



DISTINCT INFRASTRUCTURE GROUP INC.

Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and February 28, 2015

(Unaudited, expressed in Canadian Dollars)

Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The management of Distinct Infrastructure Group Inc. is responsible for the preparation of the accompanying unaudited condensed consolidated interim financial statements. The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards and are considered by management to present fairly the consolidated financial position, operating results and cash flows of the Company.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor. These unaudited condensed consolidated interim financial statements include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the interim consolidated financial position, results of operations and cash flows.

"Joe Lanni"

.....
Joe Lanni
Chief Executive Officer
Toronto, Ontario
May 27, 2016

"Alex Agius"

.....
Alex Agius
Chief Executive Officer
Toronto, Ontario
May 27, 2016

"Manny Bettencourt"

.....
Manny Bettencourt
Chief Financial Officer
Toronto, Ontario
May 27, 2016

Distinct Infrastructure Group Inc.

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Distinct Infrastructure Group Inc.
(Formerly QE2 Acquisition Corp.)

Unaudited Condensed Consolidated Interim Statements of Financial Position
As at March 31, 2016 and Audited December 31, 2015

Canadian Dollars		March 31, 2016	December 31, 2015
	Notes	\$	\$ (Audited)
ASSETS			
Current assets			
Cash		4,463,659	8,534,669
Accounts receivable		14,330,934	14,959,304
Inventory		246,370	244,745
Prepaid expenses and deposits		1,234,906	1,048,505
Work in progress		14,296,269	9,074,081
Due from shareholders	12	225,631	225,631
Due from related party	12	1,726,355	1,821,789
Total current assets		36,524,124	35,908,724
Non-current assets			
Property and equipment	4	12,621,559	10,297,970
Goodwill	5	5,109,214	4,078,699
Total long-term assets		17,730,773	14,376,669
TOTAL ASSETS		54,254,897	50,285,393
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Credit facilities	6	2,551,838	337,461
Accounts payable and accrued liabilities		5,454,205	4,961,331
Current portion of debentures and other debt	7	23,354	42,149
Income taxes payable		1,364,452	1,365,082
Current portion of finance lease obligations	9	1,933,549	2,013,652
		11,327,398	8,719,675
Non-current liabilities			
Debentures and other debt	7	1,489,800	943,020
Long term-debt	8	18,971,825	18,929,986
Finance lease obligations	9	6,178,172	5,177,264
Total long-term liabilities		26,639,797	25,050,270
TOTAL LIABILITIES		37,967,195	33,769,945
Shareholders' Equity			
Share capital		9,819,050	9,819,050
Contributed surplus	10	86,468	43,489
Retained earnings		6,382,184	6,652,909
Total Equity		16,287,702	16,515,448
TOTAL LIABILITIES AND EQUITY		54,254,897	50,285,393

These condensed consolidated interim financial statements are authorized for issue by the Board of Directors on May 27, 2016.

“Alexander Agius”

Director

“Joe Lanni”

Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Distinct Infrastructure Group Inc.
(Formerly QE2 Acquisition Corp.)

Unaudited Condensed Consolidated Interim Statements of Comprehensive Income (Loss)
For the three months ended March 31, 2016 and the three months ended February 28, 2015

Canadian Dollars		Three months ended March 31, 2016	Three months ended February 28, 2015
	Notes	\$	\$
Revenue		10,759,455	6,164,553
Expenses			
Direct costs		7,668,678	4,301,380
Selling, general and administrative		2,061,316	1,145,355
Depreciation	4	532,279	127,712
Total expenses		10,262,273	5,574,447
Earnings from operations		497,182	590,106
Other expenses			
Finance expense	8	767,907	192,188
		767,907	192,188
(Loss) income before taxes		(270,725)	397,918
Income taxes		-	192,000
Net and comprehensive (loss) income		(270,725)	205,918
(Loss) earnings per share:			
Basic	11	\$ (0.001)	\$ 0.001
Diluted	11	\$ (0.001)	\$ 0.001

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Distinct Infrastructure Group Inc.
(Formerly QE2 Acquisition Corp.)

Unaudited Condensed Consolidated Interim Statements of Cash Flows

For the three months ended March 31, 2016 and the three months ended February 28, 2015

Canadian Dollars		March 31, 2016	February 28, 2015
	Notes	\$	\$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES			
OPERATING			
Net (loss) income		(270,725)	205,918
Items not affecting cash			
Accretion		58,979	-
Share-based compensation	10 (a)	21,412	-
Depreciation	4	532,279	127,712
		<u>341,945</u>	<u>333,630</u>
Changes in non-cash working capital items			
Accounts receivable		1,107,038	2,893,503
Inventory		(1,625)	-
Work in progress		(5,222,188)	(3,150,000)
Prepaid expenses and deposits		(160,401)	(106,621)
Accounts payable and accrued liabilities		439,802	(382,564)
Income taxes payable		(630)	192,000
Cash flows used in operating activities		<u>(3,496,058)</u>	<u>(220,052)</u>
INVESTING ACTIVITIES			
Purchase of property and equipment		(102,773)	(179,335)
Cash paid for business acquisition	3	(1,899,334)	-
		<u>(2,002,107)</u>	<u>(179,335)</u>
FINANCING ACTIVITIES			
Advances (to) / from shareholder		-	192,067
Proceeds from credit facilities	6	2,214,377	138,450
Debentures and other debts		(15,790)	-
Repayment from related parties		95,432	183,579
Payment of obligations under finance lease	9	(866,864)	(113,626)
		<u>1,427,155</u>	<u>400,470</u>
NET CASH INFLOW		<u>(4,071,010)</u>	<u>1,083</u>
CASH, BEGINNING OF PERIOD		<u>8,534,669</u>	<u>1,257</u>
CASH, END OF PERIOD		<u><u>4,463,659</u></u>	<u><u>2,340</u></u>

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Distinct Infrastructure Group Inc.
(Formerly QE2 Acquisition Corp.)

Unaudited Condensed Consolidated Interim Statement of Changes in Equity

For the three months ended March 31, 2016 and the three months ended February 28, 2015

	Issued share capital				
	No. of shares	Amount	Contributed surplus	Retained earnings	Total equity
		\$	\$	\$	\$
Balance, November 30, 2014	151,000,000	3	-	4,382,508	4,382,511
Net and comprehensive income	-	-	-	205,918	205,918
Balance, February 28, 2015	151,000,000	3	-	4,588,426	4,588,429
Issuance of shares on private placement	39,121,090	3,912,109	-	-	3,912,109
Net and comprehensive income	-	-	-	603,887	603,887
Balance, May 31, 2015	190,121,090	3,912,112	-	5,192,313	9,104,425
Issuance of shares on private placement	16,444,555	1,644,456	-	-	1,644,456
Elimination of DistinctTech Inc. common shares on RTO	(217,218,927)	-	-	-	-
Shares issued on completion of RTO	217,218,927	3,234,162	-	-	3,234,162
QE2 common shares outstanding prior to RTO	38,048,964	-	-	-	0
Share issuance cost	-	(535,132)	-	-	(535,132)
Issuance of shares on RTO	10,653,282	905,529	-	-	905,529
Net and comprehensive income	-	-	-	527,587	527,587
Balance, August 31, 2015	255,267,891	9,161,127	-	5,719,900	14,881,027
Issuance of shares for financing fees	8,000,000	680,000	-	-	680,000
Issuance of agent options	-	(22,077)	22,077	-	0
Share-based compensation	-	-	21,412	-	21,412
Net and comprehensive income	-	-	-	933,009	933,009
Balance, December 31, 2015	263,267,891	9,819,050	43,489	6,652,909	16,515,448
Issuance of options (Note 10 (a))	-	-	21,567	-	21,567
Share-based compensation (Note 10 (a))	-	-	21,412	-	21,412
Net and comprehensive loss	-	-	-	(270,725)	(270,725)
Balance, March 31, 2016	263,267,891	9,819,050	86,468	6,382,184	16,287,702

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Distinct Infrastructure Group Inc.
(Formerly QE2 Acquisition Corp.)

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and the three months ended February 28, 2015

1. Nature of operations

Distinct Infrastructure Group Inc. (“DIG”, the “Company” and/or the “Group”) is a Canadian publicly traded design, engineering, construction, services and maintenance company. It predominantly services the telecommunications sector in southern Ontario, but has commenced services to other utilities in Ontario and Alberta. The Company was incorporated under the laws of the province of Ontario on April 25, 2007, and its name was subsequently changed by way of Articles of Amendment from Distinct Technical Services Inc. to DistinctTech Inc. In conjunction with the closing of a reverse take-over transaction (Note 3 (i)), the Company changed its name to Distinct Infrastructure Group Inc. The Company’s shares are traded on the Toronto Venture Exchange under the symbol DUG.

The head office, principal address and registered records office of the Company is located at 77 Belfield Road, Toronto, Ontario, M9W 1G6.

2. Basis of preparation

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”).

These condensed interim consolidated financial statements have been prepared following the same accounting principles and application methods as those disclosed in the Company’s annual audited consolidated financial statements for the year ended December 31, 2015. Because the disclosures provided in these condensed interim consolidated financial statements do not conform in all respects with International Financial Reporting Standards (“IFRS”) for annual financial statements, these condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2015.

The condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Corporation (the “Board”) on May 27, 2016.

Basis of consolidation

The condensed consolidated interim financial statements include the accounts of Distinct Infrastructure Group Inc. and its wholly owned subsidiaries, DistinctTech Inc. (Ontario), iVac Services Inc., Distinct Environmental Solutions Inc., DistinctTech Inc. (Alberta), Pillar Contracting Ltd., and QE2 Holdings Corp. and Mega Diesel Excavating Ltd. as at March 31, 2016.

Name of subsidiary	Principal activity	Place of Business and operation	Equity interest	
			2016	2015
DistinctTech Inc. (Ontario)	Telecom construction	Toronto, ON	100%	100%
iVac Services Inc.	Hydrovac services	Toronto, ON	100%	100%
Distinct Environmental Solutions Inc.	Inactive	Toronto, ON	100%	100%
DistinctTech Inc. (Alberta)	Civil light construction	Albertsville, AB	100%	100%
Pillar Contracting Ltd.	Civil light construction	Calgary, AB	100%	100%
Candesto Enterprises Ltd.	Road construction	Calgary, AB	100%	100%
Mega Diesel Excavating Ltd.	Hydrovac services	Calgary, AB	100%	-

**Distinct Infrastructure Group Inc.
(Formerly QE2 Acquisition Corp.)**

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and the three months ended February 28, 2015

2. Basis of preparation *(continued from previous page)*

Basis of preparation

The condensed consolidated interim financial statements of the Company are presented in Canadian dollars which is the Company's functional currency and have been prepared on a going concern basis under the historical cost convention, except for the initial recognition of assets and liabilities acquired in a business combination and for certain financial instruments that have been measured at fair value.

The Company changed its year end date from November 30 to December 31. The condensed consolidated interim financial statements have comparatives of three months ending February 28, 2015 to new fiscal quarter end actuals of three months ending March 31, 2016.

3. Business combinations

(i) Reverse take-over

On August 13, 2015, pursuant to a definitive amalgamation agreement dated June 29, 2015, QE2 Acquisition Corp. ("QE2") issued one share of QE2 for each share held by shareholders of DistinctTech Inc. ("DistinctTech") to those shareholders. Total shares issued was 217,218,927, resulting in the DistinctTech shareholders controlling QE2 and therefore constituting a reverse takeover of QE2 (the "Transaction"). In addition, each DistinctTech warrant outstanding at the date of the closing of the Transaction was converted on a one for one basis into warrants of QE2. A total of 4,317,251 and 27,782,823 broker warrants and warrants issued on private placement, respectively, were converted. In connection with the Transaction, the Company issued 10,653,282 shares valued at \$0.085 per share to a third party as a finders' fee for the Transaction.

As the former shareholders of DistinctTech own approximately 85% of the voting shares of QE2 after the transaction, and has control of the combined entity, the acquisition of DistinctTech by QE2 has been accounted for using the reverse-takeover ("RTO") acquisition method of accounting in accordance with IFRS 3 with DistinctTech deemed to be the acquirer or the accounting parent. The accounting information and results of operations of the legal parent, QE2, are included in the consolidated financial statements from the date of the reverse takeover, August 13, 2015. For accounting purposes, the Company is considered to be a continuation of DistinctTech and the comparatives are those of DistinctTech.

The fair value of the consideration, calculated as \$3,234,162, is determined based on the percentage of ownership of the merged entity that was transferred to shareholders of QE2 upon completion of the Transaction. This value represents the fair value of the number of shares that DistinctTech would have had to issue for the ratio of ownership interest in the combined entity to be the same as if the Transaction had taken the legal form of DistinctTech acquiring 100% of the shares of QE2. The percentage of ownership QE2 shareholders has in the combined entity is 15% after the consolidation of its existing 38,048,964 issued and outstanding common shares with the 217,218,927 newly issued shares of DistinctTech held by shareholders as of August 13, 2015. The fair value of the Transaction is based on the transaction price of the recent private placement sales occurring prior to the Transaction to arm's length parties of DistinctTech units. DistinctTech units were valued at \$0.10 per unit. A value of \$0.015 was allocated to the attached half warrant leaving and per share value of \$0.085.

The Company has made a preliminary determination of the fair value of the tangible and intangible assets acquired and liabilities assumed in the Transaction. The fair value of the intangible assets has been measured provisionally and if new information obtained within one year of the date of acquisition about the facts and circumstances that existed at the date of the acquisition identifies adjustments to the amounts then the accounting for the acquisition will be revised. The final allocation of the fair value of the net assets acquired and aggregate consideration may be significantly different from the preliminary allocation as presented below:

Distinct Infrastructure Group Inc.
(Formerly QE2 Acquisition Corp.)

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and the three months ended February 28, 2015

3. Business combinations (continued from previous page)

(i) Reverse take-over (continued)

Fair value of net assets acquired

Net working capital	134,527
Property and equipment	1,268,899
Goodwill	4,519,862
Debentures	(834,260)
Long term debt	(1,854,866)
Total net assets acquired	3,234,162

Consideration given:

Shares issued	38,048,964
Value per share	\$0.085
Total consideration	3,234,162

Goodwill arises from existing synergies and is not tax deductible.

(ii) Acquisition of Mega Diesel Excavating Ltd.

On March 10, 2016, the Company acquired all of the issued and outstanding securities of Mega Diesel Excavating Ltd. from two arm's length parties for an aggregate purchase price of \$2,623,307 of which \$2,121,840 was paid on closing and the balance of \$501,467 is payable on July 10, 2017. The Company also acquired cash of \$201,716 and issued 350,000 options as part of the transaction (note 10 (a)).

The Company has made a preliminary determination of the fair value of the tangible and intangible assets acquired and liabilities assumed in the acquisition. The fair value of the intangible assets has been measured provisionally and if new information obtained within one year of the date of acquisition about the facts and circumstances that existed at the date of the acquisition identifies adjustments to the amounts then the accounting for the acquisition will be revised. The final allocation of the fair value of the net assets acquired and aggregate consideration may be significantly different from the preliminary allocation as presented below:

The total purchase price has been allocated as follows:

Fair value of net assets acquired:

Net working capital	(1,121,676)
Property and equipment	2,753,095
Long term debt	(24,168)
Total net assets acquired	1,607,251

Consideration given:

Cash	2,623,307
Options	14,459
Total Consideration:	2,637,766

Goodwill

1,030,515

Distinct Infrastructure Group Inc.
(Formerly QE2 Acquisition Corp.)

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and the three months ended February 28, 2015

4. Property and equipment

	Office and computer equipment	Machinery, vehicles and equipment	Construction equipment under finance lease	Total
2016				
Cost				
Balance December 31, 2015	681,151	2,286,239	11,337,649	14,305,039
Additions	97,410	5,363	-	102,773
Acquisitions (note 3 (ii))	74,737	63,472	2,614,886	2,753,095
Balance March 31, 2016	853,298	2,355,074	13,952,535	17,160,907
Accumulated Depreciation				
Balance December 31, 2015	207,116	578,473	3,221,480	4,007,069
Change for the year	31,600	54,571	446,108	532,279
Balance March 31, 2016	238,716	633,044	3,667,588	4,539,348
Net book value				
December 31, 2015	474,035	1,707,766	8,116,169	10,297,970
March 31, 2016	614,582	1,722,030	10,284,947	12,621,559

5. Goodwill

	March 31, 2016	December 31, 2015
Balance, December 31, 2015	4,078,699	-
Acquisition (Note 3 (ii))	1,030,515	4,519,862
Disposal	-	(441,163)
	5,109,214	4,078,699

6. Credit facilities

The Company has credit facilities available from the following financial institutions as at March 31, 2016:

- *Royal Bank of Canada*
Demand revolving operating loan with a maximum available credit of \$8,500,000. The operating loan is due on demand, bears interest at Royal Bank's prime lending rate plus 2% per annum and is secured by a general security agreement, an assignment of insurance, and guarantee postponement of claim in the amount of \$750,000 by two directors. As at March 31, 2016, this operating loan had a balance of \$2,430,700 (December 31, 2015 - \$nil).
- *Alberta Treasury Board* ("ATB")
Demand operating loan with a borrowing base equal to the lesser of 75% of earned accounts receivable less amounts over 90 days or \$500,000. Interest is payable at prime plus 2% and is secured by \$500,000 personal guarantees and postponement of claim by two shareholders, and a general security agreement providing first charge and security interest in all present and after-acquired property and equipment. The operating loan is not subject to financial covenants. As at March 31, 2016, this operating loan had a balance of \$121,138. (December 31, 2015 \$337,461).

Distinct Infrastructure Group Inc.
(Formerly QE2 Acquisition Corp.)

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and the three months ended February 28, 2015

7. Debentures and other debt

Debentures

	\$
Debentures assumed in the Transaction (Note 3 (i))	834,260
Accumulated accretion as at December 31, 2015	33,151
Balance as at December 31, 2015	867,411
Accretion for the three months ending March 31, 2016	17,140
Balance as at March 31, 2016	884,551

The Company assumed unsecured convertible debentures (the “Debentures”) with a principal balance of \$979,000 as part of the Transaction (Note 3 (i)). Semi-annual interest payments on June 30 and December 31 are calculated at 8% per annum. The Debentures mature on October 20, 2018. Debenture holders may exercise the right to convert at an exercise price of \$0.25 per common share. The Debentures are subject to a forced conversion, at the option of the Company, if the common shares trade at or above \$0.30 per share for a period of 20 non-consecutive trading days.

Other debt

As part of the Transaction, the Company assumed various loans with two Canadian financial institutions bearing fixed interest at rates ranging from 0% to 5.99% per annum, monthly payments ranging from \$483 to \$1,086, including interest and maturity dates ranging from November 2016 to February 2019. These loans are secured by automobiles having a carrying value of \$88,948. The principal balance outstanding at March 31, 2016 is \$128,136, of which \$23,354 is due within the next year.

In March 2016, the Company acquired Mega Diesel Excavating Ltd. for \$2,623,307. The Company paid cash of \$2,121,840, the remaining \$501,467 is due on July 10, 2017 (Note 3 (ii)).

8. Long-term debt

	\$
Crown debt	20,000,000
Financing fee paid in cash	(400,000)
Financing fee paid in shares	(680,000)
Accretion as at December 31, 2015	9,986
	18,929,986
Accretion	41,839
Balance, March 31, 2016	18,971,825

In November 2015, the Company closed a credit agreement with Crown Capital Fund IV, LP (“Crown”) for a \$20,000,000 million term loan (“Debt”) for the purposes of future acquisitions. The term loan bears interest at a fixed interest rate of 10% per annum payable monthly in arrears, maturing on November 25, 2020.

The Company has the option to prepay all or any amount of the outstanding principal (subject to a minimum prepayment of \$1,000,000) after 18 months have lapsed, subject to a prepayment fee calculated as a percentage (the “Prepayment Fee Percentage”) of the principal amount being repaid. The Prepayment Fee Percentage starts at 3% and decreases to 2% after 36 months and to 1% after 48 months.

Distinct Infrastructure Group Inc.
(Formerly QE2 Acquisition Corp.)

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and the three months ended February 28, 2015

8. Long-term debt (continued from previous page)

The Company, including all subsidiaries, and ABL Professional Management Services Inc. (the “Obligors”) each provided an unlimited guarantee, guaranteeing the due payment and performance of all obligations under the Debt. ABL Professional Management Services Inc. (“ABL”) is a separate legal entity that is controlled by the two majority shareholders and co-chief executive officers of the Company. The Debt is further secured by a general security agreement from each Obligor, constituting a second-ranking lien (subject only to permitted liens) on all of the present and after acquired property of such Obligor. Also, a securities pledge agreement from each Obligor, constituting a second-ranking lien (subjected only to permitted liens) on all of the equity interests such Obligor owns in another Obligor.

Under the terms of the Debt, the Company paid a share fee through the issuance of 8,000,000 common shares to Crown at price of \$0.085 per share and paid a cash fee of \$400,000. These amounts are being accreted over the life of the Debt. Accretion expense during the three months ended March 31, 2016 was \$54,827.

The Debt requires the Company to comply with certain financial covenants, including a debt service coverage ratio of 1.25:1 and a net debt to earnings before interest, tax, depreciation and amortization (“EBITDA”) of 3:1 (the “Financial Covenants”). EBITDA is calculated on a pro-forma trailing twelve month basis. EBITDA is specifically defined in the credit agreement and excludes extraordinary, unusual and non-recurring items for such period.

As at March 31, 2016 the Company was not in default of the credit agreement.

9. Finance lease obligation

The following is a schedule of the future minimum lease payments of the finance leases expiring at various dates, ranging from April 1, 2016 to December 31, 2020, together with the balance of the obligation:

Estimated lease payments are as follows:

	2016	2015
2016	2,519,393	2,730,154
2017	2,823,923	2,169,897
2018	2,195,608	1,875,697
2019	1,580,002	1,344,958
Subsequent years	34,156	34,156
	9,153,082	8,154,862
Less amount representing interest	1,041,361	963,946
Present value of minimum lease payments	8,111,721	7,190,916
Less current portion	1,933,549	2,013,652
	6,178,172	5,177,264

Interest charges to the accounts of the Company on the above during the three months ending March 31, 2016 amounts to \$108,109 (February 28, 2015 – \$52,493).

The finance leases have interest rates that range from 0-7% interest with an average interest rate of 5% (2015 – 5%). Interest and principal payments made on finance leases for the quarter ended was \$866,864 (February 28, 2015 - \$113,626).

10. Share-based compensation and common share purchase warrants

(a) Share options

The Company has adopted a stock option plan in accordance with the policies of the Exchange for the benefit of its directors, officers, employees and other key personnel. A maximum of 10% of the issued and outstanding common shares of the Company are reserved for issuance pursuant to the stock option plan. The stock option plan provides that the terms of the options and the option price shall be fixed by the directors subject to the price restrictions and other requirements imposed by the Exchange.

Distinct Infrastructure Group Inc.
(Formerly QE2 Acquisition Corp.)

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and the three months ended February 28, 2015

10. Share-based compensation and common share purchase warrants *(continued from previous page)*

On March 4, 2016, the Company granted 2,000,000 stock options to an arms-length consultant. 1,000,000 options are exercisable at \$0.135, 500,000 options exercisable at \$0.15 and the remaining 500,000 options are exercisable at \$0.17. Each option is exercisable at any time until March 3, 2018.

On March 10, 2016, the Company issued 350,000 stock options as partial consideration in its acquisition of Mega Diesel Excavating Ltd. The options are exercisable at \$0.20 at any time until March 10, 2018 (Note 3 (ii)).

The following tables provide a summary of the Company's stock option plan as at March 31, 2016:

	Number of share options	Weighted average exercise price \$
Balance December 31, 2015	8,250,000	0.19
Options Granted	2,350,000	0.16
Balance, March 31, 2016	10,600,000	0.18

The Black-Scholes option-pricing model, with the following assumptions, was used to estimate the fair value of share options on the grant date as follows:

	March 4, 2016	March 10, 2016	September 24, 2015
Risk-free interest rate	0.82%	0.82%	0.82%
Expected life	2 years	2 years	5 years
Expected volatility	85.70%	85.00%	68.42%
Dividend per share	\$nil	\$nil	\$nil
Share price	\$0.13	\$0.13	\$0.08

(b) Common share purchase warrants

The following tables provide a summary of the Company's common share purchase warrants outstanding as of March 31, 2016:

	Number of warrants	Weighted average exercise price \$
Balance December 31, 2015	38,227,865	0.21
Balance, March 31, 2016	38,227,865	0.21

11. Basic and diluted earnings per share

The weighted average number of common shares used in the calculation of basic earnings per share is 263,267,891 (2014 – 151,000,000). Of the Company's outstanding options, warrants and the conversion feature of the Debentures, 4,560,252 were in the money and was used in the calculation of diluted earnings per share. The remainder of options, warrants and the conversion feature of the Debenture did not have an effect on the weighted average number of common shares used to calculate diluted earnings per share; the exercise/conversion price of these potentially dilutive instruments were higher than the Company's average market price during the quarter ending March 31, 2016 (i.e. "out of the money").

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12. Related party transactions

Due from related party

ABL provides engineering services to the Company. Transactions between the parties are incurred in the normal course of business. During the period, the Company has recorded services on a pass through basis of \$80,000 (2015 – \$326,157). As at March 31, 2016, \$1,726,355 (2015 – \$1,821,789) remains receivable. The shareholders of ABL have provided personal guarantees up to \$2,000,000 and ABL will repay amounts outstanding within 24 months, starting in June 2016. There will be no additional advances to related parties in the normal course of business.

Due from shareholders

Receivables outstanding from two majority shareholders and co-chief executive officers of the Company amounts to \$225,631 (2015 – \$225,631). The outstanding amounts will be repaid over the next twenty four months, is personally guaranteed by the shareholders and bears interest at the Bank of Canada's prime rate plus 1% per annum.

Compensation of key management personnel

The Company pays its co-chief executive officers by way of a management services agreement(s) with companies controlled by these individuals. Payments totalling \$196,538 was paid for the period ending March 31, 2016 (February 28, 2015 – \$161,812).

The Company pays its other key management personnel by way of management services agreement(s) with companies controlled by these individuals. Payments totalling \$233,975 was paid for the period ending March 31, 2016 (February 28, 2015 – \$105,601).

13. Other commitments

The Company leases its premises, vehicles and other related equipment under operating lease(s) that expire on various dates. The Company's total commitments of these leases, inclusive of occupancy cost, are as follows:

2016	1,879,630
2017	3,091,512
2018	3,303,995
2019	2,663,197
2020	1,969,154
2021	1,821,361
Thereafter	5,086,556
Total	<u>19,815,405</u>

The Company signed an offer to lease on a new property effective June 1, 2015. The existing lease on the Company's former office and warehouse facilities were subleased to a third party though the remaining lease period. The new lease will be for ten years, and have a basic rent of \$37,542 per month, an increase of \$16,960 per month. The Company also leased a warehouse and office space in Alberta for five (5) years with basic rent of \$56,000 per month.

14. Capital management

The Company's primary objectives when managing capital are to (a) safeguard the Company's ability to develop and market services, and (b) provide a sound capital structure for raising capital at a reasonable cost for the funding of ongoing development of its services and new growth initiatives. The Board of Directors does not establish quantitative capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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14. Capital management *(continued from previous page)*

The Company includes equity, comprised of issued share capital and retained earnings, in the definition of capital. The Company is dependent on cash flow from services and external financing to fund its continued growth. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There has been no change to the Company's capital management during the quarter ending March 31, 2016, in 2015 or 2014.

The Company's capital structure is as follows:

	March 31, 2016	December 31, 2015
Current assets	36,524,124	35,908,724
Long term assets	17,730,773	14,376,669
Current liabilities	(11,327,398)	(8,719,675)
Long-term borrowings	(26,639,797)	(25,050,270)
Shareholders' equity	<u>16,287,702</u>	<u>16,515,448</u>

15. Financial instruments

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of financial statements in assessing the extent of risk related to financial instruments.

(a) Fair value

The fair value of current financial assets and current financial liabilities approximates their carrying value due to their short-term maturity dates. The fair value of long-term debt and debentures approximates its carrying value as the interest rate attached to those instrument approximates a market rate of interest and interest rates have not changed materially during the year. The fair value of other debt approximates its carrying value due to the low principal balance and rates approximating market rates of interest for similar instruments.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

- **Interest rate risk**
The Company is exposed to interest rate risk due to the variable rate interest on its credit facilities. Changes in the lending rates may cause fluctuations in cash flows and interest expense. A 1% change in interest rates would impact earnings by approximately \$50,000.
- **Currency risk**
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has no foreign currency transactions and therefore is not exposed to currency risk.
- **Price risk**
Price risk is the risk that the commodity prices that the Company charges are significantly influenced by its competitors and the commodity prices that the Company must charge to meet its competitors may not be sufficient to meet its expenses. The Company reduces its exposure to price risk by ensuring that it obtains information regarding the commodity prices that are set by the competitors in the region to ensure that its prices are appropriate. In addition, management closely monitors expenses and matches capital outlays to its revenue stream. In the opinion of management the price risk exposure to the Company is low and is not material.

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15. Financial instruments (continued from previous page)

(c) Credit risk

Credit risk is the risk of financial loss if a client fails to meet its contractual obligations, and arises primarily from the Company's trade accounts receivable and work in progress. The carrying amount of accounts receivables and work in progress totaling \$28,627,203 (December 31, 2015 – \$24,033,385) represents the maximum credit exposure. A significant portion of the trade accounts receivable are from the tele-communications industry and as such, the Company is exposed to all the risks associated with that industry. However, the majority of these receivables are from well-established, Canadian clients, whose creditworthiness is of the highest level, thereby reducing the risk of material payment default.

The Company has an established credit policy under which each new client is analyzed individually for creditworthiness. The review includes external ratings where available, credit reference checks and, in some cases, bank references. Creditworthiness of existing clients is monitored on an ongoing basis, along with monitoring the amount and age of balances outstanding.

(d) Concentration risk

The Company does have concentration risk. Concentration risk is the risk that a customer has more than ten percent of the total accounts receivable balance and thus there is a higher risk to the business in the event of a default by one of these customers. Concentrations of credit risk relates to groups of counterparties that have similar economic or industry characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. At March 31, 2016, receivables from 3 customers (December 31, 2015 – 3 customers) comprised approximately 97% (December 31, 2015 – 95%) of the total outstanding receivables. One particular customer's account represents 65% (December 31, 2015, – 57%) of the total outstanding receivables at March 31, 2016. The Company reduces this risk by regularly assessing the credit risk associated with these accounts and closely monitoring any overdue balances.

(e) Liquidity risk

The Company does have a liquidity risk with credit facilities of \$2,551,838, (December 31, 2015 – \$337,461), accounts payable and accrued liabilities of \$5,454,205 (December 31, 2015 - \$4,961,331) and current portion of obligations under finance leases of \$1,933,549 (December 31, 2015 – \$2,013,652). Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate line of credit to repay trade creditors and repays long-term debt interest and principal as they become due. Undiscounted cash outflow of financial liabilities based on maturity date are as follows:

	<u>1 year</u>	<u>2 to 5 years</u>	<u>>5 years</u>	<u>Total</u>
Accounts payable and accrued liabilities	5,454,205	-	-	5,454,205
Debentures and other debt	23,354	1,489,800	-	1,513,154
Long-term debt	-	20,000,000	-	20,000,000
Finance lease obligations	1,933,549	6,178,172	-	8,111,721

16. Contingent liabilities

Legal proceeding commenced against the Company for breach of contract and breach of obligation. For these claims, the plaintiff is seeking payment from the Company for damages. The legal claim is ongoing and management believes that there is a low likelihood that there will be an economic outflow as a result of the claim. There were no accruals made for these amounts in the financial statements.