blacklinegps

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Audited Financial Statements

For the year ended October 31, 2014

www.blacklinegps.com

MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL RESULTS

The accompanying consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards and have been approved by the Board of Directors.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The consolidated financial statements include amounts which are based on the best estimates and judgments of management.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors exercises this responsibility principally through the Audit Committee.

The Audit Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the consolidated financial statements prior to their presentation to the Board of Directors for approval.

The external auditors, PricewaterhouseCoopers LLP, appointed by the shareholders of the Company, have examined the consolidated financial statements and have expressed an opinion on the statements. The external auditors have free access to the Audit Committee. Their report is included with the consolidated financial statements.

"Signed"

Peter Dorrius, CA

CFO

January 14, 2015

Independent Auditor's Report

To the Shareholders of Blackline GPS Corp.

We have audited the accompanying consolidated financial statements of Blackline GPS Corp and its subsidiaries, which comprise the consolidated statements of financial position as at October 31, 2014 and October 31, 2013 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Blackline GPS Corp. and its subsidiaries as at October 31, 2014 and October 31, 2013 and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements which describe matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Blackline GPS Corp.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Accountants

BLACKLINE GPS CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	October 31, 2014 $	October 31, 2013 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	3,319,065	2,247,357
Short term investments (note 7)	500,000	1,300,000
Accounts receivable (note 8)	2,301,168	734,726
Inventory (note 9)	1,067,377	720,458
Prepaid expenses	417,325	268,595
Total current assets	7,604,935	5,271,136
NON-CURRENT ASSETS		
Long term accounts receivable	59,426	29,751
Property and equipment (note 10)	627,525	442,361
Intangible assets (note 11)	124,278	116,927
TOTAL ASSETS	8,416,164	5,860,175
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 12)	1,308,078	666,254
Bank indebtedness (note 13)	800,000	-
Deferred revenue	2,209,214	1,145,079
Current portion of long term debt (note 14)	300,000	105,000
Current portion of deferred lease incentives	43,200	-
Obligation under capital lease	1,514	2,413
Total current liabilities	4,662,006	1,918,746
NON-CURRENT LIABILITIES		
Deferred revenue	466,616	162,490
Obligation under capital lease	-	1,514
Long term debt (note 14)	-	145,000
Deferred lease incentives	154,800	-
Total non-current liabilities	621,416	309,004
TOTAL LIABILITIES	5,283,422	2,227,750
SHAREHOLDERS' EQUITY		
Share capital (note 15)	19,402,280	16,789,548
Contributed surplus	7,752,920	6,321,654
Deficit	(24,022,458)	(19,478,777)
Total shareholders' equity	3,132,742	3,632,425
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	8,416,164	5,860,175

Going concern (note 2)
Commitments (note 21)

See accompanying notes to the consolidated financial statements

Approved by the board

(signed) *"Cody Z. Slater", Director* (signed) *"Robert Herdman", Director*

Cody Z. Slater **Robert Herdman**

BLACKLINE GPS CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Years Ended	
	October 31, 2014	October 31, 2013
	$	$
Sales	4,182,249	2,883,101
Cost of sales	2,379,150	1,635,326
	1,803,099	1,247,775
Expenses		
Selling, general and administrative	4,126,653	3,171,782
Product development (note 18)	2,260,844	1,741,105
	6,387,497	4,912,887
Results from operating activities	(4,584,398)	(3,665,112)
Interest income	40,717	78,819
Loss and comprehensive loss for the year	(4,543,681)	(3,586,293)
Loss per common share:		
Basic and diluted	(0.23)	(0.20)
Weighted average shares outstanding (note 15(c)):		
Basic and diluted	19,858,076	17,579,422

Going concern (note 2)

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Number of Shares	Share Capital $	Contributed Surplus $	Deficit $	Total Equity $
Balance at October 31, 2012	17,575,458	16,765,710	6,176,063	(15,892,484)	7,049,289
Loss and comprehensive loss for the year	-	-	-	(3,586,293)	(3,586,293)
Stock-based compensation	18,390	23,838	145,591	-	169,429
Balance at October 31, 2013	17,593,848	16,789,548	6,321,654	(19,478,777)	3,632,425
Loss and comprehensive loss for the year	-	-	-	(4,543,681)	(4,543,681)
Exercising of options	96,250	327,346	(139,581)	-	187,765
Exercising of warrants	160,000	197,722	2,278	-	200,000
Private Placement	3,043,648	2,358,235	1,407,289	-	3,765,524
Share issuance costs	-	(349,404)	(169,196)	-	(518,600)
Stock-based compensation	47,949	78,833	330,476	-	409,309
Balance at October 31, 2014	20,941,695	19,402,280	7,752,920	(24,022,458)	3,132,742

See accompanying notes to the consolidated financial statements

BLACKLINE GPS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended October 31, 2014	Years Ended October 31, 2013
	$	$
Cash provided by (used in)		
OPERATING ACTIVITIES		
Net loss	(4,543,681)	(3,586,293)
Amortization	229,620	193,233
Stock based compensation	409,309	169,429
	(3,904,752)	(3,223,631)
Change in non-cash working capital (note 23)	116,319	260,307
	(3,788,433)	(2,963,324)
FINANCING ACTIVITIES		
Issue of share capital and warrants	3,887,960	-
Share issue costs	(253,272)	-
Bank indebtedness	800,000	-
Increase in long term debt	50,000	190,000
Repayments of obligations under capital lease	(2,413)	(5,151)
	4,482,275	184,849
INVESTING ACTIVITIES		
Purchase of short term investments	(500,000)	(1,300,000)
Redemption of short term investments	1,300,000	3,300,000
Purchase of property and equipment and intangible assets	(422,134)	(201,293)
	377,866	1,798,707
Increase (decrease) in cash and cash equivalents	1,071,708	(979,768)
Cash and cash equivalents, beginning of year	2,247,357	3,227,125
Cash and cash equivalents, end of year	3,319,065	2,247,357
Cash, end of year	3,319,065	367,357
Cash equivalents, end of year	-	1,880,000
Cash and cash equivalents, end of year	3,319,065	2,247,357

Going concern (note 2)
Supplementary cash flow Information (note 23)

See accompanying notes to the consolidated financial statements

1. Nature of operations

Blackline GPS Corp (The “Company”) is a public Canadian Corporation listed on the Toronto Venture Exchange (TSXV) under the ticker symbol “BLN”. The Company designs, manufactures and sells products and services that combine wireless technology and GPS to protect people and property and provide geographic connectivity.

The Company’s principle business office is Unit 101, 1215 13th Street SE, Calgary, AB, T2G 3J4 and the Company’s registered office is Suite 2400, 525-8th Ave SW, Calgary, AB, T2P 1G1.

2. Going concern

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards on a going concern basis. This assumes that the Company will be able to realize on its assets and discharge its liabilities in the normal course of operations.

The Company has incurred several years of losses and negative cash flows from operations, largely as a result of investment in new products and the development of sales and production channels. Historically, the Company has financed its operations and investments through the use of funds obtained from share issuances. Although the Company has received financing sufficient for the next twelve months and the foreseeable future, these circumstances lend significant doubt as to the ability of the Company to continue as a going concern and the appropriateness of the use of accounting principles applicable to a going concern. The Company’s continuation as a going concern is dependent upon, amongst other things, attaining a satisfactory revenue level and the generation of cash from operations. There is no assurance the Company will be successful in generating satisfactory revenue or cash from operations since these matters are dependent on some factors outside of the Company’s control. Management will continue to attempt to mitigate the impact of these items.

The consolidated financial statements do not reflect any adjustments that might be necessary to the carrying amount of reported assets, liabilities, revenue and expenses and the consolidated statements of financial position classification used if the Company was unable to continue operations in accordance with this assumption. These adjustments could be material.

3. Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company’s consolidated financial statements are presented in Canadian dollars, the Company’s functional currency, and have been prepared on the historical cost basis. An entity is consolidated if, based on an evaluation of the substance of its relationship with the Company and the entity's risks and rewards in accordance with IFRS 10, the Company concludes that it controls the entity.

4. Summary of significant accounting policies

Revenue recognition

The Company’s products consist of hardware devices and related monitoring services. These products involve the delivery of multiple services occurring at different points in time and/or over different periods of time ranging from three months to three years in length. As appropriate, these multiple element arrangements are assessed for stand-alone value as separate units of accounting, consideration is measured and allocated amongst the accounting units based upon their relative fair values and then the Company's relevant revenue recognition policies are applied to each of the separate units of accounting.

Revenue from the sale of hardware devices is recognized upon delivery of products or when title passes to the customer, the customer has accepted the product, the price to the customer is fixed or determinable and collectability is reasonably assured. The costs or losses associated with returns and warranties are estimated and accrued at the time of sale. Activation fees are deferred and recognized over the anticipated life of the customer relationship. Revenues for monitoring services are recognized as earned and any amounts prepaid by customers are accordingly deferred.

The Company provides product development services for customers through fixed bid and charge per hour contracts. Revenue from fixed bid contracts is recognized using the percentage of completion method. Assessments are made monthly for work performed against the estimated time needed to complete the contract. Revenue is recognized on charge per hour contracts as the work is performed.

Cash and cash equivalents

Cash and cash equivalents consists of cash on deposit and highly liquid short-term interest bearing securities which can be exchanged for cash upon demand or which mature within three months of the date of purchase. Cash and cash equivalents are held with highly rated financial institutions. Any accrued interest earned is recorded as accounts receivable.

Short term investments

Short term investments consist of short term interest bearing securities which mature more than three months but less than 12 months from the date of purchase. Short term investments are held with highly rated financial institutions. Any accrued interest earned is recorded as accounts receivable.

Inventory

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first in, first out basis and net realizable value is defined as the estimated selling price less estimated costs of completion and sale. The cost of finished goods include materials, labour and production overheads.

Product development costs

Product development costs are expensed in the year they are incurred. Given the unproven market that the Company develops products for, products under development do not meet technology, market and financial feasibility criteria for deferral.

Scientific research and experimental development tax credits

The Company may be entitled to Scientific Research and Experimental Development ("SRED") tax credits based on certain product development costs incurred. The SRED tax credits are recognized as a reduction of product development costs in the period in which the amounts are determinable and collection is reasonably assured.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided using the straight-line method over the estimated useful lives of the assets as follows:

Furniture and equipment	5 years
Leasehold improvements	Length of lease
Manufacturing equipment	5 years
Computer hardware	3 years

Intangible assets

The Company has intangible assets which consist of computer software and government certifications for its products. The assets are amortized using the straight-line method over the estimated useful lives of the assets as follows:

Software	2 years
Government certifications	Estimated life of product certified (5 years)

Impairment of non-financial assets

Property and equipment, intangible assets and other long-lived assets are regularly reviewed by management for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or “CGUs”). The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management).

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Leases

Leases are classified as either finance or operating leases. Finance leases are those that substantially transfer the benefits and risks of ownership of an asset to the lessee. All leases other than finance leases are operating leases. The Company has not entered into any finance lease arrangements. Total payments under operating leases are expensed on a straight-line basis over the term of the relevant lease. Any incentives received upon entry into an operating lease are recognized as deferred lease incentives. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the term of the lease.

Income taxes

The Company utilizes the liability method of accounting for the tax effect of temporary differences between carrying amount of assets and liabilities in the consolidated financial statements and their carrying amount for income tax purposes. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Company’s income taxes payable for the year or a later period. Deferred income tax liabilities or income tax recoveries are recorded at the income tax rates that are expected to apply when the deferred income tax asset or liability is realized. Income tax expense is the tax payable for the period and the change during the period in deferred income tax assets and liabilities.

Management assesses whether it is more likely than not that deductible temporary differences, unused tax losses, and other income tax reductions will be realized. To the extent that it is more likely than not that some or a portion of the assets will not be realized, the deferred income tax asset is reduced to the amount that is more likely than not to be realized.

Stock-based compensation

i) Stock option plan:

Under the Company's stock option plan, options can be granted to officers, employees, consultants, and members of the Board of Directors (the "Board"). The exercise price of options is determined by the Board, but will be no less than the closing market price of the Company's stock on the trading day immediately prior to the grant of the option in accordance with TSX Venture Exchange guidelines. Vesting is provided for at the discretion of the Board and the expiration of options is to be no greater than 10 years from the date of grant.

The Company recognizes the value of stock options awarded to employees and non-employees in the consolidated financial statements based on the estimated fair value at the date of grant. The Company calculates the value of stock options issued using the Black-Scholes option pricing model with consideration of factors specific to the Company. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche's vesting period, with a corresponding increase to contributed surplus based on the number of awards expected to vest. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. The number of awards expected to vest is reviewed at least quarterly, with any impact being recognized immediately.

ii) Employee Stock Ownership Plan (the "ESOP")

Under the ESOP employees can contribute up to 10% of their salary to purchase shares of the Company with the Company matching 50%. The Company has the option of contributing its employer portion as cash to purchase shares off the market or to issue the shares from treasury. The employer portion of the ESOP has a one year vesting period during the first year of an employee's contributions, six month vesting period during the second year of employee contributions and immediately vest during the third and later years of employee contributions.

The Company records the employer portion of the ESOP as stock based compensation on the statement of comprehensive loss and values the amounts as either the cash contributed or the sum of the weighted average fair value of shares issued.

Foreign currency translation

The Company's functional currency is the Canadian dollar. Transactions in foreign currencies are translated to Canadian dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary items, such as property and equipment and intangible assets are translated to Canadian dollars at the rate of exchange in effect when the transactions occur. Foreign exchange gains and losses are recognized in the statements of comprehensive loss.

The financial statements of entities that have a functional currency different from that of the Company ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation of the actual rates prevailing at the transaction dates). All resulting changes are recognized in other comprehensive income as foreign exchange gain (loss) on foreign operations.

Actual foreign exchange gains and losses are recognized in the statements of comprehensive loss.

Financial instruments

A financial asset is cash or a contractual right to receive cash or another financial asset, including equity instruments, from another party. A financial liability is the contractual obligation to deliver cash or another financial asset to another party.

A derivative is a financial instrument whose value changes in response to a specified variable, requires little or no net investment and is settled at a future date. An embedded derivative is a derivative that is a part of a non-derivative contract and not directly related to that contract. Embedded derivatives that are not closely related to the host contract are accounted for as a separate financial instrument.

The Company records all financial instruments initially at fair-value and subsequently accounts for the financial instruments based on one of two classifications: other liabilities and loans and receivables. The classification of a financial instrument depends on its characteristics and the purpose for which it was acquired.

i) Other liabilities

Accounts payable and accrued liabilities, bank indebtedness, long term debt and the obligations under capital lease are accounted for at amortized cost using the effective interest method. Any gains or losses in the realization of such other liabilities are included in earnings.

ii) Loans and receivables

Cash and cash equivalents, short term investments, and accounts receivable are accounted for at amortized cost using the effective interest method. Any gains or losses on the realization of such loans and receivables are included in earnings.

Fair values are based upon quoted market prices available from active markets or are otherwise determined using a variety of valuation techniques and models taking into account the Company's own credit risk and the credit risk of the counterparty.

Per share amounts

The calculation of basic loss per common share is based on the weighted average number of common shares outstanding. Diluted earnings per share are calculated using the treasury stock method.

Recent accounting policies and new pronouncements

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial year beginning on November 1, 2013. For the purpose of preparing and presenting the consolidated financial statements for the relevant periods, the Company has consistently adopted all of these new standards for the relevant reporting periods.

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income
This amendment requires the Company to group items within other comprehensive income by those that will be subsequently reclassified to net earnings and those that will not. Accordingly, the Company has updated the presentation of other comprehensive income (loss) in the consolidated statement of comprehensive loss.

Other standards and interpretations issued or amended which are effective for the first time for fiscal year ends beginning on or after November 1, 2013 but which did not have a material impact on the Company's consolidated financial statements or note disclosures as currently presented include:

New standards and interpretations
IFRS 10, 'Consolidated financial statements'
IFRS 11, 'Joint arrangements'
IFRS 12, 'Disclosure of interest in other entities'
IFRS 13, 'Fair value measurement'

Amendments to existing standards and interpretations
IFRS 7, 'Financial instruments: Disclosures'

At the date of authorization of these consolidated financial statements, the IASB and the IFRS Interpretations Committee (IFRIC) have issued the following new and revised standards and interpretations which are not yet effective for the relevant reporting periods. The Company has not early adopted these standards, amendments or interpretations, however the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements.

Amendment to IFRS 7, 'Financial instruments: Disclosures' on derecognition In conjunction with the transition from IAS 39 to IFRS 9 for fiscal years beginning on or after January 1, 2015, IFRS 7 will also be amended to require additional disclosure in the year of transition.

IFRS 9 'Financial instruments' IFRS was issued in July 2014 and includes (i) a third measurement category for financial assets – fair value through other comprehensive income; (ii) a single, forward looking 'expected loss' impairment model. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. Management has not yet determined that potential impact the adoption of IFRS 9 will have on the Company's financial statements. This standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 'Revenue from contracts with customers' IFRS 15 provides a single, comprehensive revenue recognition model for all contracts with customers. The standard contains principles that the Company will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that Company expects to be entitled to in exchange for those goods or services. Management has not yet determined that potential impact the adoption of IFRS 9 will have on the Company's financial statements. The standard is effective for the first interim period within years beginning on or after January 1, 2017.

Amendment to IAS 32, 'Financial instruments: Presentation' The amendment clarifies the requirements for offsetting financial assets and liabilities. Specifically, the amendment clarifies that the right to offset must be available on the current date and cannot be contingent on a future event. This amendment is effective for fiscal periods beginning on or after January 1, 2014.

Amendment to IAS 36, 'Impairments of assets' This amendment removes the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets, but there has been no impairment.

5. Capital management

The Company's primary objectives when managing capital are to profitably grow its business while maintaining adequate financing flexibility to fund new investment opportunities and other unanticipated requirements or opportunities that may arise. Profitable growth is defined as earnings growth commensurate with the additional capital being invested in the business in order that the Company earns an appropriate rate of return on that capital. The Company's capital structure is comprised of shareholders' equity and long-term debt. The Company's objectives when managing its capital structure are to:

- Maintain sufficient cash and cash equivalents to finance operations; and
- Minimize dilution to shareholders.

The Company monitors its financing requirements through regular forecasting of its cash position. Financing decisions are based on the timing and extent of expected operating and capital cash outlays. Factors considered when determining whether to issue new debt or equity include the amount of cash estimated to be required, the availability of debt or equity capital and the related costs, and the need to balance value creation for shareholders against the increased liquidity risks associated with debt. The Company has limited cash resources to make necessary capital investments and to fund acquisitions. The Company will require additional equity and/or debt capital to fund any significant acquisition or development opportunities. The Company's capital management objectives have not changed over the periods presented.

As a result of the borrowing agreement entered into by the Company during the year (note 13), there are certain financial covenants that must be maintained. The covenants are:

- ratio of debt to tangible net worth shall not at any time exceed 3.00 to 1.00;
- ratio of current assets to current liabilities shall not at any time be less than 1.25 to 1.00; and
- working capital base shall not at any time be less than 1.25 to 1.00.

The Company was in compliance with these covenants during the year.

See note 2 for discussion regarding the Company's ability to continue as a going concern.

6. Significant accounting judgements and estimates

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the consolidated financial statements:

Going concern

The assessment of the Company's ability to execute its strategy and finance the operations through achieving positive cash flow from operations or by obtaining additional funding through the issuance of share capital involves judgment. Management monitors future cash requirements to assess the Company's ability to realize assets and discharge its liabilities in the normal course of operations.

Revenue Recognition

Revenue is derived primarily from the sales of product (hardware devices) and services (including monitoring services and product development services).

In recognizing revenue, the Company makes judgements about the probability of collection of the revenue from the customer. Judgments are also applied in the determination of the amount of revenue to allocate to individual elements in a multiple element arrangement and the determination of whether a deliverable constitutes a separate unit of accounting.

Stock Compensation and warrants

Determining the fair value of stock options, performance based stock options, and broker warrants requires judgment related to the choice of a pricing model, the estimation of stock price volatility, the expected term of the underlying instruments, the estimation of the risk free interest rate, and if applicable the resulting number of options that will ultimately vest.

Valuation of Inventory Provision

Provisions for obsolete inventory are based on management's best estimates which consider a variety of factors that may affect the carrying values of inventories. These factors include, but are not limited to, market demand, technology changes, and design changes.

Property and equipment and intangible assets

Measurement of property and equipment and intangible assets involves the use of estimates for determining the expected useful lives of depreciable assets and depreciation methods.

7. Short term investments

	2014 $	2013 $
Guaranteed investment certificates, 2.0%, maturing in March 2014	-	500,000
Guaranteed investment certificates, 1.95%, maturing in August 2014	-	500,000
Guaranteed investment certificates, 1.9%, maturing in June 2014	-	300,000
Guaranteed investment certificates, 1.95%, maturing in March 2015	500,000	-
	500,000	1,300,000

8. Accounts receivable

	2014 $	2013 $
Trade accounts receivable	2,316,655	770,927
Less: Allowance for doubtful accounts	(23,259)	(38,047)
Trade receivables - net	2,293,396	732,880
Other receivable	7,772	1,846
	2,301,168	734,726

9. Inventory

	2014 $	2013 $
Parts	883,566	538,241
Finished goods	183,811	182,217
	1,067,377	720,458

For the year ended October 31, 2014 there was $88,968 of write-downs of obsolete parts inventory (2013: $131,247). There were no reversals of previously written-down amounts in either of the years noted.

10. Property and equipment

				Net book value
	At November 1, 2013 $	Additions $	Amortization $	At October 31, 2014 $
Furniture and equipment	28,880	41,658	14,144	56,394
Leasehold improvements	1,245	262,731	26,431	237,545
Manufacturing equipment	353,740	52,594	123,793	282,541
Computer hardware	58,496	25,510	32,961	51,045
	442,361	382,493	197,329	627,525

			October 31, 2014
	Cost $	Accumulated amortization $	Net book value $
Furniture and equipment	102,531	46,137	56,394
Leasehold improvements	335,454	97,909	237,545
Manufacturing equipment	690,123	407,582	282,541
Computer hardware	115,812	64,767	51,045
	1,243,920	616,395	627,525

				Net book value
	At November 1, 2012 $	Addition s $	Amortization $	At October 31, 2013 $
Furniture and equipment	27,534	11,814	10,468	28,880
Leasehold improvements	18,381	3,061	20,197	1,245
Manufacturing equipment	363,618	101,656	111,534	353,740
Computer hardware	48,331	33,585	23,420	58,496
	457,864	150,116	165,619	442,361

	October 31, 2013		
	Cost	Accumulated amortization	Net book value
	$	$	$
Furniture and equipment	60,874	31,994	28,880
Leasehold improvements	72,723	71,478	1,245
Manufacturing equipment	637,529	283,789	353,740
Computer hardware	131,921	73,425	58,496
	903,047	460,686	442,361

11. Intangible assets

	Net book value			
	At November 1, 2013	Additions	Amortization	At October 31, 2014
	$	$	$	$
Computer software	4,202	2,046	1,448	4,800
Government certifications	112,725	37,596	30,843	119,478
	116,927	39,642	32,291	124,278

	October 31, 2014		
	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Computer software	149,120	144,320	4,800
Government certifications	181,775	62,297	119,478
	330,895	206,617	124,278

	Net book value			
	At November 1, 2012	Additions	Amortization	At October 31, 2013
	$	$	$	$
Computer software	11,852	310	7,960	4,202
Government certifications	81,512	50,867	19,654	112,725
	93,364	51,177	27,614	116,927

	October 31, 2013		
	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Computer software	147,074	142,872	4,202
Government certifications	144,179	31,454	112,725
	291,253	174,326	116,927

12. Accounts payable and Accrued Liabilities

	2014	2013
	$	$
Trade payables	769,277	438,549
Accrued liabilities	538,801	227,705
	1,308,078	666,254

13. Bank Indebtedness

In July 2014 the Company entered into an unsecured funding agreement for an operating line of credit of up to $900,000 with a national financial institution. The operating line, based on the Company's receipt of large purchase orders, allows the Company to purchase inventory to supply goods for the specific orders. The operating line bears interest at the bank's annual prime rate plus 1.75%. The amount drawn against the operating line at October 31, 2014 was $800,000, all of which is repayable in fiscal 2015.

14. Long term debt

On July 6, 2012 the Company entered into a compensation and funding agreement with Tecterra Inc. whereby up to $300,000 in funding is available to the Company, interest free, for the creation and development of a new product. Repayments of the amount will be a percentage of the gross sales generated from the product each quarter. The Company has received the full $300,000 of the available funding as of October 31, 2014 (2013: $250,000). All of the $300,000 is expected to be repayable within the following year of which the first repayment of $60,000 occurred in November 2014.

15. Share capital and warrants

a) Authorized

An unlimited number of common voting shares without nominal or par value. An unlimited number of preferred shares without nominal or par value.

b) Issued

	Number of shares	Amount $
Common Shares		
Balance October 31, 2012	17,575,458	16,765,710
Issued through ESOP	18,390	23,838
Balance October 31, 2013	17,593,848	16,789,548
Issued for cash – private placement	3,043,648	2,358,235
Share issue costs	-	(349,404)
Warrants exercised	160,000	197,722
Options exercised	96,250	327,346
Issued through ESOP	47,949	78,833
Balance October 31, 2014	20,941,695	19,402,280

	Number of Warrants	Weighted Average Exercise Price ($)
Balance, October 31, 2012	3,893,333	1.49
Expired in the year	(533,333)	1.50
Balance, October 31, 2013	3,360,000	1.49
Broker warrants exercised	(160,000)	1.25
Warrants issued on exercising broker warrants	160,000	1.50
Issued for private placement	3,043,648	1.40
Broker warrants	304,364	1.15
	6,708,012	1.44

On February 12, 2014, the Company completed a financing of 3,043,648 units at a price of $1.15 per unit for aggregate gross proceeds of $3,500,195. Each unit comprised one common share of the Company and one common share purchase warrant, exercisable for a period of forty eight months at an exercise price of $1.40 per warrant. In addition to the warrants that were attached to the units, there were 304,364 finder warrants issued with an exercise price of $1.15 per warrant, exercisable for two years. Share issuance costs were $349,404, including $178,764 representing the estimated fair value of the broker warrants. The gross proceeds of $3,500,195 were apportioned between share capital ($2,358,235) and contributed surplus ($1,141,960) based on the relative fair value of the shares and warrants issued in the offering.

On July 22, 2014, 160,000 broker warrants, which were issued through the July 31, 2012 private placement, were exercised. The warrants issued with an exercise price of $1.25 per warrant, were purchased in exchange for 160,000 units each of which comprised one common share of the Company and one common share purchase warrant, exercisable for a period of thirty six months from the date of the private placement at an exercise price of $1.50 per warrant. Upon exercising $66,785, representing the estimated fair value of the broker warrants at the time of issuance, was moved from contributed surplus into share capital. The common share purchase warrants, valued at $69,063, were allocated to contributed surplus.

The Company has a trust vehicle to facilitate its employee share ownership program and hold shares of the Company allocated to individual directors and employees. The Company has concluded that it in substance controls the trust and as such it has been consolidated by the Company. Included in the outstanding common shares of the Company as of October 31, 2014, are 33,965 (2013 – 30,952) unvested common shares and 186,592 (2013 - 61,900) vested common shares which are held by the trust.

c) Per share amounts

The effects of potentially dilutive instruments such as stock options and warrants on loss per share are anti-dilutive and therefore have been excluded from the calculation of diluted loss per share

d) Warrants

The fair value of each warrant granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

	Year ended October 31, 2014	Year ended October 31, 2013
Risk-free interest rate	1.22%	-
Expected life	4 years	-
Expected dividend	$nil per share	-
Expected share price volatility	75%	-

16. Stock-based compensation

Stock options

The Company has established a stock-based compensation plan whereby employees, directors and consultants may be granted options or performance warrants to purchase one common share for each option or performance warrant granted, at a fixed price not less than the fair market value of the stock at the time of grant, subject to certain conditions being met. Stock options granted under this plan vest over an immediate to three year period at a consistent rate. All stock options granted are for a five year term. The Company uses the Black-Scholes binomial model and a forfeiture rate of 32%, based on historical data, to calculate the stock based compensation expense.

Stock option activity related to the plan was as follows:

	Number of Options	Weighted Average Exercise Price ($)
Balance, October 31, 2012	992,000	1.66
Options granted during the year	270,000	1.24
Options forfeited during year	(16,500)	1.58
Balance, October 31, 2013	1,245,500	1.57
Options granted during the year	623,500	1.37
Options forfeited during year	(34,000)	1.36
Options exercised during year	(96,250)	1.95
Options expired during year	(245,500)	2.00
Balance, October 31, 2014	1,493,250	1.43

As of October 31, 2014, of the 1,493,250 outstanding options (2013: 1,245,500) 1,334,754 options (2013: 1,112,753) were exercisable. No options were exercised in the prior year.

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

	Exercise price	Shares	
Expiry	**in $ per share**	**2014**	**2013**
2014	2.00	-	341,000
2016	1.40 - 2.30	160,500	160.500
2017	1.25 – 1.50	457,500	474,000
2018	1.13 – 1.50	253,000	270,000
2019	1.31 – 2.27	622,250	-
		1,493,250	1,245,500

The weighted average fair value of a stock option granted during the year is $0.64 (2013: $0.58). The weighted average remaining contractual life of the options as of October 31, 2014 is 3.38 years (2013: 2.75).

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

	Year ended October 31, 2014	Year ended October 31, 2013
Risk-free interest rate	1.22%	1.20%
Expected and contractual life	3 years	3 years
Expected dividend	$nil per share	$nil per share
Expected volatility	75%	70%

17. Expenses by nature

	Year ended October 31, 2014 $	Year ended October 31, 2013 $
Wages and employee benefits	4,281,021	3,018,824
Operational	1,466,199	1,164,756
Services and materials	2,762,085	2,187,486
Royalties	19,460	10,285
Amortization	229,620	193,233
Foreign exchange loss / (gain)	8,262	(26,371)
Total operating expenses	8,766,647	6,548,213

Wages and employee benefits

	Year ended October 31, 2014 $	Year ended October 31, 2013 $
Salaries and employment benefits	3,871,712	2,849,395
Stock Based Compensation	409,309	169,429
Total	4,281,021	3,018,824

Compensation of key management

	Year ended October 31, 2014 $	Year ended October 31, 2013 $
Salaries and employment benefits	1,205,604	991,727
Stock Based Compensation	271,874	95,119
Total	1,477,478	1,086,846

Key management includes the Company's directors and executive officers.

18. Government assistance

In the prior year, the Company recorded $198,573 in refundable SRED tax credits for the 2012 tax year which was credited as a reduction of product development costs. No refundable SRED credits were recorded in the current year.

19. Income taxes

Income tax expense (recovery) is calculated using the combined federal and provincial statutory income tax rates. The combined provision for taxes in the statement of operations reflects an effective tax rate which differs from the expected statutory rate as follows:

	October 31, 2014 $	October 31, 2013 $
Loss before income taxes	(4,543,681)	(3,586,293)
Combined federal and provincial income tax rate	25.00%	25.00%
Tax calculated at applicable statutory rates applicable to profits	(1,135,920)	(896,573)
Tax losses and other items for which no deferred income tax asset was recognized	1,054,077	857,325
Stock-based compensation expense not deductible for tax purposes	78,009	36,399
Non-deductible expenses	3,834	2,849
Re-measurement of deferred tax-impact of substantively enacted rates	-	-
Other expenses not deductible for tax purposes	-	-
Income tax expense (recovery)	-	-

The significant components of the Company's net future income tax deductions for which no benefit has been recognized in these consolidated financial statements are summarized as follows:

	October 31, 2014 $	October 31, 2013 $
Non-capital loss carry forwards	17,726,960	13,816,886
Undepreciated capital cost	(145,991)	(145,932)
Share issuance costs	395,208	375,214
SRED expenditure pool	4,815,274	4,815,274
Total future tax deductions	22,791,451	18,861,442

The estimated non-capital loss carry forwards can be applied to reduce taxable income and expire as follows:

	Non-Capital Losses $
2025	70,788
2026	221,545
2027	661,914
2028	2,465,312
2029	681,178
2030	1,642,842
2031	2,214,742
2032	2,119,800
2033	1,760,052
2034	1,978,713
2035	3,910,074
Total	17,726,960

The Company has $1,045,231 in SRED investment tax credits available as of October 31, 2012. The Company has up to 18 months from its fiscal year end to file the 2013 and 2014 SRED claims for which no benefit has been recorded in these consolidated financial statements.

20. Segmented information

The Company has only one business segment. In 2014 three customers accounted for a total of 51% of the Company's revenue (2013 one customer accounted for 15% of the Company's revenue).

Geographic information related to the segment is as follows:

	Sales Year ended	
	October 31,2014	October 31, 2013
	$	$
Canada	2,531,016	1,217,781
United States	1,580,565	1,601,034
Europe	70,668	64,286
Total	4,182,249	2,883,101

All property, plant and equipment and intangible assets are located in Canada with the exception of $12,978 of net assets purchased by the Company's wholly owned subsidiary Blackline GPS Europe Ltd. in the United Kingdom for use in its offices.

21. Commitments

The Company has committed to minimum inventory purchases, leased office space, contracted for services of a third party development consulting firm; leased office, computer and telecommunications equipment; and signed other miscellaneous contracts to which there are minimum required payments. Remaining commitments under the above contracts for each fiscal period noted, including estimated operating costs for the office space lease, are as follows:

	$
2015	649,225
2016	629,961
2017	394,970
2018	394,970
2019	298,250
Total	2,367,376

Rental expense in the amount of $261,841 (2013:$164,185) was incurred on the operating leases during the year.

22. Financial instruments and risk management

The Company's financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, bank indebtedness, long term debt and obligations under capital lease.

a) Fair value of financial assets and liabilities

The fair values of cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued liabilities, bank indebtedness approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of the obligations under capital lease approximates their carrying amounts due to the stability of interest rates. The fair value of the long term debt is not significantly different from its carrying value.

b) Risks associated with financial assets and liabilities

The Company is exposed to financial risks arising from normal course business operations. The financial risks include liquidity risk, market risk relating to foreign exchange rates and interest rates and credit risk.

i) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liability obligations. The Company manages its liquidity risk by keeping cash in accounts of highly liquid securities of highly rated Canadian banks. As discussed in note 4 Summary of significant accounting policies, the Company forecasts its cash requirements on a regular basis and seeks additional financing based on those forecasts. Since inception, the Company has financed its cash requirements primarily through issuances of securities, debt and the generation of product and service sales.

The Company's financial condition and uncertainty is discussed further in note 2.

ii) Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as a result of changes in market prices and is comprised of the following:

- *Foreign Exchange Risk*
  The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Accordingly, fluctuations in the exchange rate between the U.S. and Canadian dollar will have an effect on the Company's reported results.

  The Company's foreign exchange gain/loss is primarily comprised of fluctuations in exchange rates on U.S. dollar transactions between the date a receivable or payable is recorded and the date it is received or paid. A $0.01 per dollar appreciation in the U.S. to Canadian dollar exchange rate would have had an immaterial effect on income for the years ended October 31, 2014 and 2013.

  The Company's policy with respect to foreign currency risk management, as approved by the Board of Directors, is to obtain natural hedges of revenue and expenses to the extent possible. The Company does not speculate in foreign currency and remains at risk to the market where natural hedges are not in place.

- *Interest Rate Risk*
  Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk as the cash flows generated from its cash equivalents and cash flows repaid on its bank indebtedness will fluctuate in response to changes in market interest rates. The cash and cash equivalents are comprised of cash and highly liquid short term deposits with a Canadian bank. A one percent change in interest rates would have had an immaterial effect on net loss for the years ended October 31, 2014 and 2013.

iii) Credit Risk

Credit risk arises from the short term investments held with banks as well as credit exposure to customers, including outstanding receivables. For the short term investments the Company only deals with highly rated financial institutions. For the Company’s customers the quality of the customer is considered by taking into account its financial position, past experience and other factors. Credit limits are utilized and they are regularly monitored.

The maximum exposure to credit risk for the Company’s short term investments approximates the amount recognized on the statement of financial position. The Company does not hold any collateral as security.

No financial assets are past due except for trade receivables. As at October 31, 2014, trade receivables of $2,225,858 (2013: $694,473) were fully performing, $67,538 (2013: $38,407) were past due but not impaired and no amounts were impaired which were not included in the allowance for doubtful accounts. The aging analysis of the amounts past due but not impaired is as follows:

	Year ended October 31, 2014 $	Year ended October 31, 2013 $
Past due but not impaired		
Up to 3 months	56,726	37,891
3 to 6 months	10,812	516

The following table summarizes the changes in the allowance for doubtful accounts for trade receivables:

	Year ended October 31, 2014 $	Year ended October 31, 2013 $
Start of year	38,047	42,103
Provision for impairment	16,096	43,374
Receivables written off during the year as uncollectible	(24,057)	(29,627)
Unused amounts reversed	(6,827)	(17,803)
End of year	23,259	38,047

23. Supplementary cash flow information

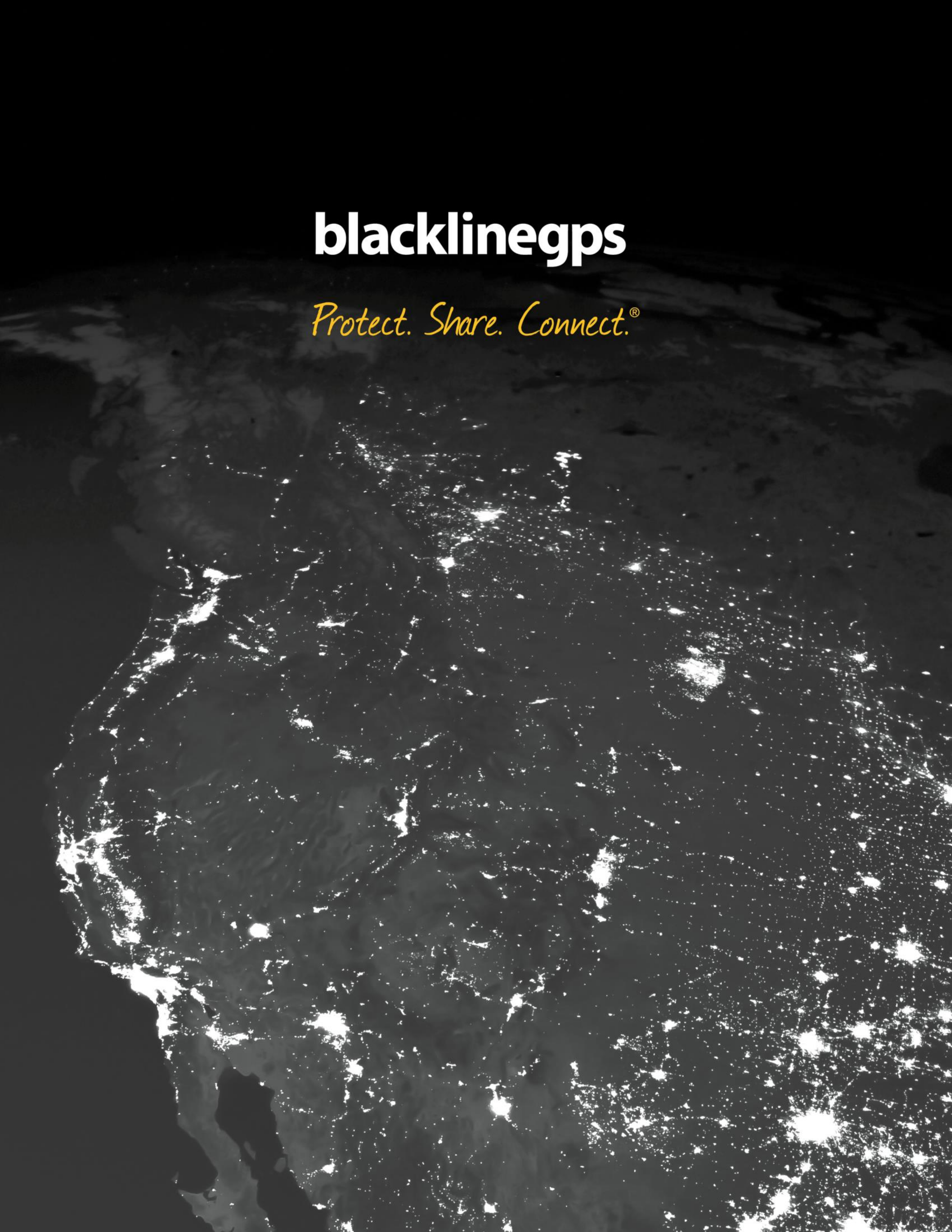
a) The net change in non-cash working capital items increases (decreases) cash flows as follows:

	Year ended October 31, 2014 $	Year ended October 31, 2013 $
Accounts receivable	(1,566,442)	(28,669)
Inventory	(346,920)	7,349
Prepaid expenses	(148,730)	(171,847)
Accounts receivable – long term	(29,675)	(29,751)
Accounts payable and accrued liabilities	641,825	36,863
Deferred revenue	1,064,135	367,081
Deferred lease incentives	43,200	-
Deferred revenue – long term	304,126	79,281
Deferred lease incentives – long term	154,800	-
	116,319	260,307

b) Supplementary cash flow information

	Year ended October 31, 2014 $	Year ended October 31, 2013 $
Interest expense paid	(5,044)	(443)
Interest income received	45,761	79,262
Income taxes paid	-	-

Interest income paid and interest income received are recorded as cash flows provided by (used in) operating activities in the statement of cash flows.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