# TOTALLY HIP TECHNOLOGIES INC.

Consolidated Financial Statements

Years Ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

SATURNA GROUP
CHARTERED PROFESSIONAL ACCOUNTANTS LLP
1066 West Hastings Street, Suite 1250
Vancouver, BC Canada V6E 3X1

# INDEPENDENT AUDITORS' REPORT

**To the Shareholders of Totally Hip Technologies Inc.**

We have audited the accompanying consolidated financial statements of Totally Hip Technologies Inc. which comprise the consolidated statements of financial position as at September 30, 2016 and 2015, and the consolidated statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

**Opinion**
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Totally Hip Technologies Inc. as at September 30, 2016 and 2015 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

**Emphasis of Matter**
Without qualifying our opinion, we draw attention to Note 1 of the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Totally Hip Technologies Inc. to continue as a going concern.

Saturna Group LLP

Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

January 30, 2017

**TOTALLY HIP TECHNOLOGIES INC.**
Consolidated statements of financial position
(Expressed in Canadian dollars)

| | September 30, 2016 $ | September 30, 2015 $ |
|---|---|---|
| | | (Restated - Note 12) |
| Assets | | |
| Current assets | | |
| Cash | – | 889 |
| Prepaid expenses | 1,250 | 1,250 |
| Total current assets | 1,250 | 2,139 |
| Non-current assets | | |
| Property and equipment (Note 3) | 7,161 | 8,951 |
| Total assets | 8,411 | 11,090 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 4) | 1,934,064 | 1,521,201 |
| Loans payable (Note 5) | 199,386 | 174,371 |
| Total liabilities | 2,133,450 | 1,695,572 |
| Shareholders' deficit | | |
| Share capital | 10,405,441 | 10,405,441 |
| Share-based payment reserve | 977,734 | 977,734 |
| Deficit | (13,508,214) | (13,067,657) |
| Total shareholders' deficit | (2,125,039) | (1,684,482) |
| Total liabilities and shareholders' deficit | 8,411 | 11,090 |

Nature of operations and continuance of business (Note 1)

Approved and authorized for issuance on behalf of the Board of Directors on January 30, 2017:

*/s/ "John Brydle"* — John Brydle, Director

*/s/ "James Boyce"* — James Boyce, Director

(The accompanying notes are an integral part of these consolidated financial statements)

# TOTALLY HIP TECHNOLOGIES INC.

Consolidated statements of operations and comprehensive loss
(Expressed in Canadian dollars)

| | Year ended September 30, 2016 $ | Year ended September 30, 2015 $ |
|---|---|---|
| | | (Restated - Note 12) |
| Expenses | | |
| Consulting fees | 99,540 | 31,500 |
| Depreciation | 1,790 | 1,915 |
| Interest and bank charges | 323,839 | 210,633 |
| Office and miscellaneous | 47,435 | 58,338 |
| Professional fees | 27,250 | 90,900 |
| Rent | 28,980 | 28,980 |
| Transfer agent and filing fees | 12,966 | 13,647 |
| Total expenses | 541,800 | 435,913 |
| Net loss before other income (expense) | (541,800) | (435,913) |
| Other income (expense) | | |
| Tax credits disallowed (Note 12) | (42) | (31,278) |
| Write-off of accounts payable | 101,285 | – |
| Total other income (expense) | 100,243 | (31,278) |
| Net loss and comprehensive loss for the year | (440,557) | (467,191) |
| Loss per share, basic and diluted | (0.01) | (0.01) |
| Weighted average shares outstanding | 66,282,620 | 66,282,620 |

(The accompanying notes are an integral part of these consolidated financial statements)

**TOTALLY HIP TECHNOLOGIES INC.**
Consolidated statements of changes in equity
(Expressed in Canadian dollars)

| | Share capital | | Share-based payment reserve | Deficit | Total shareholders' deficit |
|---|---|---|---|---|---|
| | Number of shares | Amount $ | $ | $ | $ |
| Balance, September 30, 2014 | 66,282,620 | 10,405,441 | 977,734 | (12,600,466) | (1,217,291) |
| Net loss for the year | – | – | – | (467,191) | (467,191) |
| Balance, September 30, 2015 (Restated - Note 12) | 66,282,620 | 10,405,441 | 977,734 | (13,067,657) | (1,684,482) |
| Net loss for the year | – | – | – | (440,557) | (440,557) |
| Balance, September 30, 2016 | 66,282,620 | 10,405,441 | 977,734 | (13,508,214) | (2,125,039) |

(The accompanying notes are an integral part of these consolidated financial statements)

**TOTALLY HIP TECHNOLOGIES INC.**
Consolidated statements of cash flows
(Expressed in Canadian dollars)

| | Year ended September 30, 2016 $ | Year ended September 30, 2015 $ |
|---|---|---|
| | | (Restated - Note 12) |
| Operating activities | | |
| Net loss | (440,557) | (467,191) |
| Items not involving cash: | | |
| Depreciation | 1,790 | 1,915 |
| Write-off of accounts payable | (101,285) | – |
| Changes in non-cash operating working capital: | | |
| Accounts payable and accrued liabilities | 514,148 | 434,840 |
| Due to related parties | 21,515 | – |
| Net cash used in operating activities | (4,389) | (30,436) |
| Investing activities | | |
| Purchase of property and equipment | – | (2,589) |
| Net cash used in investing activities | – | (2,589) |
| Financing activities | | |
| Proceeds from loans payable | 3,500 | 34,050 |
| Repayment of loans payable | – | (350) |
| Net cash provided by financing activities | 3,500 | 33,700 |
| Increase (decrease) in cash | (889) | 675 |
| Cash, beginning of year | 889 | 214 |
| Cash, end of year | – | 889 |
| Supplemental disclosures: | | |
| Interest paid | – | – |
| Income taxes paid | – | – |

(The accompanying notes are an integral part of these consolidated financial statements)

## 1. Nature of Operations and Continuance of Business

Totally Hip Technologies Inc. (the "Company") was incorporated in the province of Alberta on March 8, 1995. The Company was continued under the laws of the Province of British Columbia on March 18, 1999. The Company is currently seeking new business opportunities. The Company is listed on the TSX Venture Exchange under the symbol 'THP.V'. The Company's registered address is at Suite 702, 889 West Pender Street, Vancouver, BC, V6C 3B2.

These consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at September 30, 2016, the Company has not generated any revenues from operations, has a working capital deficiency of $2,132,200, and has an accumulated deficit of $13,508,214. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management is pursuing additional financing. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors may cast significant doubt on the Company's ability to continue as a going concern. These consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

## 2. Significant Accounting Policies

(a) Basis of Presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board on a going concern basis.

These consolidated financial statements include the accounts of the Company and its wholly-owned and inactive subsidiaries incorporated in the province of British Columbia: Totally Hip Software (B.C.) Inc., Totally Hip Services Inc., and 614604 B.C. Ltd. All inter-company balances and transactions have been eliminated on consolidation.

These consolidated financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is the Company's functional currency.

(b) Use of Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates, and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these estimates. 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 and in any future periods affected. Significant areas requiring the use of estimates include the useful lives and recoverability of property and equipment and unrecognized deferred income tax assets.

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

**2. Significant Accounting Policies** (continued)

(c) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

(d) Property and Equipment

The Company depreciates the cost of property and equipment over their estimated useful lives at the following annual rates:

| | | |
|---|---|---|
| Automotive | 20% | declining balance basis |
| Office equipment | 20% | declining balance basis |

(e) Impairment of Non-Current Assets

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset's value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable reserves, estimated future commodity prices and the expected future operating and capital costs. The pre-tax discount rate applied to the estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount through an impairment charge to the statement of operations.

Assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. When an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depreciation, depletion and amortization) had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of impairment is recognized as a gain in the consolidated statement of operations.

(f) Financial Instruments

(i) Non-derivative financial assets

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

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

**2. Significant Accounting Policies** (continued)

(f) Financial Instruments (continued)

(i) Non-derivative financial assets (continued)

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

*Financial assets at fair value through profit or loss*

Financial assets are classified as fair value through profit or loss when the financial asset is held for trading or it is designated as fair value through profit or loss. A financial asset is classified as held for trading if: (i) it has been acquired principally for the purpose of selling in the near future; (ii) it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as fair value through profit or loss are stated at fair value with any gain or loss recognized in the consolidated statement of operations. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset. The Company's cash is classified as fair value through profit or loss.

*Held-to-maturity investments*

Held-to-maturity investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as held-to-maturity investments.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to the consolidated statement of operations. The Company does not have any assets classified as available-for-sale.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The Company does not have any assets classified as loans and receivables.

**2. Significant Accounting Policies** (continued)

(f) Financial Instruments (continued)

(i) Non-derivative financial assets (continued)

*Impairment of financial assets*

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income or loss are reclassified to the consolidated statement of operations in the period. Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted. For marketable securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of operations.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statement of operations to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of available-for-sale equity securities, impairment losses previously recognized through the consolidated statement of operations are not reversed through the consolidated statement of operations. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

(ii) Non-derivative financial liabilities

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

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

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

**2. Significant Accounting Policies** (continued)

(f) Financial Instruments (continued)

(ii) Non-derivative financial liabilities (continued)

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities, and loans payable.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

(g) Foreign Currency Translation

The functional and reporting currency is the Canadian dollar. Transactions denominated in foreign currencies are translated using the exchange rate in effect on the transaction date or at an average rate. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the statement of financial position date. Non-monetary items are translated using the historical rate on the date of the transaction. Foreign exchange gains and losses are included in the consolidated statement of operations.

(h) Income Taxes

*Current income tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in the consolidated statement of operations. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred income tax*

Deferred income tax is provided using the statement of financial position method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(i) Comprehensive Loss

Comprehensive income (loss) is the change in the Company’s net assets that results from transactions, events and circumstances from sources other than the Company’s shareholders and includes items that are not included in the consolidated statement of operations.

**2. Significant accounting policies** (continued)

(j) Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted loss per share, whereby all "in the money" stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive. As at September 30, 2016, the Company had nil (2015 - 22,509,131) potentially dilutive shares outstanding.

(k) Share-based Payments

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled, share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The fair value of the options is measured at the grant date using the Black-Scholes option pricing model. The fair value is recognized as an expense over the vesting period, which is the period over which all of the specified vesting conditions are satisfied with a corresponding increase in equity. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. Non-market vesting conditions are considered in making assumptions about the number of awards that are expected to vest. When the options are exercised, any proceeds received are credited to share capital along with the amount reflected in share-based payment reserve.

(l) Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

(m) Accounting Standards Issued But Not Yet Effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended September 30, 2016, and have not been applied in preparing these consolidated financial statements.

New standard IFRS 9, "Financial Instruments"

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on the consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

(Expressed in Canadian dollars)

## 3. Property and Equipment

| | Automotive $ | Equipment $ | Total $ |
|---|---|---|---|
| Cost: | | | |
| Balance, September 30, 2014 | 54,813 | – | 54,813 |
| Additions | – | 2,589 | 2,589 |
| Balance, September 30, 2015 and 2016 | 54,813 | 2,589 | 57,402 |
| Accumulated depreciation: | | | |
| Balance, September 30, 2014 | 46,536 | – | 46,536 |
| Additions | 1,656 | 259 | 1,915 |
| Balance, September 30, 2015 | 48,192 | 259 | 48,451 |
| Additions | 1,324 | 466 | 1,790 |
| Balance, September 30, 2016 | 49,516 | 725 | 50,241 |
| Carrying amounts: | | | |
| As at September 30, 2015 | 6,621 | 2,330 | 8,951 |
| As at September 30, 2016 | 5,297 | 1,864 | 7,161 |

## 4. Accounts Payable and Accrued Liabilities

| | 2016 $ | 2015 $ |
|---|---|---|
| Trade payables | 1,887,912 | 1,478,026 |
| Accrued liabilities | 7,500 | 6,500 |
| Accrued interest payable (Note 5) | 5,461 | 4,646 |
| GST payable (Note 12) | 33,191 | 32,029 |
| | 1,934,064 | 1,521,201 |

## 5. Loans Payable

(a) As at September 30, 2016, the total amount of $191,394 (2015 - $166,379) is owed to various unrelated parties. The amounts due are non-interest bearing, unsecured, and due on demand.

(b) As at September 30, 2016, the amount of $2,331 (2015 - $2,331) is owed to various unrelated parties. The amounts due are unsecured, bear interest at 6.5% per annum, and are due on demand. As at September 30, 2016, accrued interest of $2,616 (2015 - $2,314) is included in accounts payable and accrued liabilities.

(c) As at September 30, 2016, the amount of $4,722 (2015 - $4,722) is owed to a significant shareholder of the Company, which bears interest at 6.5% per annum, is unsecured, and is due on demand. As at September 30, 2016, accrued interest of $2,452 (2015 - $2,014) is included in accounts payable and accrued liabilities.

(d) As at September 30, 2016, the amount of $939 (2015 - $939) is owed to an unrelated party, which bears interest at 6% per annum, is unsecured, and is due on demand. As at September 30, 2016, accrued interest of $393 (2015 - $318) is included in accounts payable and accrued liabilities.

(Expressed in Canadian dollars)

## 6. Share Capital

Authorized: unlimited common shares without par value
100,000,000 preferred shares without par value

## 7. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

| | Number of warrants | Weighted average exercise price $ |
|---|---|---|
| Balance, September 30, 2014 and 2015 | 20,000,000 | 0.10 |
| Expired | (20,000,000) | 0.10 |
| Balance, September 30, 2016 | – | – |

## 8. Stock Options

The Company has established a stock option plan pursuant to which options may be granted to directors, officers, employees and consultants of the Company. The exercise price is equal to the market price of the Company's shares as calculated on the date of grant. The aggregate number of shares issuable pursuant to stock options granted under the plan is limited to 10% of the issued and outstanding shares at the time of grant. Options are granted for a maximum term of 5 years and are fully vested when granted unless otherwise stated.

The following table summarizes the continuity of the Company's stock options:

| | Number of stock options | Weighted average exercise price $ |
|---|---|---|
| Outstanding, September 30, 2014 and 2015 | 2,509,131 | 0.10 |
| Expired | (2,509,131) | 0.10 |
| Outstanding, September 30, 2016 | – | – |

## 9. Financial Instruments and Risks

(a) Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's consolidated statements of financial position as at September 30, 2016 as follows:

| | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets for identical instruments (Level 1) $ | Significant other observable inputs (Level 2) $ | Significant unobservable inputs (Level 3) $ | Balance, September 30, 2016 $ |
| Cash | – | – | – | – |

(Expressed in Canadian dollars)

## 9. Financial Instruments and Risks (continued)

(a) Fair Values (continued)

The fair values of other financial instruments, which include accounts payable and accrued liabilities, and loans payable, approximate their carrying values due to the relatively short-term maturity of these instruments.

(b) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

(c) Foreign Exchange Rate and Interest Rate Risk

The Company is not exposed to any significant foreign exchange rate or interest rate risk.

(d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

## 10. Capital Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and equity comprised of issued share capital and share-based payment reserve.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended September 30, 2015.

## 11. Income Taxes

The tax effect (computed by applying the Canadian federal and provincial statutory rate) of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Canadian statutory income tax rate | 26% | 26% |
| Income tax recovery at statutory rate | (114,546) | (121,471) |
| Tax effect of: | | |
| Permanent difference and other | 292 | 195 |
| Expiry of non-capital loss | – | 86,298 |
| Change in unrecognized deferred income tax assets | 114,254 | 34,978 |
| Income tax provision | – | – |

(Expressed in Canadian dollars)

**11. Income Taxes** (continued)

The significant components of deferred income tax assets and liabilities are as follows:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Deferred income tax assets | | |
| Non-capital losses carried forward | 1,078,173 | 964,385 |
| Capital losses carried forward | 34,553 | 34,553 |
| Property and equipment | 92,801 | 92,335 |
| Total gross deferred income tax assets | 1,205,527 | 1,091,273 |
| Unrecognized deferred income tax assets | (1,205,527) | (1,091,273) |
| Net deferred income tax asset | – | – |

As at September 30, 2016, the Company has non-capital losses carried forward of $4,146,820, which are available to offset future years' taxable income. These losses expire as follows:

| | $ |
|---|---|
| 2026 | 657,289 |
| 2027 | 255,722 |
| 2028 | 398,086 |
| 2029 | 196,134 |
| 2030 | 207,568 |
| 2031 | 257,555 |
| 2032 | 399,525 |
| 2033 | 509,090 |
| 2034 | 356,214 |
| 2035 | 471,989 |
| 2036 | 437,648 |
| | 4,146,820 |

**12. Restatement**

The Company has restated its consolidated financial statements as at September 30, 2015 and for the year then ended to reflect past GST input tax credit refunds received that were disallowed by Canada Revenue Agency and are now repayable with interest. The Company is appealing the reassessments, but the outcome is not determinable at this time. The restatement resulted in an increase to net loss of $32,029 in fiscal 2015 with no change in net loss per share.

The impact of the restatement as at September 30, 2015 and for the year then ended is summarized below:

Consolidated Statement of Financial Position

| | As at September 30, 2015 | | |
|---|---|---|---|
| | As reported<br>$ | Adjustments<br>$ | As restated<br>$ |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 1,489,172 | 32,029 | 1,521,201 |
| Total liabilities | 1,663,543 | 32,029 | 1,695,572 |
| Shareholders' deficit | | | |
| Deficit | (13,035,628) | (32,029) | (13,067,657) |
| Total shareholders' deficit | (1,652,453) | (32,029) | (1,684,482) |

(Expressed in Canadian dollars)

**12. Restatement** (continued)

Consolidated Statement of Operations and Comprehensive Loss

| | Year ended September 30, 2015 | | |
|---|---|---|---|
| | As reported $ | Adjustments $ | As restated $ |
| Expenses | | | |
| Interest and bank charges | (209,882) | (751) | (210,633) |
| Total expenses | (435,162) | (751) | (435,913) |
| Other income (expense) | | | |
| Tax credits disallowed | – | (31,278) | (31,278) |
| Total other income (expense) | – | (31,278) | (31,278) |
| Net loss and comprehensive loss for the year | (435,162) | (32,029) | (467,191) |

Consolidated Statement of Changes in Equity

| | As at September 30, 2015 | | |
|---|---|---|---|
| | As reported $ | Adjustments $ | As restated $ |
| Deficit | (13,035,628) | (32,029) | (13,067,657) |
| Total | (1,652,453) | (32,029) | (1,684,482) |

Consolidated Statement of Cash Flows

| | Year ended September 30, 2015 | | |
|---|---|---|---|
| | As reported $ | Adjustments $ | As restated $ |
| Operating activities | | | |
| Net loss | (435,162) | (32,029) | (467,191) |
| Changes in non-cash working capital items: | | | |
| Accounts payable and accrued liabilities | 402,811 | 32,029 | 434,840 |
| Net cash used in operating activities | (30,436) | – | (30,436) |