Consolidated Financial Statements of

KNIGHTHAWK INC.

October 31, 2018 and 2017

(Expressed in Canadian dollars)

KNIGHTHAWK INC.
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October 31, 2018 and 2017

Kanester Johal LLP*

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
KnightHawk Inc.

We have audited the accompanying consolidated financial statements of KnightHawk Inc., which comprise the consolidated statements of financial position as at October 31, 2018 and October 31, 2017, and the consolidated statements of operations and comprehensive (loss) earnings, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KnightHawk Inc. as at October 31, 2018 and October 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Kanester Johal LLP

KANESTER JOHAL LLP
Chartered Professional Accountants

Burnaby, British Columbia
February 20, 2019

KNIGHTHAWK INC.

Consolidated Statements of Financial Position (Expressed in Canadian dollars)

		October 31, 2018		October 31, 2017
ASSETS				
CURRENT				
Cash and cash equivalents	**$**	**826,405**	$	922,506
Prepaid expenses		**6,825**		8,604
		833,230		931,110
Assets of discontinued rail related operations (Note 3)		**11,000**		52,000
Assets of discontinued air operations (Note 4)		**-**		-
	$	**844,230**	$	983,110
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities	**$**	**13,863**	$	21,586
Liabilities of discontinued rail related operations (Note 3)		**54,265**		72,096
Liabilities of discontinued air operations (Note 4)		**92,694**		92,694
		160,822		186,376
Other (Note 8)		**-**		-
		160,822		186,376
Commitments and contingencies (Note 5, 8 and 12)				
SHAREHOLDERS' EQUITY (DEFICIT)				
Share capital (Note 7)		**5,553,666**		5,553,666
Contributed surplus		**79,371**		79,371
Accumulated deficit		**(4,949,629)**		(4,836,303)
		683,408		796,734
	$	**844,230**	$	983,110

See accompanying notes

ON BEHALF OF THE BOARD

(Signed) Kenneth H. Fitzgerald, Director

(Signed) John Howe, Director

KNIGHTHAWK INC.

Consolidated Statements of Operations and Comprehensive Earnings (Loss)

Years ended October 31 (Expressed in Canadian dollars)

		2018		2017
Earnings (loss) from discontinued rail related operations (Note 3)	**$**	**(113,326)**	$	(124,507)
Earnings (loss) from discontinued air operations (Note 4)		**-**		-
NET COMPREHENSIVE EARNINGS (LOSS) FOR YEAR	**$**	**(113,326)**	$	(124,507)
COMPREHENSIVE EARNINGS (LOSS) PER SHARE - BASIC	**$**	**(0.010)**	$	(0.011)
COMPREHENSIVE EARNINGS (LOSS) PER SHARE - DILUTED	**$**	**(0.010)**	$	(0.011)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		**11,849,853**		11,849,853

See accompanying notes

KNIGHTHAWK INC.

Consolidated Statements of Changes in Equity (Deficit) (Expressed in Canadian dollars)

	Number of Common Shares		Share Capital		Contributed Surplus		Equity (Deficit)		Total Equity (Deficit)
Balance, October 31, 2016	11,849,853	$	5,553,666	$	79,371	$	(4,711,796)	$	921,241
Comprehensive Earnings (Loss)	-		-		-		(124,507)		(124,507)
Balance, October 31, 2017	11,849,853		5,553,666		79,371		(4,836,303)		796,734
Comprehensive Earnings (Loss)	-		-		-		(113,326)		(113,326)
Balance, October 31, 2018	**11,849,853**	**$**	**5,553,666**	**$**	**79,371**	**$**	**(4,949,629)**	**$**	**683,408**

See accompanying notes

KNIGHTHAWK INC.

Consolidated Statements of Cash Flows

Years ended October 31 (Expressed in Canadian dollars)

		2018		2017
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES				
Cash flows from discontinued rail related operations (Note 3)	**$**	**(96,101)**	$	(75,782)
Cash flows from discontinued air operations (Note 4)		**-**		-
DECREASE IN CASH DURING YEAR		**(96,101)**		(75,782)
CASH, BEGINNING OF YEAR		**922,506**		998,288
CASH, END OF YEAR	**$**	**826,405**	$	922,506

See accompanying notes

1. NATURE OF OPERATIONS

The Company operated a short line railroad carrying freight within British Columbia, Canada. Its head office and registered office is located at #211 – 1015 Austin Avenue, Coquitlam, British Columbia, Canada, V3K 3N9. It was incorporated under the laws of Canada. However, on July 5, 2013, KnightHawk announced that it had ceased operating its rail and rail related operations. Toward that end, KnightHawk's indirectly wholly owned subsidiary company, Kelowna Pacific Railway Ltd. ("KPR"), made an Assignment into Bankruptcy (the "Filing"). Boale, Wood & Company Ltd. was named Trustee under the Filing. Further information about the Filing is available at www.boalewood.ca.

As a result of the above decision, KPR, and KnightHawk's remaining subsidiaries, discontinued operations and commenced the process toward an orderly disposition of its rail and rail related assets. Net proceeds were used in part to repay any secured debt which was outstanding. The assets and liabilities of discontinued rail and rail related operations, and rail and rail related operating results, have been reclassified in the consolidated financial statements as Discontinued Rail Related Operations.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared using accounting principles generally accepted in Canada, the more significant of which are as follows:

a) *Statement of Compliance*

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS') as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 20, 2019.

b) *Basis of measurement*

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments and assets held for sale from discontinued operations that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

These consolidated financial statements, including comparatives, have been prepared on the basis of IFRS that are published at the time of preparation and that are effective or available for adoption on October 31, 2018.

c) *Principles of consolidation*

The consolidated financial statements include the accounts of KnightHawk Inc. and its wholly-owned subsidiaries, KnightHawk Rail Ltd., 2734141 Canada Inc., 4090187 Canada Inc., and Kelowna Pacific Railway Ltd., with the accounts of Kelowna Pacific Railway Ltd. only included to the date of the above noted Filing. All applicable inter-company transactions and balances have been eliminated.

d) *Assets held for sale from discontinued operations*

Non current assets included in assets of discontinued operations have been valued at the lower of their carrying amount and fair value less cost to sell.

In the statement of operations and comprehensive earnings (loss), income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit (loss) after taxes. Property, plant and equipment and intangible assets, once classified as held for sale, are not depreciated.

e) Functional and presentational currency

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

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the date of the balance sheet. Items affecting income are converted at rates of exchange in effect at the date of the transaction. Exchange gains and losses are included in income and expenses.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined.

f) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, and short-term highly liquid investments with original maturities of three months or less.

g) Revenue

Interest on cash balances since rail related operations were discontinued is recognized as revenue during and for the period it is earned.

h) Income taxes

Income tax expense comprises current tax and deferred tax. Current tax and deferred tax are recognized in the consolidated statements of operations and comprehensive income (loss), except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income (loss).

Current tax is the expected tax payable or receivable based on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to taxes payable in respect of prior years.

Deferred tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the consolidated financial statements' carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

i) Earning per share

Basic earnings (loss) per share is calculated using the weighted average number of shares issued and outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options to be issued. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted earnings (loss) per share excludes the effects of various conversions and exercise of options, warrants and, contingent shares to be issued that would be anti-dilutive.

j) *Significant accounting judgements and estimates*

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual outcomes could differ from these judgements and estimates. The consolidated financial statements include judgements and estimates which, by their nature, are uncertain. The impacts of such judgements and estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant areas requiring the use of management estimates includes the valuation of amounts receivable, assets held for sale, accrued liabilities, and the ability to realize the benefit of tax loss carry-forwards.

Significant areas requiring the use of management judgements includes the classification of financial instruments and decisions in respect of assets and liabilities of discontinued operations.

k) *Impairment*

The carrying amount of property and equipment and other financial assets are reviewed for impairment at each reporting period and whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other Company assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount and the impairment is recognized immediately as additional depreciation or other applicable operating expense. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been recognized. A reversal is recognized as a reduction in the depreciation charge or other applicable operating expense for the period.

l) *Share-based payments*

The Company offers equity-settled share-based payment plans for eligible directors, officers and employees. The plan is accounted for using the fair value method. Under the fair value method, compensation expense for these share-based payments is determined based on the fair value at the grant date using the Black-Scholes option pricing model and is charged to income over the vesting period. For equity-settled share-based payments that vest over more than a single period, each tranche of the award is considered to be a separate grant and the fair value of each is calculated on the grant date. Management estimates a forfeiture rate for the purpose of determining the compensation expense over the vesting period.

Equity-settled awards relate to stock options. When stock options are exercised, any consideration paid, as well as the related share-based compensation are credited to capital stock. Equity-settled awards are not re-measured subsequent to the initial grant. Equity-settled awards are re-measured for changes in terms and conditions subsequent to their initial grant.

m) Financial instruments

The Company classifies all financial instruments as held-to-maturity, available-for-sale, fair value through profit or loss ("FVTPL"), loans and receivables or other financial liabilities. Financial assets classified as held to maturity, loans and receivables and other financial liabilities are measured at amortized cost. Available-for-sale instruments are measured at fair value with any subsequent unrealized gains and losses recognized in other comprehensive income. Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in the statement of operations and deficit. Additional disclosure for financial instruments is set out in Note 10.

n) Provisions

Provisions represent liabilities of the Company for which the amount or timing is uncertain. A provision is recognized when, as a result of a past event, the Company has a present obligation (legal or constructive) that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

o) Recent accounting pronouncements

Certain new standards, interpretations and amendments to existing standards, as noted below, are not yet effective and have not been applied in preparing these financial statements. The Company is in the process of assessing the impacts of the standards and amendments on its consolidated financial statements.

Financial instruments

IFRS 9, Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.

The IASB issued IFRS 9, which replaces IAS 39, Financial Instruments – Recognition and Measurement, and which establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduces more judgement to assess the effectiveness of a hedging relationship. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with certain exemptions.

Amendments to IAS 1 - Financial Statement Presentation

The amendments to IAS 1 require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled such as re-measurements resulting from the amendments to IAS 19 will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

3. DISCONTINUED RAIL RELATED OPERATIONS

On July 5, 2013, KnightHawk announced that it had ceased operating its rail and rail related operations. Toward that end, KnightHawk's indirectly wholly owned subsidiary company, Kelowna Pacific Railway Ltd. ("KPR"), made an Assignment into Bankruptcy (the "Filing"). Boale, Wood & Company Ltd. was named Trustee under the Filing. Further information about the Filing is available at www.boalewood.ca.

As a result of the above decision, KPR, and KnightHawk's remaining subsidiaries, discontinued operations and commenced the process toward an orderly disposition of its rail and rail related assets. Net proceeds were used in part to repay any secured debt which was outstanding. The assets and liabilities of discontinued rail and rail related operations, and rail and rail related operating results, have been reclassified in the consolidated financial statements as Discontinued Rail Related Operations. All assets and liabilities of KPR were removed from the consolidated financial statements effective the date of the Filing. All remaining assets and liabilities of discontinued rail related operations, being KnightHawk's remaining subsidiaries, have been written down to their estimated fair values as at October 31, 2018 and 2017. The resulting gain (loss) on write-downs from the removal of KPR from the consolidated financial statements, and the write-downs of the assets and liabilities of KnightHawk's remaining subsidiaries to their net realizable value, has been noted in the table below and years prior consolidated financial statements.

Included in assets of discontinued rail related operations as at October 31, 2018 were assets of KPR totalling $Nil (2017 - $Nil) and assets of KnightHawk's remaining subsidiaries totalling $11,000 (2017 - $52,000).

Included in liabilities of discontinued rail related operations as at October 31, 2018 were liabilities of KPR totalling $Nil (2017 - $Nil) and liabilities of KnightHawk and its remaining subsidiaries totalling $54,265 (2017 - $72,096).

Included in revenues from discontinued rail related operations for the year ended October 31, 2018 was interest of $11,929 (2017 - $10,695) which was earned on cash balances since rail related operations were discontinued. Included in expenses from discontinued rail related operations for the year ended October 31, 2018 in this regard were ongoing audit, compliance and other related costs of $67,210 (2017 - $69,791). The earnings (loss) from discontinued rail related operations for the year ended October 31, 2018 also included gains (losses) on the sale of assets of discontinued rail related operations of $16,760 (2017 - $8,494).

Earnings (loss) from discontinued rail related operations are as follows:

October 31, 2018 and 2017 (Expressed in Canadian dollars)

	For the year ended October 31 **2018**	2017
Revenues	**$ 11,929**	$ 10,695
Expenses	**(142,015)**	(143,696)
Loss before exchange gain (loss)	**(130,086)**	(133,001)
Unrealized foreign exchange gain (loss)	**-**	-
Loss before gain (loss) on sale	**(130,086)**	(133,001)
Gain on sale of assets	**16,760**	8,494
Loss before write-downs	**(113,326)**	(124,507)
Gain (loss) on write-downs	**-**	-
Loss from discontinued rail related operations net of $nil tax (See Note 6)	**$ (113,326)**	$ (124,507)

Cash flows from discontinued rail related operations are as follows:

Net inflow (outflow) of cash related to the following activities:	For the year ended October 31 **2018**	2017
Operating	**$ (153,861)**	$ (129,276)
Investing	**57,760**	53,494
Cash flows from discontinued rail related operations	**$ (96,101)**	$ (75,782)

4. DISCONTINUED AIR OPERATIONS

In 2005 the Company's wholly owned air cargo airline subsidiary, 2734141 Canada Inc. (operating as KnightHawk Air Express) discontinued operations and commenced the process toward an orderly disposition of its air freight assets. During 2006 substantially all of its air freight assets were sold with the net proceeds used to repay all secured debt which was outstanding to its outside lender. The remaining assets and liabilities of discontinued air operations and air freight operating results have been reclassified in the consolidated financial statements as Discontinued Air Operations. All assets and liabilities of discontinued air operations have been written down to their estimated fair values as at October 31, 2018 and 2017, with the resulting gain (loss) on write-downs noted in the table below and years prior consolidated financial statements.

Earnings (loss) from discontinued air operations are as follows:

October 31, 2018 and 2017 (Expressed in Canadian dollars)

	For the year ended October 31 **2018**	2017
Revenues	$ -	$ -
Expenses	-	-
Earnings (loss) before exchange gain (loss)	-	-
Unrealized foreign exchange gain (loss)	-	-
Loss before write-downs	-	-
Gain on write-downs (See Note 8)	-	-
Earnings (loss) from discontinued air operations net of $nil tax (See Note 6)	$ -	$ -

There was no inflow (outflow) of cash related to operating, financing or investing activities from discontinued air operations in the years ended October 31, 2018 and 2017.

5. RELATED PARTY TRANSACTIONS

During the year, the Company incurred $55,350 (2017 - $59,700) in management and consulting services payable to a private company beneficially owned by Kenneth Fitzgerald, a director and Chief Executive Officer of the Company. These transactions were in the normal course of operations.

The total compensation for the Board of Directors and the executive management team is as follows:

	2018	2017
Short-term employment benefits *	**$ 62,850**	$ 67,200
	$ 62,850	$ 67,200

* includes management and consulting services noted above

The Company's Chief Executive Officer, Kenneth Fitzgerald, through a private company beneficially owned by him, (the "Consultant") provides management and consulting services to the Company pursuant to a consulting agreement (the "Consulting Agreement"). During the 2016 fiscal year the Compensation Committee of the Board of Directors of the Company consisting of John Howe and Bill Michealoff commenced a review of the Consulting Agreement. The original agreement was entered into on April 17, 2003 and had not been subject to substantive review or updated since that time. Following its deliberations, the Compensation Committee recommended an addendum to the Consulting Agreement (the "Addendum") at a Board meeting held on June 28, 2016. The Addendum provides for a one-time lump sum payment to the Consultant in the amount of three hundred and fifty thousand Canadian Dollars (CDN$350,000) in the event of the Company's termination of the Consulting Agreement with or without cause or upon a change of control as defined therein. The recommendation of the Compensation Committee was approved by the Board, with Mr. Fitzgerald abstaining, on July 3, 2016, and the Addendum was made effective July 29, 2016. A further discussion of the Addendum is contained in the Management's Discussion and Analysis for the nine months ended July 31, 2016 and year ended October 31, 2018.

October 31, 2018 and 2017 (Expressed in Canadian dollars)

During the third quarter of 2009, a company, or companies, controlled by Kenneth Fitzgerald, a director and Chief Executive Officer of the Company, agreed to provide a loan facility to KnightHawk Inc. and or one or more of its subsidiary companies. The loans are repayable on demand and bear interest at 12% per annum, with interest only monthly payments. Security for the loans include, a general security agreement creating a fixed and floating charge over the assets of KnightHawk Inc. and its subsidiary companies. The loan proceeds have been used primarily in support of acquisitions of property and equipment, as well as for general working capital purposes. Loan advances under this facility totalled $500,000 as at October 31, 2011. Repayments of $200,000 and $300,000 were made in the third quarter of 2012 and 2013, respectively, reducing total loan advances under this facility to $Nil as at October 31, 2018 and 2017. Interest charges on the loan advances for the year ended October 31, 2018 were $Nil (2017 - $Nil).

6. INCOME TAXES

Reconciliation to statutory rate

The recovery of income taxes in the statement of operations and comprehensive earnings (loss) reflects an income tax rate which differs from the Canadian Statutory Rate as follows:

		2018		2017
Income before income tax from continuing operations	**$**	**-**	$	-
Income (loss) before income tax from discontinued operations		**(113,326)**		(124,507)
Income (loss) before income taxes	**$**	**(113,326)**	$	(124,507)
Expected income tax (recovery) expense at a combined federal and provincial rate of 26.833% (2017 - 26.00%)	**$**	**(30,409)**	$	(32,372)
Permanent and other differences		**(4,532)**		(1,965)
Unrecorded potential benefit of non-capital losses not recognized		**34,941**		34,337
Income tax expense	**$**	**-**	$	-

Deferred Income Taxes

Deferred income taxes are provided for temporary differences. Deferred incomes tax assets and liabilities are comprised of the following:

		2018		2017
Property and equipment	**$**	**82,000**	$	85,000
Tax loss carry forwards		**1,112,000**		1,043,000
Valuation allowance		**(1,194,000)**		(1,128,000)
Net deferred income tax asset (liability)	**$**	**-**	$	-

Tax losses

The Company has non-capital losses of $3,823,000 and capital losses of $640,000 which are available to offset future income taxes. The benefits of these losses are not recognized in these financial statements as it is probable that they will not be realized. The non-capital losses expire as follows:

October 31, 2018 and 2017 (Expressed in Canadian dollars)

Expiry Date	Amount
2026	$ 1,325,000
2027	322,000
2028	453,000
2029	423,000
2030	349,000
2032	1,000
2033	298,000
2034	121,000
2035	141,000
2036	128,000
2037	132,000
2038	130,000
	$ 3,823,000

7. SHARE CAPITAL

a) Authorized:

Unlimited common shares without par value

b) Issued:

	2018		2017	
	Number of Shares	$ Amount	Number of Shares	$ Amount
Balance outstanding, beginning of year	**11,849,853**	**5,553,666**	11,849,853	5,553,666
Balance outstanding, end of year	**11,849,853**	**5,553,666**	11,849,853	5,553,666

c) Stock options

The Company maintains a stock option plan for certain employees, officers, and directors to acquire common shares in the Company. Unless otherwise stated, all stock options granted vest immediately.

Details of stock options outstanding are as follows:

October 31, 2018 and 2017 (Expressed in Canadian dollars)

	2018		2017	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding and exercisable, beginning of year	**Nil**	**N/A**	Nil	N/A
Granted	**-**		-	
Expired	**-**		-	
Outstanding and exercisable, end of year	**Nil**	**N/A**	Nil	N/A

As at October 31, 2018 and 2017, no stock options remained outstanding.

8. OTHER

Other represents an uncollateralized non interest bearing promissory note in the amount of $968,434 (2017 - $950,085) (U.S. $736,900) repayable only if certain predetermined quarterly cash flow thresholds are exceeded by the Company. No repayments were required during the year as the Company did not exceed the predetermined quarterly cash flow thresholds in the year.

As the Company has not exceeded the predetermined quarterly cash flow thresholds since inception of this obligation in 2004, and cash flow was further impaired by discontinued operations, Other was written down in the 2015 fiscal year to its estimated fair value of $Nil as at October 31, 2015. In the event that the Company exceeds the predetermined quarterly cash flow thresholds in any future period, any required repayment will be recorded as an expense in that future period, until the promissory note is repaid in full.

9. EARNINGS PER SHARE

For the years ended October 31, 2018 and 2017, the effect of potentially dilutive securities was not included in the calculation of diluted earnings per share as the result would have been anti-dilutive.

10. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Corporation's financial instruments consist of cash and cash equivalents which are designated as FVTPL, accounts receivable which are designated as loans and receivables, assets held for resale which are designated as available-for-sale, and accounts payable and accrued liabilities which are designated as other financial liabilities.

Fair values

CPA Canada establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The financial instruments recorded at fair value on the consolidated statement of financial position are assets and liabilities of discontinued rail related operations and assets and liabilities of discontinued air operations, measured using Levels 1, 2 and 3 of the fair value hierarchy. The fair values of all these instruments approximate their carrying values.

Financial risk management

In the normal course, the Company is exposed to various risks such as credit risk, interest rate risk, foreign currency risk, and liquidity risk.

Credit risk

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations.

Interest rate risk

The Company is exposed to interest rate risk, which is the risk that the fair value of future cash flows of a financial instrument will vary as a result of changes to market interest rates. This includes interest earned on cash balances since rail related operations were discontinued.

To perform sensitivity analysis, the Company assesses the impact of hypothetical changes in interest rates on interest earned on such cash balances. Information provided by the analysis does not represent the Company's view of future market changes, nor does it necessarily represent the actual changes in fair value that would occur under normal market conditions because, of necessity, all variables other than the specific market risk factor are held constant. In reality, changes in one factor may result in a change to another, which may magnify or counteract the sensitivities.

Based on cash balances as at October 31, 2018 of $826,405, a 1% increase (decrease) in interest rates could increase (decrease) annual net comprehensive earnings by approximately $8,000.

Currency risk

The unsecured non interest bearing promissory note described in Note 8 of the consolidated financial statements is denominated in U.S. dollars. Foreign currency risks are dependant on the U.S. dollar exchange rate at the time of the payment of this note.

The Company does not trade derivative financial instruments and does not enter into speculative transactions.

To perform sensitivity analysis, the Company assesses the impact of hypothetical changes in foreign currency exchange rates on foreign currency denominated financial instruments. Information provided by the analysis does not represent the Company's view of future market changes, nor does it necessarily represent the actual changes in fair value that would occur under normal market conditions because, of necessity, all variables other than the specific market risk factor are held constant. In reality, changes in one factor may result in a change to another, which may magnify or counteract the sensitivities.

Based on the total of the unsecured non interest bearing promissory note as at October 31, 2018 of $968,434 (Canadian $ equivalent), a 1% increase (decrease) in the value of the U.S. dollar relative to the Canadian dollar could decrease (increase) net comprehensive earnings by approximately $10,000 in a future period where repayment was required (See Note 8).

Liquidity risk

The Company monitors and manages its cash requirements to ensure access to sufficient funds to meet operational or investing requirements. The Company's principal source of liquidity is cash on hand. The Company's primary uses of funds are for working capital requirements, contractual obligations and overhead. As such, the Company sets priorities on its uses of available funds based on short-term requirements and strategic initiatives, while keeping in mind its long-term contractual obligations and returning value to its shareholders.

11. CAPITAL MANAGEMENT

The Company's objective when managing capital is to maximize shareholder value and safeguard the Company's ability to continue as a going concern. This is accomplished by increasing the underlying value of the Company's assets through internal growth and investing the Company's capital profitably, and having that value reflected in the share price. Capital includes funding provided by or through, share capital, loans, and trade creditors.

12. COMMITMENTS AND CONTINGENCIES

The Company has no operating lease commitments.

From time to time, in the ordinary course of operations, the Company may be involved in potential or alleged legal actions. The Company makes an accrual based on its judgement regarding the likelihood of the outcome of the action and information in hand.

See Note 5 and 8 also.

13. SEGMENTED REPORTING

The Company operated from one geographic area, British Columbia, Canada, and had one operating segment, rail freight and related services, which discontinued operations in the year ended October 31, 2013.