

ARMADA MERCANTILE LTD.

Consolidated Financial Statements

February 28, 2018 and 2017

(Expressed in Canadian Dollars)

ARMADA MERCANTILE LTD.

CONTENTS

	Page
Independent Auditor's Report	3
Consolidated Statements of Financial Position	4
Consolidated Statements of Loss and Comprehensive Loss	5
Consolidated Statements of Changes in Equity	6
Consolidated Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	8-20

SAM S. MAH INC.

Chartered Professional Accountant
SUITE 2001
1177 WEST HASTINGS STREET
VANCOUVER, BC, V6E 2K3
T: 604.617.8858
F: 604.688.8479

INDEPENDENT AUDITOR'S REPORT

To: the Shareholders of
Armada Mercantile Ltd.

I have audited the accompanying consolidated financial statements of Armada Mercantile Ltd. ("the Company"), which comprise the consolidated statements of financial position as at February 28, 2018 and 2017 and the consolidated statements of loss and comprehensive loss and cash flows and consolidated statements of changes in equity for the years then ended February 28, 2018 and 2017 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying my opinion, I draw attention to Note 2 in the consolidated financial statements which indicates that the Company reported a net income of \$63,692 during the year ended February 28, 2018 and, as of that date, had an accumulated deficit of \$7,665,684 since inception. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

"Sam S. Mah Inc"
Chartered Professional Accountant

Vancouver, Canada
June 28, 2018

ARMADA MERCANTILE LTD.
Consolidated Statements of Financial Position
For the Years Ended February 28, 2018 and 2017
(Expressed in Canadian Dollars)

As at	2018	2017
ASSETS		
<i>Current</i>		
Cash and cash equivalents	\$ 5,483	\$ 281
GST refundable	380	239
Marketable securities – (Note 11)	300,788	159,019
	<u>306,651</u>	<u>159,539</u>
Investment in Oxygen Funding, Inc. – (Note 5)	1	-
Loans receivable – (Note 4)	-	<u>3</u>
Total assets	<u>\$ 306,652</u>	<u>\$ 159,542</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
<i>Current</i>		
Accounts payable & accrued liabilities	\$ 72,225	\$ 66,673
Notes payable	17,075	17,951
Due to related parties – (Note 6)	25,881	1,154
	<u>115,181</u>	<u>85,778</u>
Total liabilities	<u>115,181</u>	<u>85,778</u>
Shareholders' Equity (Deficit)		
Share capital – (Note 7)	6,866,328	6,812,313
Share capital subscribed – (Note 7)	556,113	556,113
Contributed surplus – (Note 8)	434,714	434,714
Deficit	(7,665,684)	(7,729,376)
	<u>191,471</u>	<u>73,764</u>
Total liabilities and shareholders' equity	<u>\$ 306,652</u>	<u>\$ 159,542</u>

Contingencies – (Note 12)

Approved by the Board:

"Patrick Cole", Director
 Patrick Cole

"Phil Skinder", Director
 Phil Skinder

See accompanying notes to the consolidated financial statements

ARMADA MERCANTILE LTD.
Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended February 28, 2018 and 2017
(Expressed in Canadian Dollars)

	<u>2018</u>	<u>2017</u>
Revenue		
Consulting fees	\$71,005	\$118,465
Other income and interest	5,149	834
	<u>76,154</u>	<u>119,299</u>
Expenses		
Bank charges and interest	476	270
Listing and transfer agent	13,772	13,600
Management fees and expenses (Note 6)	71,833	73,171
Office supplies and miscellaneous	8,661	8,565
Professional fees – (Note 6)	18,409	17,926
Promotion & shareholders' information	-	2,583
Rent – (Note 6)	12,358	12,588
Telephone	1,009	3,179
Travel	11,192	12,815
Loss on sale of marketable securities	1,905	-
Unrealized (incr.) decrease in marketable securities	(153,790)	444,563
Foreign exchange (gain)	26,634	11,570
Write-off of loans receivable	3	-
Total	<u>(12,462)</u>	<u>(600,830)</u>
Net and comprehensive income (loss) income for the year	<u>63,692</u>	<u>(481,531)</u>
Earnings (loss) per share for the year – basic and diluted	<u>0.00</u>	<u>(0.03)</u>
Weighted average shares outstanding	<u>17,645,088</u>	<u>17,422,896</u>

See accompanying notes to the consolidated financial statements

ARMADA MERCANTILE LTD.
Consolidated Statements of Changes in Equity
For the Years Ended February 28, 2018 and 2017
(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Share Capital Subscribed	Contributed Surplus	AOC1	Deficit	Total
Balance, February 29, 2016	17,422,896	6,812,313	556,113	434,714	-	(7,247,845)	555,295
Net (loss) for the year	-	-	-	-	-	(481,531)	(481,531)
Balance, February 28, 2017	17,422,896	6,812,313	556,113	434,714	-	(7,729,376)	73,764
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
Balance, February 28, 2018	17,818,134	6,866,328	556,113	434,714	-	(7,655,684)	191,471

See accompanying notes to the consolidated financial statements

ARMADA MERCANTILE LTD.
Consolidated Statements of Cash Flows
For the Years Ended February 28, 2018 and 2017
(Expressed in Canadian Dollars)

	2018	2017
Operating Activities		
Net income (loss) for the year	\$ 63,692	\$ (481,531)
Changes in non-cash working capital balances:		
Unrealized decrease (increase) in marketable securities	(153,790)	381,955
GST recoverable	(141)	7
Accounts receivable	-	6,364
Accounts payable and accrued liabilities	5,552	5,049
Write-off of loans receivable	3	-
	<u>(84,684)</u>	<u>(88,156)</u>
Investing activities		
Disposal of marketable securities	12,021	-
Investment in Oxygen Funding, Inc.	(1)	-
	<u>12,020</u>	<u>-</u>
Financing activities		
Advances from (to) related parties	24,727	(9,372)
Notes payable	(876)	6,242
Share capital issued	54,015	-
	<u>77,866</u>	<u>(3,130)</u>
Increase in cash during the year	<u>5,202</u>	<u>91,286</u>
Cash and equivalents, beginning of year	281	91,567
Cash and cash equivalents, end of year	<u>\$5,483</u>	<u>\$281</u>
Supplemental disclosure of non-cash financing activities		
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, 2018 and 2017 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 Assets

Financial assets are classified into one of four categories:

- fair value through profit or loss ("FVTPL");
- held-to-maturity ("HTM");
- available for sale ("AFS"); and
- loans and receivables.

The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

FVTPL financial assets

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument

Financial assets classified as FVTPL are stated at fair value with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset. Transaction costs are expensed as incurred.

HTM investments

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. They are subsequently measured at amortized cost.

AFS financial assets

Short-term investments and other assets held by the Company are classified as AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve. Impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, are recognized directly in profit or loss rather than equity.

When an investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investment's revaluation reserve is included in profit or loss for the period.

The fair value of AFS monetary assets denominated in a foreign currency is translated at the spot rate at the statement of financial position date. The change in fair value attributable to translation differences on amortized cost of the asset is recognized in profit or loss, while other changes are recognized in equity.

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

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognized at the transaction value, including transaction costs and subsequently are carried at amortized cost less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at period end. Bad debts are written off during the period in which they are identified. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Fair value hierarchy

ARMADA MERCANTILE LTD.
Notes to Consolidated Financial Statements
February 28, 2018
(Expressed in Canadian Dollars)

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: Valuations based on quoted prices, unadjusted, in active markets for identical assets or liabilities;
- Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

Effective interest method

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTP

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investments have been impacted.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

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

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

De-recognition of financial assets

A financial asset is derecognized when:

- the contractual right to the asset's cash flows expire; or
- the Company transfers the financial asset and substantially all risks and rewards of ownership to another entity.

Financial Liabilities and Equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expenses recognized on an effective yield basis.

De-recognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

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

ARMADA MERCANTILE LTD.
Notes to Consolidated Financial Statements
February 28, 2018
(Expressed in Canadian Dollars)

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 reliability 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

ARMADA MERCANTILE LTD.
Notes to Consolidated Financial Statements
February 28, 2018
(Expressed in Canadian Dollars)

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, 2017, the Company has accumulated losses of \$7,665,604 (February 29, 2016: \$7,729,376) since its inception, has working capital of \$191,470 (February 28, 2017: \$73,761) 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.

3. Recent Accounting Pronouncements

At the date of authorization of these financial statements, the IASB and International Financial Reporting Committee ("IFRIC") have issued the following revised and new standards, amendments and interpretations which are not yet effective during the year ended February 28, 2018:

Effective for periods beginning on or after January 1, 2018

• **IFRS 9, *Financial Instruments – Classification and Measurement***

IFRS 9 is a new standard on financial instruments that will replace IAS 39, *Financial Instruments: Recognition and measurement*.

IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as de-recognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

3. Recent Accounting Pronouncements (cont'd)

• **IFRS 15, *Revenue from Contracts with Customers***

IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from and entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18,

ARMADA MERCANTILE LTD.
Notes to Consolidated Financial Statements
February 28, 2018
(Expressed in Canadian Dollars)

Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service. IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions involving Advertising Service*.

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. The Company plans to adopt these standards as soon as they become effective for the Company's reporting period.

4. Loans Receivable

As at February 28, 2018, the Company had the following loans receivable outstanding:

	Feb. 28, 2018	Feb. 28, 2017
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)	-
	<u>\$ 0</u>	<u>\$ 3</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)	-
	<u>\$ 0</u>	<u>\$ 3</u>
Allowance for loan losses	-	-
Balance, beginning of year	\$ 347,432	\$ 347,432
Provision	-	-
Balance, end of year	<u>\$ 347,432</u>	<u>\$ 347,432</u>

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

ARMADA MERCANTILE LTD.
Notes to Consolidated Financial Statements
February 28, 2018
(Expressed in Canadian Dollars)

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 servicing fee of 100% of the net earnings.

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.

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

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.

	2018	2017
Management fees	\$ 71,833	\$ 73,171
Expenses reimbursed to a director of the Company	\$ 12,817	\$ 18,573
Rent to a director of the Company	\$ 12,358	\$ 12,588

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.

ARMADA MERCANTILE LTD.
Notes to Consolidated Financial Statements
February 28, 2018
(Expressed in Canadian Dollars)

As at February 28, 2018 and February 29, 2017 the amounts due to related parties were as follows:

	<u>2018</u>	<u>2017</u>
Due to the president and director of the Company.	\$ 25,881	\$ 1,154

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

7. Share Capital and Share Capital Subscribed

Authorized:

The authorized common share capital of the Company at February 28, 2018 is 200,000,000 (Feb. 28, 2017 - 200,000,000) shares without par value. The authorized preferred share capital of the Company at February 28, 2018 is 100,000,000 (Feb. 28, 2017 - 100,000,000) shares without par value.

Issued and outstanding:

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.

During the year-ended February 28, 2017, there were no share activities.

The issued share capital is as follows:

Common shares issued and outstanding:

	<u>Feb 28, 2018</u>		<u>Feb 28, 2017</u>	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of the year	17,422,896	6,812,313	17,447,896	6,814,681
Shares issued - private placement	200,000	28,000	-	-
Shares issued - exercise of warrants	195,238	26,015	-	-
Treasury shares	-	-	(25,000)	(2,368)
Balance at end of the year	<u>17,818,134</u>	<u>6,866,328</u>	<u>17,422,896</u>	<u>6,812,313</u>

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

ARMADA MERCANTILE LTD.
Notes to Consolidated Financial Statements
February 28, 2018
(Expressed in Canadian Dollars)

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.

7. Share Capital and Share Capital Subscribed - continued

Issued and outstanding:

- 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, 2018 and 2017, no share purchase options were granted.

As at February 28, 2018 and 2017, there were no stock options outstanding.

Warrants

The number of warrants outstanding at February 28, 2018, each exercisable into one common share, is as follows:

ARMADA MERCANTILE LTD.
Notes to Consolidated Financial Statements
February 28, 2018
(Expressed in Canadian Dollars)

	Warrants Outstanding	Weighted Average Exercise Price	Expiry
May 22, 2017	4,762	USD \$0.105	May 22, 2018

7. Share Capital and Share Capital Subscribed - continued

Warrants - continued

	Warrants Outstanding	Weighted Average Exercise Price
Outstanding, February 28, 2016	-	-
Issued	-	-
Exercised	-	-
Outstanding, February 28, 2017	-	-
Issued	200,000	USD \$0.105
Exercised	(195,238)	USD \$0.105
Outstanding, February 28, 2018	4,762	USD \$0.105

8. Contributed Surplus

Balance, February 28, 2017	\$ 434,714
Stock-based compensation	-
Balance, February 28, 2018	\$ 434,714

9. Income Taxes

	Armada Mercantile	Armada USA	2018	2017
Income (Loss) for the year	\$ (31,943)	\$ 95,635	\$ 63,692	\$ (481,532)
Tax rate	27.0%	35.0%		
Tax based on statutory tax rate	\$ (8,624)	\$ 33,472	\$ 24,848	\$ (130,434)
Deductible expenses, net	-	-	-	505
Unrecognized benefit of non-capital losses	8,624	(33,472)	(24,848)	129,929
Total income taxes	\$ -	\$ -	\$ -	\$ -

The Company has available non-capital losses of approximately \$458,000 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:

ARMADA MERCANTILE LTD.
Notes to Consolidated Financial Statements
February 28, 2018

(Expressed in Canadian Dollars)

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		32,000
	\$	<u>458,000</u>

9. Income Taxes - continued

The Company's wholly owned subsidiary, Armada Group USA Inc. has approximately US \$452,000 (2017 – US \$443,000) 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 2038.

	<u>2018</u>	<u>2017</u>
Potential future tax assets		
Non-capital losses carried forward	\$ 458,000	\$ 428,000
Tax value of equipment in excess of book value	<u>2,000</u>	<u>2,000</u>
	<u>460,000</u>	<u>430,000</u>
Potential tax recovery at substantially enacted rate 27.0% (2017 – 26.0%)	<u>124,000</u>	<u>119,000</u>
Net potential future income tax assets	124,000	119,000
Valuation allowance (100%)	<u>(124,000)</u>	<u>(119,000)</u>
Net future tax assets	<u>\$ -</u>	<u>\$ -</u>

In addition, the Company has allowable capital losses of approximately \$3,984,000 (2017 - \$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

ARMADA MERCANTILE LTD.
Notes to Consolidated Financial Statements
February 28, 2018
(Expressed in Canadian Dollars)

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 held-for-trading have been value at their market prices.

February 28, 2018		February 28, 2017	
Cost	Market	Cost	Market
549,238	300,788	844,156	159,019

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, 2018, 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	\$ 5,483	-
Marketable securities	\$ 300,788	-

14. Subsequent Events

Subsequent to February 28, 2018, the Company closed a private placement for 133,000 common shares at a price of US \$0.15 per common share for gross proceeds of US \$19,950.