

# mobio technologies

## **Mobio Technologies Inc.**

Consolidated Financial Statements

(EXPRESSED IN CANADIAN DOLLARS)

**For the Years Ended July 31, 2017 and 2016**

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DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Mobio Technologies Inc.

We have audited the accompanying consolidated financial statements of Mobio Technologies Inc., which comprise the consolidated statement of financial position as at July 31, 2017, and the consolidated statements of comprehensive loss, changes in shareholders equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mobio Technologies Inc. as at July 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes certain conditions that indicate the existence of a material uncertainty that cast significant doubt about Mobio Technologies Inc.'s ability to continue as a going concern.

### Other Matter

The consolidated financial statements of Mobio Technologies Inc. for the year ended July 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on November 28, 2016.

A handwritten signature in black ink, appearing to read 'DMA', is located to the right of the printed name.

DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada  
November 28, 2017

**MOBIO TECHNOLOGIES INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian dollars)

As at July 31,

	Note	2017	2016
<b>ASSETS</b>			
<u>Current Assets</u>			
Cash		\$ 118,305	\$ 441,967
Restricted cash	10	25,235	25,229
Accounts receivable	5	18,803	81,893
Deposits and prepaid expenses		14,507	10,525
		<u>176,850</u>	<u>559,614</u>
<u>Non-Current Assets</u>			
Fixed assets		3,947	3,205
Intangibles	6,7	-	927,821
Investments	8,9	698,545	122,795
		<u>698,545</u>	<u>122,795</u>
<b>TOTAL ASSETS</b>		<b>\$ 879,342</b>	<b>\$ 1,613,435</b>
<b>LIABILITIES</b>			
<u>Current Liabilities</u>			
Trade payables and accruals	11	\$ 472,860	\$ 676,924
Convertible debenture	12	-	134,687
Short-term loans payable	11	150,378	75,000
Deferred revenue and customer deposits	6	1,203	117,488
		<u>624,441</u>	<u>1,004,099</u>
<b>TOTAL LIABILITIES</b>		<b>624,441</b>	<b>1,004,099</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	13	23,954,926	22,797,300
Warrant reserve	13	554,297	110,703
Equity portion of convertible debenture	12,13	-	2,974
Share-based payment reserves	13	489,572	489,572
Deficit		(24,743,894)	(22,791,213)
		<u>254,901</u>	<u>609,336</u>
<b>TOTAL EQUITY</b>		<b>254,901</b>	<b>609,336</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 879,342</b>	<b>\$ 1,613,435</b>

Nature of operations and going concern uncertainty 1

*Approved on behalf of the board*

*"Derek Lew"*

Derek Lew, Director

*"Laurie Baggio"*

Laurie Baggio, Chief Executive Officer

See accompanying notes to the consolidated financial statements

**MOBIO TECHNOLOGIES INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(Expressed in Canadian dollars)

Years ended July 31,		2017	2016
<b>REVENUE</b>			
Sales		\$ 295,584	\$ 605,566
<b>EXPENSES</b>			
Depreciation		2,146	2,587
Amortization of intangible assets	7	927,821	2,171,128
Impairment of intangible assets	7	-	58,413
Impairment of goodwill	7	-	620,639
Hosting and computing services		213,927	171,541
Distribution costs		-	108,597
Personnel	15	822,110	1,294,356
Professional fees		81,889	137,777
Office and administration		63,309	119,996
Regulatory and filing costs		35,289	35,422
Marketing		23,996	44,187
Communications		52,150	63,401
Website and IT		42,075	153,132
Bank charges and foreign exchange		5,794	9,393
Share-based payments		-	14,116
		<u>2,270,506</u>	<u>5,004,685</u>
Finance income	8	(17,146)	(4,261)
Finance costs	11,12	(2,121)	34,113
Loss on disposition of investments	6	-	552,945
Gain on debt repayment	12	(2,974)	-
Unrealized loss on investments	8	-	156,210
		<u>(22,241)</u>	<u>739,007</u>
<b>Loss before income taxes</b>		<b>(1,952,681)</b>	<b>(5,138,126)</b>
Income tax recovery	6,18	-	(13,143)
<b>Net loss and comprehensive loss for the year</b>		<b>\$ (1,952,681)</b>	<b>\$ (5,124,983)</b>
Basic and diluted loss per share	14	\$ (0.07)	\$ (0.79)
Weighted average number of common shares outstanding for the year, basic and diluted	14	28,065,010	6,504,922

See accompanying notes to the consolidated financial statements

# MOBIO TECHNOLOGIES INC.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)

Years ended July 31, 2017 and 2016										
	Notes	Share capital			Reserves					Total
		Number of shares	Amount	Contingent share-payment reserves	Warrant reserve	Equity portion of convertible debenture	Share-based payments reserves	Deficit		
Balance at August 01, 2015		5,801,214	\$ 21,833,604	\$ -	\$ 131,757	\$ -	\$ 554,635	\$ (18,292,627)	\$	4,227,369
Shares issued in private placements	13	6,285,715	329,297	-	110,703	-	-	-	-	440,000
Shares issued in acquisitions	7,13	728,658	510,061	547,218	-	-	-	-	-	1,057,279
Share issuance costs	13	-	(7,419)	-	-	-	-	-	-	(7,419)
Expiry of warrants	13	-	131,757	-	(131,757)	-	-	-	-	-
Share consolidation adjustment	13	(14)	-	-	-	-	-	-	-	-
Issuance of convertible debenture	12	-	-	-	-	2,974	-	-	-	2,974
Release of contingent consideration	7	-	-	(547,218)	-	-	-	547,218	-	-
Forfeiture of stock options	13	-	-	-	-	-	(79,179)	79,179	-	-
Share-based compensation	13	-	-	-	-	-	14,116	-	-	14,116
Comprehensive loss for the year		-	-	-	-	-	-	(5,124,983)	-	(5,124,983)
Balance at July 31, 2016		12,815,573	22,797,300	-	110,703	2,974	489,572	(22,791,213)	-	609,336
Shares issued in private placements	13	16,275,000	1,190,487	-	437,014	-	-	-	-	1,627,501
Share issuance costs	13	-	(32,861)	-	6,580	-	-	-	-	(26,281)
Repayment of convertible debenture	12	-	-	-	-	(2,974)	-	-	-	(2,974)
Share consolidation adjustment	13	(16)	-	-	-	-	-	-	-	-
Comprehensive loss for the year		-	-	-	-	-	-	(1,952,681)	-	(1,952,681)
Balance at July 31, 2017		29,090,557	\$ 23,954,926	\$ -	\$ 554,297	\$ -	\$ 489,572	\$ (24,743,894)	\$	254,901

See accompanying notes to the consolidated financial statements

**MOBIO TECHNOLOGIES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian dollars)

Years ended July 31,	2017	2016
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (1,952,681)	\$ (5,124,983)
<u>Items not affecting cash</u>		
Depreciation	2,146	2,587
Foreign exchange loss on investments	5,118	-
Amortization of intangible assets	927,821	2,171,128
Unrealized loss (gain) on investments	-	156,210
Impairment of goodwill	-	620,639
Impairment of intangible assets	-	58,413
Income tax recovery (of deferred taxes)	-	(13,143)
Amortization and financing costs	-	12,051
Loss on disposition of investments	-	552,945
Gain on debt repayment	(2,974)	-
Accrued interest income	(17,146)	17,526
Accrued interest expense	378	-
Share-based payments	-	14,116
<u>Net changes in non-cash working capital</u>		
Accounts receivable	63,090	131,512
Deposits and prepaid expenses	(3,982)	63,496
Trade payables and accruals	(204,064)	250,407
Deferred revenue and deposits	(116,285)	37,957
	<u>(261,241)</u>	<u>483,372</u>
Net cash used in operating activities	(1,298,579)	(1,049,139)
<b>INVESTING ACTIVITIES</b>		
Equipment purchases	(2,888)	(15,954)
Changes to restricted cash	(6)	(13)
Payments for contingent liabilities	-	(73,756)
Cash acquired in acquisitions	-	25,284
Cash realized from disposition of investments	-	121,500
Cash investments made	(563,722)	(40,000)
	<u>(566,616)</u>	<u>17,061</u>
Net cash (used in) provided by investing activities	(566,616)	17,061
<b>FINANCING ACTIVITIES</b>		
Proceeds from short-term loans	150,000	75,000
Repayment of short-term loans	(75,000)	-
Issuance of common shares	1,627,501	440,000
Share issuance costs	(26,281)	(7,419)
Proceeds from convertible debenture, net of issuance costs	-	356,860
Repayment of convertible debenture	(134,687)	-
Payment on convertible debenture assignment	-	(250,000)
	<u>1,541,533</u>	<u>614,441</u>
Net cash provided by financing activities	1,541,533	614,441
<b>NET CASH FLOW FROM OPERATING, INVESTING, AND FINANCING ACTIVITIES</b>	<b>(323,662)</b>	<b>(417,637)</b>
CASH, BEGINNING OF THE YEAR	<u>441,967</u>	<u>859,604</u>
CASH, END OF THE YEAR	<u>\$ 118,305</u>	<u>\$ 441,967</u>

See accompanying notes to the consolidated financial statements

## **1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY**

Mobio Technologies Inc. (“Mobio” or the “Company”) was incorporated pursuant to the provisions of the Business Corporations Act (Alberta) on November 19, 1998. On December 6, 2012, the Company was continued into British Columbia and changed its name from Intensity Company Inc. to LX Ventures Inc. On July 7, 2014, the Company changed its name to Mobio Technologies Inc. Mobio is a public company whose shares are listed on the TSX Venture Exchange under the symbol “MBO”. The Company’s primary line of business is Strutta.com Media Inc. (“Strutta”), a social promotions platform that allows brands to run contests and sweepstakes across multiple social web channels.

These consolidated financial statements have been prepared using the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. During the year ended July 31, 2017, the Company had a net and comprehensive loss of \$1,952,681 and negative cash flow from operations of \$1,298,579. These conditions raise significant doubt about the Company’s ability to continue as a going concern.

The continuing operations of the Company are dependent upon its ability to develop profitable operations in the future and to raise adequate financing, if necessary. The Company has generated operating losses since inception. The application of the going concern concept is dependent on the Company’s ability to achieve viable operations and access financing. Management is of the opinion that working capital is sufficient, but if necessary, additional working capital can be obtained from internal and external sources to meet the Company’s liabilities and commitments. During the year ended July 31, 2017, the Company successfully raised \$1,627,501 by way of an equity financing. (See Note 13 – Share Capital)

There can be no assurance that the Company will be successful in achieving profitability or raising additional cash to finance operations. The consolidated financial statements do not include any adjustments relating to the recoverability of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

## **2. BASIS OF PRESENTATION**

These consolidated financial statements were authorized for issue on November 28, 2017, by the Board of Directors of the Company.

### **Statement of Compliance**

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

### **Functional and Presentation Currency**

The consolidated financial statements are presented in Canadian dollars, which is the Company’s and its subsidiaries’ functional currency.

## 2. BASIS OF PRESENTATION (CON'T)

### **Basis of Measurement**

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit or loss, which are stated at their fair values. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

### **Use of estimates and judgments**

The preparation of the consolidated 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. An area subject to significant estimates is the impairment of financial and non-financial assets. Actual results could differ from those estimates.

The most significant judgement applied in the preparation of these consolidated financial statements relate to the carrying value of the Company's investments (Note 8). The Company invests in start-up technology companies whose products and services are under development. The successful development and commercialization of these products and services is subject to a high degree of risk. Judgement is applied in the consideration of impairment indicators of investments.

The preparation of these consolidated financial statements required the use of judgment with respect to assessing whether certain acquisitions meet the definition of a "business" as defined in IFRS 3, Business Combinations. Those acquisitions which meet the definition of a business are accounted for as a business combination using the purchase method, and require the purchase price to be allocated to the fair values of the net assets acquired, including any intangible assets that may have arisen as a result of the acquisition, with the remainder of the purchase price allocated to goodwill. Those acquisitions which did not meet the definition of a business are accounted for as a purchase of assets. The judgment applied to making this determination includes assessing whether the acquisition contains inputs, processes, and outputs as described in IFRS 3.

The Company assesses impairment at each reporting date by evaluating conditions specific to the Company that may lead to asset impairment. The recoverable amount of an asset or a cash generating unit ("CGU") is determined using the greater of fair value less costs to sell and value in use which requires the use of various judgments, estimates, and assumptions. The Company identifies CGUs as identifiable groups of assets that are largely independent of the cash inflows from other assets or groups of assets. Value in use calculations require estimations of discount rates and future cash flows derived from revenue growth, gross margin and operating costs. Fair value less costs to sell calculations require the Company to estimate fair value of an asset or a CGU using market values of similar assets as well as estimations of the related costs to sell.

Management has applied judgments in the assessment of the Company's ability to continue as a going concern when preparing its financial statements for the year ended July 31, 2017. Management prepares the consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considered a wide range of factors relating to current

## **2. BASIS OF PRESENTATION (CON'T)**

### **Use of estimates and judgments (con't)**

and expected profitability, current working capital levels, and potential sources of replacement financing.

As a result of the assessment and as described in Note 1 – Nature of Operations and Going Concern Uncertainty, management concluded the going concern basis of accounting is appropriate based on its profit and cash flow forecast and expectations with respect to access to financing for the next twelve months.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

## **3. NEW ACCOUNTING STANDARDS AND POLICIES**

### **Accounting Standards Issued But Not Yet Applied**

At the date of authorization of these consolidated financial statements, the following standards, amendments and interpretations have not been early adopted:

#### **Financial Instruments**

In November 2013, the IASB issued IFRS 9, Financial Instruments, (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39). IFRS 9 (2009) establishes the measurement and classification of financial assets. Financial assets are measured either at fair value through earnings or at amortized cost if certain conditions are met. IFRS 9 (2010) includes guidance on the classification and measurement of financial liabilities.

The most recent amendment, IFRS 9 (2013) includes a new general hedge accounting model, which will align hedge accounting more closely with risk management. Additionally, the new standard removes the January 1, 2015 effective date. The new mandatory effective date of this standard is fiscal years beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements and expects to apply the standard in accordance with its future mandatory effective date.

#### **Revenue from Contracts with Customers**

On May 28, 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. The new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for fiscal years beginning on or after January 1, 2018 and is available for early adoption. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements and expects to apply the standard in accordance with its future mandatory effective date.

Other recent accounting pronouncements that have no material impact to the Company are not included above.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. Other than as described in Note 3 – New Standards and Policies Adopted, the accompanying financial information reflects the same accounting policies and methods of application as the Company’s consolidated financial statements for the prior year ended July 31, 2016.

##### **Principles of Consolidation**

These consolidated financial statements consist of Mobio Technologies Inc. and its wholly owned subsidiaries, including 0968998 B.C. Ltd. (which owns Mobio INsider), Strutta.com Media Inc., and Twenty Year Media Corp., which was acquired during the year ended July 31, 2016 and subsequently divested in the same year. All intercompany balances and transactions have been eliminated on consolidation.

##### **(a) Basis of Consolidation**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to, directly or indirectly, govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account in the assessment of whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. Subsidiaries are deconsolidated on the date that control ceases.

The consolidated financial statements at July 31, 2017 and 2016 include the assets, liabilities, revenues and expenses of the Company’s 100% controlled and wholly owned subsidiaries. All inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

##### **(b) Business Combinations**

The acquisitions which meet the definition of a “business”, as defined in IFRS 3 – *Business Combinations*, are accounted for as a business combination using the acquisition method, and require the purchase price to be allocated to the fair values of the net assets acquired, including any intangible assets that may have arisen as a result of the acquisition, with the remainder of the purchase price allocated to goodwill. Those acquisitions which did not meet the definition of a business are accounted for as a purchase of assets. The judgments applied to making this determination includes assessing whether the acquisition contains inputs, processes, and outputs as described in IFRS 3.

##### **(c) Functional Currency and Presentation**

The Company’s functional currency is the Canadian dollar and transactions in foreign currencies are translated into Canadian dollars at rates of exchange at the time of such transactions. Monetary assets and liabilities are translated at reporting period rate of exchange. Non-monetary assets and liabilities are translated at historical exchange rates.

Revenue and expenses denominated in a foreign currency are translated at the monthly average exchange rate (except for depreciation and amortization which is translated at historical exchange rates). Gains and losses resulting from the translation adjustments are included in net loss.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

##### **(d) Intangible Assets and Goodwill**

Intangible assets with finite lives consist of acquired technologies and software. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives and are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization commences once the underlying asset is complete and put into use. Cost for intangible assets acquired in a business combination represents the fair value of the asset at the time of the acquisition. Intangible assets with finite lives are currently amortized over the following periods:

<u>Estimated useful life</u>	
Software	3 years

Goodwill is not amortized and is reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to the CGU to which it relates.

##### **(e) Revenue Recognition**

Revenue is recognized when a contractual arrangement is in place, the fee is fixed and determinable, the products and services have been delivered to the customer, and collectability is reasonably assured. The Company's principal source of revenue and recognition of these revenues are as follows:

- (i) On-line subscription fees; and
- (ii) Advertising and sponsorship fees.

Payments received in advance are recorded as deferred revenue and recognized into revenue as services are delivered or subscription time elapses.

##### **(f) Financial Instruments**

All financial instruments are initially measured at fair value and categorized as either held-to-maturity, fair value through profit or loss ("FVTPL"), loans and receivables, available-for-sale or other financial liabilities.

Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method. Impairment losses are charged to net loss in the period in which they arise.

FVTPL financial instruments are measured at fair value with changes in fair value charged or credited to net loss in the period in which they arise.

Loans and receivables are subsequently measured at amortized cost using the effective interest method. Impairment losses are charged to net loss in the period in which they arise.

Available-for-sale financial instruments are measured at fair value with changes in fair value charged or credited to other comprehensive income. Impairment losses are reclassified from other comprehensive income and charged to net earnings in the period in which they arise.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

##### (f) Financial Instruments (con't)

The Company has classified its financial instruments as follows:

Cash and restricted cash	Loans and receivables
Investments	Cost less impairment
Accounts receivable	Loans and receivables
Trade payables	Other financial liabilities
Short-term loans	Other financial liabilities
Convertible debenture	Other financial liabilities

The carrying amounts for cash and restricted cash, accounts receivable, accounts payable and short-term loans on the statement of financial position approximate their fair value due to the current nature of these instruments.

Other financial liabilities are initially measured at fair value less directly attributable transaction costs and subsequently measured at amortized cost using the effective interest method.

##### (g) Investments

Investments consist of common shares, preferred shares, limited partnership units and convertible promissory notes. Investments are initially recorded at cost, being the fair value at the time of acquisition. Subsequent to initial recognition investments continue to be measured at cost less impairment as the fair value of investments cannot be reasonably estimated.

At the end of each financial reporting period, the Company's management evaluates potential impairment of investments based on the criteria below and records such impairment in the financial statements directly in net loss:

- There has been a significant new equity financing with arms-length investors at a valuation above or below the current fair value of the investee company, in which case the fair value of the investment is adjusted to the value at which the financing took place; or
- Based on financial information received from the investee company it is apparent to the Company that the investee company is unlikely to be able to continue as a going concern, in which case the fair value of the investment is adjusted downward; or
- There have been significant corporate, operating, technological or economic events affecting the investee company that, in the Company's opinion, have a positive or negative impact on the investee company's prospects and, therefore, its fair value; or
- The investee company is placed into receivership or bankruptcy.

In addition to the circumstances described above, the Company will take into account general market conditions when determining if an adjustment to the fair value of an investment is warranted at the end of each reporting period. Absent the occurrence of any of these events, or any significant change in general market conditions, the fair value of the investment is left unchanged.

Application of the valuation techniques described above may involve uncertainties and determinations based on the Company's judgment, and any value estimated from these techniques may not be realized (Note 2).

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

##### (g) Investments (con't)

The amount at which an investment could be disposed of may differ from its carrying value due to the availability and/or reliability of information available to the Company.

Transaction costs incurred in the purchase and sale of investments are recorded as an expense in the Consolidated Statements of Comprehensive Loss.

##### (h) Share-Based Payments

Stock options issued are accounted for in accordance with fair value accounting for share-based payments. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model. The associated expense is charged to operations with a corresponding increase to share-based payment reserves over the vesting period of the option on a straight-line basis. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Compensation expense for stock options granted to non-employees is recorded as an expense in the period at the earlier of the completion of performance and the date the options are vested using the fair value method.

As the options are exercised, the consideration paid, along with the amount previously recognized in share-based payment reserves, is recorded as an increase to share capital. For stock options which have expired or been forfeited, the amount previously recognized in share-based payments reserve is reclassified to deficit.

##### (i) Warrants

The proceeds from private placements that include warrants are allocated on a relative fair value basis between the common shares and warrants. The fair value attributed to warrants is recorded in warrant reserves within equity. If the warrants are converted, the consideration paid, along with the amount previously recognized in warrant reserves, is recorded as an increase to share capital. Upon expiry of warrants, any fair value attributed is reclassified to share capital.

##### (j) Impairment of Non-Financial Assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

Impairment is determined by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell or the value in use. The Company identifies CGUs as identifiable groups of assets that are largely independent of the cash inflows from other assets or groups of assets. Value in use calculations require estimations of discount rates and future cash flows derived from revenue growth, gross margin and operating costs. Fair value less costs to sell calculations require the Company to estimate fair value of an asset or a CGU using market values of similar assets as well as estimations of the related costs to sell.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)**

##### **(j) Impairment of Non-Financial Assets (con't)**

Impairment losses are recognized in profit or loss in the period in which the impairment is identified. Impairment losses recognized in respect of a CGU are allocated first to reduce the carrying value of goodwill allocated to the CGU and any excess is allocated to the carrying amount of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not subsequently reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

##### **(k) Contingent Liabilities**

A contingent liability is defined as a possible obligation arising from past events or a present obligation where it is not probable that an outflow of resources will occur or the amount of obligation cannot be measured. On determining the probability of occurrence and estimate of exposure, the Company relies upon their understanding of the past event, including activities undertaken by other parties. Contingent liabilities are disclosed unless the probability of occurrence is remote. There are no contingent liabilities disclosed for the Company.

##### **(l) Comprehensive Income (Loss)**

Comprehensive income (loss) is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net loss. Comprehensive loss is equal to net loss for the years ended July 31, 2017 and 2016.

##### **(m) Non-Monetary Transactions**

All non-monetary transactions are measured at the fair value of the asset surrendered or the asset received, whichever is more reliable, unless the transaction lacks commercial substance or the fair value cannot be reliably established. The commercial substance requirement is met when the future cash flows are expected to change significantly as a result of the transaction. When the fair value of a non-monetary transaction cannot be accurately measured it is recorded at the carrying amount of the asset given up adjusted by the fair value of any monetary consideration received or given.

##### **(n) Loss per Share**

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted-average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. The method requires computation as if the proceeds from the exercisable options and warrants would be used to purchase common shares at the average market price during the period. For the periods presented, diluted loss per share is equal to basic loss per share since the effects of stock options and warrants were anti-dilutive.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)**

##### **(o) Income Taxes**

Income tax expense consists of current and deferred tax expenses. Income tax expense is recognized in net loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized directly in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognized for temporary differences related to the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or investments in subsidiaries and equity investments to the extent it is probable that they will not be reversed in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only 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 future tax asset will be recovered, it provides a valuation allowance against that asset.

##### **(p) Convertible Debentures**

Convertible debentures are separated into their liability and equity components on the Consolidated Statements of Financial Position. The liability component is initially recognized at fair value, determined as the net present value of future payments of interest and principal, discounted at the market rate for similar non-convertible liabilities at the time of issue. The liability component is subsequently measured at amortized cost, using the effective interest method, until extinguished upon conversion or maturity.

The fair value of the equity component of the convertible debentures is estimated using the residual method in which the difference between the face value of the instrument and the fair value of the liability component is allocated as the fair value of the equity component. The issuance costs have been allocated on a pro-rata basis between the debt and equity components. See Note 12 – Convertible Debentures for additional information.

**5. ACCOUNTS RECEIVABLE**

Accounts receivable consist primarily of amounts due from customers and excise taxes refundable. Amounts due from customers relate to the operations of Strutta.

ACCOUNTS RECEIVABLE	July 31,		July 31,	
	2017		2016	
Trade receivables	\$	16,452	\$	71,802
GST recoverable		2,351		10,091
Total accounts receivable	\$	18,803	\$	81,893

**6. BUSINESS AND ASSET ACQUISITIONS AND DISPOSITIONS**

**Acquisition of Twenty Year Media Corp.**

On September 18, 2015, the Company completed the acquisition of control of Twenty Year Media Corp. ("TYM"), a company developing demand-driven inventory optimization for the motion picture industry. On closing, Mobio acquired approximately 72.9% of the issued and outstanding share capital of TYM. The remainder of TYM's issued and outstanding shares, representing approximately 27.1%, simultaneously became subject to redemption agreements, pursuant to which the underlying shareholders would remain registered holders of shares until such time that Mobio exercised its right to redeem the shares on specified terms. The redemption agreements provided Mobio with full voting rights and control of TYM effective as of the closing date. Accordingly, no non-controlling interest was recognized at the acquisition date, as the Company controlled 100% of the voting securities and was entitled to 100% of the risks and rewards of ownership.

In consideration for the share capital of TYM, Mobio committed to issue 1,000,000 common shares of Mobio (See Note 13 – Share Capital). Upon closing, Mobio issued 728,658 shares of the Company with a fair value of \$510,061 to former shareholders of TYM to acquire its 72.9% interest in TYM (based on a share price of \$0.35 per Mobio share on an adjusted, post-consolidation basis) (See Note 13 – Share Capital). The balance, being 271,342 Company shares, were due to be issued upon exercise of the rights granted to remaining TYM shareholders under the redemption agreements.

In addition, up to an additional 1,000,000 common shares were issuable by Mobio as certain revenue-based milestones were achieved. At the time of acquisition, the Company estimated the timing and probability of revenue targets being achieved and calculated the fair value of the contingent consideration, along with the timing and probability of rights of redemption being exercised under the redemption agreements. The fair value of contingent and deferred consideration in the form of shares was recorded under equity as reserves.

The acquisition of TYM was accounted for as a business combination under IFRS 3. The assets acquired, and liabilities assumed on September 18, 2015 are consolidated in the Consolidated Statements of Financial Position as of September 18, 2015. TYM's revenues and expenses prior to September 18, 2015, are not consolidated into the Company's Consolidated Statements of Comprehensive Loss.

6. BUSINESS AND ASSET ACQUISITIONS AND DISPOSITIONS (CON'T)

**Acquisition of Twenty Year Media Corp. (con't)**

**Allocation of Value – Assets and Liabilities of Twenty Year Media Inc.**

<b>Assets acquired:</b>	
Cash	\$ 26,175
Accounts receivable	285,566
Deposits and prepaid expenses	13,894
Fixed assets	28,350
Intangibles	1,636,721
Goodwill	108,284
	<b>\$ 2,098,990</b>
<b>Liabilities assumed:</b>	
Trade payables and accruals	\$ 613,159
Deferred revenue and customer deposits	117,721
Other liabilities	202,547
Deferred taxes	108,284
	<b>\$ 1,041,711</b>
<b>Fair value of net assets acquired</b>	<b>\$ 1,057,279</b>
<b>Consideration:</b>	
Issuance of common shares	510,061
Contingent consideration	547,218
<b>Total consideration</b>	<b>\$ 1,057,279</b>

In connection with the acquisition of TYM, the Company recorded a deferred tax liability that arose from temporary differences between accounting values and tax values that resulted from the transaction being structured as a purchase of TYM's shares. This resulted in a corresponding amount of goodwill being recorded upon the acquisition. Both TYM and Mobio have unused tax losses from prior years and the transaction did not result in any income taxes being payable by the Company.

During the year ended July 31, 2016, the Company recorded income tax recoveries against deferred taxes of \$13,143 as the temporary differences between accounting values and tax values decreased.

The most significant assets acquired by the Company with the acquisition of TYM were software-related intangible assets developed primarily for the entertainment and motion picture sector. TYM's technologies combine seamless digital delivery of content to theatres with advanced analytics data and social media analysis to gauge real-time demand for screenings.

**Disposal of Twenty Year Media Corp.**

In the prior year, on January 28, 2016, the Company completed a series of transactions with respect to the disposal of TYM. In connection with the transactions, TYM assumed \$252,500 in debt from Mobio, which was originally incurred by way of a secured convertible debenture, in the principal amount of \$375,000 on December 15, 2015, issued to Lanebury Growth Capital Ltd. (formerly NU2U

**6. BUSINESS AND ASSET ACQUISITIONS AND DISPOSITIONS (CON'T)**

**Disposal of Twenty Year Media Corp. (con't)**

Resources Corp). (See Note 12 – Convertible Debentures).

Additionally, Mobio and TYM entered into an agreement whereby, commencing February 1, 2016, TYM agreed to pay Mobio a monthly payment of \$5,000 per month for a period of 24 months, and thereafter pay Mobio a monthly payment of \$10,000 for an additional 12 months. Also commencing February 1, 2016, TYM agreed to pay Mobio a royalty of up to 2% on revenues, on a quarterly basis, for a period of four years.

Concurrently with the transactions described above, the management team of TYM and third-party investors acquired from Mobio common shares of TYM, with Mobio retaining an equity interest in TYM of approximately 29%. Subsequent to those transactions, Mobio divested additional equity securities of TYM and held an interest of approximately 18% in TYM as of July 31, 2016.

Upon the disposition of TYM, the Company was released from all contingent and deferred consideration obligations which had been incurred in connection with the acquisition of TYM. The fair value of such amounts, being \$547,218 and which had been recorded under equity as reserves, was reclassified directly against the deficit account.

As a result of this series of transactions, the Company owns 18% of TYM, the right to receive monthly payments, and the right to receive a royalty on TYM's revenues going forward.

As the Company no longer exercises control or significant influence over TYM, Mobio's investment in TYM is now accounted for under investments as a financial asset at fair value through profit and loss. All assets and liabilities of TYM have been de-consolidated from the Company's Consolidated Statements of Financial Position as of January 28, 2016 and TYM's revenues and expenses after January 28, 2016 are not consolidated into the Company's Consolidated Statements of Comprehensive Loss. Any adjustments to the fair value of such investments going forward are recorded directly in profit or loss (See Note 8 – Investments).

This series of transactions resulted in the Company recording a loss on the series of transactions in the amount of \$555,641, and this amount is included under the line item "loss on disposition of investments" in Mobio's Consolidated Statements of Comprehensive Loss in the prior year.

At the time of closing of this series of transactions, the Company calculated the fair value of its residual investments in TYM, and any adjustments to the fair value of such investments going forward are now recorded directly in profit or loss (see Note 8 – Investments).

In connection with the acquisition of TYM, the Company incurred legal fees of \$23,936, and in the subsequent disposition of control, legal fees of \$2,043. These costs were expensed during the prior year and are included under "professional fees" in the Company's Consolidated Statements of Comprehensive Loss for the prior year.

## 6. BUSINESS AND ASSET ACQUISITIONS AND DISPOSITIONS (CON'T)

### **Proposed Disposition of Mobio INsider**

On December 5, 2014, the Company announced that it has signed a definitive agreement (the "Agreement") with Red Thread Media Limited ("RTM"), a UK based technology company, to recapitalize 0968998 BC Ltd., the Company's wholly owned subsidiary which owns the Mobio INsider platform ("INsider"). Under the agreement, RTM agreed to acquire 0968998 BC Ltd. by completing an equity financing of approximately C\$900,000 to fund the further development and marketing of the INsider platform, and RTM agreed to make the following payments to the Company:

- US\$150,000 in cash;
- US\$10,000 per month under a technical support arrangement ("TSA");
- A royalty on future INsider revenues of 9%, declining to 3% as benchmark royalty payments are made; and
- Preferred shares of RTM equal to 20% of RTM's pre-financing fully diluted share capital.

RTM also agreed to complete a going public transaction with an AIM listed company, pursuant to which the Company's preferred shares of RTM will be exchanged for listed shares of the public company.

During the prior year, the Company received an initial payment from RTM pursuant to the terms of the Agreement in the amount of \$85,000, which is included under "deferred revenue and deposits" on the Company's Consolidated Statements of Financial Position.

Closing of the transaction remains pending and subject to RTM satisfying all conditions precedent to the Agreement. This has not happened and is not currently being pursued by RTM. As a result, the Company has recognized the deposit in income during the year ended July 31, 2017.

## 7. INTANGIBLE ASSETS AND GOODWILL

The Company's intangible assets consisted entirely of software-related intangible assets, and are reported on the Consolidated Statements of Financial Position under "Intangibles".

As part of the acquisition of TYM, the Company acquired significant software-related intangible assets and goodwill. These amounts were de-recognized upon the loss of control of TYM. (See Note 6 – Business and Asset Acquisitions and Dispositions).

## 7. INTANGIBLE ASSETS AND GOODWILL (CON'T)

### Schedule of Intangible Assets and Goodwill

Cost		Intangibles		Goodwill		Total
Balance, July 31, 2015	\$	7,539,896	\$	1,359,896	\$	8,899,792
Acquired through business combinations		1,636,721		108,284		1,745,005
Disposals during the year		(1,636,721)		(108,284)		(1,745,005)
Balance, July 31, 2017 and July 31, 2016	\$	7,539,896	\$	1,359,896	\$	8,899,792
<b>Amortization and impairment losses</b>						
Balance, July 31, 2015	\$	4,581,194	\$	739,257	\$	5,320,451
Amortization for the year		2,171,128		-		2,171,128
Disposals during the year		(198,660)		-		(198,660)
Impairment		58,413		620,639		679,052
Balance, July 31, 2016		6,612,075		1,359,896		7,971,971
Amortization for the period		927,821		-		927,821
Balance, July 31, 2017	\$	7,539,896	\$	1,359,896	\$	8,899,792
<b>Carrying amounts, July 31, 2016</b>	\$	<b>927,821</b>	\$	<b>-</b>	\$	<b>927,821</b>
<b>Carrying amounts, July 31, 2017</b>	\$	<b>-</b>	\$	<b>-</b>	\$	<b>-</b>

During the year ended July 31, 2016, the Company performed an impairment test on Strutta (determined to be a CGU). The recoverable value of the CGU was estimated based on the present value of the future cash flows expected to be derived from the CGU (value in use), and the recoverable amount of the CGU was estimated to be lower than its carrying amount. This resulted in an impairment charge of \$679,052 in the prior year, of which \$620,639 was applied against goodwill and \$58,413 applied against software-related technology intangible assets of Strutta.

## 8. INVESTMENTS

During the year ended July 31, 2017, the Company made four investments for a total of \$563,722. (See Note 9 - Commitments).

The Company's investee companies are focused on the online gaming, travel information, media content distribution, healthcare, and business services sectors. Investments consist of common shares, preferred shares, convertible notes and limited partnership units. The Company does not presently have any positions that result in significant influence. Convertible notes are unsecured and bear interest annually at rates from 8 to 10%, and mature in two years or less. The notes are convertible upon certain future events transpiring, and such events are uncertain as to both their occurrence and their magnitude. Investments are carried at cost and assessed for impairment at every reporting date. See Note 2 – Basis of Presentation for judgement applied in the assessment of impairment of investments.

**8. INVESTMENTS (CON'T)**

The following table sets forth the changes to the Company's investments during the years ended July 31, 2017 and 2016:

Year ended July 31, 2017								
	Opening		Interest		Foreign			
	Balance	Additions	Accrued	Disposals	Exchange	Loss	Write Down	Cost
Investments	\$ 122,795	\$ 563,722	\$ 17,146	\$ -	\$ (5,118)	\$ -	\$ -	\$ 698,545

  

Year ended July 31, 2016								
	Opening		Interest		Foreign			
	Balance	Additions	Accrued	Disposals	Exchange	Loss	Write Down	Cost
Investments	\$ 137,939	\$ 253,539	\$ -	\$ (116,542)	\$ -	\$ -	\$ (152,141)	\$ 122,795

**9. COMMITMENTS**

During the year ended July 31, 2017, the Company invested in a limited partnership for a total commitment of \$250,000. As at July 31, 2017, the Company has advanced \$87,500. The Company will not be required to advance the balance of \$162,500 of the commitment as the fund has been suspended (See Note 8 – Investments).

In March 2017, the Company entered into an agreement to invest \$1,000,000 in a company with a common director. As of July 31, 2017, \$150,000 has been advanced. Additional investments of \$300,000 each are required on the first and second anniversaries, and the remainder on the third anniversary, of the agreement (See Note 8 – Investment and Note 15 – Related Party Transactions).

In May 2017, the Company entered into an office lease agreement for three years. Minimum lease commitments under the agreement are:

To July 2018	\$ 15,887
To July 2019	16,601
To July 2020	12,852
	<u>\$ 45,340</u>

**10. RESTRICTED CASH**

The Company has pledged \$25,235 (2016 - \$25,229) in cash as collateral against the credit limits of credit cards issued to the Company. Cash pledged is held in short-term GICs maturing in 30 days or less.

**11. TRADE PAYABLES, ACCRUALS AND SHORT-TERM LOANS**

As of July 31, 2017, the Company's trade payables and accrued expenses were as follows:

	<b>July 31,</b>		<b>July 31,</b>	
	<b>2017</b>		<b>2016</b>	
Trade payables	\$	299,778	\$	588,503
Accrued liabilities		173,082		88,421
<b>Total trade payables and accruals</b>	<b>\$</b>	<b>472,860</b>	<b>\$</b>	<b>676,924</b>

Included in accrued liabilities at July 31, 2017, is \$120,000 owing to an officer of the Company.

On July 12, 2017, the Company received a loan in the amount of \$50,000 from a company with a common director. The loan is unsecured and bears interest at 10%. Principal and any unpaid interest are due on July 12, 2018. Interest of \$241 is accrued on the loan at July 31, 2017 (See Note 15 – Related Party Transactions).

On July 26, 2017, the Company received a loan in the amount of \$100,000 from a company with a common director and a common officer. The loan is unsecured and bears interest at 10%. Principal and any unpaid interest are due on July 26, 2018. Interest of \$137 is accrued on the loan at July 31, 2017 (See Note 15 – Related Party Transactions).

At July 31, 2016, the Company's short-term loans amounted to \$75,000. The short-term loans were unsecured, non-interest bearing, and had no set terms of repayment. \$25,000 of these short-term loans were received from a related party (See Note 15 – Related Party Transactions). These loans were repaid during the year ended July 31, 2017.

**12. CONVERTIBLE DEBENTURES**

On December 15, 2015, the Company issued an unsecured convertible debenture (the "Debenture") in the principal amount of \$375,000 (the "Principal Amount") to Lanebury Growth Capital Ltd. (formerly NU2U Resources Corp.), (the "Lender"). The Debenture had an original maturity date of June 1, 2016 (the "Maturity Date"), with interest accruing at a rate of 12% per annum and payable upon maturity ("Interest"). At the option of the Lender, on or prior to the Maturity Date, the Principal Amount and all accrued Interest may have been converted into common shares of the Company (the "Conversion Right") at a price per common share of \$0.30, subject to such minimum conversion price as may be prescribed by the policies of the TSX Venture Exchange (the "Conversion"). The Lender could only elect to convert the Principal Amount and Interest in whole and not in part.

The Debenture was a compound financial instrument which consisted of the debt instrument and the equity conversion feature. At initial recognition, the Company allocated the proceeds between liabilities and equity. The allocation was performed by first estimating the fair value of the debt instrument by discounting expected future cash flows at a market rate of interest applicable to a similar liability without an equity component. The Company then used the residual method to determine the value of the equity component represented by the conversion feature.

**12. CONVERTIBLE DEBENTURE (CON'T)**

On January 15, 2016, the Company entered into a transaction with TYM and the Lender whereby \$250,000 of the Principal Amount and \$2,500 in Interest was assumed by TYM, and the Company agreed to transfer cash in the amount of \$250,000 to TYM, in aggregate, from the date of the Debenture's issuance (See Note 6 – Business and Asset Acquisitions and Dispositions). Upon completion of this transaction, the Debenture issued by the Company had a Principal Amount of \$125,000. The Maturity Date and rate of interest remained unchanged. The Conversion Right then only applied to the resulting \$125,000 Principal Amount and Interest accrued up to and including the Maturity Date.

During the year ended July 31, 2017, the Company repaid the Debenture and interest in full, by way of a cash payment of \$135,730, as the Lender did not exercise the Conversion Right. Upon repayment of the Debenture, the Company de-recognized the equity component of the Debenture, realizing a gain of \$2,974, which is included under “gain on debt repayment” on the Company's Consolidated Statements of Comprehensive Loss.

The balance of the Debenture outstanding and changes in the liability and equity components during the current year and prior year were as follows:

<b>Convertible debenture - liability component</b>		
<b>Issuance of convertible debenture</b>	<b>\$</b>	<b>365,623</b>
<b>Issuance costs</b>		<b>(17,687)</b>
<b>Assignment of portion of debenture</b>		<b>(234,987)</b>
<b>Interest accrued</b>		<b>9,687</b>
<b>Accretion of discount</b>		<b>12,051</b>
<b>Liability component balance, July 31, 2016</b>		<b>134,687</b>
<b>Interest accrued</b>		<b>1,043</b>
<b>Repayment of convertible debenture</b>		<b>(135,730)</b>
<b>Liability component balance, July 31, 2017</b>	<b>\$</b>	<b>-</b>
<b>Convertible debenture - equity component</b>		
<b>Issuance of convertible debenture</b>	<b>\$</b>	<b>9,377</b>
<b>Issuance costs</b>		<b>(454)</b>
<b>Assignment of portion of debenture</b>		<b>(5,949)</b>
<b>Equity component balance, July 31, 2016</b>		<b>2,974</b>
<b>Repayment of convertible debenture</b>		<b>(2,974)</b>
<b>Equity component balance, July 31, 2017</b>	<b>\$</b>	<b>-</b>

### 13. SHARE CAPITAL

#### Authorized:

- Unlimited number of common shares without par value.
- Unlimited number of preferred shares without par value, non-voting and entitled to such dividends as may be set by the Board of Directors of the Company.

#### Issued and outstanding shares

On December 1, 2016, the Company consolidated its common shares on the basis of 1 new share for every 2 old shares (the "2016 Consolidation"). Prior to the 2016 Consolidation, the Company had 58,181,147 common shares issued and outstanding. No fractional shares were issued pursuant to the 2016 Consolidation.

During the prior year, on December 18, 2015, the Company consolidated its common shares on the basis of 1 new share for every 10 old shares (the "2015 Consolidation"). No fractional shares were issued pursuant to the 2015 Consolidation.

All references herein to the number of shares, options, warrants, weighted average number of common shares, including issuance and/or exercise prices, and loss per share, have been restated for all periods for the impacts of both the 2016 Consolidation and the 2015 Consolidation.

During the year ended July 31, 2017, the Company conducted the following share issuance transaction:

On August 24, 2016, the Company closed a non-brokered private placement for gross proceeds of \$1,627,501. The Company issued 16,275,000 units (each a "Unit") to investors at a price of \$0.10 per unit, with each unit consisting of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$0.15 for a period of 24 months, subject to certain acceleration provisions in the event that the Company's shares have a closing price of \$0.40 or higher for 10 consecutive trading days. In connection with the private placement, the Company incurred share issuance costs of \$32,861 including cash finders' fees of \$12,300 and 122,500 finders' warrants (the "Finders Warrants") valued at \$6,580. The Finders Warrants have the same exercise price and terms as the warrants forming party of the Units. The fair value of warrants issued in connection with the private placement was \$437,014. All securities issued in connection with the private placement are subject to a four-month-and-a-day hold period.

During the year ended July 31, 2016, the Company conducted the following share issuance transactions:

- a) On September 18, 2015, the Company issued 728,658 common shares in connection with the acquisition of Twenty Year Media Corp (see Note 6 – Business and Asset Acquisitions and Dispositions), with a fair value of \$0.70 per share, and an aggregate value of \$510,061.

**13. SHARE CAPITAL (CON'T)**

**Issued and outstanding shares (con't)**

- b) On July 28, 2016, the Company closed a non-brokered private placement for gross proceeds of \$440,000. The private placement consisted of the sale of 6,285,715 units at a price of \$0.07 per unit, with each unit comprising one common share and one-half of one common share purchase warrant, each warrant having an exercise price of \$0.15 and a life of 24 months, subject to certain acceleration provisions in the event that the Company's shares have a closing price of \$0.40 or higher for 10 consecutive trading days. The Company incurred transaction costs of \$7,419 in connection with the private placement.

**Warrants**

In connection with the private placement financing completed on August 24, 2016, the Company issued 8,260,000 share purchase warrants, the fair value of which was \$443,593 calculated using the Black-Scholes option pricing model, and this value is stated under "warrant reserves" on the Company's Consolidated Interim Statements of Financial Position. The warrants have a life of 24 months, subject to certain acceleration provisions in the event that the Company's shares have a closing price of \$0.40 or higher for 10 consecutive trading days.

In connection with the private placement financing completed on July 28, 2016, the Company issued 3,142,857 share purchase warrants, the fair value of which was \$110,703 calculated using the Black-Scholes option pricing model, and this value is stated under "warrant reserves" on the Company's Consolidated Statements of financial Position. The warrants have a life of 24 months, subject to certain acceleration provisions in the event that the Company's shares have a closing price of \$0.40 or higher for 10 consecutive trading days.

During the year ended July 31, 2016, and in connection with the issuance of the Debenture described in Note 12 – Convertible Debentures, the Company issued 625,000 share purchase warrants with a life of one year and an exercise price of \$0.15 to purchase up to 625,000 common shares of the Company. Subsequent to the Warrants being issued, by mutual agreement between the parties, the Warrants were terminated with no further cost to or impact on the Company.

Share purchase warrant transactions during the years ended July 31, 2017 and 2016, were as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, July 31, 2015	365,565	\$ 2.00
Warrants issued during the year	3,767,857	0.15
Warrants expired/cancelled during the year	(990,567)	0.92
Balance, July 31, 2016	3,142,855	0.15
Warrants issued during the year	8,260,000	0.15
Balance, July 31, 2017	11,402,855	\$ 0.15

The weighted average life of the warrants is 1.05 years.

**13. SHARE CAPITAL (CON'T)**

**Warrants (con't)**

The following assumptions were used for the valuation of share purchase warrants issued during the years ended July 31, 2017 and 2016:

	2017	2016
Risk-free interest rate	0.61%	0.61%
Expected life	20 months	20 months
Estimated volatility	175%	175%
Dividend rate	0.00%	0.00%

As at July 31, 2017, the following warrants were issued and exercisable:

Number of Warrants	Exercise Price	Expiry Date
3,142,855	\$ 0.15	Jul. 28. 2018
8,260,000	\$ 0.15	Aug. 24, 2018
11,402,855		

**Stock Options**

Under the Company's Stock Option Plan, options may be granted to directors, officers, employees and consultants of the Company. Options expire between two and five years after being issued or thirty days after an optionee ceases to be engaged in a bona fide manner with the Company. The Board of Directors has the discretion to extend the expiration period on cessation of engagement.

A summary of the changes in the Company's outstanding stock options is as follows:

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2015	405,250	\$ 2.60
Stock options forfeited	(27,500)	\$ 5.94
Balance, July 31, 2017 and 2016	377,750	\$ 2.30

The weighted average life of the options is 1.77 years.

The maximum number of common shares authorized for issuance by the Board of Directors under the plan is limited to 10% of the total issued and outstanding common shares of the Company and the aggregate number of common shares to be delivered upon exercise of the options to any one individual granted under the plan may not exceed 5% of the common shares issued and outstanding.

During the year ended July 31, 2016, \$14,116 of the fair value of the stock options issued in the prior year was expensed under "share based payments" on the Company's Statements of Comprehensive Loss. The fair value of stock options issued during the prior year ended July 31, 2016 was \$0.20 per option.

**13. SHARE CAPITAL (CON'T)**

**Stock Options (con't)**

No stock options were granted during years ended July 31, 2017 and 2016.

As at July 31, 2017, the following stock options were issued and exercisable:

<b>Outstanding</b> <b>(#)</b>	<b>Exercisable</b> <b>(#)</b>	<b>Exercise</b> <b>Price (\$)</b>	<b>Expiry</b> <b>Date</b>
52,500	52,500	3.20	Nov. 15, 2017
2,500	2,500	5.40	May 10, 2018
12,500	12,500	6.40	May 30, 2018
36,000	36,000	3.00	Oct. 11, 2018
19,250	19,250	10.00	Dec. 24, 2018
12,500	12,500	5.00	Apr. 2, 2019
192,500	192,500	1.00	Oct. 31, 2019
50,000	50,000	1.00	Dec. 3, 2019
<b>377,750</b>	<b>377,750</b>	<b>2.30</b>	

**14. LOSS PER SHARE**

The basic loss per common share is calculated using the weighted average number of common shares outstanding during the period. Any warrants and stock options outstanding as at July 31, 2017 and 2016 have not been included in the calculation of diluted loss per common share as the effect of their inclusion would be anti-dilutive.

Loss per share is calculated as follows:

<b>Loss Per Share Calculation</b>	<b>Weighted Average</b> <b>Shares Outstanding</b>	<b>Net Loss</b>	<b>Loss Per Share</b>
Year ended July 31, 2017	28,065,010	\$ (1,952,681)	\$ (0.07)
Year ended July 31, 2016	6,504,922	\$ (5,124,983)	\$ (0.79)

**15. RELATED PARTY TRANSACTIONS**

Payments to key management and directors during the years ended July 31, 2017 and 2016 were as follows:

	<b>2017</b>	<b>2016</b>
Management fees paid to current and former directors and/or officers, or to companies controlled by directors and/or officers	\$ 198,000	\$ 258,000

**15. RELATED PARTY TRANSACTIONS (CON'T)**

Fees paid to directors and officers are included in the line item "Personnel" in the Company's Consolidated Statements of Comprehensive Loss.

In March 2017, the Company entered into an agreement to invest \$1,000,000 in a company with a common director. As of April 30, 2017, \$150,000 has been advanced. Additional advances of \$300,000 are required on each of the first and second anniversaries and the remainder on the third anniversary of the agreement (See Note 9 – Commitments).

During the year ended July 31, 2017, \$25,000 of short-term loans were repaid to a company controlled by a director of the Company. These loans were unsecured and non-interest bearing.

On July 12, 2017, the Company received a loan in the amount of \$50,000 from a company with a common director. The loan is unsecured and bears interest at 10%. Principal and any unpaid interest are due on July 12, 2018. Interest of \$241 is accrued on the loan at July 31, 2017 (See Note 11 – Trade Payables, Accruals, and Short –Term Loans).

On July 26, 2017, the Company received a loan in the amount of \$100,000 from a company with a common director and a common officer. The loan is unsecured and bears interest at 10%. Principal and any unpaid interest are due on July 26, 2018. Interest of \$137 is accrued on the loan at July 31, 2017 (See Note 11 – Trade Payables, Accruals, and Short –Term Loans).

As of July 31, 2017, "Trade payables and accruals" on the Company's Consolidated Statements of Financial Position included \$120,000 due to a director and officer of the Company (See Note 11 – Trade Payables, Accruals, and Short –Term Loans).

**16. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, restricted cash, accounts receivable, investments, trade payables, short-term loans, and convertible debentures. As at July 31, 2017 and 2016, there were no significant differences between the carrying amounts of these items and their estimated fair values. The carrying value of these items approximates their fair values.

Convertible debentures are measured at amortized cost using the effective interest rate method and transaction costs associated with the convertible debenture are amortized through net loss over the life of the debenture.

## 16. FINANCIAL INSTRUMENTS (CON'T)

### **Fair Value**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy based on the degree to which the inputs used to determine the fair value are observable.

The three levels of the fair value hierarchy are:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of July 31, 2017, all of the Company's investments are classified as Level 3.

The Board of Directors approves and monitors the risk management processes. The Company has exposure to the following risks from its use of financial instruments:

- Interest rate risk
- Credit risk
- Liquidity risk
- Market risk
- Currency risk

### **Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company manages its financial instruments with the objective of minimizing potential interest rate risk, which generally means avoiding interest-bearing obligations other than in unusual circumstances.

### **Credit Risk**

Credit risk is the risk of potential loss to the Company if the counter party to a financial instrument fails to meet its contractual obligations. The credit risk of the Company is associated with cash, restricted cash, and accounts receivable. Management believes that the credit risk with respect to cash and restricted cash is minimal as balances are held with a high-credit quality financial institution. Accounts receivable have historically been subject to very few bad debts, and are described in Note 5 – Accounts Receivable.

### **Liquidity Risk**

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable, purchasing commitments and obligations or raising funds to sustain operations. The Company controls liquidity risk by management of working capital and cash flows.

### **Market Risk**

The Company's exposure to financial market risk is limited, as it presently does not have any investments where value fluctuates as a result of changes in prices quoted in open markets.

**16. FINANCIAL INSTRUMENTS (CON'T)**

**Currency risk**

The Company is headquartered in Canada and its functional reporting currency is the Canadian dollar. The Company's cash assets, investments, and liabilities are denominated in Canadian dollars and in US dollars. Additionally, a portion of Strutta's revenues are denominated in US dollars. As such, the Company's results of operations are subject to foreign currency fluctuation risks and these fluctuations may adversely affect the financial position and operating results of the Company. As of July 31, 2017, the Corporation does not use derivative instruments to reduce its exposure to currency risk.

**17. CAPITAL MANAGEMENT**

The Company defines capital as an aggregate of total liabilities and equity, which at July 31, 2017, was \$879,342 (July 31, 2016 - \$1,613,435). 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. The Company targets to meet this objective by managing working capital to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements in the near term. The Board of Directors does not establish quantitative return on capital criteria for management. In recent years, the Company has relied on funds generated through the issuance of common shares and convertible debentures to supplement funds generated from operations.

**18. INCOME TAXES**

A reconciliation of the calculated income taxes for the fiscal years ended July 31, 2017 and 2016 are as follows:

	July 31, 2017	July 31, 2016
Combined federal and provincial statutory income tax rate	26.00%	26.00%
Accounting loss before income taxes	\$ (1,952,681)	\$ (5,138,126)
Expected income tax recovery at statutory rates	(507,697)	(1,335,913)
Non-deductible expenditures	628	80,456
Permanent differences related to goodwill impairment	-	161,366
Change in tax benefits not recognized	427,075	930,482
Other	79,994	150,466
<b>Income tax recovery</b>	<b>\$ -</b>	<b>\$ (13,143)</b>

**18. INCOME TAXES (CON'T)**

Significant components of income tax recovery recognized in the Company's Consolidated Statements of Comprehensive Loss are as follows:

	July 31, 2017	July 31, 2016
Current income tax expense on earnings	\$ -	\$ -
Deferred income tax recovery	-	(13,143)
<b>Income tax recovery</b>	<b>\$ -</b>	<b>\$ (13,143)</b>

The Company did not recognize the following deferred tax assets for the following deductible temporary differences:

	July 31, 2017	July 31, 2016
Non-capital losses	\$ 14,029,797	\$ 12,279,569
Capital losses	6,454,402	6,454,402
Other deductible temporary differences	1,048,105	1,155,737
	21,532,304	19,889,708
Tax benefits not recognized	(21,532,304)	(19,889,708)
Balance	\$ -	\$ -

The Company's tax loss carry-forwards that it can apply against income in future years are as follows:

<b>Tax Non-capital loss carry-forward schedule</b>		
<b>Year of expiry</b>	<b>Amount</b>	
2026	\$	113,597
2027		112,640
2028		168,755
2029		243,923
2030		136,128
2031		266,894
2032		650,632
2033		1,790,667
2034		6,752,599
2035		1,340,198
2036		1,340,896
2037		1,112,868
	\$	14,029,797

**19. SUBSEQUENT EVENTS**

Subsequent to the year-end:

The Company received a loan in the amount of \$20,000 from a company with a common director. The loan is unsecured and bears interest at 10%. Principal and any unpaid interest are due on September 12, 2018.

The Company received \$50,000 out of a total loan of \$150,000 from a company with a common director. The loan is unsecured and bears interest at 10%. Principal and any unpaid interest are due on October 3, 2018.

The Company received a loan in the amount of \$150,000 from a company with a common director. The loan is unsecured and bears interest at 10%. Principal and any unpaid interest are due on November 7, 2018.

The Company entered into an agreement to loan \$150,000 to Sitemax Systems Inc. ("Sitemax") and purchased 150,601 warrants to acquire common shares of Sitemax at \$0.83 per share for an aggregate purchase price of \$20. The loan is secured by a convertible promissory note and bears interest at 10% per annum. The promissory note and any unpaid interest is due on November 7, 2018.