

# VISIONSTATE CORP.

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## **THIRD QUARTER REPORT For the Period Ended June 30, 2017**

### **Notice of No Auditor Review of the Interim Condensed Consolidated Financial Statements**

The accompanying unaudited interim condensed consolidated financial statements of Visionstate Corp. for the quarter ended June 30, 2017 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. The Company's external auditors have not reviewed these statements.

August 28, 2017

*"Signed"*

John Putters  
President and Chief Executive Officer

*"Signed"*

Randa Kachkar  
Chief Financial Officer

# VISIONSTATE CORP.

**Company web sites:**  
[www.visionstate.com](http://www.visionstate.com)

**Shares Listed**  
 TSX Venture Exchange  
 Trading symbol: VIS

**Officers and Directors:**

John A. Putters  
 Gervin Antypowich  
 Wally McNeil  
 Ron Jackman  
 Jim Duke  
 Paul Fairbridge  
 Perry Kinkaide  
 Bob Leshchyshen

**Transfer Agent:**

Computershare  
 Suite 600, 530-8 Ave. SW  
 Calgary, Alberta  
 Canada T2P 3S8

**Share Capital**

Issued: 86,785,625 common shares

## Interim Condensed Consolidated Statement of Comprehensive Loss

For the three and nine months ended June 30, 2017

(Unaudited)	3 months Jun 30/17 \$	3 months Jun 30/16 \$	9 months Jun 30/17 \$	9 months Jun 30/16 \$
Revenue				
Product sales and maintenance	69,024	35,709	124,247	215,809
Advertising Sales	-	-	-	3,651
Cost of Sales	29,737	6,342	45,193	60,070
Gross Profit	39,287	29,367	79,054	159,390
Expenses				
Selling, general and administrative expenses	125,994	61,309	407,631	294,359
Depreciation of property and equipment	-	178	-	1,962
Depreciation of product development costs	3,826	3,516	11,479	14,486
Interest on convertible debentures	4,407	2,075	8,436	6,103
Other interest	14,363	9,997	41,201	25,698
	148,590	77,075	468,747	342,608
Net loss and comprehensive loss	(109,303)	(45,289)	(389,693)	(183,218)
	#	#	#	#
Weighted average number of shares outstanding	65,703,613	26,425,631	65,703,613	26,425,631
Basic and diluted net loss per common share	(\$.00)	(\$.00)	(\$.01)	(\$.01)

See accompanying notes to interim condensed consolidated financial statements

# VISIONSTATE CORP.

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## Interim Condensed Consolidated Statement of Financial Position (Unaudited)

June 30, 2017	Jun 30 /17 Unaudited \$	Sep 30/16 Audited \$
<b>ASSETS</b>		
Current Assets		
Cash	51,192	13,857
Accounts receivable	37,740	31,798
Goods and Services Tax Receivable	-	4,495
Investments	30	1,590
Inventory (Note 5)	34,165	25,735
<b>TOTAL CURRENT ASSETS</b>	<b>123,127</b>	<b>77,475</b>
DEPOSIT	2,532	2,532
PRODUCT DEVELOPMENT COSTS (Note 6)	233,540	138,574
<b>TOTAL ASSETS</b>	<b>359,199</b>	<b>218,581</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	520,049	544,451
Advances from related parties (Note 9)	307,176	268,504
Promissory note payable (Note 10)	40,616	37,033
Convertible debentures (Note 12)	100,000	100,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>967,841</b>	<b>949,988</b>
Long Term Liabilities		
Convertible Debentures (Note 12)	77,730	-
	<b>1,045,571</b>	<b>949,988</b>
<b>SHAREHOLDERS' DEFICIENCY</b>		
Contributed Surplus (Note 13)	1,908,678	1,041,792
Share capital (Note 14)	6,814,034	6,379,306
Warrant Reserve (Note 14)	-	866,886
Deficit	(9,409,084)	(9,019,391)
<b>TOTAL SHAREHOLDERS' DEFICIENCY</b>	<b>(686,372)</b>	<b>(731,407)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>	<b>359,199</b>	<b>218,581</b>

*See accompanying notes to interim condensed consolidated financial statements*

# VISIONSTATE CORP.

## Interim Condensed Consolidated Statement of Changes in Equity

(Unaudited)

June 30, 2017

	Shares		Warrant Reserve		Total	Contributed Surplus	Deficit	Total
	Number	Amount	Number	Amount				
<b>Balance, October 1, 2016</b>	51,425,625	\$ 6,379,306	6,000,000	\$ 866,886	\$ 7,246,192	\$ 1,041,792	\$ (9,019,391)	\$ (731,407)
Private placement (October 2016)	15,000,000	150,000	-	-	150,000	-	-	150,000
Share issuance cost	-	(7,455)	-	-	(7,455)	-	-	(7,455)
Warrant expired (November 2016)	-	-	(6,000,000)	(866,886)	(866,886)	866,886	-	-
Private placement (June 2017)	20,360,000	305,400	-	-	305,400	-	-	305,400
Share issuance cost	-	(13,217)	-	-	(13,217)	-	-	(13,217)
Net loss	-	-	-	-	-	-	(389,693)	(389,693)
<b>Balance, June 30, 2017</b>	<b><u>86,785,625</u></b>	<b><u>\$ 6,814,034</u></b>	<b><u>-</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 6,814,034</u></b>	<b><u>\$ 1,908,678</u></b>	<b><u>\$ (9,409,084)</u></b>	<b><u>\$ (686,372)</u></b>

	Shares		Warrant Reserve		Total	Contributed Surplus	Deficit	Total
	Number	Amount	Number	Amount				
<b>Balance, October 1, 2015</b>	26,425,631	\$ 6,144,275	14,340,375	\$ 866,886	7,011,161	\$ 1,041,792	\$ (8,690,335)	\$ (637,382)
Warrant expired (February 2016)	---	---	(258,125)	---	---	---	---	---
Net loss	---	---	---	---	---	---	(183,218)	(183,218)
<b>Balance, June 30, 2016</b>	<b><u>26,425,631</u></b>	<b><u>\$ 6,144,275</u></b>	<b><u>14,082,250</u></b>	<b><u>\$ 866,886</u></b>	<b><u>\$ 7,011,161</u></b>	<b><u>\$ 1,041,792</u></b>	<b><u>\$ (8,873,553)</u></b>	<b><u>\$ (820,600)</u></b>

See accompanying notes to interim condensed consolidated financial statements

# VISIONSTATE CORP.

## Interim Condensed Consolidated Statement of Cash Flows

For the nine months ended June 30, 2017

(Unaudited)	9 months ending	
	June 30/17	June 30/16
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the period	(389,693)	(183,218)
Items not affecting cash		
Depreciation of property and equipment	-	1,962
Depreciation of development costs	11,479	14,486
	(378,214)	(166,770)
Changes in non-cash working capital items		
Accounts receivable and Goods and Services Tax receivable	(1,447)	23,404
Inventory	(8,430)	(32,409)
Prepaid expenses and deposits	-	(10,627)
Accounts payable and accrued liabilities	(24,402)	122,456
Net cash flows from operating activities	(412,493)	(63,946)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures on product development costs	(106,445)	(93,599)
Purchase of property and equipment	-	-
Investments	1,560	-
Net cash flows from investing activities	(104,885)	(93,599)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Convertible debentures issue	77,730	-
Advances from promissory notes	3,583	30,000
Advances from related parties	38,672	165,549
Shares issued net of share issue costs	434,728	-
Net cash flows from financing activities	554,713	195,549
<b>Increase/Decrease in cash</b>	<b>37,335</b>	<b>38,004</b>
<b>Cash (bank indebtedness) - beginning of period</b>	<b>13,857</b>	<b>(66,708)</b>
<b>Cash (bank indebtedness) - end of period</b>	<b>51,192</b>	<b>(28,704)</b>

See accompanying notes to interim condensed consolidated financial statements

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## Notes to the Interim Condensed Consolidated Financial Statements June 30, 2017 (Unaudited)

### Note 1

#### Going Concern

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These interim condensed consolidated financial statements have been prepared using International Financial Reporting Standards (IFRS) that are applicable to a going concern which contemplates the realization of assets and settlement of liabilities in the normal course of operations. There are several adverse conditions that cast significant doubt on the validity of this assumption. Visionstate Corp. (the "Company" or "Visionstate") has been unable to generate a profit from operations up to June 30, 2017. The Company's current credit facilities are not sufficient to fund working capital, convertible debenture repayment, and other cash requirements for future years. The Company's ability to continue as a going concern is dependent on accessing additional funding.

As at June 30, 2017, the Company incurred a net loss of \$389,693, had a working capital deficiency of \$922,444 and a shareholders' deficiency of \$686,372.

These interim condensed consolidated financial statements do not reflect adjustments in the carrying value of the assets and liabilities, the reported revenues and expenses and the balance sheet classifications that would be necessary if the going concern assumption were not appropriate.

### Note 2

#### General

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The Company is traded on the TSX Venture Exchange ("TSX-V") under the symbol VIS-V.

The head office and principal address are located at 8634 - 53 Avenue, Edmonton, Alberta, Canada, T6E 5G2.

The Company is focused on the growing market for products related to the Internet of Things (IoT). Visionstate's primary product is a smart device used by facility managers such as hospitals, shopping centres, airports and large buildings to track cleaning and maintenance activities as well as resource utilization in public restrooms, with the aid of analytics.

"WANDA", an acronym for Washroom Notification and Digital Aid, is currently installed in public restrooms across North America. WANDA replaces antiquated paper based systems with just-in-time tracking of restroom cleaning and maintenance activities. The analytics produced by WANDA provide valuable insights into cleaning performance and efficiency aiding building operators to track and manage resource utilization, as well as with efficiencies and planning.

These unaudited interim condensed consolidated financial statements were approved by the Board of Directors on August 27, 2017.

### Note 3

#### Basis of Presentation

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##### Statement of Compliance

These interim condensed consolidated financial statements have been prepared in accordance and compliance with International Accounting Standard 34, ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain financial information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. The disclosure herein is incremental to the disclosure included in the annual consolidated financial statements. The interim condensed consolidated financial statements should be read in

# VISIONSTATE CORP.

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## Notes to the Interim Condensed Consolidated Financial Statements June 30, 2017 (Unaudited)

### Note 3

#### Basis of Presentation Continued...

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conjunction with the annual audited financial statements for the year ended September 30, 2016.

The policies applied in these interim condensed consolidated financial statements are based on IFRS issued and outstanding as of August 27, 2017, the date of the Board of Directors approval of the statements.

#### **Basis of Measurement**

The interim condensed consolidated financial statements have been prepared on the historical cost basis.

#### **Functional Currency**

The interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

#### **Use of Estimates and Judgements**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the interim condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and judgments that are critical to the determination of the amounts reported in the consolidated financial statements relate to the following:

#### Accounts Receivable

The valuation of accounts receivable is based on management's evaluation of collectability and a provision for doubtful accounts is recorded as necessary.

#### Property and equipment and product development costs

The valuation of property and equipment and product development costs are based on management's best estimates of the future recoverability of these assets. The amounts recorded for depreciation of property and equipment and product development costs are based on management's best estimate of the remaining useful lives, residual values, and period of future benefit of the related assets. Net recoverable amount of property and equipment and product development costs are based on management's best estimates of its future cash flows and the appropriate discount rate to be used. The capitalization of product development costs is also subject to management's judgement on whether the criteria for deferral have been met.

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## Notes to the Interim Condensed Consolidated Financial Statements June 30, 2016 (Unaudited)

### Note 3

#### Basis of Presentation Continued...

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#### Share-based compensation and warrants

Share-based payments and warrants are measured at grant date fair value. For stock options and warrants granted, the fair value of the options and warrants granted are estimated by applying an option pricing model. Option pricing models include assumptions for expected volatility of the share price, forfeiture rate, expected dividends and the risk-free interest rate for the life of the option or warrants.

#### Income Taxes

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on estimates of the probability of the Company utilizing certain assets. To the extent assumptions regarding future probability change, there can be a change in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

### Note 4

#### Significant Accounting Policies

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The accounting policies applied by the Company in these interim condensed consolidated financial statements are the same as those applied by the Company in its audited financial statements for the year ended September 30, 2016.

### Note 5

#### Inventory

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	<b>June 30, 2017</b>	<b>September 30, 2016</b>
Raw material	<b>23,335</b>	25,735
Work in Process	<b>10,830</b>	-
<b>TOTAL</b>	<b>34,165</b>	25,735

Cost of sales during the three months and nine months ended June 30, 2017 is \$29,737 and \$45,193 (three months ended June 30, 2016 - \$6,342 and nine months ended June 30, 2016 - \$60,070).

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## Notes to the Interim Condensed Consolidated Financial Statements June 30, 2017 (Unaudited)

### Note 6 Product Development Costs

	<b>Cost</b>			<b>Balance at June 30, 2017</b>
	Balance at September 30, 2016	Additions	Disposals	
ViCCi 3	\$ 21,939	\$ -	\$ -	\$ 21,939
Website	14,205	4,281	-	18,486
iPhone Application	23,190	-	-	23,190
Multi-platform App	11,309	-	-	11,309
Rec Centre App	3,218	-	-	3,218
Food Court App	1,189	-	-	1,189
Static Directory	11,986	-	-	11,986
Linux conversion	16,140	-	-	16,140
Kiddie Cart	26,874	-	-	26,874
Cindi	123,736	9,564	-	133,300
Analytics Dashboard	58,800	13,018	-	71,818
Sensor	-	79,582	-	79,582
Wanda	2,774	-	-	2,774
	<u>\$ 315,360</u>	<u>\$ 106,445</u>	<u>\$ -</u>	<u>\$ 421,805</u>

	<b>Accumulated Depreciation</b>			<b>Balance at June 30, 2017</b>
	Balance at September 30, 2016	Depreciation	Disposals	
ViCCi 3	\$ 21,939	\$ -	\$ -	\$ 21,939
Website	10,345	3,313	-	13,658
iPhone Application	23,190	-	-	23,190
Multi-platform App	11,309	-	-	11,309
Rec Centre App	3,218	-	-	3,218
Food Court App	1,189	-	-	1,189
Static Directory	11,986	-	-	11,986
Linux Conversion	16,140	-	-	16,140
Kiddie Cart	26,784	-	-	26,784
Cindi	-	-	-	-
Analytics Dashboard	47,912	8,166	-	56,078
Sensor	-	-	-	-
Wanda	2,774	-	-	2,774
	<u>\$ 176,786</u>	<u>\$ 11,479</u>	<u>\$ -</u>	<u>\$ 188,265</u>

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## Notes to the Interim Condensed Consolidated Financial Statements June 30, 2017 (Unaudited)

### Note 6

#### Product Development Costs, Continued...

	<u>Net Book Value</u>	
	<u>Balance at September 30, 2016</u>	<u>Balance at June 30, 2017</u>
ViCCi 3	-	-
Website	3,860	4,828
iPhone Application	-	-
Multi-platform App	-	-
Rec Centre App	-	-
Food Court App	-	-
Static Directory	-	-
Linux Conversion	-	-
Kiddie cart	90	90
Cindi	123,736	133,300
Analytics Dashboard	10,888	15,740
Sensor	-	79,582
Wanda	-	-
	<u>\$ 138,574</u>	<u>\$ 233,540</u>

Depreciation provided during the quarter ended June 30, 2017 totaled \$3,826 and the nine months ended June 30, 2017 totaled \$11,479 (quarter ended June 30, 2016 – \$ 3,516 and nine months ended June 30, 2016 - \$14,486)

### Note 7

#### Property and Equipment

	<u>Cost</u>			
	<u>Balance at September 30, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2017</u>
Vehicle	\$ 51,550	\$ -	\$ -	\$ 51,550
Computer equipment	109,279	-	-	109,279
Furniture and fixtures	20,412	-	-	20,412
	<u>\$ 181,241</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 181,241</u>

	<u>Accumulated Depreciation</u>			
	<u>Balance at September 30, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2017</u>
Vehicle	\$ 51,550	\$ -	\$ -	\$ 51,550
Computer equipment	109,279	-	-	109,279
Furniture and fixtures	20,412	-	-	20,412
	<u>\$ 181,241</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 181,241</u>

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## Notes to the Interim Condensed Consolidated Financial Statements June 30, 2017 (Unaudited)

### Note 7

Property and Equipment,  
Continued...

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	<u>Net Book Value</u>	
	Balance at September 30, 2016	Balance at June 30, 2017
Vehicle	\$ -	\$ -
Computer equipment	-	-
Furniture and fixtures	-	-
	<u>\$ -</u>	<u>\$ -</u>

Depreciation provided during the three and nine months ended June 30, 2017 totaled \$nil and \$nil respectively (three months ended June 30, 2016 - \$178 and nine months ended June 30, 2016 - \$1,962).

### Note 8

Accounts Payable and  
Accrued Liabilities

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Accounts payable and accrued liabilities are comprised of the following items:

	<u>June 30, 2017</u>	<u>September 30, 2016</u>
Trade payables	\$ 362,722	\$ 251,400
Accrued liabilities	114,226	169,128
Accrued payroll	43,101	103,928
Other payables	-	19,995
	<u>\$ 520,049</u>	<u>\$ 544,451</u>

# VISIONSTATE CORP.

## Notes to the Interim Condensed Consolidated Financial Statements June 30, 2017 (Unaudited)

### Note 9 Advances from Related Parties

	June 30, 2017	September 30, 2016
Due to an individual related to a director, unsecured, interest payable at 10% per annum and without specified terms of repayment	\$ 42,982	\$ 33,865
Due to a company owned by an individual related to a director, unsecured, interest payable at 12% and without specified terms of repayment	11,872	11,872
Due to a director, unsecured, without interest and without specified terms of repayment	15,533	16,105
Due to a director, unsecured, interest payable monthly at 10% per annum, and due on demand	45,388	67,700
Due to a director, unsecured, interest payable monthly at 10% per annum, and without specified terms of repayment	6,250	-
Due to a company owned by a director, unsecured, interest payable monthly at 10% per annum, and without specified terms of repayment	11,699	9,140
Due to a director, unsecured, interest payable at 10% per annum, and without specified terms of repayment	83,700	57,000
Due to a company owned by a director, unsecured, interest payable monthly at 10% per annum, and without specified terms of repayment	4,000	4,000
Due to a company owned by a director, unsecured, interest payable monthly at 10% per annum, and without specified terms of repayment	85,752	63,822
	<b>\$ 307,176</b>	<b>\$ 268,504</b>

The advances from related parties are provided to the Company for working capital purposes.

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## Notes to the Interim Condensed Consolidated Financial Statements June 30, 2017 (Unaudited)

### Note 10

Promissory Note  
Payable

	<u>June 30, 2017</u>	<u>September 30, 2016</u>
Promissory note payable is unsecured, interest payable 6% per annum with full amount and accrued interest due on demand	\$ 13,283	\$ 14,283
Promissory note payable is unsecured, interest payable 10% per annum with full amount and accrued interest due on demand	27,333	\$ 22,750
	<u>\$ 40,616</u>	<u>\$ 37,033</u>

### Note 11

Commitment

Effective April of 2017, the Company signed a new lease with the same landlord for 5 years to expire on March 31, 2022, and has the option to either renew the lease for five years at the same terms or to continue on a month to month basis after the expiry of the lease. The Company pays office rent, exclusive of operating costs, under the operating lease for which it has committed to make payments as follows:

2017 - 18	19,008
2018 - 19	19,008
2019 - 20	19,008
2020 - 21	20,736
2021 - 22	20,736

\$ 98,496

### Note 12

Convertible  
Debentures

The Company issued convertible debentures in the amount of \$100,000 on May 2, 2008 which expired on May 2, 2011. The Company is currently negotiating with the debenture holders to extend the terms on the convertible debentures. The convertible debentures bear interest at a rate of 8.0% per annum, payable quarterly in arrears, due on demand.

The Company is in arrears on the interest payments relating to the debentures in the amount of \$96,502 (September 30, 2016 - \$90,399), which is reflected in accounts payable and accrued liabilities. As a result of being in arrears with the interest payments, the Company is obligated to pay interest on the interest in default.

On January 17, 2017, the Company issued unsecured convertible debentures ("Debentures") for an aggregate principal amount of \$77,730. The Debentures bear an interest rate of twelve percent (12%) per annum payable semi-annually and will mature on January 17, 2020. The principal amount of each Debenture may, at the option of the debenture holder, be convertible, in whole or in part during the term, into common shares of the Corporation ("Common Shares") at a price of \$0.05 per Common Share if converted during the first year from the date of issuance. Provided that the closing trading price of the Common Shares has not exceeded \$0.10 for twenty (20) consecutive trading days, accrued interest owing from the date of the last payment received until the date that conversion notice is received by the Corporation shall be paid on a semi-annual basis.

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## Notes to the Interim Condensed Consolidated Financial Statements June 30, 2017 (Unaudited)

### Note 13 Contributed Surplus

The Company has adopted the fair value based method to account for stock based compensation. Fair values are determined using the Black Scholes Model. Compensation costs are recognized over the vesting period as an increase to stock based compensation expense and contributed surplus. When warrants and options are exercised the proceeds received by the Company, together with the fair value amount in contributed surplus is credited to share capital.

	<u>June 30, 2017</u>	<u>September 30, 2016</u>
Opening contributed surplus	\$ 1,041,792	\$ 1,023,830
Warrants expired	<u>866,886</u>	<u>17,962</u>
	<u>\$ 1,908,678</u>	<u>\$ 1,041,792</u>

### Note 14 Share Capital

Authorized:  
Unlimited number of common, voting shares  
Unlimited number of preferred shares

Issued:

	<u>Shares</u>		<u>Warrants</u>		<u>Total</u>
	Number	Amount	Number	Amount	
Balance September 30, 2016	51,425,625	\$ 6,379,306	6,000,000	\$ 866,886	\$ 7,246,192
Private Placement October 2016	15,000,000	150,000	-	-	150,000
Share Issuance Cost	-	(7,455)	-	-	(7,455)
Warrant Expired	-	-	(6,000,000)	(866,886)	(866,886)
Private Placement June 30, 2017	20,360,000	305,400	-	-	305,400
Share Issuance Cost	-	(13,217)	-	-	(13,217)
Balance, March 31, 2017	<u>66,425,631</u>	<u>\$ 6,814,034</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 6,814,034</u>

### October 2016

On October 6, 2016, the Company completed a private placement of 15,000,000 units ("Units") at a price of \$0.01 per Unit for gross proceeds of \$150,000. Each Unit is comprised of one common share.

### June 30, 2017

On June 30, 2017, the Company completed a private placement of 20,360,000 units ("Units") at a price of \$0.015 per Unit for gross proceeds of \$305,400. Each Unit is comprised of one common share.

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## Notes to the Interim Condensed Consolidated Financial Statements June 30, 2017 (Unaudited)

### Note 14 Share Capital Continued...

The Company has a stock option plan under which directors, officers, employees, management and consultants of the Company and its subsidiaries and its affiliates, if any, are eligible to receive stock options. The maximum number of common shares issuable pursuant to the exercise of outstanding options granted under the plan is 10% of the issued shares of the Company at the time of granting the options. The maximum number of common shares optioned to any one optionee shall not exceed 5% of the outstanding common shares of the Company. Options granted under the plan may not exceed five years and vest at terms to be determined by the directors at the time of grant. The exercise price of each option is determined by the directors at the time of grant but shall not be less than the price permitted by the policy or policies of the stock exchange(s) on which the Company's common shares are then listed.

A summary of the status of the plan as at June 30, 2017 and September 30, 2016 and changes during the period then ended is presented below:

	June 30, 2017		September 30, 2016	
	Options	Weighted Average Exercise price	Options	Weighted Average Exercise price
Options outstanding, beginning of year	-	\$ -	322,000	\$ 0.10
Expired	-	-	(322,000)	0.10
Options outstanding, end of year	-	\$ -	-	\$ -

#### Finders options:

A summary of the finders options outstanding as at June 30, 2017 and September 30, 2016, and changes during the period then ended is presented below:

	June 30, 2017		September 30, 2016	
	Finders Options	Weighted Average Exercise price	Finders Options	Weighted Average Exercise price
Options outstanding, beginning of year	186,520	\$ 0.20	424,240	\$ 0.16
Granted	-	-	-	-
Expired	(186,520)	0.20	(237,720)	0.12
Options outstanding, end of year	-	\$ -	186,520	\$ 0.20

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## Notes to the Interim Condensed Consolidated Financial Statements June 30, 2017 (Unaudited)

### Note 14 Share Capital Continued...

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#### Warrants outstanding:

A summary of the warrants outstanding as at June 30, 2017 and September 30, 2016 and changes during the period then ended is presented below:

	<b>June 30, 2017</b>		<b>September 30, 2016</b>	
	<b>Warrants</b>	<b>Weighted Average Exercise price</b>	<b>Warrants</b>	<b>Weighted Average Exercise price</b>
Warrants outstanding, beginning of year	<b>6,000,000</b>	<b>\$ 0.20</b>	14,340,375	\$ 0.14
Expired	<b>(6,000,000)</b>	<b>0.20</b>	(8,340,375)	0.09
Warrants exercisable, end of year	<b>-</b>	<b>\$ -</b>	6,000,000	\$ 0.20

### Note 15 Related Party Transactions

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Key management of the Company includes the Chief Executive Officer and Chief Financial Officer. Remuneration paid to them during the period is as follows:

The Company paid management fees for the three and nine months ended June 30, 2017 in the amount of \$15,000 and \$8,000 respectively (June 30, 2016 - \$16,500 and \$21,686 respectively) to two officers of the Company, one of which is also a Director.

The Company paid interest in the amount of \$9,734 and \$26,613 for the three and nine months ended June 30, 2017 (June 30, 2016 – 9,997 and \$25,947 respectively) to related parties.

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## Notes to the Interim Condensed Consolidated Financial Statements June 30, 2017 (Unaudited)

### **Note 16** **Financial Instruments**

#### **Financial Instruments**

The Company's financial instruments consist of accounts receivable, bank indebtedness, accounts payable and accrued liabilities, promissory note payable, convertible debentures and advances from related parties.

The Company has designated its financial assets and liabilities as follows:

Financial statement item	Classification	Measurement
Cash	Fair value through profit and loss	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Financial liabilities measured at amortized cost	Amortized cost
Convertible debentures	Financial liabilities measured at amortized cost	Amortized cost
Advances from related parties	Financial liabilities measured at amortized cost	Amortized cost
Promissory note payable	Financial liabilities measured at amortized cost	Amortized cost

#### **Fair Value**

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these instruments. Financial instruments also include advances from related parties, convertible debentures and promissory note payable. Management considers that no events have occurred subsequent to the inception of these financing arrangements that would indicate that fair value differs substantially from carrying value.

Included in advances from related parties are advances from directors, individuals related to a director, and companies owned by a director in the amount of \$15,533 which are non-interest bearing. As a result the Company believes the fair value of these financial instruments to be less than the carrying value at June 30, 2017. However, due to the uncertainty as to the eventual repayment date of these financial instruments, the Company is unable to estimate the fair value.

The following provides an analysis of financial instruments that are measured at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are not observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data.

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## Notes to the Interim Condensed Consolidated Financial Statements June 30, 2017 (Unaudited)

### Note 16 Financial Instruments Continued...

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#### Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consists of accounts receivable. The maximum exposure to credit risk as represented by the carrying amount of the financial asset is \$37,740 at June 30, 2017. In the normal course of business, the Company evaluates the financial condition of its customers on a continuing basis and reviews the credit worthiness of all new customers. Management assesses the need for allowances for potential credit losses by considering the credit risk of specific customers, historical trends and other information. No accounts receivable at June 30, 2017 are impaired.

The aging of accounts receivable is as follows:

	<u>June 30, 2017</u>	<u>September 30, 2016</u>
Current	\$ 2,785	\$ 30,579
31-90 days	33,592	-
91+ days	1,363	1,219
	<u>\$ 37,740</u>	<u>\$ 31,798</u>

#### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's objective in managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The \$100,000 convertible debenture is due on demand. The Company is currently negotiating with the debenture holders to extend the terms or convert their debentures to shares. The Company is actively working towards increasing marketing activities to improve sales of its software to meet future working capital requirements, but it may have to seek debt or equity financing.

At June 30, 2017, the Company has cash in the amount of \$51,192 and accounts receivable of \$37,740 with which to meet its obligations. At June 30, 2017 the Company had a working capital deficiency of \$922,444.

The contractual maturity of the Company's liabilities of \$967,841 at June 30, 2017 is due within one year and the convertible debenture of \$77,730 is due in 2020.

#### Market Risk

Market risk is the risk that the fair value of the future cash flows or financial instruments will fluctuate due to changes in interest rates. Market risk arises as a result of the Company generating revenues through leases. The Company has not entered into any transactions to hedge this risk.

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## Notes to the Interim Condensed Consolidated Financial Statements June 30, 2017 (Unaudited)

### Note 18

#### Capital Disclosures

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The Company's objectives when managing its capital structure are to provide sufficient capital to maintain its current operations and to continue with the development of new and existing products. The Company has no externally imposed capital restrictions.

The Company's officers and senior management take full responsibility for managing the Company's capital and do so through regular meetings and review of financial information.

The capital structure consisted of the following:

	<b>June 30, 2017</b>	September 30, 2016
Advances from related parties	\$ 307,176	\$ 268,504
Convertible debentures	177,730	100,000
Contributed surplus	1,908,678	1,041,792
Share capital	6,814,034	6,379,306
Warrant reserve	-	866,886
Deficit	(9,409,084)	(9,019,391)
	<b>\$ (201,466)</b>	<b>\$ (362,903)</b>

The Company continues to receive interest from potential customers in its facility management applications as market adoption of smart facility management tools continues to expand. The Company also plans to focus on expanding reseller partnerships in order generate more positive cash flows. Management believes that successful execution of its business plan will result in sufficient cash flow to meet its objectives and current obligations.

Methods used by the Company to manage its capital include the issuance of new share capital and issuance of convertible debentures.

The Company's capital management objectives have remained unchanged over the years presented.

### Note 19

#### IRAP Funding

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During the three and nine months ended June 30, 2017, the Company received contributions in the amount of \$nil (June 30, 2016 - \$41,650 and \$118,625 respectively) under the IRAP program. This funding has been recorded as a reduction to development costs of the Cindi product