*Consolidated financial statements of*

# YDreams Global Interactive Technologies Inc.

(formerly Apple Capital Inc.)

December 31, 2016 and 2015

*(Expressed in Canadian Dollars)*

BDO

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# AUDITORS' REPORT

## INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

To the Shareholders of
Ydreams Global Interactive Technologies Inc.

### Introduction

We have audited the accompanying consolidated financial statements of **Ydreams Global Interactive Technologies Inc. ("Company")**, which comprises the consolidated balance sheet as of December 31, 2016 and 2015 and the consolidated statements of income, comprehensive income (loss), changes in shareholders' equity (unsecured liabilities) and cash flows for the years then ended, and the related notes to the financial statements.

### 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 as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 international standards on auditing. Those standards require that we comply with relevant ethical requirements relating to audit engagements 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion on the financial statements**

In our opinion, these consolidated financial statements, referred to above, present fairly, in all material aspects, the financial position of **Ydreams Global Interactive Technologies Inc.** as of December 31, 2016 and 2015 and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Going Concern**

The accompanying consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. For the year ended December 31, 2016, the Company incurred a loss of $3,768,077 (2015: $709,050). At December 31, 2016, the Company had an accumulated deficit of $4,854,619 (December 31, 2015: $1,086,542) and a working capital of $656,791 (December 31, 2015: working capital deficit of $970,890). These factors raise doubt about the Company's ability to continue as a going concern, which is dependent upon its ability to obtain and maintain an appropriate level of financing on a timely basis and to achieve sufficient cash flows to cover obligations and expenses. The outcome of these matters cannot be predicted. These consolidated financial statements do not give effect to any adjustments to the amounts and classification of assets and liabilities which might be necessary should the Company be unable to continue its operations as a going concern

Rio de Janeiro, May 1, 2017.

**BDO RCS Auditores Independentes SS**
**CRC 2 SP 013846/F**

**Esmir de Oliveira**
**Accountant CRC 1 SP 109628/O-0-S-RJ**

**YDreams Global Interactive Technologies Inc.**
Consolidated Statements of Financial Position
As at December 31, 2016 and December 31, 2015
*(Expressed in Canadian Dollars)*

| | | December 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents – Note 5 | $ | 837,044 | $ | 6,067 |
| Trade accounts receivable and prepaids – Note 7 | | 474,388 | | 395,168 |
| Recoverable taxes – Note 8 | | 442,018 | | 315,801 |
| Marketable securities – Note 6 | | 24,000 | | - |
| **Total current assets** | | **1,777,450** | | **717,036** |
| **Non-current assets** | | | | |
| Other receivables | | - | | 9,916 |
| Equipment – Note 9 | | 260,033 | | 322,009 |
| **TOTAL ASSETS** | **$** | **2,037,483** | **$** | **1,048,961** |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities – Notes 10 and 17 | | 223,982 | | $79,585 |
| Loans and financing – Note 11 | | 136,549 | | 316,398 |
| Salaries and social charges payable – Notes 12 and 17 | | 344,560 | | 501,111 |
| Taxes and contributions payable – Note 13 | | 375,592 | | 683,090 |
| Provisions for Income and Social Contribution Taxes | | - | | 17,248 |
| Unearned revenue | | 30,000 | | 38,390 |
| Other payables | | 9,976 | | 52,104 |
| **Total current liabilities** | | **1,120,659** | | **1,687,926** |
| **Non-current liabilities** | | | | |
| Loans and financing – Note 11 | | 84,932 | | 31,698 |
| Salaries and social charges payable – Note 12 | | 198,630 | | - |
| Taxes and contributions payable – Note 13 | | 456,233 | | - |
| | | **1,860,454** | | **1,719,624** |
| **SHAREHOLDERS' EQUITY (DEFICIENCY)** | | | | |
| Share capital – Notes 4 and 14 | | 3,884,471 | | 169,429 |
| Share-based payment reserve – Notes 4 and 14 | | 1,047,876 | | - |
| Accumulated other comprehensive income | | 99,301 | | 246,450 |
| Accumulated deficit | | (4,854,619) | | (1,086,542) |
| **Total shareholders' equity (deficiency)** | | **177,029** | | **(670,663)** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)** | | **$2,037,483** | | **$1,048,961** |

Nature and continuance of operations (Note 1)
Subsequent events (Notes 6 and 22)

APPROVED BY THE DIRECTORS:

*"Miguel Remedio"* Director *"Daniel Cavalcanti Japiassu"* Director

The accompanying notes form an integral part of these consolidated financial statements

**YDreams Global Interactive Technologies Inc.**
Consolidated Statements of Operations and Comprehensive Loss
Years ended December 31, 2016 and 2015
*(Expressed in Canadian Dollars)*

| | Years ended December 31, 2016 | 2015 |
|---|---|---|
| **Net sales revenue – Note 15** | $ 5,234,746 | $ 4,103,358 |
| Costs of services rendered – Note 17 | (2,424,448) | (2,344,906) |
| **Gross profit** | 2,810,298 | 1,758,452 |
| **Operating expenses** | | |
| Personnel expenses – Notes 17 | 153,091 | 144,953 |
| Consulting | 160,134 | 25,025 |
| Depreciation – Note 9 | 95,436 | 96,169 |
| Finance fees – Note 4 | 395,957 | - |
| Management fees – Note 17 | 270,730 | 148,810 |
| Office and miscellaneous | 462,183 | 202,690 |
| Professional fees – Note 17 | 1,136,331 | 592,353 |
| Provision for losses with related party loan | - | 452,241 |
| Share-based payments – Note 14 | 351,002 | - |
| Shareholder information | 5,678 | - |
| Transfer agent and filing fees | 15,302 | - |
| Travel and promotion | 247,659 | 145,082 |
| Other expenses | 24,759 | 33,617 |
| **Total operating expenses** | 3,318,262 | 1,840,940 |
| **Loss before other items** | (507,964) | (82,488) |
| **Other items** | | |
| Interest income | 16,819 | 408 |
| Interest expenses | (271,398) | (626,970) |
| Loss on debt settlement – Note 4 | (61,070) | - |
| Listing expense – Note 4 | (2,852,587) | - |
| Unrealized loss on marketable securities – Note 6 | (12,000) | - |
| | (3,180,236) | (626,562) |
| **Loss before Income and Social Contribution taxes** | **(3,688,200)** | **(709,050)** |
| Income and Social Contribution taxes payable – current | (79,877) | - |
| **Net loss for the year** | **$ (3,768,077)** | **$ (709,050)** |
| **Other comprehensive income (loss) for the year** | | |
| Currency translation adjustment | (147,149) | 111,348 |
| **Net loss and comprehensive loss for the year** | **$ (3,915,226)** | **$ (597,702)** |
| Basic and diluted loss per share – Note 16 | $ (0.15) | $ (2.20) |
| Weighted average number of shares outstanding – Note 16 | 25,852,322 | 321,742 |

The accompanying notes form an integral part of these consolidated financial statements

**YDreams Global Interactive Technologies Inc.**
Consolidated Statements of Cash Flows
Years ended December 31, 2016 and 2015
*(Expressed in Canadian Dollars)*

| | Years ended December 31, 2016 | 2015 |
|---|---|---|
| **Operating Activities** | | |
| Net loss for the year | $ (3,768,077) | $ (709,050) |
| Adjustment for non-cash item: | | |
| Loss on debt settlement | 61,070 | - |
| Listing expense | 2,852,587 | - |
| Provision for losses with related party loan | - | 452,241 |
| Share-based payments | 351,002 | - |
| Finance fees | 389,456 | - |
| Depreciation | 95,436 | 96,169 |
| Unrealized loss on marketable securities | 12,000 | - |
| Others | - | 4,024 |
| Provision for Income and Social Contribution Taxes | (17,248) | 5,697 |
| Changes in non-cash working capital items: | | |
| Trade accounts receivables and prepaids | (79,220) | 30,869 |
| Recoverable taxes | (126,217) | 102,143 |
| Other receivables | 9,916 | (8,386) |
| Accounts payable and accrued liabilities | (481,289) | (13,991) |
| Salaries and social charges payable | 42,079 | 273,760 |
| Taxes and contributions payable | 148,735 | (60,048) |
| Advances from clients | (8,390) | (251,907) |
| Other payables | (42,128) | 3,066 |
| **Cash used in operating activities** | **(560,288)** | **(75,413)** |
| | | |
| **Investing Activities** | | |
| Equipment purchases | (33,460) | (1,806) |
| Marketable securities | (30,000) | - |
| Dividends paid | - | (46,596) |
| **Cash used in investing activities** | **(63,460)** | **(48,402)** |
| | | |
| **Financing Activities** | | |
| Proceeds from issuance of share capital | 2,069,167 | 53,339 |
| Share issuance costs | (70,731) | - |
| Proceeds from loans | 173,125 | 192,170 |
| Loan repayment | (394,288) | (207,747) |
| Interest repayment | (175,399) | (80,137) |
| **Cash provided by (used in) financing activities** | **1,601,874** | **(42,375)** |
| Foreign exchange effect on cash | (147,149) | 107,477 |
| **Change in cash and cash equivalents during the year** | **830,977** | **(58,713)** |
| **Cash and cash equivalents, beginning of the year** | **6,067** | **64,780** |
| **Cash and cash equivalents, end of the year** | **$ 837,044** | **$ 6,067** |

Supplemental Disclosure with Respect to Cash Flows (Note 21)

The accompanying notes form an integral part of these consolidated financial statements

*(Expressed in Canadian Dollars)*

| | No. of shares | Capital stock | Share-based payment reserve | Accumulated other comprehensive income | Accumulated deficit | Total |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2014** | **213,400** | **$ 116,090** | **$ -** | **$ 135,102** | **$ (334,920)** | **$ (83,728)** |
| Paid in capital | 108,342 | 53,339 | - | - | - | 53,339 |
| Payment of dividends | - | - | - | - | (46,596) | (46,596) |
| Others | - | - | - | - | 4,024 | 4,024 |
| Currency translation adjustment | - | - | - | 111,348 | - | 111,348 |
| Net loss for the year | - | - | - | - | (709,050) | (709,050) |
| **Balance, December 31, 2015** | **321,742** | **169,429** | **-** | **246,450** | **(1,086,542)** | **(670,663)** |
| Shares issued pursuant to private placements | 12,000,000 | 1,800,000 | - | - | - | 1,800,000 |
| Share issue costs | - | (70,731) | - | - | - | (70,731) |
| Finders' warrants issued for private placements | - | (103,008) | 103,008 | - | - | - |
| Stock options issued | - | | 351,002 | - | - | 351,002 |
| Shares issued on settlement of debt – Note 4 | 6,500,002 | 975,000 | - | - | - | 975,000 |
| Finders' shares issued on reverse takeover – Note 4 | 2,111,110 | 316,666 | - | - | - | 316,666 |
| Shares issued as replacement shares at reverse takeover – Note 4 | 30,000,000 | - | - | - | - | - |
| YDBR shares replaced at reverse takeover – Note 4 | (321,742) | - | - | - | - | - |
| Bonus warrants issued to certain lenders – Note 4 | - | - | 72,790 | - | - | 72,790 |
| Reverse takeover consideration – Note 4 | 2,543,032 | 381,455 | 667,569 | - | - | 1,049,024 |
| Stock options exercised | 1,316,667 | 269,167 | - | - | - | 269,167 |
| Transfer of reserves on options exercised | - | 146,493 | (146,493) | - | - | - |
| Currency translation adjustment | - | - | - | (147,149) | - | (147,149) |
| Net loss for the year | - | - | - | - | (3,768,077) | (3,768,077) |
| **Balance, December 31, 2016** | **54,470,811** | **$ 3,884,471** | **$ 1,047,876** | **$ 99,301** | **$ (4,854,619)** | **$ 177,029** |

The accompanying notes form an integral part of these consolidated financial statements

## 1. NATURE AND CONTINUANCE OF OPERATIONS AND GOING CONCERN

Ydreams Global Interactive Technologies Inc. (formerly Apple Capital Inc.; the "Company") was incorporated in the province of British Columbia on April 16, 2007, under the Business Corporations Act of British Columbia.

On July 15, 2016, the Company completed a Reverse Takeover ("RTO"; as defined in Policy 5.2 – *Changes of Business and Reverse Takeovers* of the Corporate Finance Manual of the TSX Venture Exchange (the "Exchange")) through the acquisition of all but two of the outstanding equity securities (the "Acquisition") of YDreams Brasil – Serviços e Soluções Interativas LTDA ("YDBR"), a private company incorporated under the laws of the Federative Republic of Brazil. YDBR was considered to be the acquirer for accounting purposes. YDBR's assets, liabilities and operations since incorporation are included in these consolidated financial statements at their historical carrying values. The Company's results of operations have been included from the date of the RTO. These consolidated financial statements are a continuation of those of YDBR, which was incorporated on February 7, 2007.

The Company ceased to be a mining company and changed its name from "Apple Capital Inc." to its current name "YDreams Global Interactive Technologies Inc.". Following receipt of final Exchange approval on July 21, 2016, the Company was listed as a Tier 2 Technology Issuer on the Exchange under the symbol "YD".

YDBR is a technology and design agency located in Brazil, focusing on innovation that acts as both a strategic and execution partner to companies and brands conducting their business in the new post-digital reality.

The Company's Canadian head office and principal business address is located at 1470 – 701 West Georgia Street, Vancouver, British Columbia, V7Y 1C6, and registered and records office is located at 800 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1.

The accompanying consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. For the year ended December 31, 2016, the Company incurred a loss of $3,768,077 (2015: $709,050). At December 31, 2016, the Company had an accumulated deficit of $4,854,619 (December 31, 2015: $1,086,542) and a working capital of $656,791 (December 31, 2015: working capital deficit of $970,890). These factors raise doubt about the Company's ability to continue as a going concern, which is dependent upon its ability to obtain and maintain an appropriate level of financing on a timely basis and to achieve sufficient cash flows to cover obligations and expenses. The outcome of these matters cannot be predicted. These consolidated financial statements do not give effect to any adjustments to the amounts and classification of assets and liabilities which might be necessary should the Company be unable to continue its operations as a going concern.

## 2. BASIS OF PREPARATION

a) Statement of Compliance

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

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

b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that are initially measured at fair value through profit or loss.

## 2. BASIS OF PREPARATION (continued)

b) Basis of Measurement (continued)

These consolidated financial statements are presented in Canadian dollars, which is also the Company's functional and presentation currency. The functional currency of YDBR is the Brazilian Real.

The preparation of these consolidated financial statements in accordance with IFRS requires management to make estimates, judgements and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

These consolidated financial statements include estimates which, by their nature, are uncertain. The impact of such estimates is pervasive throughout these consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Critical accounting estimates*

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- The inputs used in the accounting for share-based payments expense, finders' warrants and compensation options in share capital and equity reserves; and
- The inputs used in the accounting for revenue recognition under the percentage of completion method for long-term contracts.

*Critical accounting judgments*

Examples of a significant judgment, apart from those involving estimation, include:

- Assess the Company's ability to continue as a going concern; and
- Determine the functional currency of each entity.

c) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary.

All inter-company balances, transactions, income and expenses have been eliminated upon consolidation.

## 2. BASIS OF PREPARATION (continued)

d) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has power over an investee, when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

### a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash with original maturities of three months or less and which are subject to an insignificant risk of changes in value.

### b) Equipment

Equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an equipment consists of the purchase price and any costs directly attributable to bringing the equipment to the location and condition necessary for its intended use. Depreciation is calculated according to the straight-line method and the expected useful life of the assets, which the Company periodically reviews.

Items of equipment are derecognized upon disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognized.

The equipment's residual values, useful lives and methods of depreciation are reviewed at each reporting period, and adjusted prospectively if appropriate.

### c) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at management's best estimate of the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in any provision due to passage of time is recognized as accretion expense.

### d) Interest income

Interest income is recorded on an accrual basis using the effective interest method.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### e) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### f) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the net income or loss attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the reporting period. Diluted earnings (loss) per share is calculated by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding if potentially dilutive instruments were converted.

### g) Foreign currency translation

The functional currency of the Company is the Canadian dollar ("CAD") and the functional currency of YDBR is the Brazilian Real (R$), respectively. Accordingly, foreign currency transactions and balances of YDBR, are translated as follows: (i) monetary assets and liabilities denominated in currencies other than CAD ("foreign currencies") are translated into CAD at the exchange rates prevailing at the balance sheet date; (ii) non-monetary assets denominated in foreign currencies and measured at other than fair value are translated using the rates of exchange at the transaction dates; (iii) non-monetary assets denominated in foreign currencies that are measured at fair value are translated using the rates of exchange at the dates those fair values are determined; and (iv) income statement items denominated in foreign currencies are translated using the average exchanges rates.

Foreign exchange gains and losses are recognized in net earnings and presented in the Consolidated Statements of Operations and Comprehensive Loss in accordance with the nature of the transactions to which the foreign currency gain and losses relate.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### h) Revenue recognition

The Company's revenue was generated by YDBR during the years ended December 31, 2016 and 2015 (Note 15). The Company's contracts consist of fixed price long-term contracts.

When the outcome of a service provided under a fixed price long-term contract can be estimated reliably, service revenue and the costs associated with the service contract are recognized as revenue and expenses respectively by reference to the stage of completion of the service contract activity at the end of the reporting period.

The outcome of a transaction can be estimated reliably when all the following conditions are met:

i. the amount of revenue can be measured reliably;

ii. it is probably that the economic benefits associated with the transaction will flow to YDBR;

iii. the execution state (stage of completion) of the transaction at the end of the reporting period can be measured reliably; and

iv. the costs incurred in the transaction as well as the costs to complete can be measured reliably.

Revenue whose realization is significantly uncertain is not recognized. Revenue for the provision of services is assessed on a contract by contract basis with revenue earned being based on the stage of completion of the contract which is estimated using a combination of contract milestones and the proportion of the total time expected to be required to complete the contract. Due to the long-term nature of certain contracts estimation is applied in assessing the total time expected to complete the contract.

YDBR is subject to various Brazilian taxes and revenues are presented net of taxes, returns and discounts, as set forth below:

- Service tax (ISS);
- Social Integration Program Tax (Programa de Integração Social), or PIS, and Social Security Financing Tax (Contribuição para o Financiamento da Seguridade Social), or COFINS. COFINS finances special social programs through the collection of a federal tax on gross revenues. PIS finances special social programs in Brazil through the collection of a federal tax on gross revenues

### i) Share capital

The Company's common shares, share purchase warrants and options are classified as equity instruments. Incremental costs directly related to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. For equity offerings of units consisting of a common share and warrants, when both instruments are classified as equity, the Company does not bifurcate the proceeds between the common share and the other equity instrument.

### j) Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**j) Share-based payments (continued)**

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment, using the Black-Scholes option pricing model.

**k) Financial instruments**

**Financial assets**

The Company's financial assets are classified into one of two categories:

*Financial assets at fair value through profit or loss ("FVTPL")*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management strategy. Attributable transaction costs are recognized in profit or loss when incurred. FVTPL are measured at fair value, and changes are recognized in profit or loss.

*Loans and receivables*

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

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investments have been impacted.

**Financial liabilities**

Financial liabilities are classified into one of two categories:

*Fair value though profit or loss*

This category comprises derivatives, or liabilities, acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### k) Financial instruments (continued)

*Other financial liabilities*

This category includes accounts payable and accrued liabilities, loans and financing, and other payables, all of which are recognized at amortized cost.

### l) Accounting standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any new standards and is currently evaluating the impact, if any, that the following new standards might have on its consolidated financial statements.

*Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

*Revenue Recognition*

*IFRS 15 - Revenue from Contracts and Customers ("IFRS 15"),* was issued by the IASB on May 28, 2014, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual years beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

*Leases*

In January 2016, the IASB issued IFRS 16 *Leases ("IFRS 16")* which replaces IAS 17, *Leases* and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to the current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

## 4. REVERSE TAKEOVER

On July 15, 2016, the Company completed a RTO through the acquisition of all but two of the issued and outstanding equity securities of YDBR. Pursuant to the definitive agreement with respect to the Acquisition, 30,000,000 consideration units of the Company (each, a "Consideration Unit") were issued as replacement shares for 321,740 issued and outstanding equity securities of YDBR that were originally held by YDBR shareholders. Each Consideration Unit is comprised of one common share of the Company (each, a "Company Share") and one-third of one common share purchase warrant of the Company (each whole warrant, a "Warrant"). Each Warrant is exercisable into one additional Company Share at an exercise price of $0.35 per Company Share until July 15, 2018. The 10,000,000 consideration Warrants were valued at $667,569 using the Black-Scholes pricing model with the following assumptions: dividend yield 0%, expected volatility 124%, risk-free interest rate 0.58% and an expected life of two years. In addition, in accordance with the policies of the Exchange, the Company paid 2,111,110 Company Shares valued at $316,666 as a finder's fee in connection with the completion of the RTO.

To complete the Acquisition, the following occurred:

<u>Private Placement</u>

Concurrent with closing the RTO, the Company completed a fully subscribed non-brokered private placement financing (the "Concurrent Financing") of an aggregate of 12,000,000 units (each, a "PP Unit") of the Company at a purchase price of $0.15 per PP Unit for gross proceeds of $1,800,000. Each PP Unit is comprised of one Company Share and one full Warrant. Each Warrant entitles the holder to purchase one Company Share at an exercise price of $0.35 until July 15, 2018. The Company: (i) paid aggregate cash amount of $59,442 to certain finders; (ii) issued an aggregate of 396,279 warrants, each of which is exercisable to acquire one Company Share at a price of $0.35 per share until July 15, 2018 to certain finders; and (iii) incurred filing and legal fees of $11,289 in connection with the Concurrent Financing. The finders' warrants were valued at $103,008 using the Black-Scholes pricing model with the following assumptions: dividend yield 0%, expected volatility 124%, risk-free interest rate 0.58% and an expected life of two years.

<u>Shares of Debt and Bonus Warrants</u>

The Company also entered into debt settlement agreements whereby the Company: (i) settled debt in the amount of $585,000 owed by the Company in exchange for the issuance of 6,500,002 Company Shares at a price of $0.15 per share; and (ii) $328,930 of debt was forgiven by certain creditors. The Company recognized a loss of $61,070 on debt settlement which was included in profit and loss. In addition, the Company issued 253,663 bonus warrants (the "Bonus Warrants") to certain lenders who advanced an aggregate of $126,832 to the Company to cover RTO transaction costs. Each Bonus Warrant is exercisable into one additional Company Share at an exercise price of $0.15 per Company Share until July 15, 2017. The Bonus Warrants were valued at $72,790 using the Black-Scholes pricing model with the following assumptions: dividend yield 0%, expected volatility 121%, risk-free interest rate 0.57% and an expected life of one year.

<u>Escrowed Shares</u>

*(Expressed in Canadian Dollars)* – Page 9

32,111,110 Company Shares have been deposited into escrow pursuant to the policies of the Exchange. The first release from escrow was on April 21, 2017, which is nine months from the RTO completion date.

As a result of the Acquisition, YDBR controlled the Company and is considered to have acquired the Company. The Company did not meet the definition of a business and the Acquisition was accounted for as the purchase of the Company's net assets (liabilities) by YDBR. The net purchase price was determined as an equity settled share-based payment, under *IFRS 2, Share-based payment*, at the fair value of the equity instruments of the Company retained by the shareholders of the Company, based on the market value of the Company's common shares on the date of closing of the RTO.

## 4. REVERSE TAKEOVER (continue)

The Acquisition costs related to the RTO plus the aggregate of the fair value of the consideration paid less the net assets (liabilities) acquired has been recognized as a listing expense in the statements of loss and comprehensive loss.

The fair value of net assets (liabilities) of the Company as at the date of the Acquisition was:

| | |
|---|---|
| Receivable | $ 16,373 |
| Marketable securities | 36,000 |
| Deferred financing costs | 9,750 |
| Accounts payable and accrued liabilities | (1,498,957) |
| Loan and interest payable | (273,423) |
| Advances from clients | (30,000) |
| Net liabilities acquired | $ (1,740,257) |

The consideration for the RTO amounts to $1,049,024, which consists of 2,543,032 common shares of the Company valued at $0.15 per share for a total of $381,455 and 10,000,000 consideration Warrants valued at $667,569.

$2,852,587 (being the consideration of $1,049,024 and the net liabilities of $1,740,257) has been recognized as a listing expense in the statements of loss.

## 5. CASH AND CASH EQUIVALENTS

The Company's cash and cash equivalents are denominated in the following currencies and include the following components:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Cash at bank and in hand – Canadian dollars | $ 185,638 | $ - |
| Cash at bank and in hand – Brazilian Real | 29,406 | 6,067 |
| Short-term deposits – Canadian dollars | 622,000 | - |
| | $ 837,044 | $ 6,067 |

## 6. MARKETABLE SECURITIES

Marketable securities are comprised of the following:

*(Expressed in Canadian Dollars)* – Page 10

| | Common shares | | Market value | | Costs |
|---|---|---|---|---|---|
| Balance, December 31, 2015 | - | $ | - | $ | - |
| Addition | 600,000 | | 36,000 | | 36,000 |
| Unrealized loss | - | | (12,000) | | - |
| Balance, December 31, 2016 | 600,000 | $ | 24,000 | $ | 36,000 |

## 6. MARKETABLE SECURITIES (continued)

The Company holds equity securities in a publically traded company (the "Shares"). During the year ended December 31, 2016, the Company recorded an unrealized loss in the amount of $12,000 (year ended December 31, 2015: Nil) which is included in profit or loss.

Subsequent to December 31, 2016, the Company sold the above 600,000 Shares for gross proceeds of $34,500.

## 7. TRADE ACCOUNTS RECEIVABLES AND PREPAIDS

The Company's trade accounts receivables and prepaids are comprised of goods and services tax ("GST") receivable due from Canadian government taxation authorities, fees prepaid to vendors of the Company, and trade accounts receivables due from YDBR's customers.

| | | December 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| GST recoverable | $ | 15,458 | $ | - |
| Prepaids | | 27,812 | | - |
| Trade accounts receivables | | 431,118 | | 395,168 |
| | $ | 474,388 | $ | 395,168 |

All amounts are short-term and the net carrying value of receivables is considered a reasonable approximation of fair value. The Company anticipates full recovery of these amounts and therefore no impairment has been recorded against receivables. The Company's receivables are all considered current and are not past due or impaired. The Company does not possess any collateral related to these assets.

## 8. RECOVERABLE TAXES

Recoverable taxes relate to various taxes in Brazil that will be recovered by YDBR.

| | | December 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Social contribution tax | $ | 113,988 | $ | 95,804 |
| Withholding income tax on revenue earned | | 161,841 | | 127,486 |
| Estimated IRPJ (Corporate Income Tax) | | 79,705 | | 54,654 |

| | | |
|---|---|---|
| Others | 86,484 | 37,857 |
| | $ 442,018 | $ 315,801 |

*(Expressed in Canadian Dollars)* – Page 12

## 9. EQUIPMENT

| | Computer and office equipment |
|---|---|
| Cost, December 31, 2014 | $ 681,068 |
| Additions | 1,806 |
| Cost, December 31, 2015 | 682,874 |
| Additions | 33,460 |
| Cost, December 31, 2016 | 716,334 |
| Accumulated depreciation, December 31, 2014 | 264,696 |
| Depreciation for the year | 96,169 |
| Accumulated depreciation, December 31, 2015 | 360,865 |
| Depreciation for the year | 95,436 |
| Accumulated depreciation, December 31, 2016 | $ 456,301 |
| Net book value, December 31, 2015 | $ 322,009 |
| Net book value, December 31, 2016 | $ 260,033 |

## 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Trade accounts payable and accrued liabilities | $ 217,249 | $ 79,585 |
| Due to related parties – (Note 20) | 6,733 | - |
| | $ 223,982 | $ 79,585 |

## 11. LOANS AND FINANCING

a) In September 2016, the Company received loans from three arm’s length non-related parties for a total principal amount of $37,000, bearing 10% interest per annum and due upon demand. During the year ended December 31, 2016, the Company fully repaid these loans.

b) YDBR borrowed a working capital loan from Banco Bradesco S.A. ("Bradesco"), a commercial bank in Brazil, bearing monthly interest of 1.33% and final maturity in January 2017. In October 2016, YDBR borrowed a new loan of $136,125 from Bradesco, bearing monthly interest of 3.56% and final maturity in January 2019. YDBR also has a Guaranteed Account with Bradesco, bearing monthly interest of 6.92%. As at December 31, 2016, $196,774 (December 31, 2015: $253,900) of principal and $24,119 (December 31, 2015: $6,835) of interest was outstanding relating to the Bradesco loans. Subsequent to December 31, 2016, The Company repaid a total of $89,432 to Bradesco.

*(Expressed in Canadian Dollars)* – Page 13

## 11. LOANS AND FINANCING (continued)

c) YDBR borrowed a working capital loan from Banco Itau S.A. ("Itau"), a commercial bank in Brazil, bearing monthly interest of 2.44% and final maturity in July 2016. YDBR had a Guaranteed Account with Itau, bearing monthly interest of 11.73%. As at December 31, 2016, $Nil (December 31, 2015: $61,898) of principal and $588 (December 31, 2015: $1,366) of interest was outstanding relating to the Itau loans.

d) YDBR borrowed a working capital loan from Banco Santander S.A. ("Santander"), a commercial bank in Brazil, bearing monthly interest of 1.33% and final maturity in March 2016. YDBR fully repaid this loan to Santander during the year ended December 1, 2016. As at December 31, 2016, $Nil (December 31, 2015: $11,847) of principal and $Nil (December 31, 2015: $283) of interest was outstanding relating to the Santander loan.

The following table summarizes information about the loans and financing outstanding at each reporting year:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Banco Bradesco S.A. | $ 220,893 | $ 260,825 |
| Banco Itau S.A. | 588 | 63,264 |
| Banco Santander S.A. | - | 12,130 |
| Consorcio Palio | - | 11,877 |
| | $ 221,481 | $ 348,096 |
| Current | $ 136,549 | $ 316,398 |
| Noncurrent | $ 83,932 | $ 31,698 |

## 12. SALARIES AND SOCIAL CHARGES PAYABLE

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Salaries payable, provision for vacation pay and charges | $ 169,262 | $ 166,023 |
| Social Security Tax (INSS) payable | 16,762 | 50,795 |
| Severance Pay Fund (FGTS) payable | 53,340 | 52,165 |
| Income tax on salary | 44,079 | 232,128 |
| Others | 259,747 | - |
| | $ 543,190 | $ 501,111 |
| Current | 344,560 | 501,111 |
| Non-current | 198,630 | - |
| | $ 543,190 | $ 501,111 |

*(Expressed in Canadian Dollars)* – Page 14

## 13. TAXES AND CONTRIBUTIONS PAYABLE

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| CIDE (Economic Intervention Contribution) payable | $ 109,927 | $ 106,403 |
| PIS / COFINS / CSLL payable | 3,441 | 56,132 |
| ISS (Tax on services) payable | 19,474 | 232,887 |
| COFINS on shipment payable | 94,312 | 98,351 |
| Others | 604,671 | 189,317 |
| | $ 831,825 | $ 683,090 |
| Current | 375,592 | 683,090 |
| Non-current | 456,233 | - |
| | $ 831,825 | $ 683,090 |

## 14. SHARE CAPITAL

(a) Authorized – Unlimited common shares without par value

Issued and outstanding as at December 31, 2016 – 54,470,811 common shares (December 31, 2015: 321,742)

(b) Warrants

The following summarizes the share purchase warrants that were issued from December 31, 2014 to December 31, 2016:

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| Balance, December 31, 2015 and 2014 | - | - |
| Replacement warrants - RTO | 1,991,502 | $1.35 |
| Issued | 22,649,942 | $0.35 |
| Balance, December 31, 2016 | 24,641,444 | $0.43 |

At December 31, 2016, the Company had 24,641,444 share purchase warrants outstanding. Each warrant entitles the holder the right to purchase one common share of the Company at the exercise price per common share with the following expiry dates:

| Expiry Date | Exercise Price | Number | |
|---|---|---|---|
| July 15, 2017 | $0.15 | 253,663 | |
| May 6, 2018 | $6.00 | 215,000 | |
| July 15, 2018 | $0.35 | 12,396,279 | |
| July 15, 2018 | $0.35 | 10,000,000 | * |
| September 13, 2018 | $3.00 | 318,169 | |
| April 24, 2020 | $0.30 | 1,458,333 | |

*(Expressed in Canadian Dollars)* – Page 15

| | |
|---|---|
| Total | 24,641,444 |

**14. SHARE CAPITAL (continued)**

(b) Warrants (continued)

* These consideration Warrants are held in escrow until April 21, 2020. The first release from escrow will be for 1,000,000 Warrants on April 21, 2017. The remaining Warrants will be released in amounts of 1,500,000 Warrants every six months thereafter. The holders of these Warrants may exercise the Warrants any time before expiry; however, once exercised, they must then be deposited back into escrow as common shares and released in accordance with the above schedule.

(c) Options

The Company has a stock option plan whereby the maximum number of shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares of the Company, as at the date of grant. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of common shares at the date of grant. The exercise price of each option granted under the plan may not be less than the Discounted Market Price (as that term is defined in the policies of the Exchange).

Options may be granted for a maximum term of five years from the date of grant and vest as determined by the board of directors.

The Company's options outstanding as at December 31, 2016 and December 31, 2015 and the changes between are as follows:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Balance, December 31, 2015 and 2014 | - | - |
| Replacement options - RTO | 99,967 | $3.26 |
| Granted | 3,400,000 | $0.35 |
| Exercised | (1,316,667) | $0.20 |
| Expired | (4,300) | $9.00 |
| Forfeited | (1,666) | $3.00 |
| Balance, December 31, 2016 | 2,177,334 | $0.55 |

During the year ended December 31, 2016, the Company granted 3,400,000 stock options with exercise prices ranging from $0.15 to $0.49 per share and expiry dates ranging from August 4, 2017 to October 27, 2021 (2015: Nil stock options were granted). The vesting schedule of the options were as follows: 150,000 options at an exercise price of $0.49 per share, 600,000 options at an exercise of $0.15 per share, and 1,000,000 options at an exercise price of $0.25 per share vested immediately; 150,000 options at an exercise price of $0.49 per share vested 90 days after the grant; for the remaining 1,000,000 options at an exercise price of $0.49 per share and 500,000 options at an exercise price of $0.40 per share, 20% vest each year on the anniversary date of the grant. The weighted average fair value of the options issued in the year ended December 31, 2016 was estimated at $0.10 per option at the grant date using the Black-Scholes option pricing model with the following assumptions:

*(Expressed in Canadian Dollars)* – Page 16

## 14. SHARE CAPITAL (continued)

(c) Options (continued)

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|---|---|---|
| Weighted average expected dividend yield | 0.0% | N/A |
| Weighted average expected volatility * | 129.36% | N/A |
| Weighted average risk-free interest rate | 0.69% | N/A |
| Weighted average expected term | 2.97 years | N/A |

* Expected volatility has been based on historical volatility of the Company's publicly traded Shares.

Total share-based payment expense recorded during the year ended December 31, 2016 was $351,002 (2015: $Nil).

The following table summarizes information about the options outstanding as at December 31, 2016:

| Options Outstanding | | | | Options Exercisable | |
|---|---|---|---|---|---|
| Number of Options | Expiry Date | Weighted Average Remaining Life (Years) | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| 300,000 | August 4, 2017 | 0.59 | $0.49 | 300,000 | $0.49 |
| 94,001 | October 3, 2018 | 1.76 | $3.00 | 94,001 | $3.00 |
| 283,333 | December 20, 2018 | 1.97 | $0.25 | 283,333 | $0.25 |
| 1,000,000 | August 4, 2021 | 4.59 | $0.49 | - | $0.49 |
| 500,000 | October 27, 2021 | 4.82 | $0.40 | - | $0.40 |
| 2,177,334 | | 3.63 | $0.66 | 677,334 | $0.74 |

(d) Escrow shares

As at December 31, 2016, 32,111,110 (December 31, 2015: Nil) common shares were held in escrow. The first release from escrow was for 3,211,111 shares on April 21, 2017, which is nine months from the RTO completion date. The remaining shares will be released in amounts of 4,816,666 shares every six months thereafter.

## 15. NET SALES REVENUE

The following table summarizes information about net sales revenue for the reporting period:

| | Years ended December 31, 2016 | 2015 |
|---|---|---|
| Revenues from services | $ 5,721,048 | $ 4,413,103 |
| Less: Taxes on sales | | |
| ISS on sales | (277,959) | (150,512) |
| PIS and COFINS on revenue earned | (208,343) | (159,233) |
| | (486,302) | (309,745) |

| | | |
|---|---|---|
| | $ 5,234,746 | $ 4,103,358 |

*(Expressed in Canadian Dollars)* – Page 18

## 15. NET SALES REVENUE (continued)

For the years ended December 31, 2016 and 2015, customers accounting for more than 10% of net revenue are listed as below:

| Customer | 2016 | 2015 |
|---|---|---|
| Banco Bradesco S.A. | 12% | 47% |
| Cisco | 17% | - |
| IDACO | 42% | - |
| All other customers | 29% | 53% |

## 16. LOSS PER SHARE

The calculation of basic and diluted loss per share was based on the following data:

| | Years ended December 31, 2016 | 2015 |
|---|---|---|
| Net Loss | $ 3,768,077 | $ 709,050 |
| Weighted average number of common shares for the purpose of basic and diluted loss per share | 25,852,322 | 321,742 |

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. All of the stock options and share purchase warrants currently issued (see Note 15) were anti-dilutive for the years ended December 31, 2016 and 2015.

The loss per share for the year ended December 31, 2016 was $0.15 (2015: $2.20).

## 17. RELATED PARTY TRANSACTIONS

*Key management personnel compensation*

Key management of the Company are directors and officers of the Company and their remuneration includes the following:

| | Years ended December 31, 2016 | 2015 |
|---|---|---|
| Management fees | $ 270,730 | $ 148,810 |
| Management fees - costs of services rendered | - | 101,859 |
| Professional fees | 22,895 | - |
| Allowance | 15,444 | 15,711 |
| Consideration shares issued at RTO | 169,429 | - |
| Consideration warrants issued at RTO | 667,569 | - |

| | | |
|---|---|---|
| | $ 1,146,067 | $ 266,380 |

## 17. RELATED PARTY TRANSACTIONS (continued)

*Related party balances and transactions*

At December 31, 2016, accounts payable and accrued liabilities includes $6,733 (December 31, 2015: $Nil) payable to a former director of the Company, a private company controlled by an officer, and a public company with a common director; and salaries and social charges payable includes $17,537 (December 31, 2015: $14,884) payable to two directors of the Company, for unpaid fees. These amounts are unsecured, non-interest bearing and payable on demand.

The Company received a $50,000 loan from a relative of a director of the Company in July 2015. In August 2015, the Company received a loan of $15,094 from a director of the Company. As consideration, the Company issued bonus warrants as finance fees to these individuals on July 15, 2016 (Note 4). During the year ended December 31, 2016, the Company fully repaid these loans.

## 18. NON-CASH TRANSACTIONS

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statement of cash flows. During the year ended December 31, 2016, the following transactions were excluded from the statements of cash flows:

a) Pursuant to the debt settlement agreements, the Company settled debt in the amount of $585,000 owed by the Company in exchange for the issuance of 6,500,002 common shares.

b) The Company issued 30,000,000 common shares as replacement shares for 321,740 issued and outstanding equity securities of YDBR that were originally held by YDBR shareholders.

## 19. MANAGEMENT OF CAPITAL

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. As at December 31, 2016, the Company does not have any externally imposed capital requirements. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristic of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue common shares, or dispose of assets.

*(Expressed in Canadian Dollars)* – Page 21

## 20. INCOME TAXES

The tax expense differs from the theoretical amount that would arise using the tax rate applicable to profits of the Company for the years ended December 31, 2016 and 2015 as follows:

| | **2016** | **2015** |
|---|---|---|
| Income (loss) for the year before taxes | $ (3,915,226) | $ (597,702) |
| Statutory rate | 37% | 37% |
| Expected income recovery | 1,331,000 | 203,000 |
| Share issue costs | 24,000 | - |
| Non-deductible items | (1,089,000) | (72,000) |
| Other | (2,000) | - |
| Change in unrecognized deferred tax assets | (264,000) | (131,000) |
| Total income tax expense (recovery) | $ - | $ - |

Deferred income tax asset are only recognized to the extent that the realization of tax loss carry-forwards is determined to be probable. As at December 31, 2016, the Company has not recognized any deferred income tax assets.

The Company has unrecognized deferred tax assets as follows:

| | 2016 | 2015 |
|---|---|---|
| Deferred tax assets: | | |
| Loss carried forward | $ 275,000 | $ 159,000 |
| Undeducted financing costs and other | 105,000 | - |
| Capital assets | 32,000 | - |
| Unrecognized deferred tax assets | (412,000) | (159,000) |
| Total deferred tax assets | $ - | $ - |

For income tax purposes, as at December 31, 2016, the Company had $1,114,000 (2015: $NIL) of Canadian federal net operating losses carry-forward of which expire as follows:

| Expiry | Amount |
|---|---|
| 2036 | 1,114,000 |
| Total | $ 887,000 |

## 21. FINANCIAL INSTRUMENTS AND RISK

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

*(Expressed in Canadian Dollars)* – Page 22

## 21. FINANCIAL INSTRUMENTS AND RISK (continued)

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's cash and cash equivalents, receivables, accounts payable and accrued liabilities, and loans and financing approximates their carrying values due to the short term nature of the financial instruments. The Company's marketable securities are measured at fair value using Level 1 inputs.

The table below shows the breakdown by category of the main financial assets and financial liabilities at December 31, 2016 and 2015:

| | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets** | | | | |
| *FVTPL:* | | | | |
| Marketable securities | $ 24,000 | $ 24,000 | $ - | $ - |
| *Loans and receivables:* | | | | |
| Cash and cash equivalents | 837,044 | 837,044 | 6,067 | 6,067 |
| Trade accounts receivable | 446,576 | 446,576 | 395,168 | 395,168 |
| Other receivables | - | - | 9,916 | 9,916 |
| **Total financial assets** | $ 1,307,620 | $ 1,307,620 | $ 411,151 | $ 411,151 |
| **Financial liabilities** | | | | |
| *At amortized cost:* | | | | |
| Accounts payable and accrued liabilities | $ 223,982 | $ 223,982 | $ 79,585 | $ 79,585 |
| Loans and financing | 221,481 | 221,481 | 348,096 | 348,096 |
| Other payables | 9,976 | 9,976 | 52,104 | 52,104 |
| **Total financial liabilities** | $ 455,439 | $ 455,439 | $ 479,785 | $ 479,785 |

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The functional currency of the Company is CAD and the functional currency of YDBR is the R$, respectively. The reporting currency is CAD.

As at December 31, 2016, the Company and YDBR are exposed to currency risks arising from fluctuations in foreign exchange rates between CAD and R$ the degree of volatility of these rates. The Company raises funds from equity financings primarily in CAD. The Company and YDBR do not use derivative instruments to reduce their exposure to foreign exchange and currency risks. The Company and YDBR's exposure to foreign currency risks on cash balances held in foreign currencies is not expected to be significant.

The foreign exchange risk exposure of the Company and YDBR's financial instruments as at December 31, 2016 is as below:

*(Expressed in Canadian Dollars)* – Page 23

## 21. FINANCIAL INSTRUMENTS AND RISK (continued)

| Financial instrument type | CAD | Currency | +/- 10% fluctuation Increase / (decrease) | |
|---|---|---|---|---|
| Marketable securities | $ 24,000 | CAD | $ - | $ - |
| Cash and cash equivalents | 807,638 | CAD | - | - |
| Cash and cash equivalents | 29,406 | R$ | 2,941 | (2,941) |
| Trade accounts receivable | 15,458 | CAD | - | - |
| Trade accounts receivable | 431,118 | R$ | 43,112 | (43,112) |
| Recoverable taxes | 442,018 | R$ | 44,202 | (44,202) |
| Loans and financing | (221,481) | R$ | (22,148) | 22,148 |
| Accounts payable and accrued liabilities | (146,188) | CAD | - | - |
| Accounts payable and accrued liabilities | (77,794) | R$ | (7,779) | 7,779 |
| Salaries and social charges payable | (543,190) | R$ | (54,319) | 54,319 |
| Taxes and contributions payable | (831,825) | R$ | (83,182) | 83,182 |
| Other payables | (9,976) | R$ | (998) | 998 |
| **Total** | $ (80,816) | | $ (78,171) | $ 78,171 |

The foreign exchange risk exposure of the Company and YDBR's financial instruments as at December 31, 2015 is as below:

| Financial instrument type | CAD | Currency | +/- 10% fluctuation Increase / (decrease) | |
|---|---|---|---|---|
| Cash and cash equivalents | $ 6,067 | R$ | $ 607 | $ (607) |
| Trade accounts receivable | 395,168 | R$ | 39,517 | (39,517) |
| Other receivables | 9,916 | R$ | 992 | (992) |
| Recoverable taxes | 315,801 | R$ | 31,580 | (31,580) |
| Loans and financing | (348,096) | R$ | (34,810) | 34,810 |
| Accounts payable and accrued liabilities | (79,585) | R$ | (7,959) | 7,959 |
| Salaries and social charges payable | (501,111) | R$ | (50,111) | 50,111 |
| Taxes and contributions payable | (683,090) | R$ | (68,309) | 68,309 |
| Other payables | (52,104) | R$ | (5,210) | 5,210 |
| **Total** | $ (937,034) | | $ (93,703) | $ 93,703 |

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and cash equivalents and YDBR's receivables (Note 7) are exposed to credit risk. The Company reduces its credit risk on cash and cash equivalents by placing these instruments with institutions of high credit worthiness. YDBR closely monitors its receivables. Below is a table summarizing YDBR's receivables as at December 31, 2016 for its three main customers:

| Customer | Receivables |
|---|---|
| Banco Brades co S.A. | $ 10,220 |
| Cisco | 18,748 |
| Idaco | 193,384 |

The above receivables are current and are not past due. As at December 31, 2016, the Company and YDBR are not exposed to any significant credit risk.

## 21. FINANCIAL INSTRUMENTS AND RISK (continued)

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Included in the loss for the year in the financial statements is interest expense on loans and financing and interest income on Canadian dollar cash. The Company has debt instruments at fixed rates and is therefore not exposed to risk in the event of interest rate fluctuations. As at December 31, 2016, the Company is not exposed to any significant interest rate risk.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. The Company addresses its liquidity through equity financing obtained through the sale of common shares and the exercise of warrants and options. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be affected by credit risk and interest rate risk.

## 22. SUBSEQUENT EVENTS

Subsequent to December 31, 2016, the following occurred:

a) The Company granted 2,300,000 stock options to its directors, officers and consultants at an exercise price of $0.41 per share for a period of five years, which vested immediately.

b) The Company closed a non-brokered private placement of 3,000,000 units at $0.20 per unit for gross proceeds of $600,000. Each unit consisted of one common share and one share purchase warrant which entitles the holder to purchase one additional common share of the Company at a price of $0.25 until January 5, 2019. In connection with this private placement, the Company incurred filing fees of $3,750.

c) The Company issued 283,333 common shares for stock options exercised at a price of $0.25 per share.

d) The Company issued 2,324,167 common shares for share purchase warrants exercised at a price of $0.35 per share.