Unaudited Condensed Consolidated Financial Statements

# EQ INC.

Three months ended March 31, 2016 and 2015

Notice of disclosure of non-auditor review of unaudited condensed consolidated interim financial statements (“interim financial statements”) pursuant to National instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators.

The accompanying interim financial statements of the Company for the three months ended March 31, 2016 and 2015 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting as issued by the International Accounting Standard Board and are the responsibility of the Company’s management. The Company’s independent auditors have not performed an audit or a review of these interim financial statements.

# EQ INC.

Unaudited Condensed Consolidated Interim Statements of Financial Position
(In thousands of Canadian dollars)

March 31, 2016 and December 31, 2015

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 104 | $ 115 |
| Accounts receivable (note 15 (a)) | 632 | 677 |
| Other current assets | 241 | 202 |
| | 977 | 994 |
| Non-current assets: | | |
| Investment (note 3) | – | 251 |
| Property and equipment (note 8) | 11 | 16 |
| Domain properties and other intangible assets (note 9) | 198 | 242 |
| | 209 | 509 |
| | $ 1,186 | $ 1,503 |
| **Liabilities and Shareholders' Deficiency** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 2,095 | $ 2,050 |
| Deferred lease inducement | 20 | 20 |
| Loans and borrowings (note 10 (a) and (b)) | 1,366 | 1,323 |
| Derivative liability - warrants (note 10 (c)) | 44 | 259 |
| Deferred revenue | 13 | 22 |
| | 3,538 | 3,674 |
| Non-current liabilities: | | |
| Deferred lease inducement | 57 | 63 |
| | $ 3,595 | $ 3,737 |
| Shareholders' deficiency (note 11) | (2,409) | (2,234) |
| | $ 1,186 | $ 1,503 |

Going concern (note 2(a))

See accompanying notes to unaudited condensed consolidated interim financial statements.

# EQ INC.

Unaudited Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(In thousands of Canadian dollars, except per share amounts)
Three months ended March 31, 2016 and 2015

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Revenue (note 4) | $ | 954 | $ | 921 |
| Expenses: | | | | |
| Publishing cost | | 481 | | 518 |
| Employee compensation and benefits | | 403 | | 581 |
| Other operating expenses | | 399 | | 511 |
| Depreciation of property and equipment | | 4 | | 42 |
| Amortization of domain properties and other intangible assets | | 30 | | 28 |
| | | 1,317 | | 1,680 |
| Loss from operations | | (363) | | (759) |
| Finance income (note 6) | | 201 | | 4 |
| Gain on derivative liability – warrants (note 10 (c)) | | 215 | | - |
| Finance costs (note 6) | | (195) | | (40) |
| Loss for the period | | (142) | | (795) |
| Other comprehensive income (loss), net of tax: | | | | |
| Items that maybe reclassified to net income (loss) | | | | |
| Amount reclassified to income (loss) | | (201) | | - |
| Foreign currency translation adjustments to equity | | 168 | | (18) |
| Other comprehensive loss, net of tax | | (33) | | (18) |
| Comprehensive loss | $ | (175) | $ | (813) |
| Loss per share (note 7) | | | | |
| Basic | $ | (0.01) | $ | (0.05) |
| Diluted | $ | (0.01) | $ | (0.05) |

See accompanying notes to unaudited condensed consolidated interim financial statements.

# EQ INC.

Unaudited Condensed Consolidated Interim Statements of Changes in Shareholders' Deficiency
(In thousands of Canadian dollars)

Three months ended March 31, 2016 and 2015

| Three months ended March 31, 2016 | Common shares: Number of shares | Common shares: Amount | Contributed surplus | Accumulated other comprehensive income (loss) | Deficit | Total deficiency |
|---|---|---|---|---|---|---|
| Balances, January 1, 2016 | 15,857,225 | $ 66,278 | $ 2,509 | $ (1,861) | $ (69,160) | $ (2,234) |
| Net loss | - | - | - | - | (142) | (142) |
| Share-based payments (note 12) | - | - | - | - | - | - |
| Amount reclassified to income for the period | - | - | - | (201) | - | (201) |
| Foreign currency translation adjustments | - | - | - | 168 | - | 168 |
| Balance, March 31, 2016 | 15,857,225 | $ 66,278 | $ 2,509 | $ (1,894) | $ (69,302) | $ (2,409) |

| Three Months ended March 31, 2015 | Common shares: Number of shares | Common shares: Amount | Contributed surplus | Accumulated other comprehensive income (loss) | Deficit | Total deficiency |
|---|---|---|---|---|---|---|
| Balances, January 1, 2015 | 15,857,225 | $ 66,278 | $ 2,450 | $ (1,866) | $ (66,864) | $ (2) |
| Net loss | - | - | - | - | (795) | (795) |
| Share-based payments (note 12) | - | - | 5 | - | - | 5 |
| Foreign currency translation adjustments | - | - | - | (18) | - | (18) |
| Balance, March 31, 2015 | 15,857,225 | $ 66,278 | $ 2,455 | $ (1,884) | $ (67,659) | $ (810) |

See accompanying notes to unaudited condensed consolidated interim financial statements.

# EQ INC.

Unaudited Condensed Consolidated Interim Statements of Cash Flows
(In thousands of Canadian dollars)

Three months ended March 31, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net loss | $ (142) | $ (795) |
| Adjustments to reconcile net loss to net cash flows from operating activities: | | |
| Depreciation of property and equipment | 4 | 42 |
| Amortization of domain properties and other intangible assets | 30 | 28 |
| Amortization of deferred lease inducement | (5) | (5) |
| Gain on derivative liability – warrants | (215) | - |
| Share-based payments (note 12) | - | 5 |
| Unrealized foreign exchange (gain) loss | (5) | 29 |
| Finance(income) costs, net | (21) | 7 |
| Gain on sale of available-for-sale investment | (201) | - |
| Change in non-cash operating working capital (note 16) | 333 | 79 |
| Net cash used in operating activities | (222) | (610) |
| **Cash flows from financing activities:** | | |
| Repayment of finance lease | - | (24) |
| Repayment of term loan | (44) | - |
| Promissory notes | - | 700 |
| Interest paid | (1) | (12) |
| Net cash from (used) in financing activities | (45) | 664 |
| **Cash flows from investing activities:** | | |
| Interest income received | - | 4 |
| Net proceeds from disposal of available-for-sale investment | 251 | - |
| Net cash from investing activities | 251 | 4 |
| Increase (decrease) in cash | (16) | 58 |
| Foreign exchange gain (loss) on cash held in foreign currency | 5 | (29) |
| Cash, beginning of period | 115 | 311 |
| Cash, end of period | $ 104 | $ 340 |

See accompanying notes to unaudited condensed consolidated interim financial statements.

## 1. Corporate information:

EQ Inc. (“EQ Works”) (the "Company") uses real-time technology and advanced analytics to improve performance for all web, mobile, social and video advertising initiatives. The Company balances the many components that comprise the complex advertising ecosystem and establishes equilibrium for reaching the right audience at the right time through any web or mobile device. The Company is governed by the Ontario Business Corporations Act and is domiciled in Canada. The address of the Company's registered office is 1255 Bay Street, Suite 400, Toronto, ON, M5R 2A9. The Company is a publicly listed on the TSX Venture Exchange ("TSX-V").

## 2. Basis of preparation:

(a) Statement of compliance and basis of presentation:

These unaudited condensed consolidated interim financial statements (the "interim financial statements") have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and on a basis consistent with the accounting policies disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2015 (the "2015 financial statements"). The accounting policies applied in these interim financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as of the date the Board of Directors authorized the statements for issue.

The notes presented in these interim financial statements include, in general, only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These interim financial statements should be read in conjunction with the 2015 financial statements, including the notes thereto.

The interim financial statements were authorized for issue by the Board of Directors on May 26, 2016.

The interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and using accounting principles applicable to a going concern. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize the carrying value of its assets and discharge its liabilities in the normal course of operations. However, there is significant doubt about the appropriateness of the use of the going concern assumption because the Company has experienced losses and negative cash flows that exceeded expectations in the current period principally due to the loss of certain customers.

**2. Basis of preparation (continued):**

The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing from existing shareholders or other sources and/or generate cash flows from operations in the future. There is no certainty that the Company will be able to secure additional forms of financing which are not yet committed or generate cash flows from operations in the foreseeable future.

If the going concern assumption was not appropriate for these interim financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported net loss, and the classifications used in the statement of financial position. The interim financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate.

These interim financial statements have been prepared mainly on a historical cost basis. Other measurement bases used are described in the applicable notes to these interim financial statements.

(b) Functional and presentation currencies:

These unaudited condenses consolidated interim financial statements are presented in Canadian dollars. The Company's functional currency is the U.S. dollar. The Company has elected its presentation currency to be the Canadian dollar as it is listed on the TSX-V and its shareholders are primarily Canadian.

(c) Significant accounting policies:

(a) Use of estimates and judgments:

The preparation of consolidated financial statements and application of IFRS often involve management's judgment and the use of estimates and assumptions deemed to be reasonable at the time they are made. The Company reviews estimates and underlying assumptions on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and may impact future periods as well. Other results may be derived with different judgments or using different assumptions or estimates and events may occur that could require a material adjustment. EQ Works is using management judgment to assess whether financial liabilities have been extinguished by barred under the limitation Act, 2002. Under limitation Act, 2002 (Ontario) the standard limitation period for a preceding in respect of a claim is two years from the day on which the claim was discovered. As a result the Company is in the process of analyzing the liabilities and may discharge the liabilities based on the outcome.

**2. Basis of preparation (continued):**

(b) Financial instruments:

(i) Non-derivative financial assets:

The Company initially recognizes loans and receivables and deposits on the date they originate. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial instruments are, for measurement purposes, grouped into categories. The classification depends on the purpose and is determined upon initial recognition. The Company has the following categories of non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

(a) Financial assets at fair value through profit or loss:

(b) A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(c) Loans and receivables:

Loans and receivables, which include cash and accounts receivable and other current assets, are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Accounts receivable comprise trade receivables, net of allowance for doubtful accounts. Cash comprise cash balances and cash deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash for the purpose of the consolidated statements of cash flows.

**2. Basis of preparation (continued):**

(d) Available-for-sale financial assets:

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories, and include investments. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in OCI and presented within equity in the accumulated other comprehensive income (“OCI”). When an investment is derecognized, the cumulative gain or loss in OCI is transferred to profit or loss.

(ii) Non - derivative financial assets and liabilities:

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

The Company's non-derivative financial liabilities consist of accounts payable and accrued liabilities and loans and borrowings. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition and measurement, these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Derivative financial assets and liabilities:

The Company’s derivative financial assets and liabilities consist of warrant liabilities. Derivatives are recognized initially at fair value and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are re-measured each period with the movement being recorded as a gain or loss in the statement of profit or loss.

(iv) Fair value measurement:

The Company provides disclosure of the three-level hierarchy that reflects the significance of the inputs used in making the fair value measurement. The three levels of fair value hierarchy based on the reliability of inputs are as follows:

- Level 1 - inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 - inputs are based on observable market data, either directly or indirectly other than quoted prices; and
- Level 3 - inputs are not based on observable market data.

## 2. Basis of preparation (continued):

(e) Recently issued accounting pronouncements:

These interim financial statements follow the same accounting policies and methods of application as the annual audited consolidated financial statements for the year ended December 31, 2015, with the exception of the following new accounting standards and amendments which the Company adopted and are effective for the Company's interim and annual consolidated financial statements commencing January 1, 2016 and 2018 and earlier application is permitted.

The accounting standards and amendments to standards adopted by the Company that had an impact on financial results or require further explanation are explained as follows:

Effective for annual periods beginning on or after January 1, 2016

(i) IAS 1 Presentation of Financial Statements was amended by the IASB in December 2014. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. Earlier application is permitted.

(ii) IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets were amended by the IASB in May 2014. Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. Earlier application is permitted.

Effective for annual periods beginning on or after January 1, 2018

(iii) IFRS 15 Revenue from Contracts with Customers was issued by the IASB in May 2014. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. Earlier application is permitted. IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue—Barter Transactions Involving Advertising Services.

## 2. Basis of preparation (continued):

(iv) IFRS 9 Financial Instruments was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Earlier application is permitted.

The Company is assessing the impact of these new standards on its interim financial statements.

## 3. Available-for-sale Investment:

In July 2012, the Company acquired 116,267 shares of an available-for-sale equity investment in a private company for $50. On February, 2016, EQ Works was able to negotiate and sell its investment for $251. The gross realized gain on the sale of such available-for-sale investment was $201.

## 4. Revenue:

The Company sub-classifies revenue into the following components: advertising and marketing services revenue.

Advertising revenue is derived from the on-line network connecting advertisers and publishers to execute advertising. Marketing services revenue is derived from consulting services and developing advertising strategies for the Company's customers.

| | Three months ended March 31, 2016 | 2015 |
|---|---|---|
| Advertising | $ 825 | $ 833 |
| Marketing services | 129 | 88 |
| | $ 954 | $ 921 |

## 5. Segment information:

The Company has one operating segment and report as such. EQ Works' business focuses on targeted advertising and incorporates the most sophisticated advertising technologies, data analytics and programmatic media buying capabilities into a single system. The chief operating decision maker evaluates the Company's performance, makes operating decision, and allocates resources based on financial data consistent with the presentation in these financial statements.

The Company's assets and operations are substantially all located in Canada; however, the Company services many customers in the United States and internationally.

The Company generates revenue across three geographical regions; customer revenue by region is as follows:

| | Three months ended March 31, 2016 | Three months ended March 31, 2015 |
|---|---|---|
| Canada | $ 916 | $ 875 |
| Outside North America | 2 | 3 |
| United States | 36 | 43 |
| | $ 954 | $ 921 |

For the three months ended March 31, 2016, there were two customers that comprised 17% and 12% of the Company's total revenue from operations, respectively. No other customers exceeded 10% of revenue. For the three months ended March 31, 2015, there were three customers that comprised 16%, 13% and 12% of the Company's total revenue from operations.

## 6. Finance income and finance cost:

| | Three months ended March 31, 2016 | 2015 |
|---|---|---|
| Finance income: | | |
| Interest income on cash | $ – | $ 4 |
| Gain on sale of available-for-sale investment (note 3) | 201 | – |
| Total finance income | $ 201 | $ 4 |

| | Three months ended March 31, 2016 | 2015 |
|---|---|---|
| Finance costs: | | |
| Other interest expense | $ (91) | $ (12) |
| Foreign exchange loss, net | (104) | (28) |
| Total finance costs | $ (195) | $ (40) |

## 7. Loss per share:

The computations for basic and diluted loss per share for the three months ended March 31, 2016 and 2015 are as follows:

| | Three months ended March 31, 2016 | 2015 |
|---|---|---|
| Loss for the period | $ (142) | $ (795) |
| Weighted average number of shares outstanding: | | |
| Basic | 15,857,225 | 15,857,225 |
| Diluted | 15,857,225 | 15,857,225 |
| Loss per share: | | |
| Basic | $ (0.01) | $ (0.05) |
| Diluted | $ (0.01) | $ (0.05) |

Warrants to purchase 9,945,845 common shares were outstanding as at March 31, 2016 but were not included in the computation of diluted loss per share because the warrants' exercise price was greater than the average market price of the common shares. The total number of warrants that were excluded from the calculation of diluted loss per share, because their inclusion would have been anti-dilutive for the three months ended March 31, 2016, was 9,945,845 (2015 - nil).

## 8. Property and equipment:

| | Furniture and fixtures | Computer equipment | Leasehold improvements | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance, January 1, 2015 | $ 822 | $ 3,493 | $ 361 | $ 4,676 |
| Effect of movements in exchange rates | 370 | 1,118 | 135 | 1,623 |
| Balance, December 31, 2015 | $ 1,192 | $ 4,611 | $ 496 | $ 6,299 |
| **Cost** | | | | |
| Balance, January 1, 2016 | $ 1,192 | $ 4,611 | $ 496 | $ 6,299 |
| Effect of movements in exchange rates | (144) | (435) | (52) | (631) |
| Balance, March 31, 2016 | $ 1,048 | $ 4,176 | $ 444 | $ 5,668 |
| **Depreciation** | | | | |
| Balance, January 1, 2015 | $ 815 | $ 3,376 | $ 361 | $ 4,552 |
| Depreciation | 2 | 117 | – | 119 |
| Effect of movements in exchange rates | 378 | 1,107 | 135 | 1, 612 |
| Balance, December 31, 2015 | $ 1,187 | $ 4,600 | $ 496 | $ 6,283 |
| **Depreciation** | | | | |
| Balance, January 1, 2016 | $ 1,187 | $ 4,600 | $ 496 | $ 6,283 |
| Depreciation | 1 | 3 | – | 4 |
| Effect of movements in exchange rates | (144) | (434) | (52) | (630) |
| Balance, March 31, 2016 | $ 1,044 | $ 4,169 | $ 444 | $ 5,657 |
| **Carrying amounts** | | | | |
| December 31, 2015 | $ 5 | $ 11 | $ – | $ 16 |
| March 31, 2016 | 4 | 7 | – | 11 |

## 9. Domain properties and other intangible assets:

**Intangible assets by category are as follows:**

| | Customer relationships | Technology | Domain properties and content | Computer software | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance, January 1, 2015 | $ 18,085 | $ 10,326 | $ 7,881 | $ 1,206 | $ 37,498 |
| Disposals | - | - | (241) | - | (241) |
| Effect of movements in exchange rates | 122 | 772 | 236 | 202 | 1,332 |
| Balance, December 31, 2015 | $ 18,207 | $ 11,098 | $ 7,876 | $ 1,408 | $ 38,589 |
| **Cost** | | | | | |
| Balance, January 1, 2016 | $ 18,207 | $ 11,098 | $ 7,876 | $ 1,408 | $ 38,589 |
| Effect of movements in exchange rates | (48) | (299) | (84) | (79) | (510) |
| Balance, March 31, 2016 | $ 18,159 | $ 10,799 | $ 7,792 | $ 1,329 | $ 38,079 |

## 9. Domain properties and other intangible assets: (continued)

### Intangible assets by category are as follows: (continued)

| | Customer relationships | Technology | Domain properties and content | Computer software | Total |
|---|---|---|---|---|---|
| **Amortization and impairment loss** | | | | | |
| Balance, January 1, 2015 | $ 18,085 | $ 10,290 | $ 7,593 | $ 1,260 | $ 37,124 |
| Amortization | - | 16 | 96 | - | 112 |
| Disposals | - | - | (220) | - | (220) |
| Effect of movements in exchange rates | 122 | 766 | 191 | 202 | 1,281 |
| Balance, December 31, 2015 | $ 18,207 | $ 11,072 | $ 7,660 | $ 1,408 | $ 38,347 |
| **Amortization and impairment loss** | | | | | |
| Balance, January 1, 2016 | $ 18,207 | $ 11,072 | $ 7,660 | $ 1,408 | $ 38,347 |
| Amortization | - | 4 | 26 | - | 30 |
| Effect of movements in exchange rates | (48) | (297) | (72) | (79) | (496) |
| Balance, March 31, 2016 | $ 18,159 | $ 10,779 | $ 7,614 | $ 1,329 | $ 37,881 |

| **Carrying amounts** | | | | | |
|---|---|---|---|---|---|
| December 31, 2015 | $ - | $ 26 | $ 216 | $ - | $ 242 |
| March 31, 2016 | $ - | $ 20 | $ 178 | $ - | $ 198 |

## 10. Loans and borrowings:

(a) Bank credit facilities:

The Company has a non-revolving term loan and credit card facility with a Canadian chartered bank. As at March 31, 2016, there was $58 (2015 - nil) outstanding under the non-revolving term facility and $63 outstanding under the credit card facility (2015 - $58) included in accounts payable.

The non-revolving demand facility is up to $175 by way of Canadian dollar currency loans and repayable by twelve monthly equal installments. The facility bears interest at the bank's prime rate plus 2.35%. The Company renegotiated the revolving demand facility with the lender during the year ended December 31, 2015 and under the amended credit agreement, the Company is not required to maintain any covenant as security of the banking facility.

(b) Promissory notes payable:

During March 2015, the Company entered into promissory notes (“Notes”) in the amount of $700, due on September 10, 2015. The Notes, which are non-convertible, bear interest at an annual rate of 15% with principal and interest payment due on maturity date. $300 of such Notes have been subscribed for by certain insiders of the Company. On November 2015 the Notes, along with accrued interest were refinanced.

During September 2015, the Company entered into Demand Loans (“Loans”) in the amount of $1,388. The Loans included promissory notes of approximately $753 from the March 2015 financing which matured on September 10, 2015 and $635 of new contribution including accrued interest of $53. The Loans were converted into new promissory notes upon closing of the November 2015 financing.

On November 2015, the Company entered into new promissory notes (“New Notes”) in the amount of $1,421 due on November 25, 2016. The New Notes, which are non-convertible, bear interest at an annual rate of 8% with principal and interest payment due on maturity date. The lenders received seven non-transferable warrants (the “Bonus Warrants”) for each dollar of principal amount of New Notes, with each Bonus Warrant being exercisable for a period of twelve months from the date of issuance for one common share of the Company (a “Bonus Share”) at an exercise price of $0.10 per Bonus Share. All Bonus Warrants will be subject to a four months hold period from the date of issuance in accordance with the applicable securities law.

**10. Loans and borrowings (continued):**

(b) Promissory note payable: (continued)

As the New Notes are denominated in Canadian dollars, a currency different from the functional currency of the Company, the embedded derivative is recognized as a liability. The embedded derivative is recorded at fair value and re-measured each period with the movement being recorded as a gain or loss in consolidated statement of operations. The New Notes are classified as liability, less the portion relating to the embedded derivate feature. As a result, the recorded liability to repay the New Notes is lower than its face value. Using effective interest rate method of 29.5% rate implicit in the calculation, the difference of $349 characterized as the notes discount, is being charged to interest expenses accreted to the liability over the term of the New Notes. $588 of such New Notes have been subscribed for by insiders of the Company.

The following table outlines the activity for loans and borrowings as at March 31, 2016:

| | | |
|---|---|---|
| Balance, January 1, 2016 | $ | 1,221 |
| Accretion of interest – Warrants | | 59 |
| Accrued interest on New Notes | | 28 |
| Total promissory notes payable | $ | 1,308 |
| Term loan, January 1, 2016 | | 102 |
| Repayment of term loan | | (44) |
| Net term loan | $ | 58 |
| Total loans and borrowings | $ | 1,366 |

## 10. Loans and borrowings (continued):

(c) Derivative liability - warrants:

The Company's functional currency is US dollars and the Bonus Warrants have an exercise price denominated in Canadian dollars. The Company has determined that the Bonus Warrants with an exercise price that is different from the entity's functional currency are classified as derivative liability based on the revaluation of the Bonus Warrant's settlement provisions, and carried at their fair value.

Any changes in the fair value from the period are recorded as a gain or loss in the statement of comprehensive income.

The fair value of the derivative for the Bonus Warrants has been estimated using Black-Scholes pricing model as it is considered as a Level 3 financial instrument in the fair value hierarchy with significant unobservable inputs. Assumptions used in the pricing model for March 31, 2016 is provided below.

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Expected volatility | 90% | 151% |
| Average risk free interest rate | 0.49% | 0.48% |
| Forfeiture rate | 0% | 0% |
| Expected life (year) | 0.65 | 0.90 |
| Expected dividends | – | – |

The fair value of the derivative liability for the bonus warrants is as follows:

| | | |
|---|---|---|
| Balance, January 1, 2016 | $ | 259 |
| Gain on revaluation of derivative liability for the period | | (215) |
| Derivative balance – March 31, 2016 | $ | 44 |

## 11. Shareholders' deficiency:

**Common shares:**

The authorized share capital of the Company comprises an unlimited number of common shares without par value. The holders of common shares are entitled to receive dividends when declared and are entitled to one vote per share at annual meetings of the Company.

## 12. Share-based payments:

The following table summarizes the continuity of options issued under the Company's stock option plan for the three months ended:

| | March 31, 2016 | | March 31, 2015 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding, beginning of year | – | – | 1,037498 | $ 1.75 |
| Granted | – | – | – | – |
| Forfeited or cancelled | – | – | (1,037,498) | 2.43 |
| Outstanding, end of year | – | – | – | – |
| Options exercisable, end of year | – | – | – | – |

During the three months ended March 31, 2016, the Company recorded share-based payments of nil compared to $5 during the same period in 2015. In February 2015, the Company forfeited and cancelled the issued and outstanding stock options.

During the three months ended March 31, 2016 and 2015, no stock options were granted and no stock options were exercised.

## 13. Fair values of financial instruments:

### (a) Classification of financial instruments:

The following table provides the allocation of financial instruments, their associated financial instrument classifications, their carrying values, and fair values including their most appropriate level within the fair value hierarch, based on the inputs used to determine the fair value at the measurement date:

| March 31, 2016 | Loans and receivables / other financial liabilities | Available – for – sale securities | Carrying value total | Fair value total |
|---|---|---|---|---|
| Measurement basis | Amortized cost | Fair value | | |
| Financial assets: | | | | |
| Cash | $ 104 | $ - | $ 104 | $ 104 |
| Accounts receivable | 632 | - | 632 | 632 |
| SR&ED credits receivable | 69 | - | 69 | 69 |
| | $ 805 | $ - | $ 805 | $ 805 |
| Financial liabilities: | | | | |
| Accounts payable and accrued liabilities | $ 2,095 | $ - | $ 2,095 | $ 2,095 |
| Derivative liability-warrants (level 3) | 44 | - | 44 | 44 |
| Loans and borrowings | 1,366 | - | 1,366 | 1,366 |
| | $ 3,505 | $ - | $ 3,505 | $ 3,505 |

## 13. Fair values of financial instruments: (continued)

### (a) Classification of financial instruments: (continued)

| December 31, 2015 | Loans and receivables / other financial liabilities | Available – for – sale securities | Carrying value total | Fair value total |
|---|---|---|---|---|
| Measurement basis | Amortized cost | Fair value | | |
| Financial assets: | | | | |
| Cash | $ 115 | $ - | $ 115 | $ 115 |
| Accounts receivable | 677 | - | 677 | 677 |
| SR&ED credits receivable | 69 | - | 69 | 69 |
| Investment (level 3) (i) | - | 251 | 251 | 251 |
| | $ 861 | $ 251 | $ 1,112 | $ 1,112 |
| Financial liabilities: | | | | |
| Accounts payable and accrued liabilities | $ 2,050 | $ - | $ 2,050 | $ 2,050 |
| Derivative liability-warrants (level 3) | 259 | - | 259 | 259 |
| Loans and borrowings | 1,323 | - | 1,323 | 1,323 |
| | $ 3,632 | $ - | $ 3,632 | $ 3,632 |

(i) The Company initially measured the available-for-sale equity investment purchased in 2012 based on the cash exchanged between the parties in 2014. In 2015 the investment appreciated in value due to the valuation and the Company recognize $201 of gain.

There have been no transfers of assets between levels during the three months ended March 31, 2016.

## 14. Capital risk management:

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to provide returns to its shareholders. The Company defines capital that it manages as the aggregate of its shareholders' equity, which comprises issued capital, contributed surplus, accumulated other comprehensive income and retained earnings (deficit). The Company manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may issue shares, repurchase shares, pay dividends or raising capital and borrowings, as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements. There has been no changes to the Company’s capital management approach in 2016 from 2015.

## 15. Financial risk management:

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Audit Committee reviews the Company's risk management policies on an annual basis. The finance department identifies and evaluates financial risks and is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

### (a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises from the Company's accounts receivable and cash. The majority of the Company's customers are located in the United States and Canada. At March 31, 2016, two customers represented 28%, and 11% of the gross accounts receivable balance of $678, respectively. At December 31, 2015, three customers represented 16%, 13% and 12% of the gross accounts receivable balance of $724, respectively. The accounts receivable balances due from these significant customers were aged less than 30 days and classified as current at March 31, 2016. No other individual customers represented more than 10% of accounts receivable.

### (b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company manages its liquidity risk by continually monitoring forecasted and actual revenue and expenditures and cash flows from operations. Management is also actively involved in the review and approval of planned expenditures. The Company's principal cash requirements are for principal and interest payments on its debt, capital expenditures and working capital needs. The Company uses its operating cash flows, operating facilities and cash balances to maintain liquidity.

## 15. Financial risk management: (continued)

### (b) Liquidity risk:

The following are the contractual maturities for the Company's obligations:

| March 31, 2016 | Carrying amount | Contractual cash flow | On demand | Less than 1 year | 1 - 3 years | >3 years |
|---|---|---|---|---|---|---|
| Trade and other payables[i] | $ 2,095 | $ 2,095 | $ – | $ 2,095 | $ – | $ – |
| Operating leases | 967 | 967 | - | 227 | 554 | 186 |
| Loan and borrowings | 1,366 | 1,366 | - | 1,366 | - | - |
| | $ 4,428 | $ 4,428 | $ - | $ 3,688 | $ 554 | $ 186 |

| December 31, 2015 | Carrying amount | Contractual cash flow | On demand | Less than 1 year | 1 - 3 years | >3 years |
|---|---|---|---|---|---|---|
| Trade and other payables[i] | $ 2,050 | $ 2,050 | $ – | $ 2,050 | $ – | $ – |
| Operating leases | 1,171 | 1,171 | - | 291 | 646 | 234 |
| Loan and borrowings | 1,323 | 1,323 | - | 1,323 | - | - |
| | $ 4,544 | $ 4,544 | $ - | $ 3,664 | $ 646 | $ 234 |

[i]Trade and other payables exclude sales tax payable and other non-contractual liabilities.

## 16. Consolidated statements of cash flows:

The change in non-cash operating working capital comprises the following:

| | Three months ended March 31, 2016 | 2015 |
|---|---|---|
| Accounts receivable | $ (108) | $ (232) |
| Other current assets | 94 | (31) |
| Accounts payable and accrued liabilities | 316 | 350 |
| Deferred revenue | 31 | (8) |
| | $ 333 | $ 79 |

## 17. Related party transactions and balances:

During March 2015, the Company announced the closing of the Offering, which consisted of $700Promissory notes, $300 of such Promissory notes having been subscribed for by officers and directors of the Corporation.

During November 2015, the Company announced the closing of the aforementioned financing involving the New Notes, which consisted of $1,421 New Notes, $588 of such New Notes having been subscribed for by officers and directors of the Company.