock for up to one year following its date of issue at a price of US\$0.105 per warrant Share.

The issued share capital is as follows:

*Common shares issued and outstanding:*

|                                      | <b>28-Feb-19</b>        |               | <b>28-Feb-18</b>        |               |
|--------------------------------------|-------------------------|---------------|-------------------------|---------------|
|                                      | <b>Number of Shares</b> | <b>Amount</b> | <b>Number of Shares</b> | <b>Amount</b> |
| Balance at beginning of the year     | 17,818,134              | 6,866,328     | 17,422,896              | 6,812,313     |
| Shares issued - private placement    | 133,000                 | 25,700        | 200,000                 | 28,000        |
| Shares issued - exercise of warrants | -                       | -             | 195,238                 | 26,015        |
| Balance at end of the year           | 17,951,134              | 6,892,028     | 17,818,134              | 6,866,328     |

## **7. Share Capital and Share Capital Subscribed (cont'd)**

### *Subscribed preferred share capital*

The subscribed preferred share capital is as follows:

- i) 526,315 Series A Preferred Shares at US \$0.285 per share for gross proceeds of \$US 150,000. The Series A Preferred Shares may be converted into common shares of the Company at the ratio of one Series A Preferred Share for each common share of the Company if the market trading price of the common shares of Vocalscape Networks, Inc., a Nevada Corporation, listed on the OTC Bulletin Board in the United States is trading at less than US \$1.00 per share on a fully diluted basis as of the first anniversary date of the issuance of the Series A Preferred Shares.
- ii) 1,027,275 Series B Preferred Shares at US \$0.285 per share in settlement of US \$292,773 owed to a person related to the director of the Company. The Series B Preferred Shares may be converted into common shares of the Company at the ratio of one Series B Preferred Share for each common share at the sole discretion of the Company.
- iii) 131,582 Series B Preferred Shares at US \$0.285 per share in settlement of US \$37,500
- iv) (C\$42,106) owed to a director of the Company. The Series B Preferred Shares may be converted into common shares of the Company at the ratio of one Series B Preferred Share for each common share of the Company at the sole discretion of the Company. These Series B Preferred Shares were cancelled at February 29, 2016.
- v) 555,555 Series C Preferred Shares at US \$0.45 per share in settlement of US \$250,000 (C\$292,500) owed to a creditor of the Company and 126,000 Series C Preferred Shares subscribed for at US \$0.45 per share. The Series C Preferred Shares may be converted into common shares of the Company at the ratio of one Series C Preferred Share for each common share of the Company at the sole discretion of the Company. 555,555 Series C Preferred Shares were cancelled at February 29, 2016; leaving a balance of 126,000 Series C Preferred Shares remaining.

### Incentive Stock Options

In October 2003, the Board of Directors approved the Company's Stock Option Plan ("the Plan"). The Plan provides for the granting of stock options to qualified directors and employees to purchase up to 3,222,443 common shares of the Company. Under the Plan, the granting of stock options, exercise prices and terms are determined by the Board of Directors. Stock options must be non-transferable and the aggregate number of shares that may be reserved for issuance pursuant to stock options may not exceed an aggregate of 10% of the issued and outstanding shares of the Company at the time of granting and may not exceed 5% to any one individual. For incentive options, the exercise price shall not be less than the fair market value of the Company's common stock on the grant date. Options can have a maximum term of five years and terminate 30 days following the termination of the optionee's employment, except in the case of retirement, death or disability, in which case they terminate six months after the event. Vesting of options is made at the time of granting of the options at the discretion of the Board of Directors. Once approved and vested options are exercisable at any time.

During the year ended February 28, 2019 and 2018, no share purchase options were granted.

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**7. Share Capital and Share Capital Subscribed – cont'd**

As at February 28, 2019 and 2018, there were no stock options outstanding.

Warrants

At February 28, 2019 and 2018, there were no share purchase warrants outstanding.

**8. Contributed Surplus**

|                            |    |                |
|----------------------------|----|----------------|
| Balance, February 28, 2018 | \$ | 434,714        |
| Stock-based compensation   |    | -              |
| Balance, February 28, 2019 | \$ | <u>434,714</u> |

**9. Income Taxes**

|  | Armada<br>Mercantile | Armada<br>USA | <b>2019</b> | <b>2018</b> |
|--|----------------------|---------------|-------------|-------------|
| Income (Loss) for the year                 | \$ (45,448)          | \$ 26,075     | \$ (19,373) | \$ 63,692   |
| Tax rate                                   | 27.0%                | 35.0%         |             |             |
| Tax based on statutory tax rate            | \$ (12,270)          | \$ 9,126      | \$ (3,144)  | \$ 24,848   |
| Deductible expenses, net                   | -                    | -             | -           | -           |
| Unrecognized benefit of non-capital losses | 12,270               | (9,126)       | 3,144       | (24,848)    |
| Total income taxes                         | <u>\$ -</u>          | <u>\$ -</u>   | <u>\$ -</u> | <u>\$ -</u> |

The Company has available non-capital losses of approximately \$483,000 which may be carried forward to apply against future income for tax purposes. In addition, the Company has discretionary deduction pools for resource related expenditures and equipment balances with a tax basis exceeding net book value.

The possible future benefit to the Company of utilizing these losses has not been recognized in these financial statements. The carry-forward losses expire as follows:

|      |                   |
|------|-------------------|
| 2027 | \$ 64,000         |
| 2028 | 79,000            |
| 2029 | 76,000            |
| 2030 | 35,000            |
| 2031 | 42,000            |
| 2032 | 35,000            |
| 2033 | 28,000            |
| 2034 | 31,000            |
| 2035 | -                 |
| 2036 | 36,000            |
| 2037 | -                 |
| 2038 | 35,000            |
| 2039 | 22,000            |
|      | <u>\$ 483,000</u> |

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**9. Income Taxes - continued**

The Company's wholly owned subsidiary, Armada Group USA Inc. has approximately US \$426,000 (2018 – US \$452,000) in non-capital losses which may be carried forward against future income for tax purposes. The loss carry-forwards expire in various years up to 2039.

|  | <u>2019</u>      | <u>2018</u>      |
|--|------------------|------------------|
| Potential future tax assets  |                  |                  |
| Non-capital losses carried forward   | \$ 483,000       | \$ 458,000       |
| Tax value of equipment in excess of book value                               | 2,000            | 2,000            |
|  | <u>485,000</u>   | <u>460,000</u>   |
| Potential tax recovery at substantially enacted<br>rate 27.0% (2018 – 26.0%) | <u>130,000</u>   | <u>124,000</u>   |
| Net potential future income tax assets                                       | 130,000          | 124,000          |
| Valuation allowance (100%)   | <u>(130,000)</u> | <u>(124,000)</u> |
| Net future tax assets  | <u>\$ -</u>      | <u>\$ -</u>      |

In addition, the Company has allowable capital losses of approximately \$3,984,000 (2018 - \$3,984,000) which are available to offset against future capital gains.

The future conditions to recognize potential future tax assets based on establishment of likely future profitability have not been met. Accordingly, a 100% valuation allowance has been provided.

**10. Management of Capital**

The Company's objectives when managing capital are: to safeguard the Company's ability to continue as a going concern; to maintain optimal capital structure, while ensuring the Company's strategic objectives are met and to provide an appropriate return to shareholders relative to the risk of the Company's underlying assets.

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, stock options, contributed surplus and deficit.

The Company maintains and adjusts its capital structure based on changes in economic conditions and the Company's planned requirements. The Company may adjust its capital structure by issuing new equity, selling and/or acquiring assets, and controlling its capital expenditures program.

The Company, during the year is operating at a gain. Loses are mostly attributable to foreign exchange and fluctuations in our publicly traded portfolio company stock positions. As such, the Company is dependent on consulting, advisory and additional portfolio stock increases to fund its activities. The Company has not been required for an extended period of time to rely on external financing to fund its activities. In order to pay for its operating expenses, the Company will spend its existing working capital and raise additional amounts as needed and if available.

Management reviews its capital management approach on an ongoing basis.

### 11. Marketable Securities

The Company's marketable securities, which are classified as FVTPL have been valued at their market prices.

| February 28, 2019 |         | February 28, 2018 |         |
|-------------------|---------|-------------------|---------|
| Cost              | Market  | Cost              | Market  |
| 472,898           | 262,387 | 549,238           | 300,788 |

### 12. Contingencies

The Company's wholly owned subsidiary, Armada Group USA, filed a complaint for breach of contract and fraud related to a \$150,000 convertible note plus accrued interest provided to Vocalscape Networks, Inc. Judgment has been granted to the Company in the amount of approximately \$233,000. In the Company's judgment, no portion of this amount will be recognized until collection can be assured.

### 13. Fair Value Measurement

Measurement of the fair value of financial instruments is made under a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

- Level 1 - quoted prices in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - inputs for the asset or liability that are not based on observable market data

At February 28, 2019, the levels in the fair value hierarchy into which the Company's financial assets and liabilities measured and recognized in the balance sheet at fair value are categorized as follows:

|                         | Level 1    | Level 2 |
|-------------------------|------------|---------|
| Cash & cash equivalents | \$ 22,470  | -       |
| Marketable securities   | \$ 262,387 | -       |

### 14. Subsequent Event

Subsequent to February 28, 2019:

- the Company granted 20,000 incentive stock options to a certain consultant that is exercisable at CAD \$0.30 per share expiring in May 27, 2021.