



# **DISTINCT INFRASTRUCTURE GROUP INC.**

**Condensed Consolidated Interim Financial Statements**  
**For the three and six months ended June 30, 2016 and May 31, 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 interim consolidated financial position, results of operations 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 CPA Canada 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  
August 29, 2016

*"Alex Agius"*

.....  
Alex Agius  
Chief Executive Officer  
Toronto, Ontario  
August 29, 2016

*"Manny Bettencourt"*

.....  
Manny Bettencourt  
Chief Financial Officer  
Toronto, Ontario  
August 29, 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 June 30, 2016 and Audited December 31, 2015

	Notes	June 30, 2016 \$	December 31, 2015 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		3,429,889	8,534,669
Accounts receivable		19,104,638	14,959,304
Inventory		246,378	244,745
Prepaid expenses and deposits		1,530,221	1,048,505
Work in progress		17,318,249	9,074,081
Due from shareholders	12	205,631	225,631
Due from related party	12	1,726,932	1,821,789
<b>Total current assets</b>		<u>43,561,938</u>	<u>35,908,724</u>
<b>Non-current Assets</b>			
Property and equipment	4	14,580,994	10,297,970
Goodwill	5	5,109,214	4,078,699
<b>Total long-term assets</b>		<u>19,690,208</u>	<u>14,376,669</u>
<b>TOTAL ASSETS</b>		<u><b>63,252,146</b></u>	<u><b>50,285,393</b></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Credit facilities	6	7,140,800	337,461
Accounts payable and accrued liabilities		9,009,331	4,961,331
Current portion of debentures and other debt	7	32,116	42,149
Income taxes payable		722,192	1,365,082
Current portion of finance lease obligations	9	2,396,452	2,013,652
<b>Total current liabilities</b>		<u>19,300,891</u>	<u>8,719,675</u>
<b>Non-current Liabilities</b>			
Debentures and other debt	7	1,476,784	943,020
Long-term debt	8	19,014,866	18,929,986
Finance lease obligations	9	7,042,802	5,177,264
<b>Total long-term liabilities</b>		<u>27,534,452</u>	<u>25,050,270</u>
<b>TOTAL LIABILITIES</b>		<u>46,835,343</u>	<u>33,769,945</u>
<b>Shareholders' Equity</b>			
Common shares		9,819,050	9,819,050
Contributed surplus	10	204,825	43,489
Retained earnings		6,392,928	6,652,909
<b>Total equity</b>		<u>16,416,803</u>	<u>16,515,448</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><b>63,252,146</b></u>	<u><b>50,285,393</b></u>

These condensed consolidated interim financial statements are authorized for issue by the Board of Directors on August 29, 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 and six months ended June 30, 2016 and the three and six months ended May 31, 2015

	Notes	For the three months ended		For the six months ended	
		June 30, 2016 \$	May 31, 2015 \$	June 30, 2016 \$	May 31, 2015 \$
<b>Revenue</b>		15,514,275	8,507,528	26,273,730	14,672,081
<b>Expenses</b>					
Direct costs		11,042,213	5,821,589	18,710,891	10,122,969
Selling, general and administrative		2,863,319	1,226,539	4,924,635	2,371,894
Depreciation	4	731,985	474,920	1,264,264	602,632
<b>Total expenses</b>		14,637,517	7,523,048	24,899,790	13,097,495
<b>Earnings from operations</b>		876,758	984,480	1,373,940	1,574,586
<b>Other expenses</b>					
Finance expense		866,014	147,926	1,633,921	340,114
		866,014	147,926	1,633,921	340,114
(Loss) / Income before taxes		10,744	836,554	(259,981)	1,234,472
Income taxes		-	232,667	-	424,667
<b>Net and comprehensive (loss) / income</b>		<b>10,744</b>	<b>603,887</b>	<b>(259,981)</b>	<b>809,805</b>
(Loss) / earnings per share					
<b>Basic</b>	11	<b>0.000</b>	<b>0.004</b>	<b>(0.001)</b>	<b>0.005</b>
<b>Diluted</b>	11	<b>0.000</b>	<b>0.004</b>	<b>(0.001)</b>	<b>0.005</b>

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 six months ended June 30, 2016 and the six months ended May 31, 2015

		<b>June 30, 2016</b>	<b>May 31, 2015</b>
	<b>Notes</b>	<b>\$</b>	<b>\$</b>
<b>NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES</b>			
<b>OPERATING</b>			
Net Income/(Loss)		(259,981)	809,805
<b>Items not affecting cash</b>			
Accretion		132,249	-
Share-based compensation	10 (a)	121,938	-
Depreciation	4	1,264,264	602,632
<b>Changes in non-cash working capital items</b>			
Accounts receivable		(3,666,666)	(3,308,038)
Inventory		(1,633)	(3,750)
Work in progress		(8,244,168)	(517,500)
Prepaid expenses and deposits		(455,716)	(481,512)
Accounts payable and accrued liabilities		3,830,992	(150,269)
Income taxes payable		(642,890)	424,667
<b>Cash flows used in operating activities</b>		<b>(7,921,611)</b>	<b>(2,623,965)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	4	(302,338)	(1,773,166)
Cash paid for business acquisition		(1,899,334)	-
		<b>(2,201,672)</b>	<b>(1,773,166)</b>
<b>FINANCING ACTIVITIES</b>			
Advances / Repayment from shareholder		20,000	(3,884)
Repayment of credit facilities	6	(337,461)	(38,495)
Proceeds from credit facilities		7,140,801	-
Repayment of debentures and other debts		(39,960)	-
Repayment from related parties		94,857	(31,162)
Proceeds of long-term debt		-	195,001
Payment of obligations under finance lease	9	(1,859,734)	404,012
Issuance of shares, net of shares issuance costs		-	3,912,106
		<b>5,018,503</b>	<b>4,437,578</b>
<b>NET CASH INFLOW</b>		<b>(5,104,780)</b>	<b>40,447</b>
<b>CASH, BEGINNING OF PERIOD</b>		<b>8,534,669</b>	<b>13,939</b>
<b>CASH, END OF PERIOD</b>		<b>3,429,889</b>	<b>54,386</b>

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 six months ended June 30, 2016 and the six months ended May 31, 2015

	<b>Issued share capital</b>				
	<b>No. of shares</b>	<b>Amount</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Total equity</b>
		\$	\$	\$	\$
Balance, November 30, 2014	151,000,000	3	-	4,382,508	4,382,511
Net and comprehensive income	-	-	-	205,918	205,918
<b>Balance, February 28, 2015</b>	<b>151,000,000</b>	<b>3</b>	<b>-</b>	<b>4,588,426</b>	<b>4,588,429</b>
Issuance of shares on private placement	39,121,090	3,912,109	-	-	3,912,109
Net and comprehensive income	-	-	-	603,887	603,887
<b>Balance, May 31, 2015</b>	<b>190,121,090</b>	<b>3,912,112</b>	<b>-</b>	<b>5,192,313</b>	<b>9,104,425</b>
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	-	-	-	-
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
<b>Balance, August 31, 2015</b>	<b>255,267,891</b>	<b>9,161,127</b>	<b>-</b>	<b>5,719,900</b>	<b>14,881,027</b>
Issuance of shares for financing fees	8,000,000	680,000	-	-	680,000
Issuance of agent options	-	(22,077)	22,077	-	-
Share-based compensation	-	-	21,412	-	21,412
Net and comprehensive income	-	-	-	933,009	933,009
<b>Balance, December 31, 2015</b>	<b>263,267,891</b>	<b>9,819,050</b>	<b>43,489</b>	<b>6,652,909</b>	<b>16,515,448</b>
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)
<b>Balance, March 31, 2016</b>	<b>263,267,891</b>	<b>9,819,050</b>	<b>86,468</b>	<b>6,382,184</b>	<b>16,287,702</b>
Issuance of options (Note 10 (a))	-	-	17,831	-	17,831
Share-based compensation (Note 10 (a))	-	-	100,526	-	100,526
Net and comprehensive loss	-	-	-	10,744	10,744
<b>Balance, June 30, 2016</b>	<b>263,267,891</b>	<b>9,819,050</b>	<b>204,825</b>	<b>6,392,928</b>	<b>16,416,803</b>

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 six months ended June 30, 2016 and the six months ended May 31, 2015

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**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 thirteen (13) months ended December 31, 2015.

**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., Distinct Infrastructure group (Alberta) Ltd., Pillar Contracting Ltd., QE2 Holdings Corp. and Mega Diesel Excavating Ltd. as at June 30, 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	Sherwood Pk, AB	100%	100%
Pillar Contracting Ltd.	Civil light construction	Sherwood Pk, AB	100%	100%
Mega Diesel Excavating Ltd.	Hydrovac services	Sherwood Pk, AB	100%	-



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

Notes to the Unaudited Condensed Consolidated Interim Financial Statements  
For the six months ended June 30, 2016 and the six months ended May 31, 2015

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**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 six months ending May 31, 2015 to new fiscal quarter end actuals of six months ending June 30, 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 six months ended June 30, 2016 and the six months ended May 31, 2015

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**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)
<b>Total net assets acquired</b>	<b>3,234,162</b>

**Consideration given:**

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

**(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)
<b>Total net assets acquired</b>	<b>1,607,251</b>

**Consideration given:**

Cash	2,623,307
Options	14,459
<b>Total Consideration:</b>	<b>2,637,766</b>

**Goodwill**

**1,030,515**

The Company acquired Mega Diesel Excavation Ltd. in order to access its customer list and existing specific relationships in the refinery and pipeline space as well as to provide additional capacity as we grow our western footprint. This will allow the group to provide services to very specialized industries, with high barriers to entry.

The revenue and loss from operations of Mega Diesel Excavating Ltd for the 4 months since the acquisition transaction are \$786,299 and \$302,090, respectively. Had the transaction occurred on January 1, 2016 the revenue and loss from operations would have been \$1,130,499 and \$453,434, respectively.

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

Notes to the Unaudited Condensed Consolidated Interim Financial Statements  
For the six months ended June 30, 2016 and the six months ended May 31, 2015

**4. Property and equipment**

	<b>Office and computer equipment</b>	<b>Machinery, Vehicles and Equipment</b>	<b>Construction equipment under finance lease</b>	<b>Total</b>
<b>2016</b>				
<b>Cost</b>				
Balance December 31, 2015	681,151	2,286,239	11,337,649	14,305,039
Additions	229,025	73,313	2,494,855	2,791,193
Acquisitions (note 3ii)	74,737	63,472	2,614,886	2,753,095
Disposals	-	(3,000)	-	(3,000)
<b>Balance June 30, 2016</b>	<b>984,913</b>	<b>2,420,024</b>	<b>16,447,390</b>	<b>19,852,327</b>
<b>Accumulated Depreciation</b>				
Balance December 31, 2015	207,116	578,473	3,221,480	4,007,069
Change for the year	77,447	172,143	1,014,674	1,264,264
<b>Balance June 30, 2016</b>	<b>284,563</b>	<b>750,616</b>	<b>4,236,154</b>	<b>5,271,333</b>
<b>Net book value</b>				
December 31, 2015	474,035	1,707,766	8,116,169	10,297,970
<b>June 30, 2016</b>	<b>700,350</b>	<b>1,669,408</b>	<b>12,211,236</b>	<b>14,580,994</b>

**5. Goodwill**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Balance, beginning of the period	4,078,699	-
Acquisition (Note 3 (ii))	1,030,515	4,519,862
Disposal	-	(441,163)
<b>Balance, end of period</b>	<b>5,109,214</b>	<b>4,078,699</b>

**6. Credit facilities**

The Company has credit facilities available from the following financial institutions as at June 30, 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 June 30, 2016, this operating loan had a balance of \$6,695,000 (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 June 30, 2016, this operating loan had a balance of \$445,800. (December 31, 2015 \$337,461).

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

Notes to the Unaudited Condensed Consolidated Interim Financial Statements  
For the six months ended June 30, 2016 and the six months ended May 31, 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
<b>Balance as at December 31, 2015</b>	<b>867,411</b>
Accretion for the six months ending June 30, 2016	47,369
<b>Balance as at June 30, 2016</b>	<b>914,780</b>

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 \$82,221. The principal balance outstanding at June 30, 2016 is \$92,653, of which \$32,116 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	84,880
<b>Balance, June 30, 2016</b>	<b>19,014,866</b>

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.

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

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

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 a 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 six months ended June 30, 2016 was \$84,880.

On June 30, 2016 the Company amended the financial covenants in connection with the long-term debt. The debt service coverage (DSCR) has been waived through December 31, 2017. In addition, the net debt to EBITDA (earnings before interest, tax, depreciation and amortization) ratio has been adjusted. Beginning September 30, 2016 through to March 30, 2018 the ratio applicable shall be 4.00:1.0; for the period March 31, 2018 to June 30, 2018 the ratio shall be 3.50:1.0 and July 1, 2018 and thereafter shall revert to 3.00:1.0. The rate of interest for the period of September 30, 2016 to July 1, 2018 was adjusted and will range between 10%-12%, based on a sliding scale. In compensation for the covenant amendment the Company issued 2 million common shares at a price of \$0.125 per share on July 6, 2016. The cost of the common shares will be expensed over the term of the amendment starting in July 2016.

**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 July 1, 2016 to December 31, 2020, together with the balance of the obligation:

Estimated lease payments are as follows:

	<b>2016</b>	<b>2015</b>
2016	1,908,325	2,730,154
2017	3,456,795	2,169,897
2018	2,875,011	1,875,697
2019	2,341,561	1,344,958
Subsequent years	183,367	34,156
	<u>10,765,059</u>	<u>8,154,862</u>
Less amount representing interest	1,325,805	963,946
Present value of minimum lease payments	<u>9,439,254</u>	<u>7,190,916</u>
Less current portion	<u>2,396,452</u>	<u>2,013,652</u>
	<u>7,042,802</u>	<u>5,177,264</u>

Interest charges to the accounts of the Company on the above during the six months ending June 30, 2016 amounts to \$263,127 (May 31, 2015 – \$85,744).

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 three months ended was \$986,589 (three months May 31 2015 - \$411,348).

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**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

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

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.

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 June 30, 2016:

	<b>Number of share options</b>	<b>Weighted average exercise price \$</b>
Balance December 31, 2015	8,250,000	0.19
Options Granted	2,350,000	0.16
<b>Balance, June 30, 2016</b>	<b>10,600,000</b>	<b>0.18</b>

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:

	<b>March 4, 2016</b>	<b>March 10, 2016</b>	<b>September 24, 2015</b>
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 June 30, 2016:

	<b>Number of warrants</b>	<b>Weighted average exercise price \$</b>
Balance December 31, 2015	38,227,865	0.21
<b>Balance, June 30, 2016</b>	<b>38,227,865</b>	<b>0.21</b>

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**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 (2015 – 190,121,090). 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 June 30, 2016 (i.e. “out of the money”).

<b>Weighted average number of common shares</b>	<b>Three months ending June 30, 2016</b>	<b>Three months ending May 31, 2015</b>	<b>Six months ending June 30, 2016</b>	<b>Six months ending May 31, 2015</b>
Basic	263,267,891	163,816,490	263,267,891	157,478,665
Effect of Dilution-Options	1,025,173			
Diluted	264,293,064	163,816,490	263,267,891	157,478,665

**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 six months June 30, 2016, the Company has recorded services on a pass through basis of \$80,000 (2015 – \$326,157). As at June 30, 2016, \$1,726,932 (December 31, 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 \$205,631 (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 \$365,000 was paid for the six months ending June 30, 2016 (May 31, 2015 – \$323,625).

The Company pays its other key management personnel by way of management services agreement(s) with companies controlled by these individuals. Payments totalling \$497,182 was paid for the six months ending June 30, 2016 (May 31, 2015 – \$272,527).

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**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	1,926,008
2017	4,200,839
2018	4,413,321
2019	3,816,169
2020	2,413,627
2021	1,873,191
Thereafter	5,086,556
Total	<u>23,729,711</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, beginning January 1, 2016

**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.

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 June 30, 2016, as in 2015 or 2014. As at June 30, 2016, the company was not in default of its debt covenants.

The Company's capital structure is as follows:

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Current assets	43,561,938	35,908,724
Long term assets	19,690,208	14,376,669
Current liabilities	(19,300,892)	(8,719,675)
Long-term borrowings	(27,534,452)	(25,050,270)
Shareholders' equity	<u>16,416,802</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.



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**15. Financial instruments** *(continued from previous page)*

(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 \$90,093.

- 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.

(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 \$36,422,887 (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

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characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. At June 30, 2016, receivables from 3 customers (December 31, 2015 – 3 customers) comprised approximately 91% (December 31, 2015 – 95%) of the total outstanding receivables. One particular customer’s account represents 68%

**15. Financial instruments** *(continued from previous page)*

(December 31, 2015, – 57%) of the total outstanding receivables at June 30, 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 \$7,140,801, (December 31, 2015 – \$337,461), accounts payable and accrued liabilities of \$9,009,331 (December 31, 2015 - \$4,961,331) and current portion of obligations under finance leases of \$2,396,452 (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>&gt;5 years</u>	<u>Total</u>
Accounts payable and accrued liabilities	9,009,331	-	-	9,009,331
Debentures and other debt	32,116	1,476,784	-	1,508,900
Long-term debt	-	20,000,000	-	20,000,000
Finance lease obligations	2,396,452	7,042,802	-	9,439,254

**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.

**17. Subsequent Events**

1. On July 6, 2016, 2,500,000 broker options were exercised at a price of \$0.10 for total proceeds of \$250,000. These warrants were issued as part of the company’s private placement conducted in 2015.