# WINTAAI HOLDINGS LTD.

# NON-CONSOLIDATED FINANCIAL STATEMENTS

# DECEMBER 31, 2019

Cooper & Company
CHARTERED PROFESSIONAL ACCOUNTANTS

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CHARTERED PROFESSIONAL ACCOUNTANTS

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# INDEPENDENT AUDITORS' REPORT

To the Directors of
Wintaai Holdings Ltd.:

## Opinion

We have audited the accompanying non-consolidated financial statements of Wintaai Holdings Ltd., which comprise the non-consolidated statement of financial position as at December 31, 2019 and 2018, the non-consolidated statements of comprehensive income, deficit and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the non-consolidated statement of financial position of Wintaai Holdings Ltd. as at December 31, 2019 and 2018 the non-consolidated statements of comprehensive income, deficit and cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

## Basis of Opinion

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

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

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

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- 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 material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Cooper & Company

Toronto, Ontario
April 30, 2020

Chartered Professional Accountants
Licensed Public Accountants

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# WINTAAI HOLDINGS LTD.

## NON-CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

### DECEMBER 31, 2019
with comparative information for 2018

| | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT** | | |
| Cash | $ 5,404,451 | $ 100 |
| Deferred tax asset | 299,000 | 512,000 |
| | 5,703,451 | 512,100 |
| **INVESTMENT IN STONETRUST** (Note 5) | 88,367,651 | 88,442,689 |
| | $ 94,071,102 | $ 88,954,789 |
| **LIABILITIES** | | |
| **CURRENT** | | |
| Accounts payable and accrued charges | $ 18,495 | $ 183,808 |
| Current portion of long-term debt (Note 7) | - | 4,652,150 |
| Due to related parties (Note 4) | 5,056 | 67,531,300 |
| | 23,551 | 72,367,258 |
| **LONG-TERM DEBT** (Note 7) | 14,781,946 | 18,149,260 |
| | 14,805,497 | 90,516,518 |
| **SHAREHOLDER'S EQUITY** | | |
| **SHARE CAPITAL** (Note 6) | 80,239,471 | 100 |
| **ACCUMULATED OTHER COMPREHENSIVE LOSS** | - | - |
| **RETAINED EARNINGS (DEFICIT)** | (973,866) | (1,561,829) |
| | 79,265,605 | (1,561,729) |
| | $ 94,071,102 | $ 88,954,789 |

**APPROVED ON BEHALF OF THE BOARD:**

Francis Chou
_____________________________ Director

# WINTAAI HOLDINGS LTD.

## NON-CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Expressed in Canadian dollars)

## FOR THE YEAR ENDED DECEMBER 31, 2019
with comparative information for 2018

| | 2019 | 2018 |
|---|---|---|
| **REVENUE** | | |
| Foreign exchange gain (loss) | $ **860,081** | $ (2,069,748) |
| Capital gain (Note 5) | **1,012** | - |
| | **861,093** | (2,069,748) |
| **EXPENSES** | | |
| Legal and audit | **59,081** | 4,000 |
| Office and general | **1,049** | 81 |
| | **60,130** | 4,081 |
| **INCOME (LOSS) BEFORE INCOME TAXES** | **800,963** | (2,073,829) |
| **INCOME TAXES (RECOVERY)** | | |
| Deferred | **213,000** | (512,000) |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | $ **587,963** | $ (1,561,829) |

# WINTAAI HOLDINGS LTD.

## NON-CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

(Expressed in Canadian dollars)

## FOR THE YEAR ENDED DECEMBER 31, 2019

with comparative information for 2018

| | Share Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total |
|---|---|---|---|---|
| **BALANCE**, December 31, 2017 | $ 100 | $ - | $ - | $ 100 |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | | | | |
| Loss for the year | - | - | (1,561,829) | (1,561,829) |
| Total comprehensive loss for the year | - | - | (1,561,829) | (1,561,829) |
| **BALANCE**, December 31, 2018 | $ 100 | $ - | $ (1,561,829) | (1,561,729) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | | | |
| Income for the year | - | - | 587,963 | 587,963 |
| Total comprehensive income for the year | - | - | 587,963 | 587,963 |
| Shares issued in the year | 80,239,371 | - | - | 80,239,371 |
| **BALANCE**, December 31, 2019 | $ 80,239,471 | $ - | $ (973,866) | $ 79,265,605 |



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# WINTAAI HOLDINGS LTD.

## NON-CONSOLIDATED STATEMENT OF CASH FLOWS
(Expressed in Canadian dollars)

## FOR THE YEAR ENDED DECEMBER 31, 2019
with comparative information for 2018

| | 2019 | 2018 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income (loss) for the years | $ 587,963 | $ (1,561,829) |
| Charges to income not involving cash: | | |
| Deferred income tax expense | 213,000 | (512,000) |
| Gain on sale of subsidiary shares | (1,012) | - |
| | 799,951 | (2,073,829) |
| Changes in non-cash working capital balances related to operations: | | |
| Increase (decrease) in accounts payable and accrued charges | (165,312) | 183,808 |
| Increase in deferred revenue | - | 22,801,410 |
| **Cash flows generated from operating activities** | 634,639 | 20,911,389 |
| **FINANCING ACTIVITIES** | | |
| Repayment of long term debt | (8,019,465) | - |
| Issue of share capital | 80,239,371 | - |
| **Cash flows generated from financing activities** | 72,219,906 | - |
| **INVESTING ACTIVITIES** | | |
| Investment in subsidiary company | (159,761) | (88,442,689) |
| Proceeds on sale of shares in subsidiary | 235,811 | - |
| Due to related parties | (67,526,244) | 67,531,300 |
| **Cash flows (used in) investing activities** | (67,450,194) | (20,911,389) |
| **CHANGE IN CASH, DURING THE YEAR** | 5,404,351 | - |
| **CASH AND CASH EQUIVALENTS** , beginning of the year | 100 | 100 |
| **CASH AND CASH EQUIVALENTS,** end of the year | $ 5,404,451 | $ 100 |

## 1. REPORTING ENTITY

Wintaai Holdings Ltd. (the "Company") was incorporated under the Business Corporations Act (Ontario) on September 8, 2017. The Company is an investment holding company. The Company's registered address is 110 Sheppard Avenue East, Suite 301, Toronto, Ontario, M2N 6Y8.

## 2. BASIS OF PRESENTATION

### (a) Statement of compliance

These non-consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The non-consolidated financial statements were authorized for issue by the Board of Directors on April 30, 2020.

### (b) Basis of measurement

The financial instruments have been prepared on the historical cost basis, except for financial instruments in the statement of financial position, which are measured at fair value.

### (c) Functional and presentation currency

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

### (a) Income taxes

The Company measures current income tax assets and liabilities at the amount expected to be recovered or paid to taxation authorities. The company uses the liability method to provide for deferred income taxes on all transactions recorded in the non-consolidated financial statements. The liability method requires that income taxes reflect the expected tax consequences of temporary differences between the carrying amounts of assets and liabilities and their bases. Deferred income tax assets and liabilities are determined for each temporary difference and for unused losses, as applicable, using the enacted or substantively enacted tax rates and tax laws that are expected to be in effect when the asset is realized or the liability is settled. Deferred income tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, does not affect either accounting or taxable profit or loss. The effect on deferred income tax assets and liabilities of a change in tax rates or tax laws is recognized in earnings in the period that includes the substantive enactment date. Deferred income tax assets are recognized only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized.

### (b) Foreign currency

Transactions in foreign currencies are translated to the respective functional currency of the company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. However, foreign currency differences arising from the retranslation of available-for-sale equity investments are recognised in other comprehensive income, except on impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Financial instruments

Financial assets

IFRS 9 contains three principal classification categories for financial assets measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which financial asset is managed and its contractual cash flows.

The carrying values of cash approximate their fair values due to their short-term.

Financial liabilities

Financial liabilities are measured at amortized cost using the effective interest rate method. The Company initially recognizes financial liabilities on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company's financial liabilities consist of due to related parties, accounts payable and accrued charges and long-term debt. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

### (d) Investment in subsidiary

The Company uses the cost method to account for its subsidiary, which are the entities over which it has the continuing power to determine the strategic operating, investing and financing policies without the co-operation of others.

## 4. DUE TO RELATED PARTIES

All balances with related parties are unsecured, non-interest bearing with no specific terms of repayment. Balance with related parties consist of the following:

| | | 2019 | 2018 |
|---|---|---|---|
| Due to Chou Associates Management Inc., the parent company | $ | **5,056** | $ 57,563,481 |
| Due to the director | | **-** | 9,967,819 |
| | $ | **5,056** | $ 67,531,300 |

During the year the related parties converted their loans for common shares Note 6.



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(Expressed in Canadian dollars)

## 5. INVESTMENT

On January 3, 2018, the Company acquired 100% of the issued and outstanding common shares of Stonetrust Commercial Insurance Company ("Stonetrust"), an insurance company licensed in six states in United States including Nebraska, Louisiana, Arkansas, Mississippi, Oklahoma and Texas for a consideration of US $70,379,460. On June 14, 2019 the Company sold 10,600 shares (0.265%) of Stonetrust to Stonetrust employees for total proceeds of US $175,324.

## 6. SHARE CAPITAL

At December 31, 2019 the authorized share capital consisted of an unlimited number of common shares. During the first quarter of 2019, the Company converted debt in the amount of $67,531,300 into 4,502,087 common shares, in addition the Company issued 19,983 common shares for $299,750 cash. On June 27, 2019, the Company issued 493,972 common shares for $9,091,619 cash, net of issuing costs of $22,153. On November 6, 2019, the Company issued 172,028 common shares for $3,316,702 cash, net of issuing costs of $19,129. There was a total of 5,188,170 common shares issued as at December 31, 2019 (100 - December 31, 2018).

## 7. LONG-TERM DEBT

The purchase price for the acquisition of Stonetrust was payable US$40 million on closing, US$15 million 135 days after closing, US$2 million on the first, second and third anniversaries of the closing and the balance on the fourth anniversary date. Any amounts not paid on the scheduled date bears interest at LIBOR (London Interbank Offered Rate) plus 5%, The balance is due on January 3, 2022.

| | **2019** | **2018** |
|---|---|---|
| Loan payable | **$ 14,781,946** | $ 22,801,410 |
| Repayment within the next 12 months | - | 4,652,150 |
| Long-term portion | **$ 14,781,946** | $ 18,149,260 |

Principal repayments to be made during the next 3 years, at which time the long-term debt will be fully repaid, are as follows:

| | |
|---|---|
| 2021 | $ 2,598,000 |
| 2022 | 12,183,946 |
| | $ 14,781,946 |

## 8. FINANCIAL RISK MANAGEMENT

The company is exposed to a number of risks through its financial instruments comprising cash, due from related parties, long-term debt and accounts payable and accrued liabilities. Risk management relates to the active management of risks associated with all areas of the company and its operating environment. The financial instruments are exposed to currency risk and liquidity risk.

### a Currency risk

The Company is subject to currency risk through its U.S. dollar denominated loan payable. Changes in the exchange rate may result in a decrease or increase in the gain or loss on foreign exchange. The Company does not use derivative instruments to mitigate this risk. As at December 31, 2019, the Company had the loan payable of $14,781,946 (2018 - $22,801,410).

### b Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with its financial liabilities. The Parent company retains sufficient cash to fund the payment of the loan payable and the accounts payable and accrued liabilities as they come due. Consequently, liquidity risk to the company is considered to be minimal.

### c Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its fixed and floating interest rate financial instruments. The long-term loan is subject to a cash flow risk.

## 9. INCOME TAXES

Deferred income tax assets are attributable to the unrealized foreign exchange losses.

## 10. SUBSEQUENT EVENT

On January 31, 2020, the Company issued 158,667 Common Shares at a price of CDN $19.84 or US $14.98 per Common Share, for total cash consideration of $3,145,310.