

QUANTUM NUMBERS CORP.
(Formerly Active Growth Capital Inc.)

Financial Statements
December 31, 2016 and 2015
(in Canadian dollars)

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF QUANTUM NUMBERS CORP. (Formerly Active Growth Capital Inc.)

We have audited the accompanying financial statements of Quantum Numbers Corp., which comprise the statements of financial position as at December 31, 2016 and 2015 and the statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Quantum Numbers Corp. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 1 in the financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 26, 2017

QUANTUM NUMBERS CORP.
(Formerly Active Growth Capital Inc.)
Statements of financial position
As at December 31
(in Canadian dollars)

	Notes	2016	2015
		\$	\$
Assets			
Current assets			
Cash and cash equivalents	5	987,978	37,180
Taxes receivable		26,439	1,667
Prepaid expenses and other		11,229	-
Advance to related party	11	-	11,717
		1,025,646	50,564
Non-current assets			
Deposits		950	10,000
Exploration and evaluation assets	6	-	123,750
Intellectual property	7	446,112	-
Total assets		1,472,708	184,314
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	11	106,198	52,654
Total liabilities		106,198	52,654
Shareholders' Equity			
Share capital	9	4,608,618	3,104,748
Reserves		93,219	86,000
Deficit		(3,335,327)	(3,059,088)
Total shareholders' equity		1,366,510	131,660
Total liabilities and shareholders' equity		1,472,708	184,314

Approved on behalf of the Board:

"Marc Labrecque"

Marc Labrecque Director

"Pierre C Miron"

Pierre C Miron Director

QUANTUM NUMBERS CORP.
(Formerly Active Growth Capital Inc.)
Statements of comprehensive loss
Years ended December 31
(in Canadian dollars)

	Notes	2016	2015
		\$	\$
Expenses			
Legal and audit		53,380	47,079
Consulting fees		15,508	-
Filing and listing fees		27,073	19,308
Salaries	11	12,867	-
Travel		8,985	6,802
Office		7,196	1,585
Interest and bank charges		283	276
Exploration and project evaluation		-	5,488
Management fees	11	18,000	5,438
Share-based payments	9, 11	59,660	-
		202,952	85,976
Other Expenses			
Loss on exploration deposit		10,000	-
Impairment of exploration and evaluation assets	6	131,287	316,392
		141,287	316,392
Net loss and comprehensive loss for the year		344,239	402,368
Basic and diluted loss per share		0.02	0.04
Weighted average number of common shares outstanding		15,402,798	10,948,680

QUANTUM NUMBERS CORP.
(Formerly Active Growth Capital Inc.)
Statements of changes in shareholders' equity
(in Canadian dollars)

	Issued share capital		Reserves	Deficit	Total equity
	Common shares	Amount			
		\$	\$	\$	\$
Balance, December 31, 2014	5,013,338	2,760,998	104,000	(2,674,720)	190,278
Shares issued for the acquisition of property	1,375,000	123,750	-	-	123,750
Units issued for private placement	5,000,000	250,000	-	-	250,000
Share issue costs	-	(30,000)	-	-	(30,000)
Transfer from options reserves on expiry of options	-	-	(18,000)	18,000	-
Net loss for year	-	-	-	(402,368)	(402,368)
Balance, December 31, 2015	11,388,338	3,104,748	86,000	(3,059,088)	131,660
Shares issued for the acquisition of intellectual property	6,600,000	330,000	-	-	330,000
Units issued for private placement	25,221,000	1,261,050	-	-	1,261,050
Share issue costs	-	(103,180)	15,559	-	(87,621)
Share-based payments	-	-	59,660	-	59,660
Exercise of warrants	160,000	16,000	-	-	16,000
Transfer from options reserves on expiry of options	-	-	(68,000)	68,000	-
Net loss for year	-	-	-	(344,239)	(344,239)
Balance, December 31, 2016	43,369,338	4,608,618	93,219	(3,335,327)	1,366,510

QUANTUM NUMBERS CORP.
(Formerly Active Growth Capital Inc.)
Statements of cash flows
Years ended December 31
(in Canadian dollars)

	2016	2015
	\$	\$
Operating Activities		
Net loss	(344,239)	(402,368)
Adjustments to net profit for non-cash items		
Impairment of exploration and evaluation assets	131,287	316,392
Loss on exploration deposit	10,000	-
Share-based payments	59,660	-
Net changes in non-cash working capital items		
Taxes receivable	(24,772)	-
Prepaid expenses and other	(11,229)	10,849
Advance to related party	11,717	(11,717)
Accounts payable and accrued liabilities	53,544	(14,802)
Net operating cash flows	(114,032)	(101,646)
Investing Activities		
Exploration and evaluation assets	(7,537)	(900)
Intellectual property acquisition	(116,112)	-
Deposits	(950)	(10,000)
Net investing cash flows	(124,599)	(10,900)
Financing Activities		
Proceeds from private placements	1,261,050	250,000
Proceeds from exercise of warrants	16,000	-
Share issuance costs	(87,621)	(30,000)
Repayment of related party loans	-	(75,000)
Net financing cash flows	1,189,429	145,000
Increase in cash and cash equivalents	950,798	32,454
Cash and cash equivalents, beginning of year	37,180	4,726
Cash and cash equivalents, end of year	987,978	37,180
Supplemental Cash Flow Information		
Fair value of options granted to brokers included in share issuance costs	15,559	-
Issuance of shares to acquire exploration and evaluation assets	-	123,750
Issuance of shares to acquire intellectual property	330,000	-

QUANTUM NUMBERS CORP.
(Formerly Active Growth Capital Inc.)
Notes to financial statements
Years ended December 31, 2016 and 2015
(in Canadian dollars)

1. Nature of operations and going concern

Quantum Numbers Corp. (Formerly Active Growth Capital Inc). (the “Company” or “Quantum”) was incorporated under the *Business Corporations Act* of Ontario on July 19, 2007. The Company’s name was changed from Active Growth Capital Inc. on December 6, 2016.

The head office, principal address and records office of the Company are located at 3755 E Blvd Matte, suite 201, Brossard, Québec, J4Y 2P4. The Company is a developer of a new generation of cryptographic solutions pursuant to the acquisition of intellectual property (note 4).

The business of technology involves a high degree of risk and there can be no assurance that projects under research and development will proceed through to achieve commercialization. Risks related to the value of the Company’s intangible assets, completing proof of concept studies, protecting intellectual property rights, the ability of the Company to raise alternative financing, and risks inherent to new technologies, such as risk of obsolescence, slow adoption and competing technological advances. Changes in future conditions could require material impairment of investments.

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) on a going concern basis, which contemplates that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Accordingly, these financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. The Company reported a net loss of \$344,239 (2015 - \$402,368) for the year ended December 31, 2016 and has a deficit of \$3,335,327 (2015 - \$3,059,088) as at December 31, 2016. These circumstances may cast significant doubt as to the ability of the Company to meet its obligations as they come due, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The Company’s ability to continue as a going concern is dependent upon its ability to raise funds primarily through the issuance of shares or obtain profitable operations. The outcome of these matters cannot be predicted at this time. If the Company is unable to obtain additional financing, management may be required to curtail certain discretionary expenses. These material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”).

Use of judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

QUANTUM NUMBERS CORP.
(Formerly Active Growth Capital Inc.)
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Years ended December 31, 2016 and 2015
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2. Basis of preparation (Continued)

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

While management believes that these estimates and judgments are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

The key areas of judgment applied in the preparation of the financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- Asset acquisitions

Management has had to apply judgments relating to its acquisition of the intellectual property during the year with respect to whether the acquisition was a business combination or an asset acquisition. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of the acquisition in order to reach a conclusion.

- Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenses, meet its liabilities for the ensuing year, and to fund planned and contractual research and development programs, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

- The carrying value of exploration and evaluation assets and the recoverability of the carrying value

Assets or cash-generating units ("CGUs") are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's exploration and evaluation assets.

Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, economics assessment/studies, accessible facilities and existing permits.

- Treatment of product development costs

Costs to develop products that will be sold are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 *Intangible Assets* are met. Those criteria require that the product is technically and economically feasible, which management assesses based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible. The Company has not capitalized any product development costs as at December 31, 2016.

QUANTUM NUMBERS CORP.
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Notes to financial statements
Years ended December 31, 2016 and 2015
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2. Basis of preparation (Continued)

- Intellectual property recoverability

The Company assesses at each reporting date if the intellectual property has indicators of impairment. In determining whether the intellectual property is impaired, the Company assesses certain criteria, including observable decreases in value, significant changes with adverse effect on the entity, evidence technological obsolescence and future plans.

- Recovery of deferred tax assets

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make estimates in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant tax authorities, which occurs subsequent to the issuance of the financial statements.

The key estimates applied in the preparation of the financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- Intellectual property - useful life

Following initial recognition, the Company carries the value of the intellectual property at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded on the straight-line basis based upon management's estimate of the useful life and residual value. The estimates are reviewed at least annually and are updated if expectations change as a result of the technical obsolescence or legal and other limits to use. A change in the useful life or residual value will impact the reported carrying value of the intangible assets resulting in a change in related amortization expense. As at December 31, 2016, the Company has not amortized the intellectual property as amortization begins when the intellectual property is available for use.

- Share-based payments

The fair value of share options granted is measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility, expected life of the options, expected dividends and the risk-free rate. The Company estimates volatility based on historical share price of comparable companies excluding specific time frames in which volatility was affected by specific transactions that are not considered to be indicative of the entities' expected share price volatility. The expected life of the options is based on historical experience and general option holder behavior. Dividends were not taken into consideration as the Company does not expect to pay dividends. Management also makes an estimate of the number of options that will forfeit and the rate is adjusted to reflect the actual number of options that actually vest.

QUANTUM NUMBERS CORP.
(Formerly Active Growth Capital Inc.)
Notes to financial statements
Years ended December 31, 2016 and 2015
(in Canadian dollars)

2. Basis of preparation (Continued)

Approval of financial statements

The financial statements of the Company for the year ended December 31, 2016 were approved and authorized for issue by the Board of Directors on April 26, 2017.

These financial statements are presented in Canadian dollars, which is the Company's functional and reporting currency.

These financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

3. Summary of significant accounting policies

The Company's principal accounting policies are outlined below and have been applied consistently to all periods presented.

(a) Share-based payments

The Company grants stock options to employees and non-employees to exercise common shares of the Company. The Board of Directors grants such options for periods of up to five years, with vesting periods determined at its sole discretion and at prices equal to or greater than the closing market price on the day preceding the date the options were granted.

The fair value of the options granted to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period. The fair value of both employee and non-employee options is recognized as an expense with a corresponding increase in options reserves. The amount recognized as expense is adjusted to reflect the number of share options expected to vest. When options are exercised, the related amount in options reserve is transferred to capital stock. When options expire unexercised, such amounts are transferred to deficit.

The fair value of options granted to non-employees is recognized and measured at the date the goods and services are received based on the fair value of such goods and services. If it is determined such goods and services received cannot be reliably measured, the share-based payment is measured at the fair value of the equity instruments using the Black-Scholes option pricing model.

(b) Intellectual property

Intellectual property acquired separately is measured on initial recognition at fair value. Following initial recognition, intellectual property with finite useful lives is carried at cost less any accumulated amortization and accumulated impairment losses, if any. The Company amortizes its intellectual property over the remaining life of the patent using the straight-line basis. At each reporting date, the Company assesses whether there is objective evidence that the intellectual property is impaired. If such evidence exists, the Company recognizes an impairment loss. The loss is the difference between the carrying value and recoverable value, which is the higher of fair value less costs of disposal and value in use. The carrying amount of the intellectual property is reduced by this amount. Impairment losses are reversed in subsequent periods if the amount of the loss

QUANTUM NUMBERS CORP.
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3. Summary of significant accounting policies (Continued)

(b) *Intellectual property (Continued)*

decreases and the decrease can be related objectively to an event or condition occurring after the impairment was recognized. However, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized. As at December 31, 2016, the Company has not amortized the intellectual property as amortization begins when the intellectual property is available for use.

(c) *Research and development expenditures*

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Expenditures capitalized may include the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are recognized in profit or loss as incurred.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss when incurred.

(d) *Equity*

i) *Share capital*

Share capital represents the amount received on the issue of shares less issuance costs. Shares issued for non-cash consideration are based on the quoted price of the shares at the date of the issue.

ii) *Unit placements*

Proceeds from unit placements are allocated between shares and warrants issued using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to warrants.

(e) *Income taxes*

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the statements of comprehensive loss.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

QUANTUM NUMBERS CORP.
(Formerly Active Growth Capital Inc.)
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Years ended December 31, 2016 and 2015
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3. Summary of significant accounting policies (Continued)

(e) Income taxes (Continued)

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(f) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net income (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share using the treasury stock method whereby the weighted average number of shares outstanding is increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

(g) Cash and cash equivalents

Cash and cash equivalents consists of cash held with Canadian financial institutions and cash held in trust, when it is not restricted for use.

(h) Exploration and evaluation assets

Assets owned, mineral properties being depleted and mineral properties not being depleted are recorded at cost less accumulated depletion and accumulated impairment losses. All direct costs related to the acquisition, exploration and development of mineral properties are capitalized until the properties to which they relate are ready for their intended use, sold, abandoned or management has determined there to be impairment. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mineral properties and will be depleted using the unit-of-production method following commencement of production. Interest on borrowings incurred to finance mining assets is capitalized until the asset is capable of carrying out its intended use.

(i) Impairment

The Company's assets are reviewed for indicators of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated.

3. Summary of significant accounting policies (Continued)

(i) Impairment (Continued)

An impairment loss is recognized when the carrying amount of an asset, or its CGU, exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit or loss for the period. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

(j) Financial assets

Financial assets are classified into one of four categories:

- fair value through profit or loss ("FVTPL");
- held-to-maturity ("HTM");
- available-for-sale ("AFS"); and
- loans and receivables.

The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

i) FVTPL financial assets

Financial assets are classified as FVTPL when the financial asset is held-for-trading or it is designated as FVTPL.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as FVTPL are stated at fair value with any resultant gain or loss recognized in profit or loss. The Company has classified cash and cash equivalents as FVTPL financial assets.

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3. Summary of significant accounting policies (Continued)

(j) Financial assets (Continued)

ii) HTM investments

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs, and thereafter at amortized cost using the effective interest rate method. The Company does not have any assets classified as HTM investments.

iii) AFS financial assets

Short-term investments and other assets not otherwise classified, are classified as AFS and are stated at fair value. Gains or losses arising from changes in fair value are recognized directly in equity in accumulated other comprehensive income. Impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, are recognized directly in profit or loss rather than equity. When an investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in accumulated other comprehensive income is included in profit or loss for the period. The Company does not have any assets classified as AFS financial assets.

iv) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at year-end.

v) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each year-end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment are less than its carrying value.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets is directly reduced by the impairment loss.

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3. Summary of significant accounting policies (Continued)

(j) *Financial assets (Continued)*

v) *Impairment of financial assets (Continued)*

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

vi) *Derecognition of financial assets*

A financial asset is derecognized when:

- the contractual right to the asset's cash flows expire; or
- if the Company transfers the financial asset and substantially all risks and rewards of ownership to another entity.

vii) *Fair value hierarchy*

IFRS 7 *Financial Instruments: Disclosures* requires classification of fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for assets or liabilities that are not based on observable market data.

(k) *Provisions*

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

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3. Summary of significant accounting policies (Continued)

(l) Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

i) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Company has classified accounts payable and accrued liabilities as other financial liabilities.

ii) Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

(m) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early-adopted by the Company

At the date of authorization of these financial statements, new standards, amendments and interpretations to existing standards have been published by the IASB, but are not yet effective and have not been early-adopted by the Company.

Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below.

3. Summary of significant accounting policies (Continued)

(m) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early-adopted by the Company (Continued)*

- *IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement*
IFRS 9 amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The Company is in the process of evaluating the impact of the new standard.
- *IFRS 16 Leases*
IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation and disclosure of leases, including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases, as is required by IAS 17 *Leases*, and instead introduces a single lessee accounting model. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The impact of IFRS 16 on the Company's financial statements has not yet been determined.

4. Asset acquisition

On August 3, 2016, the Company entered into an Intellectual Property Assignment Agreement with Societe de Commercialisation des Produits de la recherche appliquee SOCPRA Sciences et Genie SEC ("SOCPRA") and its inventors by issuing a total of 6,000,000 common shares of the Company at a fair value of \$0.05 per share, representing a total fair value of \$300,000. The Company will pay SOCPRA an amount of \$13,838 in reimbursement of the professional fees associated with the protection of the patent ("Acquisition").

As of December 31, 2016, the patent has not been issued. Until the expiry of the last patent rights, the Company will pay to SOCPRA a royalty of 5% calculated on the net sales price of products sold by the Company. The royalty shall be calculated on a 12-month basis starting on the effective date and shall be paid by the Company to SOCPRA within 90 days following the expiry of each reference year. The Company may decide, during the three years following the closing date, to pay SOCPRA an amount of \$1,500,000 or, at SOCPRA's option, to issue to SOCPRA 10,000,000 common shares of the Company. In such case, any further royalties will cease to be due and SOCPRA shall not be entitled to any further payment from the Company in consideration for the intellectual property. If the Company does not find or develop a commercial application within three years, 50% of the intellectual property shall be transferred back to SOCPRA.

The Acquisition was not considered to be a business combination and was accounted for as an asset acquisition. Total purchase price of \$300,000, finder's fees of \$30,000 (note 9) and transaction costs of \$116,112, which includes the reimbursement of \$13,838 above, totalling \$446,112, were capitalized to intangible assets.

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5. Cash and cash equivalents

Cash and cash equivalents includes cash held with Canadian financial institutions and cash held in trust, when it is not restricted for use.

6. Exploration and evaluation assets

	Balance as at December 31 2015	Additions	Impairment	Balance as at December 31 2016
	\$	\$	\$	\$
Québec				
Portage-du-Fort Project (a)				
Mineral rights	123,750	5,000	(128,750)	-
Exploration and evaluation	-	-	-	-
	<u>123,750</u>	<u>5,000</u>	<u>(128,750)</u>	<u>-</u>
Saguenay Property (b)				
Mineral rights	-	2,537	(2,537)	-
Exploration and evaluation	-	-	-	-
	<u>-</u>	<u>2,537</u>	<u>(2,537)</u>	<u>-</u>
Summary				
Mineral rights	123,750	7,537	(131,287)	-
Exploration and evaluation	-	-	-	-
	<u>123,750</u>	<u>7,537</u>	<u>(131,287)</u>	<u>-</u>

(a) Portage-du-Fort Project (Québec)

Pursuant to the terms of the Property Purchase Agreement dated February 2, 2015, the Company acquired a 100% right, title and interest in the Portage-du-Fort dolomite marble property mineral claims, located in the province of Quebec.

The Company issued an aggregate 1,250,000 common shares at a fair value of \$112,500 to the vendors and a 3% net smelter return ("NSR") shall be payable to certain vendors on all minerals produced from the property in accordance with the terms of the agreement. The Company shall have the right at any time to buy back 1.5% of the NSR for an aggregate payment of \$1,500,000. The Company also issued 125,000 common shares at a fair value of \$11,250 as a finder's fee in connection with the agreement.

The Company changed its focus from mining to technology development and has ceased development of its mining rights. Accordingly, during the year ended December 31, 2016, the Company impaired the mining rights in the amount of \$128,750 based on a Level 3 assessment of the fair value hierarchy.

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6. Exploration and evaluation assets (Continued)

(b) Saguenay Property

On April 28, 2016, the Company entered into an option and joint venture agreement to acquire up to a 75% interest in the Saguenay property through two options. To acquire a 50% interest, the Company is required to issue 1,500,000 common shares. To acquire a 25% interest, the Company is required to incur an aggregate of \$200,000 in work cost on the property on or before the second anniversary of the execution date.

The Company changed its focus from mining to technology development and has ceased development of its mining rights. Accordingly, during the year ended December 31, 2016, the Company impaired the mining rights in the amount of \$2,537 based on a Level 3 assessment of the fair value hierarchy.

(c) Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its property. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to its mineral property interest that may result in a material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral property interest, the potential for production on the property may be diminished or negated.

(d) Realization of assets

Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the assets or from the proceeds of their disposal. Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines.

There can be no assurance that exploration programs will result in the discovery of economically viable quantities of ore. The amounts shown for acquisition costs represent costs incurred to date and do not necessarily reflect present or future values.

(e) Mining assets

Although the Company has taken steps to verify title to the properties in which it has an interest, in accordance with industry standards for properties in the exploration stage, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

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7. Intangible assets

	Balance as at December 31 2015	Additions	Balance as at December 31 2016
	\$	\$	\$
Cost			
Acquisition of SOCPRA license (Note 4)	-	446,112	446,112
	-	446,112	446,112
Accumulated amortization			
Amortization	-	-	-
	-	-	-
Carrying amount	-	446,112	446,112

No amortization was taken on the intangibles as the assets are not available to use.

8. Income taxes

Income tax recovery differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26.9% (2015 - 26.9%) to income before income taxes. The reasons for the differences are as follows:

	2016	2015
Loss before income taxes	\$ (344,239)	\$ (402,368)
Statutory income tax rate	26.9%	26.9%
Expected income tax benefit	(92,600)	(108,237)
Items not deductible for income tax purposes	17,275	544
Change in temporary differences	-	(8,070)
Unrecognized benefit of deferred tax assets	75,325	115,763
Income tax recovery	\$ -	\$ -

The Company's deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2016	2015
Share issuance costs	\$ 100,948	\$ 27,415
Tax value of mineral property interests over carrying value	1,117,755	986,469
Non-capital losses carried forward	1,720,615	1,543,000
Unrecognized deductible temporary differences	\$ 2,939,318	\$ 2,556,884

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8. Income taxes (Continued)

The Company's unrecognized non-capital tax losses have the following expiry dates:

2029	\$	427,000
2030		105,000
2031		479,000
2032		239,000
2033		117,000
2034		82,000
2035		94,000
2036		178,000
		<hr/>
		\$ 1,721,000

9. Share capital

(a) Authorized

The Company is authorized to issue an unlimited number of:

- voting Class A preferred shares
- voting Class B preferred shares
- voting Class C preferred shares
- voting Class D preferred shares
- special shares (non-voting)
- common shares (voting)

without nominal or par value.

Class A preferred shares are ranked senior to Class B preferred shares, Class B preferred shares are ranked senior to Class C preferred shares, Class C preferred shares are ranked senior to Class D preferred shares, Class D preferred shares are ranked senior to special shares, and special shares are ranked senior to common shares in priority of receiving dividends declared by the Company.

Holders of special shares and common shares shall be entitled to receive pro-rata for the remaining property of the Company after distribution to the holders of Class A, Class B, Class C and Class D preferred shares, on a pro-rata basis.

Dividends for Class A, Class B, Class C and Class D preferred shares are preferential and non-cumulative and are declared in accordance with their respective priority. Dividend rate per share for Class B, Class C and Class D preferred shares is 7% per annum. Dividends are declared at the discretion of the Company's Board of Directors.

No Class A, Class B, Class C or Class D preferred shares and special shares were issued by the Company as at December 31, 2016 (2015 - nil).

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9. Share capital (Continued)

(b) Issued and outstanding

During the year ended December 31, 2016, the following share transactions occurred:

- i)* On August 3, 2016, the Company completed a private placement financing for a total of \$112,750. The Company issued 2,255,000 units at a price of \$0.05 per unit. Each unit consisted of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to subscribe to one additional common share at a price of \$0.10, expiring February 3, 2018.
- ii)* On November 23, 2016, the Company completed a private placement financing for a total of \$1,148,300. The Company issued 22,966,000 units at a price of \$0.05 per unit. Each unit consisted of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to subscribe to one additional common share at a price of \$0.10, expiring November 23, 2017.

Finder's fees of \$64,275 and 879,500 finder's warrants were issued. Each warrant entitles the holder to purchase one common share at a price of \$0.10 for a period of 12 months, expiring November 23, 2017. The finder's warrants were valued at \$15,559 using the Black-Scholes valuation model with an expected life of 1 year, volatility of 140.81%, risk-free interest rate of 0.66%, dividend yield of 0% and forfeiture rate of 0%. A total of \$23,346 of legal and regulatory fees is included in share issue cost.

- iii)* On November 23, 2016, the Company issued 6,000,000 common shares at a fair value of \$0.05 per share for the acquisition of the intellectual property (note 4). The Company also issued 600,000 finder's shares totalling \$30,000.
- iv)* On December 9, 2016, the Company issued 160,000 common shares at a price of \$0.10 per share for the exercise of warrants.

During the year ended December 31, 2015, the following share transactions occurred:

- v)* On February 2, 2015, the Company issued 1,375,000 common shares at a price of \$0.09 per share such as required in the acquisition agreement of the Portage-du-Fort property.
- vi)* On February 23, 2015, the Company completed a private placement financing for a total of \$250,000. The Company issued 5,000,000 units at a price of \$0.05. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to subscribe to one additional common share at a price of \$0.10 per share, expiring on February 23, 2017. A total of \$30,000 was incurred as share issuance costs related to the above private placement.

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9. Share capital (Continued)

(c) *Stock options*

The Company has adopted an incentive stock option plan in accordance with the policies of the TSX Venture Exchange (the "Exchange"), which provides for the Board of Directors of the Company to grant to directors, officers, employees and consultants of the Company non-transferrable stock options to purchase common shares provided the number of shares reserved for issuance under the stock option plan shall not exceed 10% of the issued and outstanding common shares, exercisable for a period of up to five years from the date of grant. The Board of Directors determines the price per common share and the number of common shares that may be allotted to directors, officers, employees and consultants of the Company and all other terms and conditions of the stock option, subject to the rules of the Exchange.

All share-based payments will be settled in equity. The Company has no legal or constructive obligation to repurchase or settle the options.

The Company's share options are as follows for the reporting periods presented:

	Number of options	2016 Weighted average exercise price \$	Number of options	2015 Weighted average exercise price \$
Balance outstanding, beginning of year	320,000	0.31	500,000	0.25
Granted	1,250,000	0.10	-	-
Expired	(90,000)	0.80	(180,000)	0.125
Cancelled	(50,000)	0.125		
Balance outstanding and exercisable, end of year	1,430,000	0.10	320,000	0.31

The weighted average remaining contractual life for options outstanding at December 31, 2016 is 4.62 (2015 - 2.88) years.

The weighted average fair value of the granted options of \$59,660 (2015 - \$nil) was determined using the Black-Scholes option pricing model and based on the following weighted average assumptions:

	2016	2015
Average share price at date of grant	\$0.05	N/A
Dividends yield	N/A	N/A
Expected volatility	191%	N/A
Risk-free interest rate	0.87%	N/A
Expected average life	5 years	N/A
Average exercise price at date of grant	\$0.10	N/A

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9. Share capital (Continued)

(c) *Stock options (Continued)*

The underlying expected volatility was determined by reference to historical data of comparable companies who operate in the same industry. No special features inherent to the options granted were incorporated into measurement of fair value.

Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of 0% (2015 – N/A) in determining the expense recorded in the accompanying statements of comprehensive loss.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

Outstanding options are as follows:

<u>Expiry date</u>	<u>Exercise price</u>	2016	2015
		<u>Number</u>	<u>Number</u>
	\$		
September 1, 2016	0.80	-	90,000
September 30, 2019	0.125	180,000	230,000
November 22, 2021	0.10	1,250,000	-
		<u>1,430,000</u>	<u>320,000</u>

(d) *Share purchase warrants*

The changes in warrants during the years ended December 31, 2016 and 2015 are as follows:

	Number of warrants	2016	Number of warrants	2015
		Weighted average exercise price		Weighted average exercise price
		\$		\$
Balance outstanding, beginning of year	5,000,000	0.10	1,800,000	0.15
Granted	26,100,500	0.10	5,000,000	0.10
Expired	-	-	(1,800,000)	0.15
Exercised	(160,000)	0.10	-	-
Balance outstanding, end of year	30,940,500	0.10	5,000,000	0.10

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9. Share capital (Continued)

(d) Share purchase warrants (Continued)

Outstanding warrants are as follows:

Expiry date	Exercise price	2016 Number	2015 Number
	\$		
February 23, 2017	0.10	4,840,000	5,000,000
February 3, 2018	0.10	2,255,000	-
November 23, 2017	0.10	23,845,500	-
		30,940,500	5,000,000

The weighted average remaining contractual life of warrants outstanding is 0.79 (2015 - 1.15) years.

10. Related party transactions

The Company's related parties include companies under common control and joint key management, as described below.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

11. Transactions with key management

The key management of the Company are the members of senior management and the Board. The remuneration for the year of key management include the following expenses:

	2016	2015
	\$	\$
Management fees	18,000	5,438
Salaries	11,538	-
Share-based payments	59,660	-
	89,198	5,438

There were no amounts due from a shareholder (2015 - \$11,717) included in advance to related party. The amounts in 2015 were for expense advances and were repaid to the Company during 2016.

An amount of \$6,780 (2015 - \$7,683) is due to a director for unpaid consulting fees and is included in accounts payable and accrued liabilities.

An amount of \$6,973 (2015 - \$nil) is due to a director for unpaid salaries and is included in accounts payable and accrued liabilities.

An amount of \$3,293 (2015 - \$nil) is due to a director for reimbursement of expenses incurred during the year ended December 31, 2016 and is included in accounts payable and accrued liabilities.

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12. Segmented reporting

The Company operates in one segment, technology development. During the year ended December 31, 2015, the Company operated in the mineral exploration industry. As at December 31, 2016 and 2015, all of the Company's long-term assets are situated in Canada.

13. Financial instruments and risk management

(a) Management of capital

The capital structure of the Company consists of equity attributable to common shareholders, comprising issued share capital, reserves and deficit. The Company's objectives when managing capital are to: (i) preserve capital; (ii) obtain the best available net return; and (iii) maintain liquidity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. There were no changes to the Company's approach to capital management during the year ended December 31, 2016.

The Company is not subject to externally imposed capital requirements.

(b) Fair value of financial instruments

The fair values of cash and cash equivalents, accounts payable and accrued liabilities, and advances to related party approximate their carrying values due to the short terms to maturity of these financial instruments.

(c) Credit risk

Credit risk is the risk of a loss if a counter party to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk is limited to its cash and cash equivalents. The Company limits its exposure to credit risk by holding its cash and cash equivalents with high credit quality Canadian financial institutions and in trust with a lawyer (note 5).

(d) Liquidity risk

The Company attempts to manage liquidity risk by maintaining sufficient cash balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short-term obligations. As at December 31, 2016, the Company had a cash balance of \$987,978 (2015 - \$37,180) to settle current liabilities of \$106,198 (2015 - \$52,654). The Company is not exposed to significant liquidity risk.

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13. Financial instruments and risk management (Continued)

(e) *Market risk*

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

i) *Interest rate risk*

Interest rate risk consists of two components:

- (a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk; and
- (b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

ii) *Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is not exposed to foreign currency risk as its monetary assets and liabilities are denominated in Canadian dollars.

iii) *Other price risk*

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to other price risk.

14. Subsequent events

Subsequent to December 31, 2016, a total of 6,671,500 warrants with an exercise price of \$0.10 per warrant were exercised for gross proceeds of \$667,150.

Subsequent to December 31, 2016, a total of 2,000,000 stock options were issued to a member of key management of the Company. The options expire 10 years from the grant date and have an exercise price of \$0.30 per share. The options are subject to quarterly vesting over a period of 24 months.

Subsequent to December 31, 2016, the Company issued 200,000 common shares at an exercise price of \$0.10 per share for the exercise of stock options.