**Consolidated Condensed Interim Financial Statements**
**(Unaudited)**

# AirIQ Inc.

For the three-month and six-month periods ended September 30, 2016

***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)**

| | 30-Sep-2016<br>$ | 31-Mar-2016<br>$ |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents (note 5) | **122** | 108 |
| Prepaid expenses and deposits | **85** | 49 |
| Trade and other receivables (note 16) | **341** | 480 |
| Inventory (note 6) | **144** | 89 |
| Costs of deferred revenues (note 8) | **333** | 303 |
| **Total current assets** | **1,025** | 1,029 |
| **Non-current assets** | | |
| Software (note 7) | **513** | 445 |
| Rental units (note 7) | **366** | 355 |
| Property, plant and equipment (note 7) | **25** | 20 |
| Costs of deferred revenues (note 8) | **127** | 121 |
| **Total non-current assets** | **1,031** | 941 |
| **Total assets** | **2,056** | 1,970 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (notes 13, 14 and 15) | **333** | 442 |
| Deferred revenue (note 8) | **681** | 639 |
| **Total current liabilities** | **1,014** | 1,081 |
| **Non-current liabilities** | | |
| Deferred revenue (note 8) | **205** | 234 |
| **Total non-current liabilities** | **205** | 234 |
| **Total liabilities** | **1,219** | 1,315 |
| **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)) | **2,725** | 2,699 |
| Deficit | **(97,746)** | (97,902) |
| **Total shareholders' equity** | **837** | 655 |
| **Total liabilities and shareholders' equity** | **2,056** | 1,970 |

**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 September 30 | | 6 months ended September 30 | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **$** | **$** | **$** | **$** |
| Revenues | **753** | 757 | **1,676** | 1,579 |
| Direct cost of sales (notes 6 and 7) | **307** | 267 | **804** | 644 |
| **Gross profit** | **446** | 490 | **872** | 935 |
| **Expenses** | | | | |
| Sales and marketing | **112** | 112 | **216** | 244 |
| Research and development | **24** | 25 | **48** | 54 |
| General and administration | **186** | 214 | **367** | 391 |
| Foreign exchange loss (gain) | **(3)** | (12) | **—** | (3) |
| **Total expenses** | **319** | 339 | **631** | 686 |
| **Operating profit before other expenses** | **127** | 151 | **241** | 249 |
| Other expenses | | | | |
| Interest expense (note 9) | **—** | — | **1** | — |
| Depreciation and amortization (note 7) | **43** | 24 | **84** | 48 |
| **Total other expenses** | **43** | 24 | **85** | 48 |
| **Net income and comprehensive income for the period** | **84** | 127 | **156** | 201 |
| **Net income per share (basic and diluted) (note 18)** | **0.00** | 0.01 | **0.01** | 0.01 |

*See accompanying notes*

## AirIQ Inc.

# CONSOLIDATED CONDENSED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

**(in thousands of Canadian dollars)**

| | 3 months ended September 30 2016 $ | 3 months ended September 30 2015 $ | 6 months ended September 30 2016 $ | 6 months ended September 30 2015 $ |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Net income for the period | **84** | 127 | **156** | 201 |
| **Adjustments to reconcile profit before tax to net cash used in operating activities** | | | | |
| Stock-based compensation (note 11) | **13** | 8 | **26** | 17 |
| Depreciation of property, plant and equipment (note 7) | **68** | 40 | **133** | 79 |
| Amortization of costs of deferred revenues | **108** | 74 | **208** | 140 |
| Interest expense | **—** | **—** | **1** | **—** |
| **Changes in non-cash balances related to operations** | | | | |
| Trade and other receivables | **83** | (2) | **139** | 26 |
| Inventory | **12** | 100 | **(55)** | (19) |
| Prepaid expenses and deposits | **(2)** | 15 | **(36)** | 71 |
| Accounts payable and accrued liabilities | **(134)** | (179) | **(109)** | (150) |
| Deferred revenue | **(77)** | 39 | **13** | 103 |
| Costs of deferred revenues | **(88)** | (103) | **(244)** | (205) |
| **Total cash inflows from operating activities** | **67** | 119 | **232** | 263 |
| **Cash flows from investing activities** | | | | |
| Software | **(36)** | (51) | **(150)** | (98) |
| Rental units | **(26)** | (47) | **(60)** | (134) |
| Property, plant and equipment | **—** | (15) | **(7)** | (15) |
| **Total cash (outflows) from investing activities** | **(62)** | (113) | **(217)** | (247) |
| **Cash flows from financing activities** | | | | |
| Interest paid | **—** | — | **(1)** | — |
| **Total cash (outflows) from financing activities** | **—** | **—** | **(1)** | **—** |
| Net change in cash and cash equivalents | **5** | 6 | **14** | 16 |
| Cash and cash equivalents at beginning of period | **117** | 196 | **108** | 186 |
| **Cash and cash equivalents at end of period** | **122** | 202 | **122** | 202 |
| Supplementary disclosure | | | | |
| Cash Interest | **—** | — | **(1)** | — |

*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 $ | Total $ |
|---|---|---|---|---|---|
| **Balance March 31, 2015** | **91,375** | **4,483** | **2,663** | **(98,301)** | **220** |
| Income for the period | — | — | — | 201 | 201 |
| Stock based compensation | — | — | 17 | — | 17 |
| **Balance September 30, 2015** | **91,375** | **4,483** | **2,680** | **(98,100)** | **438** |
| Income for the period | — | — | — | 198 | 198 |
| Stock based compensation | — | — | 19 | — | 19 |
| **Balance March 31, 2016** | **91,375** | **4,483** | **2,699** | **(97,902)** | **655** |
| **Income for the period** | **—** | **—** | **—** | **156** | **156** |
| **Stock based compensation** | **—** | **—** | **26** | **—** | **26** |
| **Balance September 30, 2016** | **91,375** | **4,483** | **2,725** | **(97,746)** | **837** |

*See accompanying notes*

**AirIQ Inc.**

# 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 six months ended September 30, 2016

## 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 November 16, 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, 2016, 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, 2016 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 these 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, these 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 years ended March 31, 2016 and 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.

# 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 six months ended September 30, 2016

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year. See note 3 in the Company's consolidated financial statements for the years ended March 31, 2016 and 2015 for details.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of 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, revenue recognition, 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.

| | **30-Sep-2016** | **31-Mar-2016** |
|---|---|---|
| | **$** | $ |
| Cash | **122** | 108 |
| | **122** | 108 |

## 6. INVENTORY

Inventory consists of components used to assemble hardware equipment and finished goods. For the three months and six months ended September 30, 2016, the amount of inventory recognized as an expense in cost of goods sold was $172 and $534, respectively (three months and six months ended September 30, 2015 – $127 and $355, respectively). Inventory is valued at the lower of cost or net realizable value. As at September 30, 2016, al1 inventory was carried at cost.

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

## 7. SOFTWARE, RENTAL UNITS AND PROPERTY, PLANT AND EQUIPMENT

Software, rental units and property, plant and equipment consist of the following:

| | Software<br>$ | Rental units<br>$ | Office equipment<br>$ | Leasehold improvements<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Balance at March 31, 2016** | **711** | **448** | **18** | **5** | **1,182** |
| Additions for the period | 150 | 60 | 7 | — | 217 |
| **Balance at September 30, 2016** | **861** | **508** | **25** | **5** | **1,399** |
| | | | | | |
| **Depreciation and impairment losses** | | | | | |
| **Balance at March 31, 2016** | **266** | **93** | **2** | **1** | **362** |
| Depreciation for the period | 82 | 49 | 2 | — | **133** |
| **Balance at September 30, 2016** | **348** | **142** | **4** | **1** | **495** |
| | | | | | |
| **Carrying amounts** | | | | | |
| At March 31, 2016 | 445 | 355 | 16 | 4 | 820 |
| **At September 30, 2016** | **513** | **366** | **21** | **4** | **904** |

Depreciation expense for software, rental units and property, plant and equipment for the three months and six months ended September 30, 2016 is $68 and $133, respectively (three months and six months ended September 30, 2015 - $40 and $79, respectively) of which $25 and $49, respectively (three months and six months ended September 30, 2015 - $16 and $31, respectively) is included in direct cost of sales relating to rental units.

The Company continues to assess the carrying value of its software, rental units and property, plant and equipment and determines whether they are impaired. No impairment charges were recorded during the three months and six months periods ended September 30, 2016 or September 30, 2015.

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

For the three months and six months ended September 30, 2016

## 8. DEFERRED REVENUE AND COSTS OF DEFERRED REVENUES

| | Deferred revenue $ | Costs of deferred revenues $ |
|---|---|---|
| **Balance, March 31, 2016** | **873** | **424** |
| **At March 31, 2016:** | | |
| Current | 639 | 303 |
| Non-current | 234 | 121 |
| **Changes during the period:** | | |
| **Deferred during the period** | **472** | **244** |
| **Released to the consolidated statements of income** | **(459)** | **(208)** |
| **Balance, September 30, 2016** | **886** | **460** |
| **At September 30, 2016:** | | |
| **Current** | **681** | **333** |
| **Non-current** | **205** | **127** |

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 six months ended September 30, 2016 and September 30, 2015.

## 9. FINANCING

### Credit Facility

On December 15, 2014, the Company announced 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. As at September 30, 2016, $nil (September 30, 2015 $nil) has been drawn from this demand credit facility. The Company paid RBC a total of approximately $nil and $1, respectively, related to interest on the credit facility during the three months and six months ended September 30, 2016 (three months and six months ended September 30, 2015 - $nil and $nil, respectively) which is included in interest expense in the accompanying consolidated condensed interim statement of income and comprehensive income.

# 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 six months ended September 30, 2016

## 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 September 30, 2015 and September 30, 2016:

| | Number of Shares<br>\# | Issue Price<br>$ | Amount<br>$ |
|---|---|---|---|
| **Balance at September 30, 2015** | **28,928,947** | | **91,375** |
| **Balance at March 31, 2016** | **28,928,947** | | **91,375** |
| **Balance at September 30, 2016** | **28,928,947** | | **91,375** |

As of September 30, 2016, 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, 2016 to September 30, 2016:

| | $ |
|---|---|
| **Balance at March 31, 2016** | **2,699** |
| Stock-based compensation charge | 26 |
| **Balance at September 30, 2016** | **2,725** |

c) **Other paid in capital**

As at September 30, 2016, the Company had outstanding warrants as follows:

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

## 10. SHARE CAPITAL AND RESERVES continued

c) **Other paid in capital continued**

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. 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 six months ended September 30, 2016 and September 30, 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) **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' 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.

'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 September 30, 2016, the Company has reserved 2,892,895 (September 30, 2015– 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.

The Company recorded share-based compensation expense of approximately $13 and $26, respectively (three months and six months ended September 30, 2015 - $8 and $17 respectively), of which $4 and $8, respectively (three months and six months ended September 30, 2015 - $5 and $10, respectively) related to director fees.

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

For the three months and six months ended September 30, 2016

## 11. SHARE-BASED PAYMENTS continued

### a) Option Plan Details continued

Share option activity within the Plan is as follows:

| | **Three months ended 30-Sep-2016** | | **Three months ended 30-Sep-2015** | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price** | **Number of options** | **Weighted average exercise price** |
| | # | $ | # | $ |
| Outstanding options, beginning of period | **2,884,078** | **0.15** | 2,205,339 | 0.20 |
| Granted | — | — | 250,000 | 0.07 |
| Expired | — | — | — | — |
| Outstanding options, end of period | **2,884,078** | **0.15** | 2,455,339 | 0.19 |
| Exercisable, end of period | **2,206,578** | **0.17** | 1,780,339 | 0.24 |

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 periods ended September 30, 2016 or September 30, 2015.

Outstanding and exercisable options under the Plan as at September 30, 2016 are summarized as follows:

| | | **Outstanding** | | **Exercisable** | |
|---|---|---|---|---|---|
| **Exercise price range** | **Number outstanding** | **Weighted average exercise price** | **Weighted remaining contractual life** | **Number outstanding and exercisable** | **Weighted average exercise price** |
| $ | # | $ | (years) | # | $ |
| **0.05 — 1.60** | **2,865,627** | **0.11** | **6.88** | **2,188,127** | **0.12** |
| **6.00 — 8.00** | **18,451** | **6.05** | **.85** | **18,451** | **6.05** |
| | **2,884,078** | **0.15** | **6.84** | **2,206,578** | **0.17** |

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

No share base payments were issued or granted during the three months and six months ended September 30, 2016 and September 30, 2015.

No options have been exercised during the three months and six months ended September 30, 2016 and September 30, 2015.

# 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 six months ended September 30, 2016

## 12. NATURE OF EXPENSES

| | Three months ended September 30 | | Six months ended September 30 | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **$** | **$** | **$** | **$** |
| Salaries and benefits | **156** | 162 | **304** | 335 |
| Consulting | **48** | 51 | **87** | 94 |
| Computer operating | **39** | 37 | **81** | 67 |
| Commercial, officer and director insurance | **18** | 19 | **35** | 38 |
| Rent and maintenance | **10** | 13 | **21** | 37 |
| Legal fees, audit and tax | **11** | 10 | **21** | 23 |
| Public reporting costs | **11** | 23 | **16** | 27 |
| Stock-based compensation - Directors' fees | **4** | 5 | **8** | 10 |
| - Employees, consultants | **9** | 3 | **18** | 7 |
| Other | **13** | 16 | **40** | 48 |
| | **319** | 339 | **631** | 686 |

## 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 September 30, 2016 and September 30, 2015:

a) **Key Management Compensation**

Key management personnel compensation is comprised of:

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 |
|---|---|---|
| | **$** | $ |
| Consulting fees and benefits | **33** | 33 |
| Share-based payments | **8** | 2 |
| | **41** | 35 |

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. $nil as at September 30, 2016 (September 30, 2015 - $nil).

# 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 six months ended September 30, 2016

## 13. RELATED PARTY TRANSACTIONS continued

### (b) Related Party Transactions

The Company has also identified Mosaic as a related party as this corporation has a director in common with the Company. There were no transactions, amounts owed or payable to Mosaic during the three month or six month periods ended September 30, 2016 and September 30, 2015.

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 $36 at September 30, 2016 (September 30, 2015 - $31) which is included in accounts payable and accrued liabilities. The Company is also owed $36 from Mr. Gibbs at September 30, 2016 (September 30, 2015 - $36) which is included in trade and other receivables.

See also notes 9, 10 and 14.

## 14. COMMITMENTS AND CONTINGENCIES

(a) The Company entered into an asset purchase agreement with Timeout Studios Inc. ("Timeout") on May 31, 2016, for the purchase of certain software assets. Pursuant to the terms of the asset purchase agreement, the Company executed a promissory note in favour of Timeout in the principal amount of $45, payable in equal monthly installments of $2.5 from June, 2016 to May 2017, and $1.25 each month from June 2017 to May 2018. An additional earn-out is contemplated under the terms of the asset purchase agreement provided that the acquired business achieves certain revenue objectives in the first twelve months following the acquisition. As at September 30, 2016, the principal amount outstanding on the promissory note is $35 (September 30, 2015 $nil).

(b) Leases relate to office lease terms of 24 months payable in monthly instalments in advance. As of September 30, 2016, and September 30, 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:

| | **2017**<br>**$** |
|---|---|
| Asset purchase agreement | 35 |
| Operating lease | 23 |
| | **58** |

## 14. COMMITMENTS AND CONTINGENCIES continued

(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.

## 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 six months ended September 30, 2016 and the fiscal years ended March 31, 2016 and 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.

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

## 15. FINANCIAL INSTRUMENTS continued

(a) **Currency risk continued**

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

| | September 30, 2016<br>$ | March 31, 2016<br>$ |
|---|---|---|
| Cash | **94** | 99 |
| Trade and other receivables | **136** | 252 |
| Accounts payable and accrued liabilities | **(48)** | (99) |
| | **182** | 252 |

For the six months ended September 30, 2016, all else being equal, a strengthening of 1.0% of the US dollar against the Canadian dollar would have a positive impact of approximately $2, on net income and comprehensive income. A weakening of 1.0% of the US dollar against the Canadian dollar would have the opposite impact on net income.

(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.

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

## 15. FINANCIAL INSTRUMENTS continued

### (b) Credit risk continued

The following table sets forth details of the accounts receivable as at September 30, 2016 and March 31, 2016:

| | **September 30, 2016**<br>**$** | **March 31, 2016**<br>**$** |
|---|---|---|
| Trade accounts receivable, before allowances | **290** | 419 |
| Less allowance for doubtful accounts | **(8)** | (11) |
| Other receivables | **59** | 72 |
| **Trade and other receivables** | **341** | 480 |

Pursuant to their respective terms, accounts receivable are aged as follows as at September 30, 2016 and March 31, 2016:

| | **September 30, 2016**<br>**$** | **March 31, 2016**<br>**$** |
|---|---|---|
| Current | **227** | 328 |
| 31-60 days | **48** | 104 |
| 61-90 days | **26** | 22 |
| Over 91 days | **40** | 26 |
| **Total accounts receivable** | **341** | 480 |

### (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 September 30, 2016, the Company’s accounts payable and accrued liabilities were $333 (September 30, 2015 - $419).

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

## 15. FINANCIAL INSTRUMENTS continued

(c) **Liquidity risk continued**

The following table details the Company's contractual maturities for its financial liabilities, including interest payments and operating lease commitments as at September 30, 2016:

| | Payments due by period | | | | | |
|---|---|---|---|---|---|---|
| | **Total** | **2017** | **2018** | **2019** | **2020** | **2021** |
| | $ | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | **333** | 333 | — | — | — | — |
| Operating leases | **23** | 23 | — | — | — | — |
| | **356** | **356** | **—** | **—** | **—** | **—** |

(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.

## 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 and deficit and has capital surplus in the amount of $837 as at September 30, 2016 (September 30, 2015 – $438). 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 six months ended September 30, 2016.

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

For the three months and six months ended September 30, 2016

## 16. CAPITAL MANAGEMENT continued

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSXV which requires adequate working capital or financial resources of the greater of (i) $50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

## 17. SEGMENTED INFORMATION

The Company has one reportable segment. The Company's software, rental units and property, plant and equipment are located in Canada and have a net book value of $904 as at September 30, 2016 (September 30, 2015 - $632).

## 18. NET INCOME PER SHARE

Weighted Average Number of Common Shares:

| | Three months ended September 30 | | Six months ended September 30 | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Issued common shares at beginning of period | **28,928,947** | 28,928,947 | **28,928,947** | 28,928,947 |
| Weighted average number of common shares (basic) | **28,928,947** | 28,928,947 | **28,928,947** | 28,928,947 |
| Weighted average number of common shares (diluted) | **28,928,947** | 28,928,947 | **28,928,947** | 28,928,947 |

For the three months and six months ended September 30, 2016, diluted net income per share did not include the effect of 894,078 stock options (three months and six months ended September 30, 2015– 2,455,339) and $nil warrants (September 30, 2015– 700,000) as they are anti-dilutive.