

Mobi724 Global Solutions Inc.
Consolidated Financial Statements
For the years ended
December 31, 2016 and 2015

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2017-05-01

Independent Auditor's Report

To the Shareholders of
Mobi724 Global Solutions Inc.

We have audited the accompanying consolidated financial statements of Mobi724 Global Solutions Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of net loss, the consolidated statements of comprehensive loss, the consolidated statements of changes in equity and the consolidated statements of 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 (IFRS) 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 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 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 audits is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mobi724 Global Solutions Inc. as at December 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Emphasis of matter

Without modifying our opinion, we draw attention to Note 2 b) to the consolidated financial statements, which indicates the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

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Montréal
May 1, 2017

¹ CPA auditor, CA public accountancy permit no. Axxxxxx

Mobi724 Global Solutions Inc.

Consolidated Financial position

December 31, 2016 and 2015

(in Canadian dollars)

	2016	2015
	\$	\$
ASSETS		
Current assets		
Cash	30 233	430 979
Short-term investments	—	39 425
Trade and other receivables (Note 8)	923 651	215 783
Prepaid expenses	147 887	21 498
	<u>1 101 771</u>	<u>707 685</u>
Non-Current assets		
Investment accounted for using the equity method (Note 7)	—	993 095
Property and equipment (Note 9)	20 034	10 469
Intangible assets (Note 10)	3 435 992	2 540 486
Goodwill (Note 10)	5 930 466	3 139 191
	<u>9 386 492</u>	<u>6 683 241</u>
	<u>10 488 263</u>	<u>7 390 926</u>
LIABILITIES		
Current liabilities		
Bank loan (Note 11)	90 000	—
Accounts payable and accrued liabilities (Note 12)	2 270 351	2 081 212
Liability for the acquisition of Solutions Mobi724 Inc. (Notes 7 and 19)	726 372	438 000
Convertible debt (Note 14)	523 253	2 036 386
Demand debt, 10% to 25% interest (Note 21)	536 247	100 000
Contingent consideration payable (Note 7)	4 286 947	750 000
Current portion of long-term debt (Note 13)	127 258	34 428
	<u>8 560 428</u>	<u>5 440 026</u>
Non-Current liabilities		
Long-term debt (Note 13)	105 137	117 779
Deferred income taxes (Note 18)	343 056	345 460
	<u>9 008 621</u>	<u>5 903 265</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 16)	21 197 288	19 038 170
Other equity accounts (Note 16)	8 418 275	8 186 308
Equity component of convertible debt (Note 14)	2 941 509	230 184
Deficit	(30 942 803)	(25 907 905)
Cumulative translation account	(134 627)	(59 096)
Total equity attributable to shareholders of the Company	<u>1 479 642</u>	<u>1 487 661</u>
Total liabilities and shareholder equity	<u>10 488 263</u>	<u>7 390 926</u>

Going concern (Note 2)

Contingent liabilities (Note 25)

Events after the reporting period (Note 26)

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

Mobi724 Global Solutions Inc.

Consolidated Net Loss

Years ended December 31, 2016 and 2015

(in Canadian dollars)

	2016	2015
	\$	\$
Revenues	2 665 142	437 114
Operating expenses		
Share-based payments expense (Note 16)	9 574	282 608
Salaries and benefits	2 456 078	902 257
Contract labor	781 279	693 785
Management fees	21 625	86 477
Computer software development	206 381	137 138
Travel	462 789	181 529
Professional fees	517 695	511 025
Office expense	554 908	377 978
Marketing and promotion	314 294	73 845
Filing fees	8 960	24 701
Gain on settlement of liabilities (Notes 12, 14 and 16)	(335 671)	(1 409 457)
Purchases	34 801	34 851
Bad debts	—	1 980
Foreign exchange loss	46 622	12 646
Depreciation of property and equipment (Note 9)	9 094	83 892
Amortization of intangible assets (Note 10)	1 254 494	625 610
Share of loss from equity accounted investment (Note 7)	—	6 905
Loss on settlement of contract (Note 16)	—	100 000
Fair value adjustment on financial derivative asset (Note 14)	—	(540 000)
Total operating expenses	6 342 923	2 187 770
Operating loss	(3 677 781)	(1 750 656)
Net financial expenses (Note 17)	1 918 272	206 112
Net loss before income taxes	(5 596 053)	(1 956 768)
Income tax expense (Note 18)	33 554	13 120
Recovery of deferred tax (Note 18)	(694 709)	164 080
	(661 155)	177 200
Net loss	(4 934 898)	(2 133 968)
Loss per share (Note 22)		
Basic	(0,05)	(0,04)
Diluted	(0,05)	(0,04)
Weighted average number of outstanding common shares (Note 22)		
Basic and Diluted	103 339 498	54 842 189

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

Mobi724 Global Solutions Inc.

Consolidated Comprehensive Loss

Years ended December 31, 2016 and 2015

(in Canadian dollars)

	<u>2016</u>	<u>2015</u>
	\$	\$
Net loss	(4 934 898)	(2 133 968)
Other comprehensive loss to be reclassified to profit or loss in subsequent periods		
Cumulative translation adjustment	<u>(75 531)</u>	<u>(15 628)</u>
Comprehensive loss	<u>(5 010 429)</u>	<u>(2 149 596)</u>

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

Mobi724 Global Solutions Inc.

Consolidated Statement of Changes in Equity

Years ended December 31, 2016 and 2015

(in Canadian dollars)

	Share capital Number	Share capital \$	Other equity accounts \$	Equity component of convertible debt \$	Deficit \$	Cumulative translation adjustment \$	Total equity \$
Balance January 1, 2016	94 152 482	19 038 170	8 186 308	230 184	(25 907 905)	(59 096)	1 487 661
Net loss for the year	-	-	-	-	(4 934 898)	-	(4 934 898)
Other comprehensive loss	-	-	-	-	-	(75 531)	(75 531)
Comprehensive loss for the year	-	-	-	-	(4 934 898)	(75 531)	(5 010 429)
Conversion of convertible debt (Note 14)	8 186 426	1 046 968	15 697	(120 952)	-	-	941 713
Settlement of liabilities (Note 16)	1 894 064	104 500	-	-	-	-	104 500
Issuance of convertible debt presented as equity (Note 14)	-	-	-	2 664 143	-	-	2 664 143
Interest expense on convertible debenture presented as equity	-	-	-	100 000	(100 000)	-	-
Issuance of convertible debt (Note 14)	-	-	-	142 134	-	-	142 134
Share-based payments (Note 16)	-	-	9 574	-	-	-	9 574
Issuance of warrants (Note 16)	-	-	51 246	-	-	-	51 246
Exercise of warrants (Note 16)	3 030 303	553 030	(303 030)	-	-	-	250 000
Issuance of private placements (Note 16)	12 690 000	250 020	384 480	-	-	-	634 500
Conversion option on debt extinguishment	-	-	74 000	(74 000)	-	-	-
Shares issued for business combination (Note 7)	3 720 000	204 600	-	-	-	-	204 600
	29 520 793	2 159 118	231 967	2 711 325	(100 000)	-	5 002 410
Balance December 31, 2016	123 673 275	21 197 288	8 418 275	2 941 509	(30 942 803)	(134 627)	1 479 642

Mobi724 Global Solutions Inc.

Consolidated Statement of Changes in Equity

Years ended December 31, 2016 and 2015

(in Canadian dollars)

	Share capital Number	Share capital \$	Other equity accounts \$	Equity component of convertible debt \$	Deficit \$	Cumulative translation adjustment \$	Total equity \$
Balance January 1, 2015	44 514 438	14 288 362	6 807 656	2 086 292	(23 773 937)	(43 468)	(635 095)
Net loss for the year	—	—	—	—	(2 133 968)	—	(2 133 968)
Other comprehensive loss	—	—	—	—	—	(15 628)	(15 628)
Comprehensive loss for the year	—	—	—	—	(2 133 968)	(15 628)	(2 149 596)
Conversion of convertible debt (Note 14)	3 187 365	2 163 482	—	(2 041 061)	—	—	122 421
Settlement of liabilities (Note 16)	9 387 810	548 385	—	—	—	—	548 385
Issuance of convertible debt (Note 14)	—	—	—	230 184	—	—	230 184
Share-based payments (Note 16)	—	—	282 593	—	—	—	282 593
Issuance of warrants (Note 16)	—	—	917 828	—	—	—	917 828
Issuance of private placements (Note 16)	22 569 695	1 168 357	—	—	—	—	1 168 357
Conversion option on debt extinguishment	—	—	178 231	(178 231)	—	—	—
Modification of conversion terms of convertible debt	—	—	—	133 000	—	—	133 000
Shares issued partial settlement of the liability for the acquisition of Solutions Mobi724 Inc. (Note 7)	14 493 174	869 584	—	—	—	—	869 584
	49 638 044	4 749 808	1 378 652	(1 856 108)	—	—	4 272 352
Balance December 31, 2015	94 152 482	19 038 170	8 186 308	230 184	(25 907 905)	(59 096)	1 487 661

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

Mobi724 Global Solutions Inc.

Consolidated Cash Flows

Years ended December 31, 2016 and 2015

(in Canadian dollars)

	2016	2015
	\$	\$
OPERATING ACTIVITIES		
Net loss	(4 934 898)	(2 133 968)
Adjustments for items not involving cash		
Depreciation of property and equipment	9 094	83 892
Amortization of intangible assets	1 254 494	625 610
Share-based payments expense	9 574	282 608
Gain on settlement of liabilities	(335 671)	(1 409 457)
Fair value adjustment on liability for the acquisition of the non-controlling interest of Mobi	492 972	(787 680)
Fair value adjustment on financial derivative asset (Note 14)		(540 000)
Loss on extinguishment of convertible debenture	36 647	
Share of loss from equity accounted investment (Note 7)		6 905
Accretion expense on convertible debt	137 643	443 060
Accretion expense on contingent consideration payable	821 886	
Interest on convertible debt	112 871	323 116
Recovery of deferred taxes	(694 709)	164 080
Income taxes paid	(33 554)	(13 120)
	(3 123 651)	(2 954 954)
Change in non-cash working capital items (Note 23)	(347 838)	920 668
	(3 471 489)	(2 034 286)
INVESTING ACTIVITIES		
Acquisition of investment accounted for using the equity method		(250 000)
Acquisition of property and equipment	(16 369)	(7 387)
Acquisition of intangibles assets		(4 865)
Short-term investments	39 425	
Business acquisition, net of acquired cash	(81 669)	
	(58 613)	(262 252)
FINANCING ACTIVITIES		
Bank loan	5 000	
Proceeds from long-term debt	10 298	16 712
Repayment of long-term debt	(164 712)	(34 428)
Proceeds from convertible debt	2 000 000	658 204
Proceeds from issuance of common shares and warrants	884 500	1 862 000
Proceeds from demand debt	486 247	100 000
Repayment of demand debt	(50 000)	(148 525)
	3 171 333	2 453 963
Effect of the exchange rate changes on cash	(41 977)	(15 628)
Variation in cash during the year	(400 746)	141 797
Cash, beginning of the year	430 979	289 182
Cash, end of the year	30 233	430 979

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

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(in Canadian dollars except share and per share amounts)

1 - STATUTE OF INCORPORATION AND NATURE OF ACTIVITIES

Mobi724 Global Solutions Inc. (the “Company” or “Mobi724”) was incorporated under the Business Corporations Act (Alberta) on February 8, 2005. On February 13, 2015, the Company changed its corporate name from Hybrid Paytech World Inc. to Mobi724 Global Solutions Inc. The Company’s registered office and its head office is located at 257 Sherbrooke Street East, Suite 400, Montreal, Quebec H2X 1E3. The consolidated financial statements comprise the Company and its wholly-owned subsidiaries First Equity Strategy LLC (“First Equity”), incorporated in the State of Delaware, Hybrid-PayTech Asia Pacific (HK) Limited, incorporated in Hong Kong, Vault Acquiring Solutions LLC, incorporated in the state of Delaware, USA, Mobi724 Asia Inc., incorporated in the Philippines and Solutions Mobi724 Inc., incorporated under the Corporations Act (Canada) including Solutions Mobi724 Inc.’s fully owned subsidiary, Mobi724 Solutions S.R.L., incorporated in Argentina, and as of January 1, 2016, I.Q. 7/24 Inc., incorporated under the Canada Business Corporations Act. The Company is a technology leader in digital incentives (such as mobile couponing and loyalty rewards) and payment solutions (including mobile payments). Mobi724 is a provider of both payment and couponing / rewards transactions for both online and offline points of sale.

The Company is a technology leader in digital incentives (such as mobile couponing and loyalty rewards) and payment solutions (including mobile payments). Mobi724 is a provider of both payment and couponing / rewards transactions for both online and offline points of sale.

The common shares of Mobi724 are traded under the symbol “MOS” on the Canadian Securities Exchange (“CSE”).

2 - BASIS OF PREPARATION AND GOING CONCERN

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements were authorized for issue by the Board of Directors on May 1, 2017.

b) Going concern

These consolidated financial statements have been prepared on a going concern basis in compliance with IFRS. A going concern basis contemplates the realization of the carrying value of assets and the settlement of liabilities in the normal course of business as they come due, which is dependent on future events including amongst other things, attaining a satisfactory revenue level from its mobile POS technology system and e-couponing solutions, attainment of profitable operations, the generation of cash from operations and the ability to secure new financing arrangements and new capital to carry out its business plan.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(in Canadian dollars except share and per share amounts)

2 - BASIS OF PREPARATION AND GOING CONCERN

b) Going concern (continued)

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events and conditions that may cast a significant doubt upon the Company's ability to continue as a going concern as described in the following paragraphs, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These consolidated financial statements do not reflect the adjustment to the carrying values of assets and liabilities, expenses and financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

The Company has generated limited revenues since inception and has generated losses from continuing operations totaling \$4,934,898 and \$2,133,968 for the years ended December 31, 2016 and 2015, respectively, and an accumulated deficit of \$30,942,803 since the Company's inception on February 8, 2005.

During the year ended December 31, 2016, the Company received approximately \$3,370,000 in additional funds from equity financing and in the form of convertible debt and demand debt. The Company also raised additional funds subsequent to year-end (Note 26).

The Company can give no assurance that it will achieve profitability or be capable of sustaining profitable operations.

c) Basis of measurement

The consolidated financial statements have been prepared under the historical cost principle.

d) Basis of consolidation

i) Subsidiary

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intercompany transactions and balances and unrealized gains and losses on transactions between these entities are eliminated.

ii) Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value. Acquisition-related costs are recognized in profit or loss as incurred.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(in Canadian dollars except share and per share amounts)

2 - BASIS OF PREPARATION AND GOING CONCERN (Continued)

d) Basis of consolidation (continued)

ii) Business combination (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

iii) Investments in associates

Investments in associates are accounted for using the equity method.

The carrying amount of the investment in associates is increased or decreased to recognise the Company's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the Company.

Unrealized gains and losses on transactions between the Company and its associates are eliminated to the extent of the Company's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

e) Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's and its subsidiaries' functional currency, with the exception of Vault Acquiring Solutions LLC whose functional currency is the U.S dollar, Hybrid-PayTech Asia Pacific (HK) Limited whose functional currency is the Hong Kong dollar, Mobi724 Solutions S.R.L. whose functional currency is the Argentine Peso and Mobi724 Asia Inc. whose functional currency is the Philippine Peso.

ii) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At each consolidated statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non monetary assets and liabilities are translated using the historical rate on the date of the transaction. All gains and losses on translation of these foreign currency transactions are included in the consolidated statement of net loss within foreign exchange gain or loss.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(in Canadian dollars except share and per share amounts)

2 - BASIS OF PREPARATION AND GOING CONCERN (Continued)

e) Foreign currency translation (continued)

iii) Foreign operations

The assets and liabilities of foreign operations are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at average exchange rates.

Foreign currency differences are recognized in other comprehensive income (loss) in the cumulative translation adjustment account.

When a foreign operation is disposed of, the relevant amount in the cumulative amount of foreign currency translation differences is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income (loss) in the cumulative amount of foreign currency translation differences.

3 - SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

The Company recognizes revenue when the amount of revenue can be measured reliably; it is probable that future economic benefits will flow to the Company; the Company has provided the services to the customer; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within profit or loss.

Subsequent expenditures are capitalized only when it is probable that the future economic benefits of the expenditures will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(in Canadian dollars except share and per share amounts)

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment (continued)

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value. The Company provides for depreciation of property and equipment commencing once the related assets are available for use. Depreciation is recognized in profit or loss on a straight-line basis since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The Company uses the following periods to calculate depreciation:

	Years
Furniture and fixtures	3
Computer equipment	3 to 4

Depreciation methods, useful lives and residual values are reviewed at each financial period-end and adjusted if appropriate.

Intangible assets

Intangible assets with finite lives are measured at cost less accumulated amortization and any accumulated impairment losses.

When intangible assets are internally developed, as is the case with the Company's EMV Payment Switch, the cost comprises the directly attributable costs in the development phase necessary to create, produce and prepare the asset for the Company to be able to operate it for its intended use provided they meet the recognition criteria.

Amortization is calculated on a straight-line basis on the cost of the intangible asset over its useful life. The Company uses the following periods to calculate amortization:

	Years
Software Technology	5 to 10
EMV Payment Switch	7
Patents	5 to 10
Customer relationships	5

Amortization methods and useful lives are reviewed at each financial period-end and adjusted if appropriate. Amortization commences once the intangible asset is available for use.

Goodwill

Goodwill that arises upon the acquisition of subsidiaries and is subsequently measured at cost less accumulated impairment loss.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(in Canadian dollars except share and per share amounts)

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

The Company assesses, at each reporting date, whether events or changed circumstances indicate that the carrying value of non-financial assets may not be recoverable. For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit", or "CGU"). The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU or group of CGU's to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Impairment losses are recognized in profit or loss.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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, if no impairment loss had been recognized.

Leases

All of the Company's leases are operating leases. The leased assets are not recognized in the Company's consolidated statement of financial position since the Company does not assume substantially all risks and rewards of ownership of the leased assets. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the leases.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(in Canadian dollars except share and per share amounts)

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

Financial assets and liabilities are measured initially at fair value adjusted for transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value. Financial assets and financial liabilities are measured subsequently as described below.

The Company classifies its financial instruments on initial recognition into one of the following categories based on the purpose for which the instrument was acquired. The Company does not have financial instruments designated as available-for-sale or held for trading.

The Company's accounting policy for each category is as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The company's loans and receivables are comprised of cash, short-term investments and trade and other receivables (except sales tax receivable and tax credit receivable). Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

Financial liabilities at amortized cost

Financial liabilities at amortized cost include all financial liabilities other than those classified as financial liabilities at fair value and comprise, trade payables and accrued liabilities(except salaries and related benefits), convertible debt, bank loan, demand debt and long-term debt. Subsequently, they are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Financial liabilities at fair value

Financial liabilities at fair value include the remaining liability for the acquisition of Solutions Mobi724 Inc. and the contingent consideration payable for IQ 7/24 Inc. In subsequent periods, these liabilities are measured at fair value with changes in the fair value included in profit or loss for the period.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(in Canadian dollars except share and per share amounts)

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

Compound financial instruments

Compound financial instruments issued by the Company comprise convertible debt that can be converted to share capital or units at the option of the holder, and for which the number of shares to be issued does not vary with changes in their fair value. The fair value of the debt component is estimated by discounting the future cash flows using an appropriate discount rate. The difference between the proceeds and the fair value of the debt component is allocated to the equity component. When debt is convertible into units that are convertible into common shares and share purchase warrants, the equity portion is allocated to the embedded warrant feature based on its calculated fair value and the residual amount is allocated to the embedded conversion feature.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially using the residual method, as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognized in profit or loss. Distributions to the equity holders are recognized in equity, net of any tax benefit.

Fair Value

The Company must classify the fair value measurements of financial instruments according to a three-level hierarchy, based on the type of inputs used in making these measurements. These tiers include:

- Level 1: observable inputs such as quoted prices in active markets;
- Level 2: inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3: unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

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(in Canadian dollars except share and per share amounts)

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against the asset. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Share-based payment transaction

The Company has a share-based compensation plan under which equity-settled share-based payments are made in exchange for services received. The Company accounts for all share based compensation using the fair value method. Each tranche in an award is considered a separate award with its own vesting year and grant date fair value. This method consists of recording expenses at the grant date to the consolidated statement of net loss based on the number of options expected to vest and the counterpart is accounted for in other equity accounts on the statement of financial position. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately in the consolidated statement loss, with a corresponding adjustment to the other equity accounts on the statement of financial position. The fair value is calculated based on the Black-Scholes valuation model at the grant date and recognized over the period during which the options vest. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over a period of time consistent with the expected life of the option. When stock options are exercised, any consideration paid is credited to share capital, together with the related portion previously recorded in contributed surplus.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

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3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related party transactions

A related party is defined as any person, including close members of that person's family, or entity that has significant influence over the Company. Related parties also include members of the Company's key management personnel, namely those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company. Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Income taxes

The income tax expense comprises current and deferred tax. Income tax is recognized in the consolidated statement of net loss, except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity. In this case the tax is also recognized in other comprehensive income (loss) or directly in equity, respectively.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted on the consolidated statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

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3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes (continued)

Deferred income tax (continued)

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Share capital

Common shares, options and warrants granted as compensation for goods and services are classified as equity. Incremental costs directly attributable to the issue of new shares or warrants are shown in equity as a deduction, net of tax, from the proceeds.

Other equity accounts

Contributed surplus includes charges related to cancelled or expired warrants, expired or forfeited stock options and extinguished conversion options of convertible debentures. The option reserve includes stock option expense less expired or forfeited stock options. The warrant reserve includes the value of warrants issued less the charge for those expired, cancelled or exercised.

Earnings per share

The Company presents basic and diluted earnings per share data for its common shares. Basic earnings per share are calculated by dividing the net income or loss for the year attributable to owners of the company by the weighted average number of common shares outstanding during the period.

Diluted earnings per share are calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Company's potentially dilutive common shares comprise stock options, warrants and conversion option. In the Company's case, diluted earnings per share presented is the same as basic earnings per share as the effect of outstanding share options and warrants in the earnings per share calculation would be anti-dilutive.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

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3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segment reporting

The Company presents and discloses segmented information based on information that is regularly reviewed by the chief operating decision maker, who for the Company is the chief executive officer. The Company has determined that there are three operating segments, being the sector of development of new internet technologies to facilitate point of sale payments, e-couponing and digital marketing. Each of the operating segments is a reportable segment for financial reporting purposes. The Company also operates in different geographies.

4 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Significant management judgement

When preparing the financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, revenue and expenses.

The following are significant management judgements in applying the accounting policies of the Company that have the most significant effect on the financial statements.

Income taxes

The company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the year in which such determination is made.

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures and meet its liabilities for the ensuing year, involves significant judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances. See Note 2 for more information.

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

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4 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Estimation uncertainty (continued)

Business combinations

For business combinations, the Company must make assumptions and estimates to determine the fair value of the business acquired. To do so, the Company must determine the acquisition-date fair value of the identifiable assets acquired, including such intangible assets as electronic gateways and processor connections, and liabilities assumed. Goodwill is measured as the excess of the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree over the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. Additionally, the Company must make assumptions on the discount rate and estimated future revenue to determine the fair value of the liability for the consideration transferred. These assumptions and estimates have an impact on the asset and liability amounts recorded in the consolidated statement of financial position on the acquisition date. In addition, the estimated useful lives of the acquired amortizable assets, the identification of intangible assets and the determination of the indefinite or finite useful lives of intangible assets acquired will have an impact on the Company's future profit or loss.

Impairment of goodwill and intangible assets

Impairment assessments require the Company to determine the recoverable amount of a CGU, defined as the smallest identifiable group of assets that generates cash inflows independent of other assets. This determination requires significant estimates in a variety of areas including: the determination of fair value, selling costs, timing and size of cash flows, and discount and interest rates. The Company supports all assumptions made in the above estimates and updates such assumptions to reflect the best information available to the Company if and when an impairment assessment requires the recoverable amount of a CGU to be determined.

Share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of options, the time of exercise of those options and expected extinguishments. The model used by the Company is the Black-Scholes model.

Valuation of the liability for the acquisition of Solutions Mobi724 Inc.

The fair value was determined by estimating the number of common shares to be issued to the previous shareholders of Mobi times the share price of the Company as at December 31, 2016 and 2015.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(in Canadian dollars except share and per share amounts)

4 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Estimation uncertainty (continued)

Control assessment

On December 22, 2015, the Company acquired 100% of the issued and outstanding shares of IQ 7/24 Inc. The Company determined at that date that it did not control IQ even though it owned all of the issued and outstanding shares because of the terms and conditions that existed in the purchase agreement. The Company concluded that it did have significant influence over IQ and, thus, recorded for the investment using the equity method of accounting. On January 1, 2016, the agreement was cancelled and a new agreement was signed. As per the terms of the new agreement, the Company acquired control of the subsidiary on January 1, 2016.

5 - ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

At the date of authorisation of these consolidated financial statements, certain new standards, and amendments to existing standards have been published by the International Accounting Standards Board ("IASB") that are not yet effective, and have not been adopted early by the Company. Information on those expected to be relevant to the Company's consolidated financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the Company's financial statements.

IFRS 9 Financial Instruments

The new standard for financial instruments (IFRS 9) introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

Management is continuing to assess the impact of this new standard on the Company's consolidated financial statements.

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 *Revenue*, IAS 11 *Construction Contracts* and several revenue-related interpretations. The new standard establishes a control-based revenue recognition model and provides guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after January 1, 2018. Management is continuing to assess the impact of this new standard on its consolidated financial statements.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

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5 - ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

IFRS 16 Leases

In January 2016, the IASB published IFRS 16 Leases, which will replace the existing standard IAS 17 Leases and related interpretations. This IFRS eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease, sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods, changes the accounting for sale and leaseback arrangements, largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances. The adoption of this new standard will require the Company to change the method used for accounting for operating leases, but management is continuing to assess the impact of this new standard on its consolidated financial statements.

6 - BUSINESS COMBINATIONS

Acquisition of IQ 7/24 Inc.

On December 22, 2015, in an effort to further its business objectives, the Company acquired 100% of the common shares of I.Q. 7/24 Inc., a company operating in Montreal, Canada (hereinafter "IQ"). As part of the agreement signed, the previous shareholders maintained control of the Company until the occurrence of certain future events. As such, the Company did not control IQ but based on the Company's representation on the Board of Directors of IQ, which was two of four members, the Company did have significant influence over the operations of IQ.

The Company had invested \$250,000 as at December 31, 2015 for the acquisition of 16.67 shares of IQ and had acquired 100 additional shares of IQ for contingent consideration to be determined based on a formula using the results of IQ and the Company for the years ended December 31, 2017 or December 31, 2017 and December 31, 2018. The final contingent consideration paid could have been significantly higher than the estimated amount. The previous shareholders of IQ were able to elect to have their balance of purchase price paid either by shares of the Company or a combination of shares and cash. In the case of non payment by the Company, the previous shareholders of IQ maintained certain rights including the possibility of taking back ownership of IQ.

As at December 31, 2015, the Company had not finalized the purchase price allocation and had recorded an investment as follows:

	\$
Acquisition of 16.67 shares of IQ	250 000
Estimate of contingent consideration to be transferred for the acquisition of 100 shares of IQ	750 000
	<u>1 000 000</u>

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(in Canadian dollars except share and per share amounts)

6 - BUSINESS COMBINATIONS (Continued)

Acquisition of IQ 7/24 Inc. (continued)

Since the Company owned 100% of the issued and outstanding shares of IQ, the Company recorded 100% of IQ's results from the date of acquisition.

IQ incurred a loss of \$6,905 for the 9-day period from December 23, 2015 to December 31, 2015. The Company recorded this loss using the equity method, thus reducing their investment by this amount.

IQ's summary financial information was as follows:

	December 31, 2015
	\$
Current assets	218 000
Non-current assets	1 590 000
Current liabilities	568 000
Non-current liabilities	240 000
Revenue	1 541 000
Total comprehensive loss	252 000

As at December 31, 2015, the Company's carrying value of IQ was as follows:

	December 31, 2015
	\$
Investment	1 000 000
Share of loss from equity accounted investment	(6 905)
	<u>993 095</u>

Effective January 1, 2016, the Company and IQ cancelled the previously signed purchase agreement and cancelled the IQ shares issued to the Company. Subsequently, the two parties entered into a new agreement and the Company acquired new shares of IQ resulting in the Company acquiring control of IQ effective January 1, 2016. The assets acquired were primarily software technology and customer relationships. The acquisition was accounted for using the acquisition method of accounting.

The total purchase price was estimated at \$3,715,061 payable through cash already paid of \$250,000 and through a contingent consideration of \$3,465,061 payable using the same formula as included in the original agreement described above. The contingent consideration payable has been discounted using an effective interest rate of 22.5%. The undiscounted estimated amount payable consists of \$5,720,962 payable in 2017 and \$162,899 payable in 2018. Accretion interest recorded during the year ended December 31, 2016 amounted to \$821,886.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(in Canadian dollars except share and per share amounts)

6 - BUSINESS COMBINATIONS (continued)

Acquisition of IQ 7/24 Inc. (continued)

	\$
Fair value of the consideration transferred	
Amount settled in cash	250 000
Fair value of contingent consideration payable	3 465 061
Total consideration transferred	3 715 061
	\$
Identifiable net assets acquired	
Accounts receivable (fair value is equal to gross contractual amount)	287 416
Prepaid expenses	54 589
Property and equipment	2 290
Software technology	975 000
Customer relationships	1 175 000
Bank overdraft	(81 669)
Bank debt	(319 602)
Due to previous IQ shareholders	(180 777)
Trade and other payables	(342 671)
Deferred revenues	(5 790)
Deferred income tax liability	(640 000)
Total identifiable net assets	923 786
Goodwill on acquisition	2 791 275
	3 715 061

The IQ acquisition will allow the Company to create gains in operational efficiencies and allow for synergies between the existing E-couponing cash-generating unit and IQ's existing business. This explains the goodwill arising from the transaction. The acquired goodwill was allocated to the Digital Marketing cash-generating unit. The goodwill that arose from this business combination is not expected to be deductible for tax purposes.

From the date of acquisition to December 31, 2016, this business combination contributed \$1,933,418 of revenues and \$582,373 of loss before tax.

Subsequent to year end, the Company modified the acquisition agreement with IQ, see Note 25.

Acquisition of Mobi

On July 12, 2013, in an effort to further its business objectives, the Company acquired 51% of the common shares of Solutions Mobi724 Inc. ("Mobi").

On July 12, 2014, one year after the closing date, the Company was to purchase the remaining Mobi shares from the remaining Mobi shareholders at an evaluation price determined, at that time, as per the contractual agreement, and mostly based on expected future revenues of Mobi. The purchase date of the remaining Mobi shares was extended to 2015. At acquisition date, because the Company has an obligation to acquire the non-controlling interest of Mobi, the Company recorded a liability, at fair value, for the future acquisition of the remaining Mobi share.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

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6 - BUSINESS COMBINATIONS (continued)

Acquisition of Mobi (continued)

During the year ended December 31, 2014, the Company also entered into an amendment to the acquisition agreement that modified the terms of the obligation to acquire the non-controlling interest of Mobi. The liability is to be settled by issuing the remaining Mobi shareholders a certain number of shares of the Company that will ensure the remaining Mobi shareholders a fixed percentage ownership of the Company. During the year ended December 31, 2016, 3,720,000 (14,493,174 in 2015) shares were issued having a value of \$204,600 (\$869,584 in 2015). Approximately 7,386,000 shares will be issued in 2017 to settle the remaining liability.

7 - TRADE AND OTHER RECEIVABLES

	December 31, 2016	December 31, 2015
	\$	\$
Trade receivable	554 906	84 384
Sales tax receivable	76 990	57 618
Amount receivable from an officer		73 781
Tax credit receivable	119 885	—
Share subscription receivable	167 500	—
Other receivable	4 370	—
	<u>923 651</u>	<u>215 783</u>

8 - PROPERTY AND EQUIPMENT

	Computer equipment	Furniture and fixtures	Total
	\$	\$	\$
Cost			
Balance January 1, 2016	262 600	34 170	296 770
Acquired through a business combination	2 290		2 290
Additions, acquired separately	7 606	8 763	16 369
Balance December 31, 2016	<u>272 496</u>	<u>42 933</u>	<u>315 429</u>
Accumulated Depreciation			
Balance January 1, 2016	252 131	34 170	286 301
Depreciation	7 634	1 461	9 094
Balance December 31, 2016	<u>259 765</u>	<u>35 631</u>	<u>295 395</u>
Net Book Value December 31, 2016	<u>12 732</u>	<u>7 303</u>	<u>20 034</u>

Mobi724 Global Solutions Inc.
Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(in Canadian dollars except share and per share amounts)

8 - PROPERTY AND EQUIPMENT (Continued)

	Computer equipment	Furniture and fixtures	Total
	\$	\$	\$
Cost			
Balance January 1, 2015	255 213	34 170	289 383
Additions	7 387		7 387
Balance December 31, 2015	262 600	34 170	296 770
Accumulated Depreciation			
Balance January 1, 2015	168 239	34 170	202 409
Depreciation	83 892		83 892
Balance December 31, 2015	252 131	34 170	286 301
Net Book Value December 31, 2015	10 469		10 469

Mobi724 Global Solutions Inc. Consolidated Changes in Equity

Years ended December 31, 2016 and 2015

(in Canadian dollars except share and per share amounts)

9 - INTANGIBLE ASSETS

	<u>Licenced software</u>	<u>Customer relationships</u>	<u>Software technology</u>	<u>EMV payment switch</u>	<u>Patents</u>	<u>Total intangibles</u>	<u>Goodwill</u>
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance January 1, 2016	1	—	2 894 540	1 028 441	80 378	4 003 360	3 139 191
Additions acquired through a business combination	—	1 175 000	975 000	—	—	2 150 000	2 791 275
Balance December 31, 2016	<u>1</u>	<u>1 175 000</u>	<u>3 869 540</u>	<u>1 028 441</u>	<u>80 378</u>	<u>6 153 360</u>	<u>5 930 466</u>
Accumulated amortization and impairment							
Balance January 1, 2016	—	—	1 412 121	36 730	14 023	1 462 874	—
Amortization	—	235 000	859 912	146 916	12 666	1 254 494	—
Impairment	—	—	—	—	—	—	—
Balance December 31, 2016	<u>—</u>	<u>235 000</u>	<u>2 272 033</u>	<u>183 646</u>	<u>26 689</u>	<u>2 717 368</u>	<u>—</u>
Net Book Value December 31, 2016	<u>1</u>	<u>940 000</u>	<u>1 597 507</u>	<u>844 795</u>	<u>53 689</u>	<u>3 435 992</u>	<u>5 930 466</u>
	<u>Licenced software</u>		<u>Software technology</u>	<u>EMV payment switch</u>	<u>Patents</u>	<u>Total intangibles</u>	<u>Goodwill</u>
	\$		\$	\$	\$	\$	\$
Cost							
Balance January 1, 2015	1	—	2 889 675	1 028 441	80 378	3 998 495	3 139 191
Additions, separately acquired	—	—	4 865	—	—	4 865	—
Balance December 31, 2015	<u>1</u>	<u>—</u>	<u>2 894 540</u>	<u>1 028 441</u>	<u>80 378</u>	<u>4 003 360</u>	<u>3 139 191</u>
Accumulated amortization and impairment							
Balance January 1, 2015	—	—	829 979	—	7 285	837 264	—
Amortization	—	—	582 142	36 730	6 738	625 610	—
Balance December 31, 2015	<u>—</u>	<u>—</u>	<u>1 412 121</u>	<u>36 730</u>	<u>14 023</u>	<u>1 462 874</u>	<u>—</u>
Net Book Value December 31, 2015	<u>1</u>	<u>—</u>	<u>1 482 419</u>	<u>991 711</u>	<u>66 355</u>	<u>2 540 486</u>	<u>3 139 191</u>

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

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9 - INTANGIBLE ASSETS (Continued)

The goodwill is allocated to the cash-generating units as follows:

	<u>2016</u>	<u>2015</u>
	\$	\$
E-couponing	3 139 191	3 139 191
Digital marketing	<u>2 791 275</u>	<u>-</u>
	<u>5 930 466</u>	<u>3 139 191</u>

Amortization of the EMV payment switch started on October 1, 2015.

Impairment testing

For the purpose of annual impairment testing, goodwill is allocated to the cash-generating unit expected to benefit from the synergies of the business combination in which the goodwill arose. All of the Company's goodwill has been allocated to the e-couponing and digital marketing cash-generating units.

The recoverable amounts of the cash-generating units were determined based on value-in-use calculations, covering detailed two-year forecasts for Mobi and four-year forecasts for IQ, followed by an extrapolation of expected cash flows using growth rates determined by management. The growth rates reflect the long-term average growth rates for the services of each of the cash-generating units. The discount rates reflect appropriate adjustments relating to the market risk and specific risk factors for each of the cash-generating units.

The key assumptions used for value-in-use calculations are as follows:

	<u>2016</u>	<u>2015</u>
E-couponing		
Growth rate	3%	2%
Discount rate	28%	37%
Digital marketing		
Growth rate	3%	—
Discount rate	23%	—

Growth rate

The growth rates reflect the long-term estimated growth rates for the product of the CGU. A growth rate of 3% is used based on the anticipated trend for the upcoming years.

Discount rate

The discount rate reflects appropriate adjustments relating to market risk and specific risk factors for the CGU.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

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9 - INTANGIBLE ASSETS (Continued)

Impairment testing (continued)

Cash flow assumptions

Management's key assumptions include cash flow growth based on existing and potential customers Management believes that this is the best available input for forecasting this growing market. Cash flow projections reflect increasing profit margins beginning the second year of the budget period.

10 - BANK LOAN

The Company has a bank loan to a maximum of \$200,000, bearing interest at prime plus 3% (5.7% effective interest rate at December 31, 2016). The bank loan is secured by accounts receivable. The bank loan is subject to certain covenants which were not respected as at December 31, 2016.

11 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
	\$	\$
Accounts payable and accrued liabilities (a)	1 287 100	1 570 498
Salaries and related benefits	414 710	260 714
Amounts due to former directors	279 626	
Liability for third party garnishment resulting from assumption of judgment against former directors (b)	288 915	250 000
	<u>2 270 351</u>	<u>2 081 212</u>

- a) During the year ended December 31, 2016, the Company negotiated certain amounts due to suppliers resulting in a decrease of accounts payable and accrued liabilities in the amount of \$320,729. This gain was recorded in the consolidated statement of net loss in "Gain on settlement of liabilities".

During the year ended December 31, 2015, the Company negotiated certain amounts due to suppliers resulting in a decrease of accounts payable and accrued liabilities in the amount of \$402,003. This gain was recorded in the consolidated statement of net loss in "Gain on settlement of liabilities".

- b) In February 2014, the Company assumed a liability in the amount of \$1,000,000 for the settlement of a judgement rendered by the Quebec Superior Court issued on December 4, 2013 against two former directors and founders of the Company and the Company with respect to a garnishment issued against the Company pursuant to a judgement issued against the former directors and founders. An amount of \$750,000 was paid at signing in February 2014, and the balance including interest to be paid no later than June 27, 2014. As at December 31, 2016 and 2015 an amount of \$250,000 remains payable.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

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(in Canadian dollars except share and per share amounts)

12 - LONG-TERM DEBT

	<u>2016</u>	<u>2015</u>
	\$	\$
Bank term loan, due August 2017, bearing interest at prime plus 3% (effective rate of 5.7% as at December 31, 2016 and 2015) repayable in monthly installments of \$2,869 plus interest	7 258	57 368
Government loan, due February 2022, without interest repayable in monthly installments of \$2,190 beginning March 2018	105 137	94 839
Bank term loan, due December 2017, bearing interest at prime plus 4% repayable in monthly payments of \$10,000. This debt is secured by a hypothec of \$576,000 on the universality of property of the Company's wholly-owned subsidiary, I.Q., and is guaranteed by its two former directors for \$144,000 (a)	120 000	—
	<u>232 395</u>	<u>152 207</u>
Less: current portion	<u>(127 258)</u>	<u>(34 428)</u>
Non-current portion	<u>105 137</u>	<u>117 779</u>

a) Under the credit agreement, the Company is subject to certain covenants. As at December 31, 2016, the Company is in default with respect to the financial ratios.

Principal payments required on long-term debt for the coming years are as follows:

	<u>2016</u>	<u>2015</u>
	\$	\$
Less than 1 year	127 258	34 428
1 to 5 years	96 376	90 118
More than 5 years	8 761	27 661
Total	<u>232 395</u>	<u>152 207</u>

13 - CONVERTIBLE DEBT

2016 Secured Convertible Debentures

During the year ended December 31, 2016, the Company issued \$500,000 Secured Convertible Debentures that may be converted, at the option of the holder, at any time commencing October 5, 2016 until March 30, 2018 to 3,333,333 (0.15\$) common shares of the Company. This convertible debenture bears an annual interest rate of 8%, which is payable quarterly. On March 30, 2018, the Company has the option to convert the outstanding debenture into common shares of the Company. The holder has the option to convert the debenture into common shares of the Company in the case of a default.

On the transaction date, the fair value of the debt component of the convertible debenture was estimated at \$305,562. The Company allocated the fair value of the convertible debenture to the debt component by discounting the future cash flows using a discount rate of 25%. The difference between the fair value of the convertible debenture and the proceeds in the amount of \$500,000 was allocated to the equity component.

Mobi724 Global Solutions Inc.**Notes to Consolidated Financial Statements**

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As at December 31, 2016, these debentures have not been converted.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

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13 - CONVERTIBLE DEBT (Continued)

2015 Secured Convertible Debentures

During the year ended December 31, 2015, the Company issued \$285,704 Secured Convertible Debentures that are automatically convertible, upon completion of a \$3,000,000 financing announced by the Company in June 2015. If the financing is not complete by March 31, 2016, and the holders have not exercised the security, the Company can then convert the Secured Convertible Debentures at \$0.825 or at market if market is less than \$0.825. Each unit consists of one common share of the Company and one share purchase warrant. Upon debt conversion, each warrant entitles the holder to purchase one additional share of the Company at a price of \$0.825 until December 31, 2016. These convertible debentures bear an annual interest rate of 18%, and mature on June 30, 2016. The Company's conversion feature meets the accounting definition of a derivative instrument. The \$3,000,000 financing was not attained prior to September 30, 2015.

On the transaction date, the fair value of the debt component of the convertible debentures was estimated at \$270,007. The Company allocated the fair value of the 2015 Secured Convertible Debentures to the debt component by discounting the future cash flows using a discount rate of 30%. The difference between the fair value of the convertible debentures and the proceeds in the amount of \$285,704 was allocated to the equity component.

During the year ended December 31, 2016, the \$285,704 Secured Convertible Debenture and accrued interest were fully converted into 5,331,430 common shares and 5,331,430 warrants.

2014 Convertible debentures

\$1,900,000 Unsecured Convertible Debentures

During the year ended December 31, 2014, the Company issued \$1,900,000 Unsecured Convertible Debentures that may be converted, at the option of the holder, at any time commencing October 1, 2015 until September 30, 2016, to 1,900,000 units (\$1.00). These convertible debentures bear an annual interest rate of 10%, which is payable on September 30, 2016.

During the year ended December 31, 2015, the \$1,900,000 Unsecured Convertible Debenture and accrued interest were fully converted into the Company's common stock

\$1,000,000 Unsecured Convertible Debenture

In addition, on October 30, 2014, the Company issued a \$1,000,000 Unsecured Convertible Debenture that may be converted, at the option of the holder, at any time commencing October 30, 2014 until December 31, 2015, to 2,857,143 (\$0.35) common shares of the Company. This convertible debentures bears an annual interest rate of 10%, which is payable on December 31, 2015. On December 31, 2015, if Company does not have sufficient liquidity to reimburse the debenture and the accrued interest, the Company may force the conversion of the debenture and accrued interest at the average trading price of the Company's common shares for the five days prior to the conversion.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

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13 - CONVERTIBLE DEBT (Continued)

2014 Convertible debentures (continued)

\$1,000,000 Unsecured Convertible Debenture (continued)

On the transaction date, the fair value of the debt component of the convertible debenture was estimated at \$821,769. The Company allocated the fair value of the convertible debenture to the debt component by discounting the future cash flows using a discount rate of 30%. The difference between the fair value of the convertible debenture and the proceeds in the amount of \$1,000,000 was allocated to the equity component.

On December 24, 2015, the Company modified the terms of the \$1,000,000 debenture to increase the nominal interest rate from 10% to 12%. In addition the maturity date was extended from December 31, 2015 to December 31, 2016. The modifications to the agreement resulted in the extinguishment of the original debenture and the recording of a new convertible debenture. This resulted in a gain of \$110,000 recorded in Net loss under the caption "Net financial expenses ". On the modification date, the Company recorded a debt component in the amount of \$927,495 and an equity component of \$74,000.

During the year ended December 31, 2016, the Company extinguished this debenture and issued a new one for an additional \$1,500,000 therefore, the new debenture has a total nominal value of \$2,500,000. The modifications to the agreement resulted in the extinguishment of the original debenture and the recording of a new convertible debenture. This resulted in a loss of \$36,647 recorded in Net loss under the caption "Net Financial expenses ". Based on the new terms of the agreement, the Company has the option to convert the debenture at a price of \$0.35. The debenture has been presented in equity at an amount of \$2,664,143. Interest calculated on the debenture is also treated as an equity item and recorded in the deficit.

\$797,500 Unsecured Convertible Debenture

During the year ended December 31, 2015, the Company issued an additional \$797,500 of Unsecured Convertible Debentures bearing the same terms and conditions as the original \$1,000,000 Unsecured Convertible Debenture described above. On the transaction date, the fair value of the debt component of the convertible debenture was estimated at \$657,013. The Company allocated the fair value of the convertible debenture to the debt component by discounting the future cash flows using a discount rate of 30%. The difference between the fair value of the convertible debenture and the proceeds in the amount of \$797,500 was allocated to the equity component. During the year ended December 31, 2016, \$597,500 of these debentures were converted.

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13 - CONVERTIBLE DEBT (Continued)

2013 Convertible Notes

On November 22, 2013, the Company issued \$400,000 Face Value Convertible Notes that may be converted, at the option of the holder, at any time after December 1, 2014 and until December 31, 2014 up to a maximum of 320,000 units (\$1.25). Each unit consists of one common share of the Company and $\frac{3}{4}$ share purchase warrant. Upon debt conversion, each warrant entitles the holder to purchase one additional share of the Company at a price of \$1.60 for a period of twelve months from issuance. The 2013 convertible notes bear an annual interest rate of 10%, which is payable on December 31, 2014. This interest was not paid as of December 31, 2014 and is presented with the liability component of the convertible notes. In addition, the conversion period of the Convertible Notes was extended to February 2015.

On the transaction date, the fair value of the debt component of the 2013 convertible notes was estimated at \$328,600. The Company allocated the fair value of the 2013 convertible notes to the debt component by discounting the future cash flows using a discount rate of 32%. The difference between the fair value of the 2013 convertible notes and the proceeds in the amount of \$400,000 was allocated to the equity component. Within the equity component, the value is allocated to the embedded warrant feature based on its calculated fair value and the residual amount is allocated to the embedded conversion feature.

During the year ended December 31, 2015 the Company offered the debenture holders of the 2013 Convertible Notes the opportunity to reduce the conversion price of the notes from \$1.25 to \$0.35 and to reduce the strike price of the related warrants from \$1.60 to \$0.50 provided they invest in the the new Convertible Debenture financing. This modification to the conversion terms of the convertible notes resulted in a \$133,000 loss being recorded in net financial expenses.

During the year ended December 31, 2015, the 2013 Convertible Notes and accrued interest were fully converted into the Company's common stock.

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13 - CONVERTIBLE DEBT (Continued)

2013 Convertible Notes (continued)

The following tables summarize the components of the convertible debt:

	Liability component \$	Embedded conversion option reserve \$	Embedded warrant reserve \$	Total equity component \$	Total \$
Balance, January 1, 2016	2 036 386	214 487	15 697	230 184	2 266 570
Convertible debt issued during year	305 562	194 438	—	194 438	500 000
Deferred income tax on above debt	—	(52 304)	—	(52 304)	(52 304)
Convertible debenture issued during the year reflected in equity	—	2 664 143	—	2 664 143	2 664 143
Interest and accretion interest expense	250 514	100 000	—	100 000	350 514
Extinction of a convertible debt	(1 127 496)	(74 000)	—	(74 000)	(1 201 496)
Convertible debt converted during the year	(941 713)	(105 255)	(15 697)	(120 952)	(1 062 665)
Balance, December 31, 2016	523 253	2 941 509	—	2 941 509	3 464 762
	Liability component \$	Embedded conversion option reserve \$	Embedded warrant reserve \$	Total equity component \$	Total \$
Balance, January 1, 2015	2 724 762	1 871 789	214 503	2 086 292	4 811 054
Convertible debt issued during year	1 853 898	214 487	15 697	230 184	2 084 082
Modification to the conversion terms	(1 111 526)	(45 231)	—	(45 231)	(1 156 757)
Interest and accretion interest expense	766 175	—	—	—	766 175
Convertible debt converted during the year	(2 196 923)	(1 826 558)	(214 503)	(2 041 061)	(4 237 984)
Balance, December 31, 2015	2 036 386	214 487	15 697	230 184	2 266 570

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

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14 - LEASES AND COMMITMENTS

The future minimum lease payments under operating leases for office space and equipment rental are as follows:

	December 31, 2016 \$	December 31, 2015 \$
Less than one year	6 759	5 990
Between one and five years	-	6 759
	<u>6 759</u>	<u>12 749</u>

Rental expense for the year ended December 31, 2016 is \$199,242 (\$191,213 in 2015) and is included in office expense.

15 - SHAREHOLDERS' EQUITY

a) Share Capital Authorized

Unlimited number of common voting shares.

Unlimited number of preferred shares without nominal value or par value, which may be issued in one or more series, the directors having been authorized to determine the designation rights, privileges, restrictions and conditions attached to the shares.

Movements in the Company's share capital are as follows:

	December 31, 2016		December 31, 2015	
	Number of common shares	Amount \$	Number of common shares	Amount \$
Balance, beginning of year	94 152 482	19 038 170	44 514 438	14 288 362
Share issued for private placement (1)	12 690 000	250 020	22 569 695	1 168 357
Shares issued on business acquisitions (Note 7) (2)	3 720 000	204 600	14 493 174	869 584
Shares issued for conversion of convertible debt (3)	8 186 426	1 046 968	3 187 365	2 163 482
Shares issued for exercise of warrants	3 030 303	553 030		
Shares issued for settlement of liabilities (4)	1 894 064	104 500	9 387 810	548 385
Balance, end of year	<u>123 673 275</u>	<u>21 197 288</u>	<u>94 152 482</u>	<u>19 038 170</u>

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

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15 - SHAREHOLDERS' EQUITY (Continued)

a) Share Capital Authorized (continued)

(1) Share issued as part of a private placement

During the year ended December 31, 2016, a total of 12,690,000 shares were issued at \$0.05 per share as part of a private placement for a total cash consideration of \$634,500. As part of the private placement, the investors also received a total of 12,690,000 warrants of the Company exercisable at \$0.15. A total of \$384,480 of the issue price was allocated to the warrants.

During the year ended December 31, 2015, a total of 22,569,695 shares were issued at \$0.0825 per share as part of a private placement. The private placement was completed over three installments for a total cash consideration of \$1,862,000. As part of the private placement, certain investors also received a total of 12,577,574 warrants of the Company exercisable at \$0.0825. A total of \$693,643 of the issue price was allocated to the warrants.

(2) Shares issued on business acquisition

In 2016, the company issued 3,720,000 (14,493,174 in 2015) common shares as part of its acquisition of Solutions Mobi724 Inc. for a total value of \$204,600 (\$869,584 in 2015) (Note 7).

(3) Shares issued on conversion of convertible debt

In 2016, 8,186,426 shares were issued in relation to the conversion of convertible debt (Note 14). A total amount of \$929,379 from the conversion of the debt was reclassified from liabilities and other equity accounts to share capital.

In 2015, 3,187,365 shares were issued in relation to the conversion of convertible debt (Note 14). A total amount of \$4,023,482 from the conversion of the debt was reclassified from liabilities and other equity accounts to share capital. In addition, the fair value of the financial derivative asset recorded upon the issue of the convertible debenture (Note 14) of \$1,860,000 was recorded as a reduction of share capital upon conversion.

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

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15 - SHAREHOLDERS' EQUITY (Continued)

a) Share Capital Authorized (continued)

(4) Shares issued for settlement of liabilities

In 2016, the Company issued 1,894,064 at a price of \$0.05 to \$0.06 per common share to settle outstanding trade payables in the amount of \$119,442. The total fair value of the common shares issued was calculated to be \$104,500 creating a gain on settlement of trade payables of \$14,942.

In 2015, due to the Company's cash position, an agreement was reached to settle outstanding trade payable balances in the amount of \$1,216,736 to arm's length parties by issuing 6,334,020 common shares at trading prices between \$0.06 and \$0.18. The total fair value of the common shares issued was calculated to be \$410,041 creating a gain on settlement of trade payables of \$806,695. In addition, 1,053,790 shares were issued to officers of the Company at a trading price of \$0.06 to settle amounts due to them in the amount of \$153,987. The total fair value of the common shares issued was calculated to be \$63,227 creating a gain on settlement of payables of \$90,760. Finally, prior to the acquisition of IQ, the Company issued 2,000,000 shares to IQ to settle a license agreement for a total value of \$100,000. The amount was recorded in the statement of Net Consolidated Loss under the caption "Loss on settlement of contract".

b) Share Purchase Options

The Company has adopted an incentive stock option plan (the "Stock Option Plan") which provides that the Board of Directors of the Company may from time to time, at its discretion, grant to directors, officers, employees and other key personnel of the Company, options to purchase common shares, provided that the number of common shares reserved for issuance under the Stock Option Plan shall not exceed ten percent (10%) of the issued and outstanding common shares exercisable for a period of up to five (5) years. The stock options vest over a period of time approved by the Board of Directors. The price per common share, which is defined by the CSE at the date of grant, and the number of common shares, which is determined by the members of the board, may be allotted to each director, officer, employee or other key personnel of the Company and all other terms and conditions of the options granted under the Stock Option Plan.

	December 31, 2016		December 31, 2015	
	Number of	Weighted average exercise price	Number of	Weighted average exercise price
	options	\$	options	\$
Balance, beginning of year	7 086 000	0,30	3 273 393	0,82
Granted			5 691 000	0,19
Forfeited	(100 000)	0,15	(1 653 242)	0,89
Expired	(865 000)	0,68	(225 151)	1,02
Balance, end of year	6 121 000	0,23	7 086 000	0,30

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Notes to Consolidated Financial Statements

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Exercisable options	<u>5 844 333</u>	<u>0,22</u>	<u>6 437 667</u>	<u>0,26</u>
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Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(in Canadian dollars except share and per share amounts)

15 - SHAREHOLDERS' EQUITY (Continued)

b) Share Purchase Options (continued)

Outstanding options as at December 31, 2016 are as follows:

Range of exercise prices	Weighted average residual life span (in years)	Outstanding options	Weighted average exercise price	Exercisable options	Weighted average price
0,15	2,70	3 955 000	0,15	3 955 000	0,15
0,25	0,93	420 000	0,25	420 000	0,25
0,35	0,93	916 000	0,35	916 000	0,35
0,50	0,45	830 000	0,50	553 333	0,50
0.15 to 0.50	1,84	6 121 000	0,23	5 844 333	0,22

Outstanding options as at December 31, 2015 are as follows:

Range of exercise prices	Weighted average residual life span (in years)	Outstanding options	Weighted average exercise price	Exercisable options	Weighted average price
0,15	3,70	4 355 000	0,15	4 355 000	0,15
0,25	1,93	420 000	0,25	420 000	0,25
0,35	1,93	916 000	0,35	916 000	0,35
0,50	1,45	830 000	0,50	276 667	0,50
0,96	0,72	565 000	0,96	470 000	0,96
0.15 to 0.96	2,84	7 086 000	0,30	6 437 667	0,26

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date	Exercise price	December 31, 2016	Share options December 31, 2015
September 8, 2016	0,15		300 000
October 30, 2016	0,96		565 000
February 28, 2017	0,50	180 000	180 000
July 10, 2017	0,50	650 000	650 000
December 4, 2017	0,35	916 000	916 000
December 4, 2017	0,25	420 000	420 000
December 4, 2017	0,15	300 000	300 000
September 8, 2018	0,15	550 000	550 000
December 9, 2018	0,15	905 000	1 005 000
December 9, 2020	0,15	2 200 000	2 200 000
		6 121 000	7 086 000

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

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15 - SHAREHOLDERS' EQUITY (Continued)

b) Share Purchase Options (continued)

For the year ended December 31, 2016, none of the share options were exercised (none in 2015).

An amount of \$9,574 has been expensed as share-based payment awards for the year ended December 31, 2016 (\$282,608 for 2015). The offsetting credit has been recorded as option reserve. The stock based compensation expense was calculated according to the weighted average fair value of options granted based on the Black-Scholes valuation model using the assumptions shown below based on the expected number of options expected to vest. The volatility on the Company's common shares was estimated based on historical information over the expected life of the options.

The fair value of each option granted was estimated on the grant date using the Black-Scholes option pricing model, using the following assumptions:

For the year ended December 31, 2015

	September 5, 2015	September 5, 2015	September 5, 2015
Share price	0,15	0,15	0,15
Exercise price	0,35	0,25	0,15
Risk-free interest rate	44%	44%	44%
Expected life	2.3 years	2.3 years	2.3 years
Expected estimated volatility	170%	170%	170%
Dividend yield	nil	nil	nil
Fair value of options granted	0,11	0,11	0,11

	September 5, 2015	September 5, 2015	September 5, 2015	December 10, 2015
Share price	0,15	0,15	0,06	0,06
Exercise price	0,15	0,15	0,15	0,15
Risk-free interest rate	47%	45%	82%	47%
Expected life	3 years	1 year	5 years	3 years
Expected estimated volatility	151%	226%	157%	163%
Dividend yield	nil	nil	nil	nil
Fair value of options granted	0,12	0,11	0,05	0,05

c) Other equity accounts

	December 31, 2016	December 31, 2015
	\$	\$
Contributed Surplus	7 675 658	6 378 488
Option reserve	369 662	789 638
Warrant reserve	372 955	1 018 182
	8 418 275	8 186 308

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

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15 - SHAREHOLDERS' EQUITY (Continued)

c) Other equity accounts (continued)

Contributed surplus

	December 31, 2016	December 31, 2015
	<u>\$</u>	<u>\$</u>
Balance, beginning of year	6 378 488	2 339 107
Warrant expired/cancelled during the year	793 620	2 609 185
Stock options expired or forfeited	429 550	1 251 965
Extinguished conversion option	74 000	178 231
Balance, end of year	<u><u>7 675 658</u></u>	<u><u>6 378 488</u></u>

Option reserve

	December 31, 2016	December 31, 2015
	<u>\$</u>	<u>\$</u>
Balance, beginning of year	789 638	1 759 010
Stock based payments	9 574	282 593
Stock options expired or forfeited	(429 550)	(1 251 965)
Balance, end of year	<u><u>369 662</u></u>	<u><u>789 638</u></u>

Mobi724 Global Solutions Inc.

Consolidated Changes in Equity

Years ended December 31, 2016 and 2015

(in Canadian dollars except share and per share amounts)

15 - SHAREHOLDERS' EQUITY (Continued)

Warrants reserve

	2016			2015		
	Number of warrants	Amount	Weighted average exercise price	Number of warrants	Amount	Weighted average exercise price
	\$	\$	\$	\$	\$	\$
Warrants issued and outstanding						
Balance, beginning of the year	15 367 845	1 018 182	0,28	10 793 145	2 709 539	1,17
Expired/cancelled during the year	(10 423 893)	(793 620)	0,13	(10 393 397)	(2 609 185)	1,17
Issued during the year	18 874 797	451 423	0,13	14 968 097	917 828	0,26
Exercised during the year	(3 030 303)	(303 030)	0,08			
Balance, end of the year	20 788 446	372 955	0,25	15 367 845	1 018 182	0,28

During the year ended December 31, 2016, the Company issued 853,367 broker warrants valued at \$28,079.

The weighted average fair value of the warrants issued amounts to \$0.04 (\$0.06 in 2015) and was calculated using the following weighted average assumptions:

	2016	2015
Share price	\$0.04 to \$0.06	\$0.05 to \$0.11
Exercise price	\$0,15	\$0,0825
Risk-free interest rate	0.7% to 1%	0,50%
Expected life	2 years	.45 years
Expected estimated volatility	158% to 178%	300%
Dividend yield	nil	nil

The volatility on the Company's common shares was estimated based on historical information over the expected life of the warrants.

In 2015, 2,390,523 warrants were issued in connection with the conversion of the convertible debt and were recorded in warrant reserve at the value attributed to them at the time of the issue of the convertible debt.

Mobi724 Global Solutions Inc.

Consolidated Changes in Equity

Years ended December 31, 2016 and 2015

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15 - SHAREHOLDERS' EQUITY (Continued)

Expiry date	Exercise price	December 31,	Warrants December 31,
		2016	2015
January 12, 2016	1,25	—	156 251
February 23, 2016	0,50	—	663 231
February 23, 2016	1,60	—	84 412
March 31, 2016	0,08	—	12 356 364
December 31, 2016	0,08	—	193 938
August 31, 2017	0,08	5 331 430	—
September 10, 2017	0,60	53 333	53 333
October 19, 2017	1,45	1 642 880	1 642 880
March 10, 2018	0,90	32 228	32 228
March 27, 2018	1,25	92 227	92 227
April 4, 2018	1,25	65 711	65 711
August 31, 2018	0,15	12 690 000	—
October 5, 2018	0,15	266 667	—
October 28, 2018	0,15	347 200	—
December 23, 2018	0,15	239 500	—
November 23, 2020	0,08	27 270	27 270

Mobi724 Global Solutions Inc.

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16 - INFORMATION INCLUDED IN NET LOSS

Financial expenses (income) comprises of the following:

	2016	2015
	\$	\$
Interest and banking fees	114 121	11 565
Interest expense on long term debt	202 132	83 052
Interest expense on convertible debt	112 871	323 116
Accretion expense on convertible debt	137 643	443 060
Accretion interest on contingent consideration payable	821 886	
Loss on modification of conversion terms of convertible debenture	36 647	133 000
Fair value adjustment on liability for acquisition of Mobi	492 972	(787 680)
Total finance expenses	<u>1 918 272</u>	<u>206 113</u>

17 - INCOME TAXES

Tax expense comprises:

	2016	2015
	\$	\$
Current tax expense in respect of the current year	33 554	13 120
Total current tax	<u>33 554</u>	<u>13 120</u>
Deferred tax recovery relating to the reversal of temporary differences	(694 709)	164 080
Total deferred tax (recovery)	<u>(694 709)</u>	<u>164 080</u>
Tax expense (recovery) for the year	<u>(661 155)</u>	<u>177 200</u>

The tax on the Company's income (loss) before tax differs from the theoretical amount that would arise using the Canadian tax rate applicable to income (loss) of the consolidated entities as follows:

	2016	2015
	\$	\$
Loss before tax	(5 596 053)	(1 956 768)
Tax calculated at domestic rates applicable to income in the Canada	26,9%	26,9%
Income taxes at statutory tax rate	(1 505 338)	(537 708)
Tax effects of:		
Expenses not deductible for tax purposes	41 886	281 890
Minimum tax in Argentina	24 379	
Fair value adjustment on liability for acquisition of Mobi		(211 886)
Fair value adjustment on financial derivative asset		(145 260)
Impact of difference in the tax rate of subsidiaries	(1 124)	(9 022)
Tax benefit not recognized	780 423	783 179
Other	(1 381)	16 007
Tax charge (recovery)	<u>(661 155)</u>	<u>177 200</u>

Mobi724 Global Solutions Inc.

Notes to Consolidated Financial Statements

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17 - INCOME TAXES (Continued)

	December 31, 2015	Deferred income taxes on business combination	Recognized in equity	Recognized in profit or loss	December 31, 2016
	\$		\$	\$	\$
Deferred tax liabilities (assets)					
Non-current assets					
Intangible assets	345 460	370 000	—	(284 202)	431 258
Non-current liability					
Convertible debt	—	—	52 304	—	52 304
Liability for the acquisition of Solutions Mobi724 Inc.	—	—	—	(193 325)	(193 325)
Contingent consideration payable	—	640 000	—	(217 182)	422 818
Unused tax losses	—	(370 000)	—	—	(370 000)
	<u>345 460</u>	<u>640 000</u>	<u>52 304</u>	<u>(694 709)</u>	<u>343 055</u>
		December 31, 2 014	Recognized in equity	Recognized in profit or loss	December 31, 2015
		\$	\$	\$	\$
Deferred tax liabilities (assets)					
Non-current assets					
Derivative financial asset		209 000	—	(209 000)	—
Intangible assets		481 380	—	(135 920)	345 460
Unused tax losses		(509 000)	—	509 000	—
		<u>181 380</u>	<u>—</u>	<u>164 080</u>	<u>345 460</u>

Unrecognized deductible temporary differences for which no deferred tax assets have been recognized are presented in the following table. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profits will be available against which the Company can utilize the benefits therefrom.

	December 31, 2016	December 31, 2015
	\$	\$
Property and equipment		280 303
Share issue costs	226 468	315 413
Operating tax losses carried forward	24 431 000	21 506 000
	<u>24 657 468</u>	<u>22 101 716</u>

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17 - INCOME TAXES (Continued)

As at December 31, 2016, the Company had non-capital losses for Canadian income tax purposes which expire as follows:

	\$
2030	89 000
2031	1 465 000
2032	4 131 000
2033	5 341 000
2034	7 544 000
2035	3 225 000
2036	2 636 000
Total	<u>24 431 000</u>

18 - FINANCIAL INSTRUMENTS

The Company is exposed to a certain number of risks at different levels.

a) Measurement categories

The following table shows the carrying values of assets and liabilities for each of these categories as at December 31, 2015 and 2014.

	<u>2016</u> \$	<u>2015</u> \$
Assets		
Loans and receivables		
Cash	30 233	430 979
Short-term investments	—	39 425
Trade and other receivables (excluding sales taxes and tax credit receivable)	722 406	84 384
Total loans and receivables	<u>752 639</u>	<u>554 788</u>
Liabilities		
Amortized cost		
Bank loan	90 000	—
Accounts payable and accrued liabilities (excluding salaries and related benefits)	1 855 641	1 820 498
Convertible debt	523 253	2 036 386
Demand debt	536 247	100 000
Long term debt	232 395	152 207
Total amortized cost	<u>3 147 536</u>	<u>4 109 091</u>
Fair Value		
Liability for the acquisition of Solutions Mobi724 Inc.	726 372	726 372
Contingent consideration payable	4 286 947	750 000
Total fair value	<u>5 013 319</u>	<u>1 476 372</u>

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18 - FINANCIAL INSTRUMENTS (Continued)

b) Fair value

The net carrying amount of the cash, short-term investments, trade and other receivables (excluding non-financial assets) and accounts payable and accrued liabilities (excluding non-financial liabilities) is considered a reasonable approximation of fair value since all amounts are short-term in nature.

The fair values of the convertible debt and demand debt are approximately equal to their carrying value due to their short-term maturity dates. The fair value of the long-term debt is not significantly different than its carrying amount and its estimated using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market interest rates of similar loans with similar risk. These debts have been categorized within Level 2 of the fair value hierarchy.

The estimated fair value of the liability for the acquisition of Solutions Mobi724 Inc. Is categorized within Level 2 of the fair value hierarchy. The fair value was determined based on an estimated number of common shares to be issued to the previous shareholders of Mobi times the share price of the Company as at December 31, 2016 and 2015.

The reconciliation of the liability for the acquisition of Solutions Mobi724 Inc.

	<u>2016</u>	<u>2015</u>
	\$	\$
Opening balance	438 000	2 095 264
Partial settlement of liability (Note 16 a)	(204 600)	(869 584)
Fair value adjustment on liability	<u>492 972</u>	<u>(787 680)</u>
Ending balance	<u><u>726 372</u></u>	<u><u>438 000</u></u>

The fair value of the contingent consideration payable for the acquisition of IQ is determined by applying a formula described in Note 7. The determination of the fair value has been estimated using the described formula. The fair value of the contingent consideration payable was classified as Level 3 of the fair value hierarchy.

c) Market Risk

The Company is exposed to a certain number of risks at different levels.

i) Interest Rate Risk

The Company has a bank loan and long term debt that is exposed to risks associated to fluctuations in interest rates. The Company entered into financing agreements that bears interest at the Canadian prime rate plus 3% and 4%. As at December 31, 2016, the outstanding balance of the bank loan and long term debt that bears interest at the Canadian prime rate plus 3% and 4% is \$217,258 (\$57,368 in 2015). Based on the balance outstanding on December 31, 2016, a variation in the Canadian prime rate of 1% would not have a material impact on the consolidated financial statements.

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18 - FINANCIAL INSTRUMENTS (Continued)

c) Market Risk (continued)

ii) Foreign Exchange Risk

The functional currency of the Company is the Canadian dollar. The Company is exposed to foreign exchange risk as a portion of its monetary balances are denominated in U.S. dollars, Philippine Peso, Argentina Peso, and Hong Kong dollars. The Company is, therefore, exposed to gains and losses due to fluctuations in these currencies. The Company does not use derivatives to manage the exposure to foreign exchange risk.

The Company has balances of cash, receivables, and payables in foreign currencies and is therefore exposed to foreign exchange risk on these amounts. The balances in foreign currencies as at December 31, 2016 and 2015 are as follows:

	December 31, 2016		
	U.S. Dollars	Philippine Peso	Argentina Peso
Cash	7 243		931
Accounts receivable	18 481	496 104	2 158 059
Accounts payable	(47 639)	(732 641)	(69 772)
Net balance	<u>(21 915)</u>	<u>(236 537)</u>	<u>2 089 218</u>
CA\$	<u>(29 426)</u>	<u>(6 408)</u>	<u>130 456</u>
	December 31, 2015		
	U.S. Dollars	Philippine Peso	Argentina Peso
Cash	3 268	5 897	176 404
Accounts receivable	6 796		673 376
Accounts payable	(45 988)	(1 696 034)	(547 764)
Net balance	<u>(35 924)</u>	<u>(1 690 137)</u>	<u>302 016</u>
CA\$	<u>(49 937)</u>	<u>(49 014)</u>	<u>32 216</u>

Based on the Company's foreign currency exposures noted above, varying the above foreign currency reporting date exchange rates to reflect a 5% appreciation of the U.S. dollar, Philippine Peso, Argentina Peso, and HK Dollars would have had the following impact on the comprehensive loss, assuming all other variables remained constant.

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18 - FINANCIAL INSTRUMENTS (Continued)

c) Market Risk (continued)

ii) Foreign Exchange Risk (continued)

	December 31, 2016		
	U.S. Dollars	Philippine Peso	Argentina Peso
(Decrease) increase in Net Loss and Equity	<u>11 741</u>	<u>(4 988)</u>	<u>(346)</u>
	December 31, 2015		
	U.S. Dollars	Philippine Peso	Argentina Peso
(Decrease) increase in Net Loss and Equity	<u>(2 497)</u>	<u>(2 450)</u>	<u>1 610</u>

A 5% depreciation of these currencies would have an equal but opposite effect on the profit, assuming all other variables remained constant.

d) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to credit risk consist of cash, short term investments and accounts receivable. The Company offsets these risks by depositing its cash and its short-term investments with international financial institutions with low risk credit ratings. The credit risk related to accounts receivable is not significant due to the Company's short collection terms and the creditworthiness of its customers.

e) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due.

The Company's long term debt is collateralized by a hypothec of \$576,000 on the universality of the property of a subsidiary. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in the capital disclosures discussion in Note 20 below. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business. Additionally, a large portion of the Company's accounts payable and debts is owed to management and/or other stakeholders of the Company.

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18 - FINANCIAL INSTRUMENTS (Continued)

e) Liquidity Risk (continued)

The following table summarizes the contractual maturities of financial liabilities as of December 31, 2016 and December 31, 2015.

	December 31, 2016			
	Carrying amount	Less than one year	2-5 years	Over 5 years
Accounts payable and accrued liabilities	1 855 641	1 855 641		
Liability for the acquisition of Solutions Mobi724 Inc.	726 372	726 372		
Convertible debt	523 253	523 253		
Demand debt	536 247	616 684		
Long term debt	232 395	135 712	101 869	9 260
Contingent consideration payable	4 286 947	5 720 962	162 899	
	8 160 855	9 578 624	264 768	9 260
	December 31, 2015			
	Carrying amount	Less than one year	2-5 years	Over 5 years
Accounts payable and accrued liabilities	2 068 669	2 068 669		
Liability for the acquisition of Solutions Mobi724 Inc.	438 000	438 000		
Convertible debt	2 036 386	2 052 700		
Demand debt	100 000	115 000		
Long term debt	152 207	37 697	91 425	27 661
Contingent consideration payable	750 000		750 000	
	5 545 262	4 712 066	841 425	27 661

There will not be any cash outflow for the convertible debt if all units are converted at maturity.

19 - CAPITAL MANAGEMENT

The Company defines capital as shareholders' equity, demand debt, convertible debt, and long-term debt.

	December 31, 2016	December 31, 2015
	\$	\$
Shareholders' equity	1 479 642	1 487 661
Demand debt	536 247	100 000
Convertible debt	523 253	2 036 386
Long-term debt	232 395	152 207
	2 771 537	3 776 254

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19 - CAPITAL MANAGEMENT (Continued)

The Company's objectives in managing capital are to:

- Ensure financial capacity to meet current obligations is maintained and continue as a going concern;
- Ensure financial capacity to execute strategic plans is maintained; and
- Prevent capital erosion.

In order to manage capital, the Company regularly identifies and assesses risks that threaten the ability meet the Company's capital management objectives, and determines the appropriate strategy to mitigate these risks. The Company is not subject to any externally imposed capital requirements.

20 - RELATED PARTY TRANSACTIONS

The following table summarizes the transactions and balances outstanding with related parties of the Company:

	<u>2016</u>	<u>2015</u>
	\$	\$
Transactions:		
Management fees to officers and directors (1)	87 850	108 817
Rent paid to company controlled by significant shareholder	–	102 000
	<u>December 31,</u>	<u>December 31,</u>
	<u>2016</u>	<u>2015</u>
	\$	\$
Balances outstanding:		
Amounts due to officers	151 073	–
Amounts due to (from) persons that are significant shareholders and founders of the Company	–	(73 781)
Demand debt due to director and significant shareholder	50 000	–
Demand debt due to director	120 000	–
Amounts due to company controlled by an officer	128 553	–

- (1) There are management service contracts between the Company and key management personnel according to which the latter provide advisory and management services to the Company in exchange for management fees.

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20 - RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year were as follows:

	<u>2016</u>	<u>2015</u>
	\$	\$
Management fees, commissions and salaries	1 014 100	258 817
Share-based payments compensation	—	33 361
	<u>1 014 100</u>	<u>292 178</u>

21 - LOSS PER SHARE

a) Basic

Basic earnings (loss) per common share are calculated by dividing the net income attributable to the owners of the Company by the weighted average number of outstanding common shares during the year.

	<u>2016</u>	<u>2015</u>
	\$	\$
Net loss attributable to the shareholders of the Company	<u>(4 934 898)</u>	<u>(2 133 968)</u>
Weighted average number of common shares outstanding	<u>103 339 498</u>	<u>54 842 189</u>

b) Diluted

For the years ended December 31, 2016 and 2015, diluted net loss per share was calculated based on the net loss attributable to owners of the parent using the basic weighted average number of shares outstanding, since the convertible debt, all the outstanding warrants and stock options and the potential share issuance for the business acquisition have been excluded from the calculation of diluted net loss per share because they were anti-dilutive. Accordingly, diluted net loss per share for each period was the same as the basic net loss per share.

22 - INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>2016</u>	<u>2015</u>
	\$	\$
Changes in non-cash working capital items		
Trade and other receivables	(420 868)	(113 639)
Prepaid expenses and deposits	(71 389)	2 143
Accounts payable and accrued liabilities	144 419	1 019 044
Income taxes payable		13 120
	<u>(347 838)</u>	<u>920 668</u>

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23 - SEGMENTED REPORTING

The Company operates and reports its results as three operating segments (two in 2015), which are the development of new internet technologies to facilitate point of sale payments, e-couponing and digital marketing, as these are monitored by the Company's chief decision maker and strategic decisions are made on the basis of segment operating results. Each of the operating segments is a reportable segment for financial reporting purposes. The segments do not earn any inter-segment revenues. The Company also operates in three (three in 2015) different geographies. The Company's financial information by reportable segment is as follows:

	December 31, 2016				
	Payment solution	E-couponing	Digital marketing	Unallocated	Consolidated
Revenues from external customers	248 605	483 119	1 933 418	–	2 665 142
Total operating expenses	2 412 408	1 421 305	2 477 822	31 388	6 342 923
Operating loss	2 163 803	938 186	544 404	31 388	3 677 781
Net financial expenses	12 380	7 826	37 969	1 860 097	1 918 272
Net loss before income taxes	2 176 183	946 012	582 373	1 891 485	5 596 053

	December 31, 2015			
	Payment solution	E-couponing	Unallocated	Consolidated
Revenues from external customers	97 347	309 079	30 688	437 114
Total operating expenses	2 549 240	1 169 509	(1 530 979)	2 187 770
Operating loss	2 451 893	860 430	(1 561 667)	1 750 656
Net financial expenses (income)	82 827	11 790	111 495	206 112
Net loss (income) before income taxes	2 534 720	872 220	(1 450 172)	1 956 768

The Company's financial information by geographic location is as follows:

	Year ended	
	2016	2015
	\$	\$
Sales from external customers		
United States	–	17 024
South America	483 119	385 773
Canada	1 933 417	34 317
Caribbean	248 606	–
	2 665 142	437 114

All of the Company's non-current assets are located in Canada.

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24 - CONTINGENT LIABILITIES

Through the normal course of operations, the Company may be exposed to a number of lawsuits, claims and contingencies. Provisions are recognized as liabilities in instances when there are present obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and where such liabilities can be reliably estimated.

Although it is possible that liabilities may be incurred in instances where no provision has been made, the Company has no reason to believe that the ultimate resolution of such matters will have a material impact on its financial position.

25 - EVENTS AFTER THE REPORTING PERIOD

On April 21, 2017, the Company completed a private placement through the issue of 29,538,203 special warrants at a price of \$0.35 per special warrant for total proceeds of \$10,338,000. Each special warrant entitles the holder to one unit of the Company which consists of one common share and one-half of a common share purchase warrant. Each whole share purchase warrant will be exercisable at \$0.46 for a period of two years from the date of issue. The Company may accelerate the expiry date of the warrants if the average price of the Company's common shares is equal or greater than \$0.65 for a period of ten consecutive trading days.

On April 28, 2017, the Company signed an addendum to the IQ acquisition agreement modifying the purchase price. Subsequent to this modification, the contingent consideration payable for the acquisition of IQ is modified to a fixed purchase price for a total of \$3,100,000. The amount is payable \$1,860,000 in cash and the remainder is to be paid through the issue of common shares. The entire amount is payable during the year ended December 31, 2017.