Consolidated Condensed Interim Financial Statements (Unaudited)

AirIQ Inc.

For the three months and nine months ended December 31, 2015

Notice to Reader:
The following consolidated condensed interim financial statements have been prepared by management of AirIQ Inc. and have not been reviewed by the Company's external auditors.

AirIQ Inc.

CONSOLIDATED CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in thousands of Canadian dollars)

	31-Dec-2015 $	31-Mar-2015 $
ASSETS		
Current assets		
Cash and cash equivalents (note 5)	**164**	186
Prepaid expenses and deposits	**82**	146
Trade and other receivables (note 15)	**426**	374
Inventory (note 6)	**113**	74
Costs of deferred revenues (note 8)	**279**	207
Total current assets	**1,064**	987
Non-current assets		
Property, plant and equipment (note 7)	**746**	464
Costs of deferred revenues (note 8)	**109**	103
Total non-current assets	**855**	567
Total assets	**1,919**	1,554
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities		
Accounts payable and accrued liabilities (notes 13 and 15)	**509**	569
Deferred revenue (note 8)	**622**	524
Total current liabilities	**1,131**	1,093
Non-current liabilities		
Deferred revenue (note 8)	**218**	241
Total non-current liabilities	**218**	241
Total liabilities	**1,349**	1,334
Shareholders' equity (deficiency)		
Share capital (note 10(a))	**91,375**	91,375
Other paid-in capital (note 10(c))	**4,483**	4,483
Contributed surplus (note 10(b))	**2,687**	2,663
Deficit	**(97,975)**	(98,301)
Total shareholders' equity (deficiency)	**570**	220
Total liabilities and shareholders' equity (deficiency)	**1,919**	1,554

Commitments and contingencies (note 14)

Authorized for issue on behalf of the Board:	*"Vernon Lobo"* Director	*"Donald Gibbs"* Director

See accompanying notes

AirIQ Inc.

CONSOLIDATED CONDENSED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

(in thousands of Canadian dollars except per share amounts)

	3 months ended December 31		9 months ended December 31	
	2015	**2014**	**2015**	**2014**
	$	**$**	**$**	**$**
Revenues	**882**	670	**2,461**	2,019
Direct cost of sales (notes 6 and 7)	**398**	280	**1,042**	771
Gross profit	**484**	390	**1,419**	1,248
Expenses				
Sales and marketing	**107**	108	**351**	353
Research and development	**24**	43	**78**	144
General and administration	**188**	179	**579**	509
Foreign exchange loss (gain)	**—**	(14)	**(3)**	(15)
Total expenses	**319**	316	**1,005**	991
Operating profit before other expenses	**165**	74	**414**	257
Other expenses				
Interest expense (note 9 (c))	**—**	10	**—**	31
Depreciation and amortization (notes 7 and 8)	**27**	20	**75**	76
Impairment of long-lived assets (notes 7 and 8)	**13**	—	**13**	—
Total other expenses	**40**	30	**88**	107
Net income and comprehensive income for the period	**125**	44	**326**	150
Profit per share (basic and diluted) (note 18)	**0.00**	0.00	**0.01**	0.00

See accompanying notes

AirIQ Inc.

CONSOLIDATED CONDENSED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands of Canadian dollars)

	3 months ended December 31		9 months ended December 31	
	2015	2014	2015	2014
	$	$	$	$
Cash flows from operating activities				
Net profit for the period	**125**	44	**326**	150
Adjustments to reconcile profit before tax to net cash used in operating activities				
Stock-based compensation (note 11)	**7**	5	**24**	17
Depreciation of property, plant and equipment (note 7)	**46**	29	**125**	89
Amortization of customer contracts (note 8)	**—**	—	**—**	10
Amortization of costs of deferred revenues	**80**	53	**220**	154
Impairment of assets	**13**	—	**13**	—
Interest expense	**—**	3	**—**	11
Accretion expense on loan (note 9)	**—**	7	**—**	20
Changes in non-cash balances related to operations				
Trade and other receivables	**(78)**	(35)	**(52)**	(110)
Inventory	**(20)**	19	**(39)**	(3)
Prepaid expenses and deposits	**(7)**	3	**64**	11
Accounts payable and accrued liabilities	**90**	(6)	**(60)**	(73)
Deferred revenue	**(28)**	18	**75**	172
Costs of deferred revenues	**(93)**	(55)	**(298)**	(194)
Total cash (outflows) from operating activities	**135**	(85)	**398**	254
Cash flows from investing activities				
Purchase of property, plant and equipment	**(173)**	(67)	**(420)**	(189)
Total cash (outflows) from investing activities	**(173)**	**(67)**	**(420)**	**(189)**
Cash flows from financing activities				
Repayment of employee share loan	**—**	2	**—**	42
Interest paid	**—**	(3)	**—**	(11)
Total cash inflows from financing activities	**—**	(1)	**—**	(31)
Net change in cash and cash equivalents	**(38)**	17	**(22)**	96
Cash and cash equivalents at beginning of period	**202**	162	**186**	83
Cash and cash equivalents at end of period	**164**	179	**164**	179

See accompanying notes

AirIQ Inc.

CONSOLIDATED CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY) (UNAUDITED)

(in thousands of Canadian dollars)

	Share capital $	Other paid-in capital $	Contributed surplus $	Deficit profit $	Share purchase loan receivable $	Total $
Balance March 31, 2014	**91,382**	**4,483**	**2,633**	**(98,503)**	**(119)**	**(124)**
Income for the period	—	—	—	150	—	150
Repayment of employee share loan	—	—	—	—	42	42
Shares returned to treasury	(7)	—	—	—	7	—
Stock based compensation	—	—	17	—	—	17
Balance at December 31, 2014	**91,375**	**4,483**	**2,650**	**(98,353)**	**(70)**	**85**
Income for the period	—	—	—	52	—	52
Repayment of employee share loan	—	—	—	—	70	70
Stock based compensation	—	—	13	—	—	13
Balance March 31, 2015	**91,375**	**4,483**	**2,663**	**(98,301)**	**—**	**220**
Income for the period	**—**	**—**	**—**	**326**	**—**	**326**
Stock based compensation	**—**	**—**	**24**	**—**	**—**	**24**
Balance December 31, 2015	**91,375**	**4,483**	**2,687**	**(97,975)**	**—**	**570**

See accompanying notes

For the three months and nine months ended December 31, 2015

1. CORPORATE INFORMATION

AirIQ Inc. ("AirIQ" or the "Company") is a public company that trades on the TSX Venture Exchange ("TSXV"), under the symbol "IQ". The Company was formed under the *Canada Business Corporations Act*. The Company's principal business is to develop and operate an asset management system using specialized software, digitized mapping, wireless communications, the internet and the Global Positioning System ("GPS"). The Company's head office is located at 1845 Sandstone Manor, Unit 10 in Pickering, Ontario.

These consolidated condensed interim financial statements have been authorized for issue by the Board of Directors on February 3, 2016.

2. BASIS OF PREPARATION

These consolidated condensed interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") and using the same accounting policies and methods as were used for the Company's annual financial statements and notes thereto for the year ended March 31, 2015, except for any new accounting pronouncements which have been adopted. These consolidated condensed interim financial statements do not include all of the information and disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Accordingly, these consolidated condensed interim financial statements should be read in conjunction with the Company's annual financial statements as at and for the year ended March 31, 2015 and the accompanying notes thereto.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the consolidated condensed interim financial statements are disclosed in note 4.

These consolidated condensed interim financial statements have been prepared on a historical cost basis except for cash equivalents which are carried at fair value. In addition, the consolidated condensed interim financial statements are prepared using the accrual basis of accounting except for cash flow information. These consolidated condensed interim financial statements should be read in conjunction with the Company's financial statements for the year ended March 31, 2015.

These consolidated condensed interim financial statements are presented in Canadian dollars, which is also the Company's functional currency, and all values are rounded to the nearest thousand (CDN $'000), unless otherwise indicated.

(in thousands of Canadian dollars except share and per share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year. See note 3 in the consolidated financial statements for the year ended March 31, 2015 for details.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated condensed interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the consolidated condensed interim financial statements and the reported amounts of revenue and expenses during the reporting periods. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. Critical accounting estimates are reviewed quarterly by the Audit Committee of the Board of Directors. Management's judgment is applied to the following areas: income taxes, share-based payment transactions, warranty provisions, asset impairments, useful lives of depreciable assets, net realizable value of inventory, fair value of assets acquired in business combinations, legal claim and contingency provisions.

5. CASH AND CASH EQUIVALENTS

Cash at banks and on hand earns interest at floating rates based on daily bank deposit rates.

	31-Dec-2015	**31-Mar-2015**
	$	$
Cash	**164**	171
Restricted cash equivalents	**—**	15
	164	186

Restricted cash equivalents is comprised of restricted cash in support of a letter of credit guaranteeing payment of services for a supplier of the Company. In April 2015, the irrevocable standby letter of credit for $15 was released.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
(in thousands of Canadian dollars except share and per share amounts)

For the three months and nine months ended December 31, 2015

6. INVENTORY

Inventory consists of components used to assemble hardware equipment and finished goods. For the three months and nine months ended December 31, 2015, the amount of inventory recognized as an expense in cost of goods sold was $232 and $587, respectively (three months and nine months ended December 31, 2014 – $126 and $326, respectively). Inventory is valued at the lower of cost or net realizable value. As at December 31, 2015 al1 inventory was carried at cost.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	Host system assets $	Office equipment $	Leasehold improvements $	Service contract equipment $	Total $
Cost					
Balance at March 31, 2015	827	53	84	271	1,235
Assets retired for the period	(395)	(53)	(84)	—	(532)
Additions for the period	191	11	4	214	420
Impairment for the period	—	—	—	(68)	(68)
Balance at December 31, 2015	**623**	**11**	**4**	**417**	**1,055**
Depreciation and impairment losses					
Balance at March 31, 2015	553	52	84	82	771
Assets retired for the period	(395)	(53)	(84)	—	(532)
Depreciation for the period	73	2	—	50	125
Impairment for the period	—	—	—	(55)	(55)
Balance at December 31, 2015	**231**	**1**	**—**	**77**	**309**
Carrying amounts					
At March 31, 2015	274	1	—	189	464
At December 31, 2015	**392**	**10**	**4**	**340**	**746**

Service contract equipment relates to the equipment installed in customer vehicles that is used to communicate information for the provision of telematics services. The Company retains ownership of this equipment and expects to remove the equipment from the customer vehicle at the end of the service contract. The service contracts, under which this equipment is provided, range between monthly and three years. Rental units returned to the Company are recognized as impaired.

(in thousands of Canadian dollars except share and per share amounts)

7. PROPERTY PLANT AND EQUIPMENT continued

Depreciation expense for the property, plant and equipment for the three months and nine months ended December 31, 2015 is $46 and $125, respectively (three months and nine months ended December 31, 2014 - $29 and $89, respectively) of which $19 and $50, respectively (three months and nine months ended December 31, 2014 - $4 and $13, respectively) is included in direct cost of sales relating to service contract equipment.

The Company continues to assess the carrying value of its property, plant and equipment and determines whether the host system assets, development equipment and office equipment are impaired. An impairment charge of $13 was recorded during the three months and nine months ended December 31, 2015 (December 31, 2014 - $nil and $nil, respectively).

8. DEFERRED REVENUE AND COSTS OF DEFERRED REVENUES

	Deferred revenue $	Costs of deferred revenues $
Balance, March 31, 2015	765	310
At March 31, 2015:		
Current	524	207
Non-current	241	103
Changes during the period:		
Deferred during the period	**653**	**298**
Released to the consolidated condensed interim statements of income (loss)	**(578)**	**(220)**
Balance, December 31, 2015	**840**	**388**
At December 31, 2015:		
Current	**622**	**279**
Non-current	**218**	**109**

The Company assesses the carrying value of its costs of deferred revenues at least annually or whenever events or changes in circumstances indicate that their carrying value may be impaired. As a result of the assessment, the Company recorded no impairment charge for the three months and nine months ended December 31, 2015 and December 31, 2015.

9. FINANCING

(a) Credit Facility

On December 15, 2014, the Company announced a change in bankers and the establishment of a revolving demand facility with Royal Bank of Canada ("RBC"). The credit facility is a standard operating line with certain covenants, including a first priority general security over the Company's assets. In connection with the facility, the Company's lender, Mosaic Capital Partners, L.P. ("Mosaic"), agreed to subordinate its security interest to the Bank. As at December 31, 2015, the Company has not made a draw on the credit facility, and no interest or carrying charges have been incurred**.**

(b) Non-Brokered Private Placement

On December 17, 2013, the Company issued a total of 7,700,000 common shares under a private placement at a price of $0.05 per share for gross proceeds of $385.

Certain officers, directors and insiders of the Company purchased common shares under the offering, representing approximately 56% of the total number of common shares issued under the private placement. The remaining approximate 44% of the total number of common shares issued under the private placement (representing approximately 11.75% of the issued and outstanding shares of the Company post-offering) were purchased by employees and consultants of the Company (see note 10(d) – Share Capital and Reserves – Share purchase loan receivable).

Pursuant to applicable Canadian securities laws, the securities issued under the private placement were subject to a four-month holding period from the date of closing of the private placement, which expired on April 17, 2014. A total of $8 was paid in connection with the private placement and final approval of the private placement from the TSXV was received.

(c) Loan

On December 17, 2013, the Company entered into a credit agreement with Mosaic for a loan of $100. Pursuant to the terms of the credit agreement, the Company executed a promissory note in favour of Mosaic for $100. The loan had a maturity date of June 17, 2015 and bore interest at a rate of 15% per annum, calculated daily and payable monthly in arrears. The Company paid a fee of $5 to Mosaic in connection with the advance of the loan. The work fee was recorded against the carrying value of the loan to be accreted over the term of the loan. The amount accreted as an expense for the three months and nine months ended December 31, 2015 related to the work fee was $nil and $nil, respectively (three months and nine months ended December 31, 2014 - $1 and $3, respectively). Interest only was payable on the loan on a monthly basis, and the loan was secured by a charge over all of AirIQ's property and assets. The loan was not convertible into shares of the Company.

9. FINANCING continued

(c) Loan continued

In consideration of the loan, the Company issued 700,000 warrants to Mosaic to purchase up to 700,000 common shares of the Company (the "Warrants") at an exercise price of $0.05 per share. The Warrants will expire on December 17, 2018. The Warrants were valued at $35 (see note 10(c) – Share Capital and Reserves – Other paid-in capital) and recorded against the carrying value of the loan to be accreted over the term of the loan. The amount accreted as an expense for the three months and nine months ended December 31, 2015 related to the Warrants was $nil and $nil, respectively (three months and nine months ended December 31, 2014 - $6 and $17, respectively). Concurrent with the loan and the issuance of the Warrants, Mosaic agreed to cancel warrants to purchase up to 133,333 common shares of the Company which were granted to Mosaic on November 30, 2009 as part of a financing.

Mosaic is a shareholder of the Company and Vernon Lobo, a director and Chairman of AirIQ, is a managing director of Mosaic. During the Company's approval of the loan, Mr. Lobo declared his conflict on the matter and abstained from voting.

On February 26, 2015, the Company repaid the loan in full, and the Company is no longer indebted to Mosaic.

The loan discussed in this note 9(c) above shall be referred to as the "Loan" and the promissory note issued pursuant to the Loan shall be referred to as the "Promissory Note".

The Company paid to the lender a total of $nil and $nil, respectively, related to interest on the Loan during the three months and nine months ended December 31, 2015 (three months and nine months ended December 31, 2014 - $3 and $11, respectively), which is included in interest expense in the consolidated condensed interim statement of income (loss).

(in thousands of Canadian dollars except share and per share amounts)

10. SHARE CAPITAL AND RESERVES

a) **Common shares**

The Company is authorized to issue an unlimited number of common shares without par value. The holders of common shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

The following is a summary of changes in common share capital during the period from December 31, 2014 to December 31, 2015:

	Number of Shares **#**	Issue Price **$**	Amount **$**
Balance at December 31, 2014	**28,928,947**		**91,375**
Balance at March 31, 2015	**28,928,947**		**91,375**
Balance at December 31, 2015	**28,928,947**		**91,375**

As of December 31, 2015, the Company had a total of 28,928,947 common shares issued and outstanding.

b) **Contributed Surplus**

The following is a summary of changes in contributed surplus from March 31, 2015 to December 31, 2015:

	$
Balance at March 31, 2015	**2,663**
Stock-based compensation charge	24
Balance at December 31, 2015	**2,687**

(in thousands of Canadian dollars except share and per share amounts)

10. SHARE CAPITAL AND RESERVES continued

c) **Other paid in capital**

As at December 31, 2015, the Company had outstanding warrants as follows:

Number of warrants	Exercise price	Expiry Date
700,000	**$0.05**	**December 17, 2018**

On December 17, 2013, in consideration of a $100 Loan from Mosaic to the Company, the Company issued 700,000 warrants to purchase 700,000 common shares in the capital of the Company at a price of $0.05 per share (note 9(c) – Financing – Loan). On the same date, Mosaic and the Company agreed to cancel 133,333 warrants issued to Mosaic with an exercise price of $4.00 per warrant, unexercised. The 133,333 warrants were issued to Mosaic on November 30, 2009 in connection with a private placement and would have expired on November 30, 2014. The TSXV agreed to the cancellation of the 133,333 warrants and the issuance of the 700,000 warrants.

No warrants were granted during the three months and nine months ended December 31, 2015.

The fair value of the warrants at the date of issue was estimated using a Black-Scholes option pricing model that takes into account the exercise price, the term of the warrant, the impact of dilution, the share price at issue date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the warrant.

d) **Share purchase loans receivable**

On December 12, 2013, the Company entered into loan agreements with its employees and consultants in the aggregate amount of $156 to facilitate the purchase of shares of the Company pursuant to the December 17, 2013 private placement (see note 9(b) – Financings – Non-brokered Private Placement). A total of 3,111,000 common shares were purchased by the employees and consultants pursuant to such private placement at a price of $0.05 per share. The loans were interest free and principal only was repayable in equal monthly or bi-monthly installments over a one year term. The loans were secured solely with the pledge of the shares purchased with the loan proceeds and were otherwise non-recourse loans. The outstanding balances on the employee loans were assigned to the holding companies of Messrs. Michael Robb and Vernon Lobo, two of the directors of the Company, and, on February 24, 2015, all of the share purchase loans were repaid in full, and the shares held as security for such loans, were released to their respective owners.

10. SHARE CAPITAL AND RESERVES continued

d) **Share purchase loans receivable continued**

Shares purchased with these loans have been accounted for as share based compensation expense as the only security for the loans are the issued Company shares. Share based compensation expense of $nil and $nil, respectively, was recorded for the three months and nine months ended December 31, 2015 in relation to the share purchase loans (three months and nine months ended December 31, 2014 - $5 and $17, respectively)

The fair value of the loan arrangements were determined using the Black-Scholes option pricing model that takes into account the share price at the date the loans were issued, the term of the loan, the impact of dilution, the purchase price of the shares and expected price volatility of the shares, the expected dividend yield and the risk free interest rate for the term of the loans.

e) **Nature and Purpose of Equity and Reserves**

The reserves recorded in equity on the Company's consolidated statements of financial position include 'Other paid-in capital', 'Contributed surplus', "Share purchase loans receivable" and 'Accumulated deficit'.

'Other Paid-In Capital' is used to recognize the value of share warrants prior to exercise.

'Contributed Surplus' is used to recognize the value of share option grants prior to exercise.

'Share Purchase Loans Receivable' is used to record the value of loans issued to purchase shares of the Company and their related repayments.

'Accumulated Deficit' is used to record the Company's change in deficit from earnings from period to period.

11. SHARE-BASED PAYMENTS

a) **Option Plan Details**
The Company has an incentive stock option plan (the "Plan") under which non-transferable options to purchase common shares of the Company may be granted to directors, officers, employees or consultants of the Company. Under the Plan, the Company is authorized to issue options for common shares in aggregate up to 10% of the number of common shares of the Company outstanding from time to time. Any increase in the issued and outstanding common shares will result in an increase in the available number of common shares issuable under the Plan, and any exercise of options will make new grants available under the Plan, effectively resulting in a re-loading of the number of options available to grant under the Plan. The terms of the Plan provide that the directors have the right to grant options to acquire common shares of the Company at not less than the average closing price of the shares on the trading exchange for the 10 trading days immediately preceding the date of grant of the options. Options under the Plan are typically granted by the Board of Directors for a term of 10 years, consistent with the terms of the Plan. No amounts are paid or payable by the recipient on receipt of the option, and the options granted are not dependent on any performance-based criteria. The vesting period for options granted to employees of the Company is typically four years with 25% vesting after the first year from the date of grant, and 6.25% vesting in each quarter thereafter. Board and Committee member options typically vest over a one-year period; 25% each quarter from the date of grant. Under the Plan, in the absence of any determination by the Board of Directors, the earliest exercise date for options granted under the Plan is one year from the date of grant, at which time 25% of the options granted shall vest, following which 2.0833% of options granted vest each month thereafter. Pursuant to the Plan, options granted to eligible employees and consultants terminate and are no longer exercisable upon the earlier of (a) 12 months after the death, disability or retirement of an option holder, or (b) the end of the option term, or (c) 30 days after termination of employment without cause or immediately in the event such employee or consultant is terminated for cause. Options granted to eligible directors terminate and are no longer exercisable upon the earlier of (i) twelve months after the death of the option holder; and (ii) the latest exercise date of the option.

As at December 31, 2015, the Company has reserved 2,892,895 (December 31, 2014 – 2,892,895) common shares for future issuance under the Plan, representing 10% of the issued and outstanding common shares of the Company as of such date.

On September 16, 2015 the Company granted options to non-executive directors to purchase 250,000 common shares in the capital of the Company at a price of $0.07 per share. These options have a term of ten (10) years, vest over one (1) year from date of grant; 25% each quarter, and will expire on September 16, 2025.

(in thousands of Canadian dollars except share and per share amounts)

11. SHARE-BASED PAYMENTS continued

a) **Option Plan Details continued**

The Company recorded share-based compensation expense of approximately $7 and $24, respectively (three months and nine months ended December 31, 2014 - $5 and 17, respectively), of which $4 and $14, respectively (three months and nine months ended December 31, 2014 - $nil and $nil, respectively) related to director fees and the remaining $3 and $10, respectively, related to options granted during the three months and nine months ended December 31, 2015 (three months and nine months ended December 31, 2014 - $5 and $17, respectively).

Share option activity within the Plan is as follows:

	Three months ended 31-Dec-2015		**Three months ended 31-Dec-2014**	
	Number of options #	**Weighted average exercise price** $	**Number of options** #	**Weighted average exercise price** $
Outstanding options, beginning of period	**2,455,339**	**0.19**	1,920,480	0.39
Granted	—	—	—	—
Expired	**(884)**	**0.90**	(843)	3.80
Outstanding options, end of period	**2,454,455**	**0.19**	1,919,637	0.39
Exercisable, end of period	**1,873,205**	**0.23**	1,450,887	0.48

No common shares of AirIQ were issued from treasury pursuant to the exercise of stock options issued under the Company's Plan for either of the period ended December 31, 2015 or December 31, 2014.

Outstanding and exercisable options under the Plan as at December 31, 2015 are summarized as follows:

	Outstanding			**Exercisable**	
Exercise price range $	**Number outstanding** #	**Weighted average exercise price** $	**Weighted remaining contractual life (years)**	**Number outstanding and exercisable** #	**Weighted average exercise price** $
0.05 — 1.60	**2,425,627**	**0.11**	**7.12**	**1,844,377**	**0.13**
6.00 — 8.00	**28,828**	**6.62**	**1.24**	**28,828**	**6.62**
	2,454,455	**0.19**	**8.37**	**1,837,205**	**0.23**

(in thousands of Canadian dollars except share and per share amounts)

11. SHARE-BASED PAYMENTS continued

b) **Fair Value of Options Issued During the Period**

The weighted average fair value at grant date of options granted during the period ended December 31, 2015 was $0.07 per option (December 31, 2014 - $0.08).

No options have been exercised during the three months and nine months ended December 31, 2015 or December 31, 2014.

c) **Options Issued**

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the nine month period ended December 31, 2015 included:

Grant Date	Expiry Date	Share Price at Grant Date	Exercise Price	Risk-Free Interest Rate	Expected Life	Volatility Factor	Dividend Yield
16-Sep-2015	16-Sep-2025	$0.07	$0.07	3.61%	12 months	181%	nil%

The model inputs for options granted during the nine month period ended December 31, 2014 included:

Grant Date	Expiry Date	Share Price at Grant Date	Exercise Price	Risk-Free Interest Rate	Expected Life	Volatility Factor	Dividend Yield
17-Sep-2014	17-Sep-2024	$0.08	$0.08	3.61%	120 months	171%	nil%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

(in thousands of Canadian dollars except share and per share amounts)

12. NATURE OF EXPENSES

	Three months ended December 31		Nine months ended December 31	
	2015	**2014**	**2015**	**2014**
	$	**$**	**$**	**$**
Salaries and benefits	**148**	154	**483**	484
Consulting	**60**	54	**154**	114
Computer operating	**35**	37	**102**	110
Commercial, officer and director insurance	**19**	18	**57**	55
Rent and maintenance	**11**	26	**48**	79
Legal fees, audit and tax	**8**	13	**31**	35
Public reporting costs	**6**	4	**33**	35
Stock-based compensation				
Directors’ fees	**4**	5	**14**	5
Employees, consultants	**3**	5	**10**	17
Other	**25**	—	**73**	57
	319	316	**1,005**	991

(in thousands of Canadian dollars except share and per share amounts)

13. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors and officers, and enterprises that are controlled by these individuals, as well as certain person performing similar functions.

The following is a summary of the Company's related party transactions during the periods ended December 31, 2015 and December 31, 2014:

a) **Key Management Compensation**

Key management personnel compensation is comprised of:

	Three months ended December 31, 2015	**Three months ended December 31, 2014**
	$	$
Consulting fees and benefits	**36**	35
Share-based payments	**2**	—
	38	**35**

(b) **Related party transactions**

The Company has identified MR Accounting & Bookkeeping Inc. as a related party as this corporation has an officer in common with the Company and is controlled by such officer. The Company owed MR Accounting & Bookkeeping Inc. $10 as at December 31, 2015 (December 31, 2014 - $10).

The Company has also identified Mosaic as a related party as this corporation has a director in common with the Company. During the three months and nine months ended December 31, 2015, Mosaic was paid approximately $nil and $nil, respectively, related to work fees and interest as per the Loan (note 9(c)) (three months and nine months ended December 31, 2014 – approximately $3 and $11, respectively).

The Company has identified DRGibbs and Associates as a related party as this corporation has a director in common with the Company and is controlled by such director. The Company owed DRGibbs and Associates $31 at December 31, 2015 (December 31, 2014 - $31) which is included in accounts payable and accrued liabilities. The Company is also owed $36 from Mr. Gibbs at December 31, 2015 which is included in trade and other receivables.

See also notes 9 and 10.

(in thousands of Canadian dollars except share and per share amounts)

14. COMMITMENTS AND CONTINGENCIES

(a) Leases relate to office lease terms of 24 months payable in monthly instalments in advance. As of December 31, 2015, there are no annual lease payments under capital lease.

The Company leases its office space and the future minimum annual operating lease payments for office space are as follows:

	$
2015	7
2016	30
2017	8
	45

(b) At March 31, 2015, the Company had an outstanding irrevocable standby letter of credit as security for a certain supply agreement of $15. In April of 2015 this irrevocable standby letter of credit was released.

(c) The Company, in the course of its normal operations, is subject to claims, lawsuits, patent infringement claims and contingencies. Accruals are made in instances where it is probable that liabilities may be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, the Company has no reason to believe that the ultimate outcome of these matters would have a significant impact on its consolidated financial position.

(in thousands of Canadian dollars except share and per share amounts)

15. FINANCIAL INSTRUMENTS

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Company's finance function. The Board of Directors receives quarterly reports from the Company's Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. There have been no changes in the risks, objectives, policies and procedures during the three months and nine months ended December 31, 2015.

The Company's financial instruments are exposed to certain financial risks, including credit risk liquidity risk, currency risk, and interest rate risk.

The Company's exposure to these risks and its methods of managing the risks remain consistent.

The Company is exposed to the following risks related to financial assets and liabilities:

(a) **Currency risk**
Currency risk is the risk that variations in exchange rates between U.S. and Canadian currencies will affect the Company's operating and financial results. The Company's consolidated activities that result in exposure to fluctuations in foreign currency exchange rates consist of the sale of products to customers in foreign currencies and the purchases of services and raw materials from suppliers invoiced in foreign currencies. The Company does not use derivative instruments to reduce its exposure.

The carrying amount of the Company's U.S. currency denominated monetary assets and liabilities is as follows:

	December 31, 2015 **$**	**March 31, 2015** **$**
Cash	**101**	85
Trade and other receivables	**167**	170
Accounts payable and accrued liabilities	**75**	(84)
	343	171

For the three months and nine months ended December 31, 2015, all else being equal, a strengthening of 1.0% of the US dollar against the Canadian dollar would have a positive impact of $5 on net profit and comprehensive profit. A weakening of 1.0% of the US dollar against the Canadian dollar would have the opposite impact on net income and comprehensive income.

(in thousands of Canadian dollars except share and per share amounts)

15. FINANCIAL INSTRUMENTS continued

(b) **Credit risk**

Credit risk refers to the potential that a customer or counterparty to a financial instrument will fail to discharge its contractual obligations, and arises principally from the Company's receivables from customers and its cash. The maximum credit risk exposure for these balances is their carrying values.

The Company attempts to mitigate its credit risk over cash by dealing only with large financial institutions with good credit ratings. All of the financial institutions that the Company deals with meet these qualifications.

The Company is exposed to credit risk from customers. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectability of its trade accounts receivable in order to mitigate any possible credit losses.

Allowance for doubtful accounts and past due receivables are reviewed by management at each reporting date. The Company's policy for determining the required allowance is to provide 100% for all aged balance over 180 days and to review all remaining balances on a customer-by-customer basis. Accounts receivable are written off once determined not to be collectible.

The following table sets forth the continuity of allowance for doubtful accounts for the periods indicated:

Closing balance, March 31, 2015	**6**
Provisions made during the period	7
Provisions used during the period	(10)
Closing balance, December 31, 2015	**3**

The following table sets forth details of the accounts receivable as at December 31, 2015 and March 31, 2015:

	December 31, 2015 **$**	**March 31, 2015** $
Trade accounts receivable, before allowances	**362**	316
Less allowance for doubtful accounts	**(3)**	(6)
Other receivables	**67**	40
Trade and other receivables	**426**	**350**

(in thousands of Canadian dollars except share and per share amounts)

15. FINANCIAL INSTRUMENTS continued

(b) **Credit risk continued**
Pursuant to their respective terms, accounts receivable are aged as follows as at December 31, 2015 and March 31, 2015:

	December 31, 2015 $	March 31, 2015 $
Current	337	188
31-60 days	45	120
61-90 days	10	18
Over 91 days	34	24
Total accounts receivable	**426**	**350**

(c) **Liquidity risk**
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company collecting its accounts receivable in a timely manner and by maintaining sufficient cash in excess of anticipated needs. At December 31, 2015 the Company's accounts payable and accrued liabilities were $509 (December 31, 2014 - $475).

The following table details the Company's contractual maturities for its financial liabilities, including interest payments and operating lease commitments as at December 31, 2015:

		Payments due by period				
	Total $	**2015** $	**2016** $	**2017** $	**2018** $	**2019** $
Accounts payable and accrued liabilities	509	509	—	—	—	—
Operating leases	45	7	30	8	—	—
	554	**516**	**30**	**8**	**—**	**—**

(d) **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. Management feels that the Company is not currently subject to significant interest rate risk as the Company currently does not have any interest-bearing debt with floating rates.

(in thousands of Canadian dollars except share and per share amounts)

16. CAPITAL MANAGEMENT

The capital structure of the Company consists of loans and equity consisting of issued share capital, other paid-in capital, contributed surplus, share purchase loans receivable and deficit, and is capital surplus in the amount of $276 as at December 31, 2015 (December 31, 2014 – capital surplus of $85). The Company's objectives when managing capital is to ensure that the Company will continue as a going concern, so that it can provide products and services to its customers and returns to its shareholders.

The Company manages its capital to ensure that financial flexibility is present to increase shareholder value through organic growth, selective acquisitions and dispositions as well as allow the Company to respond to changes in economic and /or marketplace conditions. In order to maintain or adjust its capital structure, the Company may, upon approval from its Board of Directors, balance its overall capital structure through the issuance of new shares, the purchase of shares for cancellation pursuant to a normal course issuer bid, raising debt or refinancing existing debt with different characteristics or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company's capital management objectives, policies and processes have remained unchanged during the three months and nine months ended December 31, 2015.

17. SEGMENTED INFORMATION

The Company has one reportable segment. The Company’s property, plant and equipment are located in Canada and have a net book value of $746 as at December 31, 2015 (December 31, 2014 - $423).

18. NET INCOME (LOSS) PER SHARE

Weighted Average Number of Common Shares:

	Three months ended December 31		**Nine months ended December 31**	
	2015	2014	**2015**	2014
Issued common shares at beginning of period	**28,928,947**	29,058,947	**28,928,947**	29,058,947
Effect of shares returned to treasury	**—**	—	**—**	(108,727)
Weighted average number of common shares (basic and diluted)	**28,928,947**	29,058,947	**28,928,947**	28,950,220

For the three months and nine months ended December 31, 2015, diluted net income (loss) per share did not include the effect of 2,454,455 stock options (three months and nine months ended December 31, 2014 – 1,919,637) and 700,000 warrants (three months and nine months ended December 31, 2014 – 700,000) as they are anti-dilutive.