

Consolidated Financial Statements

Cricket Media Group Ltd.

For the years ended December 31, 2015 and 2014

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Consolidated Financial Statements
December 31, 2015 and 2014

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Tel: 804-330-3092
Fax: 804-330-7753
www.bdo.com

300 Arboretum Place, Suite 520
Richmond, VA 23236

Independent Auditor's Report

To the Board of Directors
Cricket Media Group, Ltd.
Herndon, Virginia, USA

We have audited the accompanying consolidated financial statements of Cricket Media Group, Ltd. ("Cricket Media"), which comprise the consolidated statements of financial position at December 31, 2015 and 2014, and the consolidated statements of comprehensive loss, statements of changes in equity (deficit), and statements of cash flows for the years ended December 31, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with International Standards on Auditing. 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 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 Cricket Media Group, Ltd at December 31, 2015 and 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and 2014 in accordance with International Financial Reporting Standards.

Emphasis of Matter

The consolidated financial statements have been prepared assuming Cricket Media will continue as a going concern. Cricket Media has incurred significant operating losses and negative cash flows from operations in recent years and as described in Note 2, Going Concern and Liquidity, Cricket Media has insufficient cash to fund its expected net operating shortfall and obligations for the year ended December 31, 2016. Cricket Media needs to obtain sufficient capital or make reductions to its expenditures in order to fund future operations. These material uncertainties may cast significant doubt upon Cricket Media's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that may result from this uncertainty.

BDO USA, LLP

Richmond, Virginia, USA
April 29, 2016

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Cricket Media Group Ltd.
Consolidated Statements of Financial Position
December 31, 2015 and 2014

	December 31,	December 31,
	2015	2014
Assets		
Current assets		
Cash & cash equivalents	\$ 293,838	\$ 912,565
Accounts receivable, net of allowance for doubtful accounts (Note 6)	1,896,041	968,678
Inventory (Note 7)	402,786	448,770
Other current assets	902,316	915,231
Current assets held for sale (Note 4)	543,166	676,399
Total current assets	<u>4,038,147</u>	<u>3,921,643</u>
Property and equipment, net	134,861	261,824
Investment in NeuPals (Note 10)	417,043	540,266
Goodwill (Note 9)	13,479,967	13,519,899
Other intangible assets, net (Note 9)	4,439,539	4,375,055
Restricted cash	76,432	76,277
Other assets	119,918	63,231
Long-term assets held for sale (Note 4)	-	1,275
Total assets	<u><u>\$ 22,705,907</u></u>	<u><u>\$ 22,759,470</u></u>
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities		
Accounts payable and accrued expenses (Note 11)	\$ 5,013,540	\$ 5,785,970
Accrued interest	2,408,082	1,010,689
Deferred revenue, current	6,224,518	6,267,928
Notes payable, current portion (Note 12)	263,364	1,470,000
Notes payable to related parties (Note 12)	3,500,000	1,050,118
Bridge loan debentures (Note 5 and 12)	6,844,930	-
Secured convertible debentures (Note 5 and 12)	15,777,143	-
Finance lease obligations, current (Note 19)	32,748	46,554
Other current liabilities	180,469	168,992
Current liabilities held for sale (Note 4)	511,284	565,127
Total current liabilities	<u>40,756,078</u>	<u>16,365,378</u>
Secured convertible debentures (Note 5 and 12)	-	18,710,994
Deferred revenue, less current portion	822,318	689,875
Notes payable, less current portion (Note 12)	1,034,877	-
Finance lease obligations, less current portion	38,205	70,953
Other liabilities	11,440	11,440
Total liabilities	<u>42,662,918</u>	<u>35,848,640</u>
Commitments and contingencies (Note 19)		
Stockholders' equity (deficit)		
Share capital (Note 13)	115,763,689	115,057,827
Additional paid-in-capital	14,565,738	12,744,057
Accumulated deficit	(148,646,490)	(139,259,881)
Accumulated other comprehensive loss	(147,900)	(139,125)
Less: Treasury stock (28,800 shares)	(1,492,048)	(1,492,048)
Total stockholders' equity (deficit)	<u>(19,957,011)</u>	<u>(13,089,170)</u>
Total liabilities and stockholders' equity (deficit)	<u><u>\$ 22,705,907</u></u>	<u><u>\$ 22,759,470</u></u>

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

Cricket Media Group Ltd.
Consolidated Statements of Comprehensive Loss
Years Ended December 31, 2015 and 2014

	Year Ended December 31,	
	2015	2014
Revenue (Note 15)	\$ 13,278,335	\$ 14,596,684
Operating expenses:		
Cost of sales	8,181,301	9,229,608
Technology, research & development costs	2,218,590	4,347,276
Operations and support expenses	2,356,509	3,001,607
General and administrative expenses	5,721,416	6,281,655
Marketing and promotion expenses	4,607,376	7,000,359
Stock-based compensation (Note 14)	275,853	356,881
Depreciation & amortization	804,396	968,263
Loss on investment in NeuPals (Note 10)	123,223	271,663
Change in estimated fair value of acquisition share consideration	-	(181,042)
Impairment of goodwill and intangible assets (Note 9)	39,932	3,716,858
Total operating expenses	24,328,596	34,993,128
Loss from operations	(11,050,261)	(20,396,444)
Other income (expense):		
Change in fair value of derivatives (Note 5)	144,100	63,750
Interest expense, net	(2,058,231)	(3,662,847)
Other income	10,838	52,571
Net foreign currency exchange gain	3,462,854	1,831,254
Loss from continuing operations	(9,490,700)	(22,111,716)
Income/(Loss) from discontinued operations	104,091	(338,484)
Net Loss	(9,386,609)	(22,450,200)
Other comprehensive income (loss):		
Items that may be subsequently reclassified into net income/loss		
Foreign currency translation	(8,775)	12,713
Total comprehensive loss	\$ (9,395,384)	\$ (22,437,487)
Net loss per common share - basic and diluted:		
Continuing operations	(0.31)	(1.22)
Discontinued operations	-	(0.02)
Net loss per share - basic and diluted	\$ (0.31)	\$ (1.24)
Weighted average number of common shares:		
Basic and diluted	30,880,812	18,130,478

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

Cricket Media Group Ltd.
Consolidated Statements of Changes in Equity (Deficit)
Years Ended December 31, 2015 and 2014

	Voting Common Stock		Restricted Voting Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Deficit	Unvested Voting Common Stock	Accumulated Other Comprehensive Loss	Total Stockholders' (Deficit) Equity
	Shares	Dollars	Shares	Dollars	Shares	Dollars					
Balance at December 31, 2014	5,526,997	\$ 60,689,552	23,003,009	\$ 54,368,275	(28,800)	\$ (1,492,048)	\$ 12,744,057	\$ (139,259,881)	\$ -	\$ (139,125)	\$ (13,089,170)
Conversion from restricted to voting common stock	3,682,789	3,039,672	(3,682,789)	(3,039,672)	-	-	-	-	-	-	-
Forgiveness of related party debt	-	-	-	-	-	-	1,000,000	-	-	-	1,000,000
Issuance of common stock in private placement	2,194,723	641,869	-	-	-	-	608,131	-	-	-	1,250,000
Share issuance costs	-	(16,453)	-	-	-	-	-	-	-	-	(16,453)
Stock compensation: stock options	-	-	-	-	-	-	139,363	-	-	-	139,363
Stock compensation: restricted share units	-	-	-	-	-	-	172,810	-	-	-	172,810
Vesting of restricted common stock	345,385	40,009	445,551	49,859	-	-	(89,868)	-	-	-	-
Net loss	-	-	-	-	-	-	-	(9,386,609)	-	-	(9,386,609)
Foreign currency translation	-	(9,422)	-	-	-	-	(8,755)	-	-	(8,775)	(26,952)
Balance at December 31, 2015	11,749,894	\$ 64,385,227	19,765,771	\$ 51,378,462	(28,800)	\$ (1,492,048)	\$ 14,565,738	\$ (148,646,490)	\$ -	\$ (147,900)	\$ (19,957,011)
Balance at December 31, 2013	4,311,397	\$ 59,651,648	7,672,744	\$ 45,261,083	(28,800)	\$ (1,492,048)	\$ 7,352,232	\$ (116,809,681)	\$ (1,876)	\$ (151,838)	\$ (6,190,480)
Conversion from restricted to voting common stock	87,738	98,199	(87,738)	(98,199)	-	-	-	-	-	-	-
Warrants exercised	-	-	235,834	403,542	-	-	-	-	-	-	403,542
Issuance of common stock to satisfy debt obligations	-	-	10,780,358	6,715,178	-	-	3,463,118	-	-	-	10,178,296
Issuance of common stock in private placement	1,108,803	945,482	4,355,499	2,235,761	-	-	1,657,866	-	-	-	4,839,109
Stock compensation: stock options	-	-	-	-	-	-	196,561	-	-	-	196,561
Stock compensation: restricted share units	19,059	22,859	46,312	30,042	-	-	68,826	-	-	-	121,727
Stock compensation: warrants	-	-	-	-	-	-	10,026	-	-	-	10,026
Share issuance costs	-	(24,131)	-	(179,132)	-	-	-	-	-	-	(203,263)
Vesting of restricted common stock	-	-	-	-	-	-	-	-	1,876	-	1,876
Net loss	-	-	-	-	-	-	-	(22,450,200)	-	-	(22,450,200)
Foreign currency translation	-	(4,505)	-	-	-	-	(4,572)	-	-	12,713	3,636
Balance at December 31, 2014	5,526,997	\$ 60,689,552	23,003,009	\$ 54,368,275	(28,800)	\$ (1,492,048)	\$ 12,744,057	\$ (139,259,881)	\$ -	\$ (139,125)	\$ (13,089,170)

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

Cricket Media Group Ltd.
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	Year Ended December 31,	
	2015	2014
Cash flows from operating activities:		
Net loss from continuing operations	\$ (9,490,700)	\$ (22,111,716)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain from change in fair value of derivatives (Note 5)	(144,100)	(63,750)
Depreciation and amortization	804,396	968,263
Stock-based compensation (Note 14)	275,853	356,881
Bad debt recovery, net	195,011	(101,124)
Loss on investment in NeuPals (Note 10)	123,223	271,663
Amortization of financing costs from debentures (see Note 12)	352,738	2,019,285
Write-off of abandoned patents (Note 9)	23,469	196,270
Net foreign currency exchange gains	(3,462,854)	(1,831,254)
Restricted share vesting	-	1,876
Change in estimated fair value of acquisition consideration	-	(181,042)
Impairment of goodwill and intangible assets (Note 9)	39,932	3,716,858
Income tax provision (Note 16)	10,296	21,389
Changes in operating assets and liabilities:		
Accounts receivable	(1,096,050)	(271,897)
Inventory	45,984	(111,144)
Other current assets	42,914	37,523
Accounts payable and accrued expenses	661,280	663,946
Deferred revenue	89,033	(316,216)
Other	208,549	279,469
Total adjustments	<u>(1,830,326)</u>	<u>5,656,996</u>
Net cash used in continuing operations	<u>(11,321,026)</u>	<u>(16,454,720)</u>
Net cash provided by discontinued operations	<u>119,756</u>	<u>221,223</u>
Net cash used in operating activities	<u>(11,201,270)</u>	<u>(16,233,497)</u>
Cash flows from investing activities:		
Cash paid for acquisitions	-	(301,362)
Cash received for sale of Nexify business	35,000	-
Purchases of equipment	-	(51,277)
Cash paid for patents and owned permissions	<u>(728,609)</u>	<u>(682,808)</u>
Net cash used in investing activities	<u>(693,609)</u>	<u>(1,035,447)</u>
Cash flows from financing activities:		
Proceeds from bridge financing debentures, net of financing costs (see Note 12)	6,796,160	-
Proceeds from related party line of credit (see Note 12)	5,297,000	9,700,118
Proceeds from private placement, net of expenses	1,250,000	4,640,712
Repayments on related party line of credit	(1,847,118)	(100,000)
Repayments on bank line of credit / promissory note	(171,759)	(30,000)
Payments on finance lease obligations	(46,554)	(65,716)
Proceeds from exercise of stock warrants	<u>-</u>	<u>399,882</u>
Net cash provided by financing activities	<u>11,277,729</u>	<u>14,544,996</u>
Increase (decrease) in cash and equivalents	(617,150)	(2,723,948)
Effect of exchange rates on cash	(1,577)	(5,472)
Cash & cash equivalents at the beginning of the period	912,565	3,641,985
Cash & cash equivalents at the end of the period	<u>\$ 293,838</u>	<u>\$ 912,565</u>

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

Cricket Media Group Ltd.
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	Year Ended December 31,	
	2015	2014
Non-cash financing activities:		
Forgiveness of related party debt - reclass to contributed capital	\$ 1,000,000	\$ -
Issuance of common shares in connection with acquisition consideration liabilities	-	150,000
Issuance of common shares related to credit facility with related party	-	10,050,000
Issuance of warrants in connection with private placement	-	11,978
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 71,665	\$ 1,322,800
Cash paid for income taxes	10,699	13,390

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

Cricket Media Group Ltd.

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

NOTE 1 - Organization and Significant Accounting Policies

Cricket Media Group Ltd. ("Cricket Media" or the "Company"), was incorporated under the laws of the Province of Alberta on July 14, 2010. Previously classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange ("TSX-V"), the Company completed a "qualifying transaction" as defined under the policies of the TSX-V on July 26, 2011 when it acquired Cricket Media, Inc. (formerly "ePals, Inc.") pursuant to a statutory procedure to form "ePals Corporation" ("Merger"). In connection with the Merger, the Company continued under the laws of the Province of Ontario.

In July 2014, the TSX-V approved the consolidation of the Company's issued and outstanding voting and restricted voting common shares, each on the basis of one post-consolidation share for every 25 pre-consolidation shares. The post-consolidation voting common shares commenced trading on the TSX-V as of July 10, 2014. This adjustment has been reflected for all periods presented in the financial statements. Concurrent with the share consolidation, the Company changed its legal name from ePals Corporation to Cricket Media Group Ltd.

Cricket Media is an education media company that provides award-winning content on a safe and secure learning network for children, families and teachers across the world. Cricket Media's popular media brands for toddlers to teens include Babybug®, Ladybug®, Cricket® and Cobblestone® with multiple language editions and apps in English, Spanish and Mandarin. In addition to activities associated with the sale of print and digital content, the Company licenses its content and innovative technology associated with its collaborative social media platform. The Company's digital K-12 products for school and home include the ePals global community (the Company's network of classrooms that allows teachers and students to safely connect and collaborate with other classrooms around the world) as well as In2Books®, a Common Core eMentoring program that builds reading, writing and critical thinking skills.

Basis of presentation

These consolidated financial statements and the notes thereto have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, are presented in United States dollars ("USD") (unless otherwise noted). The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as explained in the accounting policies below.

During the fourth quarter of 2014, the Company determined its Nexify advertising business and Open Court commerce business no longer fit the Company's overall strategy. As a result, the Company began actively marketing these businesses for sale with the expectation that these businesses would be sold in the near future. As such, the Company has classified the assets and liabilities associated with these businesses as held for sale and the operations as discontinued operations. The Nexify business was sold in July 2015.

Principles of consolidation

These consolidated financial statements include the accounts of Cricket Media, its wholly-owned subsidiaries, Cricket Media, Inc., Carus Publishing Company ("Carus"), and ePals-Nexify, Inc., and ePals Foundation which is an entity in which Cricket Media, Inc. holds a controlling interest. All material intercompany balances and transactions have been eliminated in consolidation.

The Company assesses control over its investees when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The usual condition for controlling financial interest is ownership of a majority of the voting

interest of a subsidiary and therefore, as a general rule, ownership of more than fifty percent of the outstanding voting shares is a condition of consolidation. Since ePals Foundation is a U.S. non-stock corporation, controlling financial interest must be based on other factors. Cricket Media, Inc. is the sole member of ePals Foundation, has full control over the election of the ePals Foundation's board of directors, and manages, controls and directs the affairs and property of ePals Foundation, including general management, accounting, finance, human resources, and fund raising. Therefore, ePals Foundation is consolidated with Cricket Media.

Business combinations

The Company accounts for business combinations in accordance with IFRS 3, *Business Combinations* (2008), ("IFRS 3").

All business combinations are accounted for by applying the acquisition method. The acquisition date is the date on which control is transferred to the acquirer. Judgment is applied in determining the acquisition date and determining whether control is transferred from one party to another.

Goodwill is initially measured as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. To the extent that the fair value exceeds the consideration transferred, the excess is recognized in profit.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Company from the previous owners of the acquiree and equity interests issued by the Company. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event and its fair value can be measured reliably.

Non-controlling interest is measured at its proportionate interest in the fair value of the identifiable net assets of the acquiree.

Transaction costs incurred in connection with a business combination, such as legal fees, due diligence fees and other professional and consulting fees are expensed as incurred, unless the costs are related to debt. Transaction costs that are directly attributable to debt instruments related to business acquisitions are capitalized and netted with the outstanding balance associated with the debt instruments on the consolidated balance sheet.

If the Company obtains control over one or more entities that are not businesses, then the bringing together of any one of those entities and the Company is not a business combination. The cost of acquisition is allocated among the individual identifiable assets and liabilities of such entities, based on their relative fair values at the date of acquisition. Such transactions do not give rise to goodwill and no non-controlling interest is recognized.

Revenue recognition

Revenue represents the fair value of consideration received or receivable from clients for goods and services provided by the Company.

Media subscription revenues include print and digital subscriptions of children's magazines. Revenue is deferred and recognized ratably over the subscription period as the magazine issues are delivered or made available on the Company's digital platforms. When digital magazine subscriptions are sold bundled with print magazine subscriptions, the price of the bundle is bifurcated between the regular price of print magazine subscriptions, which is attributed to the print magazine, and the incremental revenue attributed to digital magazine subscription. Revenues for digital apps are recognized ratably over the subscription period. Media subscription revenues from the sale of children's magazines under buy-sell arrangements with distributors are recorded based on the net amount received from the distributor, whereas subscription revenues under fee-based delivery arrangements with distributors are recorded based on the amount received from the subscriber.

Revenues from book and consumer product sales are recognized when orders are shipped to the customers. Revenue recognized includes amounts billed to customers in a sales transaction for shipping and handling, as well as an allowance for customer returns.

The Company earns revenues for the licensing of articles and content in its books and magazines. Licensing revenue is recorded at the time the licensed materials are available to the licensee and collections are reasonably assured and no further performance is required by the Company.

Revenues from third-party media distributors are accrued based on estimated sales net of estimated returns, and the revenues are adjusted to the actual amounts upon receipt of the third-party distributor reports.

Revenues from software as a service ("SAAS")-based subscription license agreements, which relate to the Company's legacy platform business, are recognized ratably over the contract term beginning on the commencement date of each contract.

Operating Expenses

Cost of sales

Costs of sales consists of the direct costs incurred to provide our services and sell our products, which primarily consists of the following: sales commissions and salaries related to our media and platform business; costs incurred to produce, distribute and store the Company's print and digital media products; and licensing and editorial expenses.

Technology, research and development costs

Research costs are expensed as incurred. Development costs are capitalized when a specific product is determined to be technically feasible, when there is an intention to produce the product in a clearly defined future market and adequate resources exist to complete the project. Based on the Company's product development process, technological feasibility generally occurs on completion of a working model of the Company's product. To date, development costs incurred between the completion of a working model of the Company's product and the general release of the product have been minimal. As a result, the Company has not capitalized development costs as of December 31, 2015 or 2014. For the years ended December 31, 2015 and 2014, the Company expensed research and product development costs of \$872,410 and \$1,861,754, respectively, as classified in technology, research and development on the Consolidated Statements of Comprehensive Loss.

Operations and support costs

Operations and support costs consist of expenses related to the ongoing day-to-day operations of the international division, education / global community, customer support and internal technology support functions.

Marketing and promotion expense

Marketing and promotion expenses related to ongoing marketing activities are expensed as incurred.

Stock-based compensation

Equity-settled share-based payments to employees and directors including stock options, stock warrants and restricted share units are generally measured at the fair value of the equity instruments at the grant date. The Company uses the Black-Scholes Option Pricing Model to determine the fair value of employee stock options and stock warrants and uses the Company's closing share price on the grant date as the fair value of restricted share units.

The fair value determined at the grant date of employee stock options, stock warrants, and restricted share units is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. On each

balance sheet date, the Company revises its estimates of the number of stock options, stock warrants, and restricted share units that are expected to become exercisable. The impact of the revision of original estimates, if any, is recognized immediately in the Consolidated Statement of Comprehensive Loss, with a corresponding adjustment to equity.

Transactions involving equity-settled service warrants, stock options and restricted stock units with parties other than employees are measured in accordance with IFRS 2 by the fair value of the service received, and recognized over the period that the counterparty renders the service. If the Company cannot estimate reliably the fair value of services received, the Company measures the service received and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted, measured at the date the counterparty renders the service. Equity-settled stock options with parties other than employees are measured indirectly at the fair value of the equity instruments granted and recognized over the period that the counterparty rendered the service when the fair value of the services specifically covered by the stock options cannot be reliably estimated.

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In evaluating the amount of deferred tax asset to recognize, the Company considered all available evidence, including past operating results, the reversal of temporary differences, the forecasts of future taxable income and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income.

Comprehensive income (loss)

In accordance with IAS 1 *Presentation of Financial Statements*, the Company classifies items of other comprehensive income (loss) by their nature in the Consolidated Statement of Comprehensive Loss and Consolidated Statements of Changes in Equity and discloses the accumulated balance of other comprehensive income (loss) separately in the stockholders' equity (deficit) section of the Consolidated Statements of Financial Position.

Earnings (loss) per share

Cricket Media Group Ltd. and Cricket Media, Inc.'s outstanding stock options and warrants to acquire shares of the Company's restricted voting and voting common shares, convertible debentures, unvested restricted share units have been excluded in the basic and diluted net loss per common share calculations due to their anti-dilutive effect on earnings per share.

Cash & cash equivalents

Cash & cash equivalents include cash and short-term investments with original maturities of three months or less and are presented at their nominal value.

Accounts receivable

Included in “Accounts receivable, net of allowance for doubtful accounts” on the Company’s consolidated balance sheets are amounts primarily related to customer, book / magazine distributors, licensing and credit card processor receivables. Accounts receivable are recorded net of allowances for doubtful accounts. The Company generally requires customers to prepay for subscriptions, licensing and commerce related products, although, in cases related to our children’s magazines, customers can choose to be billed later. In the event the customer chooses to be billed later, the Company extends credit to customers without requiring collateral. After two magazines have been shipped and no payment is received, these customers are deemed “non-paying” and shipment of magazine is suspended and further collection attempts are made. We maintain an allowance for doubtful accounts at an amount estimated to be sufficient to provide adequate protection against losses resulting from collecting less than full payment on accounts receivable.

A considerable amount of judgment is required when evaluating the adequacy of allowances. The Company analyzes accounts receivable including assessing the probability of collections, analyze current economic conditions and trends, historical bad debt write-offs, customer credit worthiness and changes in customer payment terms. Customer accounts receivable balances are written off to the allowance for doubtful accounts in the period in which we determine they are uncollectible.

Accounts receivable also include credit card receivables for the credit card transaction batches that took place during the last two to three days of the period, but have not yet settled/credited the Company’s bank account.

Inventory

Inventories are valued at the lower of cost, determined using the first-in, first-out method, and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. The Company records a reserve for inventory based on estimated obsolescence and/or excess or damaged inventory.

The Company uses estimates in determining the level of reserves required to state inventory at the lower of cost or net realizable value. These estimates are based on management’s current assessment of the marketplace, industry trends and projected product demand as compared to the number of units currently on hand. Changes in any of these factors may result in adjustments to the carrying value of inventory.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of three to seven years. Expenditures for major renewals and betterments that extend the useful lives of fixed assets are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred.

Investments in associates and joint ventures

The Company accounts for associates using the equity method. The definition of an associate is based on the Company’s ability to exercise significant influence, which is the power to participate in the financial and operating policies of the entity. Significant influence is assumed to exist if the Company owns between 20 to 50 percent of the voting rights. However, exercise of judgment may lead to the conclusion of significant influence at ownership levels less than 20 percent or a lack of significant influence at ownership percentages greater than 20 percent. At December 31, 2015 and 2014, the Company’s only associate was NeuPals (as defined herein—see Note 10 for more information). A joint venture is an entity, asset or operation that is subject to contractually established joint control which exists only when the strategic, financial and operating decisions relating to the activity require the unanimous consent of the venturers.

The equity method involves the investment in an associate recognised at cost on initial recognition, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The financial statements of associates are prepared for the same reporting year as the Company. Where necessary, adjustments are made to those financial statements to bring the accounting policies used into line with those of the Company. The Company reviews investments in associates, NeuPals Dalian Educational Information Technologies Co., Ltd. ("NeuPals") specifically, for impairment when indicators of a possible loss in value are identified. At the end of each reporting period, the Company assesses whether there is any objective evidence that an investment in an associate is impaired. Impairment indicators include such items as operating losses or adverse market conditions. As the Company's investees are not listed on a stock exchange or regularly traded, the Company's impairment review for such investees are not based on market prices. Should the Company need to value its investment, the fair value of the investment would be estimated based on valuation model techniques. If the recoverable amount (the higher of value in use and fair value less costs to sell) of the investee is below the Company's carrying value and the impairment is considered to be prolonged, the investment is written down as impaired. Impairment losses are reversed if the impairment situation is deemed to no longer exist.

While operating losses have been incurred by NeuPals, management believes these losses are a function of the stage of the business and are not an indication of loss of value. Additionally, the Company continues to expand the number of channel partners in China through the JV, which is expected to generate future revenue. Lastly, substantially all of the joint venture's net assets consist of cash as of December 31, 2015. Upon taking these factors under consideration, management determined no impairment indicators were present for this investment and therefore no review for impairment was deemed necessary for this associate at December 31, 2015.

Goodwill

Goodwill represents the excess of the purchase price of a company acquired over the fair value of the net assets acquired, net of subsequent impairment charges.

Other intangible assets

Internally generated intangible assets with finite useful lives (patents, owned permissions and copyrights) are carried at cost less accumulated amortization. The legal and other costs incurred to obtain internally generated patents that are expected to provide future economic benefits to the Company are capitalized and amortized over the lesser of their legal or estimated useful life. Owned permissions are capitalized at the costs incurred to purchase the right to use or sell content produced by independent authors or artists and are amortized using the straight-line method. If the useful life of an owned permission is determined to be less than one year, those costs are expensed in the year purchased.

Acquired intangible assets with finite useful lives (acquired customer, technology and artistic intangibles) are carried at their fair value on the acquisition date, less accumulated amortization. Customer intangibles and artistic intangibles are amortized using an accelerated amortization method based on the asset's estimated free cash flows over the useful lives. Technology assets are amortized using the straight-line method over the useful life.

The estimated useful lives and amortization methods of intangibles with finite useful lives are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Internally generated intangible assets with indefinite useful lives (trademarks) are carried at cost as they are not amortized. The legal and other costs incurred to obtain trademarks that are expected to provide future economic benefits to the Company are capitalized. Acquired intangible assets with indefinite useful

lives (acquired marketing intangibles and brands) are carried at their fair value on the acquisition date as determined by an independent source. Those assets are not amortized.

Impairment of assets

For assessing impairment, assets are grouped in cash-generating units ("CGUs"), which represent the lowest levels for which there are separately identifiable cash flows generated by those assets. Goodwill is allocated on the date of each business acquisition to the CGU that is expected to benefit from the synergies of the business acquisition. Each CGU represents the lowest level within the Company at which goodwill is monitored for internal management purposes and is not larger than an operating segment.

When the Company determines that indicators of impairment of long-lived assets with finite useful lives, goodwill, or assets with indefinite useful lives exist based on recent events and circumstances, the Company tests the asset to determine if its carrying amount exceeds its recoverable amount. The Company considers information from external and internal sources to determine if impairment indicators exist. Goodwill and assets with indefinite useful lives must be tested for impairment at least annually even if no impairment indicators exist. The Company performs annual impairment testing on November 30 of each financial year.

If there is an indication that an asset may be impaired, the recoverable amount of the asset (or, if appropriate, the CGU) is determined. The recoverable amount is determined for individual assets. However, if an asset does not generate cash inflows that are largely independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs. The recoverable amount is the higher of the 'fair value less costs to sell' and the 'value in use' of the asset or CGU. In assessing the 'fair value less costs to sell', the estimated future cash flows, based on assumptions consistent with those that a market participant would make, are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The value in use represents the present value of the future cash flows expected to be derived from the asset or the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss on goodwill is not reversed. For other assets, an impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized in previous periods.

The Company recognized an impairment loss of \$39,932 during the year ended December 31, 2015 related to its Media cash generating unit. The Company recognized an impairment loss of \$3,716,858 during the year ended December 31, 2014 related to the "ePals" brand name, goodwill associated with our legacy platform business, a write down of artistic related intangibles and owned permissions related to our media business and a previously acquired Spanish magazine business. See Note 9 for additional information on these impairment losses.

Debt

In accordance with IAS 23 *Borrowing Costs*, the Company recognizes interest and other costs incurred in connection with the bank line-of-credit as an expense in the period in which they are incurred.

Convertible debentures are assessed to determine if the conversion feature constitutes a separate equity or liability instrument. Convertible debentures issued in currencies other than the Company's functional currency of USD or with conversion features tied to the Company's stock denominated in CAD fail the 'fixed-for-fixed' criteria for equity classification under IFRS. Therefore, the conversion feature of the debentures are accounted for as an embedded derivative and recorded as a liability at fair value with subsequent changes in fair value recognized through profit or loss. The conversion feature is measured

first at its fair value and recorded separately, with the debt host component measured at the residual after deducting the fair value attributable to the conversion feature from the fair value of the convertible debenture as a whole.

Transaction costs related to the issue of convertible debentures are allocated to the debt and conversion feature components in proportion to the allocation of the gross proceeds. Transaction costs relating to the conversion feature component are recognized as expenses immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the life of the convertible debenture using the effective interest method.

Derivatives

Derivatives are initially recognized in the consolidated statement of financial position at fair value on the date a derivative contract is entered into, including those derivatives that are embedded in financial or non-financial contracts and which are not closely related to the host contract. Changes in the fair value of derivative instruments, including embedded derivatives, which are not designated as hedges for accounting purposes, are recognized in the consolidated statement of comprehensive loss consistent with the underlying nature and purpose of the derivative instrument. Attributable transaction costs are recognized in profit or loss as incurred. The Company obtains valuations of the derivative instruments from third parties that rely on assumptions regarding future interest and exchange rates as well as other economic indicators, which at the time of establishing the fair value for disclosure, have a high degree of uncertainty.

Changes in the fair value of derivative instruments, including embedded derivatives, which are not designated as hedges for accounting purposes, are recognized in other income and expense on the Consolidated Statements of Comprehensive Loss. The Company's only derivatives are the convertible debenture conversion options described in Note 5 with fair value adjustments recorded to net earnings at each period end.

Leases

Contracts to lease assets are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the Company. The assets are included in property and equipment and the capital elements of the leasing commitments are shown as finance lease obligations in the Consolidated Statements of Financial Position. The assets are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The interest element of the lease rental is included in the Consolidated Statements of Comprehensive Loss.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. In accordance with current accounting guidance, the Company recognizes rent expense from operating lease agreements based on the total minimum future lease payments on a straight-line basis over the life of the lease (see Note 19).

Equity

The Company's common stock is recorded as equity instruments in accordance with IAS 32 *Financial Instruments: Presentation*.

Treasury stock is presented at the value of the consideration paid or received for the shares in accordance with IAS 32 *Financial Instruments: Presentation*. No gain or loss is recognised on the acquisition or cancellation of the Company's own equity instruments.

Foreign currency

The Company's consolidated financial statements are maintained in USD which is its functional currency. Certain transactions are denominated in Canadian dollars ("CAD") and are converted monthly by the Company into USD. Translation into USD is made in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

All non-monetary assets and liabilities of subsidiaries denominated in CAD are translated into USD at exchange rates in effect at the end of each fiscal period. Adjustments resulting from the translation of financial statements of CAD subsidiaries into USD are included in the "foreign currency translation" lines of the accompanying consolidated statements of changes in equity and consolidated statements of comprehensive loss and the "effect of exchange rates on cash" line in the accompanying Consolidated Statements of Cash Flows.

The "net foreign currency exchange gains (losses)" line in the consolidated statements of comprehensive loss represents actual foreign currency exchange losses from cash received in CAD as opposed to the Company's functional currency, USD and the translation of assets and liabilities denominated in CAD from transactions to be settled in that currency.

The Company's investment in its NeuPals joint venture is accounted for using the equity method of accounting. The financial statements of the NeuPals joint venture are denominated in Chinese Yuan Renminbi (CNY). For purposes of its equity method accounting, the Company converts income related activity to USD and records its portion as a change to its investment in the joint venture.

Use of estimates and judgement

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed by the Company on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Management has made judgements with respect to applying the Company's accounting policies, including judgements regarding materiality and the classification of certain operations and disposal groups as discontinued operations and held for sale, respectively. The Company does not believe there are any circumstances impacting key judgements that would result in material changes to its financial statements.

New accounting standards

There are no new accounting standards effective during the year ended December 31, 2015 that had a material effect on the accompanying consolidated annual financial report.

New IFRS standards issued but not yet effective or adopted by Cricket Media

In May 2014, IFRS 15, *Revenue from Contracts with Customers*, was issued. IFRS 15 was issued to converge standards with U.S. GAAP guidance, as well as clarify recognition for various revenues generated from contracts with customers. IFRS 15 is effective on January 1, 2017 with early application permitted. The Company is evaluating any future impacts of implementing this standard.

In July 2014, the IASB issued an amendment to IFRS 9 – Financial Instruments to include new impairment requirements for all financial assets that are not measured at fair value through profit or loss and amendments to previously finalised classification and measurement requirements for financial assets. Mandatory adoption begins in periods beginning on or after January 1, 2018 with early adoption permitted. The Company is evaluating any future impacts of implementing this standard.

In December 2015, the IASB delayed the effective dates related to amendments to IFRS 10, *Consolidated Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*. These amendments affect how an entity should determine any gain or loss it recognizes when assets are sold or contributed between the entity and an associate or joint venture in which it invests. The final effective date has not yet been determined and the Company does not expect the amendments to have a material effect on its financial statements.

In January 2016, the IASB issued IFRS 16, *Leases*. IFRS 16 eliminates the classification by a lessee of leases as operating or finance, and instead all leases are treated in a similar way to finance leases in accordance with IAS 17. Under IFRS 16, leases are recorded on the balance sheet by recognizing a liability for the present value of the future lease payments and these amounts are to be disclosed separately in the statement of financial position or with property, plant and equipment. IFRS 16 also clarifies that guidance should be applied only to lease components of a contract and includes some transitional provisions. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted. The revised guidance would have an impact on the way the Company accounts for its operating leases.

Subsequent events

The Company evaluated its December 31, 2015 consolidated financial statements for subsequent events through April 29, 2016. The Company's Board of Directors approved the Consolidated Financial Statements and accompanying notes on April 25, 2016. The Company is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements other than those disclosed in Note 21.

NOTE 2 – Going Concern and Liquidity

The consolidated financial statements of the Company for the year ended December 31, 2015 and the notes thereto have been prepared on a going concern basis even though the Company currently has insufficient cash to fund its net operating shortfall for the next 12 months. In assessing whether the going concern assumption was appropriate, management took into account all relevant information available to it about the future, which was at least, but not limited to, the twelve month period following December 31, 2015. In order to fund its operating shortfall, the Company and a special committee of the board have been exploring various financing strategies and strategic alternatives including corporate-based, financial investor-based and private equity-based financings, strategic combinations, cost reduction initiatives, and other alternatives. The Company believes that based on the financial strength of its existing shareholder base and previous success in raising capital, any shortfall in its operating plan may be met through one or more of these strategies.

During the year ended December 31, 2015, the Company had a net loss of \$9,386,609, negative cash flow from operations of \$11,201,270 and a negative working capital of \$36,717,931. Historically the Company has had operating losses, negative cash flows from operations, and working capital deficiencies. The Company is subject to liquidity risks generally associated with early-stage media and technology companies, which include fluctuations in operating expenses and revenues, and challenges in securing further equity or debt financing which is subject to prevailing market conditions at that time. If it does not raise alternative financing before exhausting its cash reserves, the Company could be forced to alter its current business plan and expenditure levels. As a positive operating cash flow position has yet to be achieved, the Company currently has insufficient cash to cover its known operating expenditures for the next 12 months and will continue to evaluate its financing alternatives. There can be no assurance that management will be successful in raising the necessary capital required to fund planned operations, or that financing with acceptable terms will be available. These uncertainties may cast significant doubt upon the Company's ability to continue as a going concern and/or uncertainty related to the capital structure of the Company. However, as described above, management has a reasonable expectation that the Company will continue for the foreseeable future. If for any reason, the Company is unable to continue as a going concern, it could have an adverse effect on the Company's ability to realize assets at their recognized values, in particular goodwill and intangible assets, and to extinguish liabilities in the normal course of business at the amounts stated in the consolidated financial statements.

During the year ended December 31, 2015, the Company borrowed approximately \$5.3 million and repaid approximately \$1.8 million under its related party line of credit with ZG Ventures, LLC ("ZG"), an affiliate of

two members of the Company's Board of Directors, and also raised net proceeds of approximately \$6.8 million through the issuance of debentures under its bridge loan financing (the "2015 Bridge Debentures") that is part of the Company's overall debt restructuring. Additionally, ZG forgave \$1,000,000 of debt outstanding under the related party line of credit in March 2015. The Company also issued approximately 2.2 million Units at a price of CAD\$0.65 per Unit for proceeds of approximately \$1.25 million under a non-brokered private placement. Each Unit consisted of one common share of the Company and one-third of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). Each Warrant entitled the holder to purchase one additional common share of the Company at a price of CAD\$0.65 until March 31, 2015. See Note 13 for additional information on the private placement transactions.

The Company actively manages its liquidity through cash, debt and capital stock management strategies to fulfill obligations associated with financial liabilities, mainly accounts payable, accrued liabilities, bank promissory note and the debentures. Settling financial obligations out of cash without issuing additional debt or equity or drawing down on existing credit facilities relies on the Company's ability to generate cash from operations and timely collect accounts receivable and by maintaining sufficient cash on hand. To manage liquidity risk, the Company, among other things, prepares budgets and cash forecasts and monitors its performance against these projections. Management also monitors cash and working capital given current sales levels and seasonal variability. At December 31, 2015, the Company had \$293,838 in cash and a \$3,500,000 revolving line of credit with an insider, as discussed in Note 12. The Company was fully drawn under the \$3,500,000 revolving line of credit as of December 31, 2015. See Note 12 for additional information on the revolving line of credit.

The 2012 Debentures and 2013 Debentures, as defined in Note 5, each had a maturity date of October 31, 2016. In January 2016, the Company restructured its debt outstanding under the 2012 Debentures and 2013 Debentures. See Note 21 for additional information on the debt restructuring. The 2015 Bridge Debentures (as defined in Note 12) have a maturity date of April 30, 2016. In 2016, the Company entered into an agreement with Cricket Acquisition Group ("CAG") wherein Cricket Acquisition group will purchase the outstanding shares of the Company not held by members of CAG. The Company expects the 2015 Bridge Debentures to be converted to equity securities in Cricket Acquisition Group after the aforementioned transaction closes. See Note 21 for additional information on Cricket Acquisition Group purchase.

Future capital requirements will depend on many factors, including, without limitation, the rate of revenue growth, the expansion of marketing and sales activities, the timing and extent of spending to support product development efforts and expansion into new territories, the timing of the release of new products and services and enhancements to existing products and services, acquisition activity, the timing of capital expenditures and the continuing market acceptance of the Company's products and services.

NOTE 3 – Business Acquisitions

Asset Purchases

In March 2014, the Company acquired the assets of a company with services related to digital rights and permissions for a purchase price of \$100,000. The Company paid \$48,226 in cash related to this acquisition during the year ended December 31, 2014 and the remaining balance due is reflected in other current liabilities on the consolidated statement of financial position as of December 31, 2015. The fair value at the acquisition date of the assets acquired is estimated at approximately \$44,000 consisting of \$5,000 related to equipment, \$15,000 associated with customer related intangibles and approximately \$24,000 related to receivables for services performed but not billed as of the acquisition date. The goodwill recorded in 2014 related to this acquisition was \$55,854 and is included in the Company's media cash generating unit.

NOTE 4 – Discontinued Operations and Disposal Groups Held For Sale

Nexify

The Company's Nexify business, whose Newstogram widget was installed on a network of partner sites, is a service that provides internet publishers and media companies with "smart" aggregation of content and data and predictive personalization services with respect to advertising to cultivate user relationships

and enhance audience engagement. Newstogram develops an understanding of each unique user's interests and affinities by observing user behavior and performing analysis of web content viewed. Newstogram then identifies and presents advertising content that is relevant to each user based on statistical models and dedicated matching functions.

While the Nexify business has been a source of advertising revenue for the Company since its acquisition, upon recent evaluation of the business management determined Nexify's business activities were no longer in line with the Company's key strategic initiatives. In July 2015, the Company sold its Nexify business for \$65,000, of which \$30,000 of the cash consideration was deferred and delivered during 2016. The Company recognized a gain of \$65,000 related to the sale. The \$30,000 of deferred consideration is classified as other current assets on the condensed consolidated statement of financial position.

The following is key financial information related to the Nexify business as of and for the years ended December 31, 2015 and December 31, 2014:

	December 31, 2015	December 31, 2014
Total current assets	\$ -	\$ 158,420
Total long-term assets	-	1,275
Total current liabilities	-	34,000
	Year ended December 31,	
	2015	2014
Total revenue	\$ 120,426	\$ 634,297
Total operating expenses	(102,383)	(936,480)
Gain on sale of business	65,000	-
Income (loss) from discontinued operations	<u>\$ 83,043</u>	<u>\$ (302,183)</u>

Current assets at December 31, 2014 for Nexify consist of accounts receivable and long-term assets consist of Nexify's immaterial deposits. Nexify's current liabilities consist of accrued expenses. Operating expenses for the year ended December 31, 2014 includes an impairment loss of approximately \$215,000 related to Nexify's technology intangible asset. This impairment loss reflects a full write off of that asset.

Open Court Publishing

The Company's Open Court Publishing business generates revenues through the sale of books, primarily related to nonfiction and philosophy based content. Open Court has published more than 400 titles primarily for academics, philosophers and students, as well as a number of titles bringing high-quality philosophy to general readers. The following is key financial information related to the Open Court business as of and for the years ended December 31, 2015 and December 31, 2014:

	December 31, 2015	December 31, 2014
Total current assets	\$ 543,166	\$ 517,979
Total current liabilities	511,284	531,127
	Year ended December 31,	
	2015	2014
Total revenue	\$ 491,828	\$ 421,439
Total operating expenses	(470,780)	(457,740)
Income (loss) from discontinued operations	<u>\$ 21,048</u>	<u>\$ (36,301)</u>

Current assets for Open Court consist of accounts receivable, inventory and prepaid royalties that will offset future royalty obligations related to book content. Open Court's current liabilities consist of accrued expenses.

Upon recent evaluation of the business management determined Open Court's business activities were no longer in line with the Company's key strategic initiatives. As a result, the Company began actively marketing the business for sale at the end of 2014. The Company continues to actively seek to dispose of the Open Court business at December 31, 2015.

NOTE 5 – Fair Value Measurements

Certain assets and liabilities are recorded at fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based on assumptions market participants would make in pricing the asset or liability. Generally, fair value is based on observable quoted market prices or derived from observable market data when such market prices or data are available. When such prices or inputs are not available, the reporting entity should use valuation models.

The Company's assets and liabilities measured at fair value on a recurring basis are categorized based on the priority of the inputs used to measure fair value. The inputs used in measuring fair value are categorized into three levels under authoritative guidance as follows:

- **Level 1** - Inputs that are based upon quoted prices for identical instruments traded in active markets. The Company does not have any Level 1 instruments at December 31, 2015.
- **Level 2** - Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investment.
- **Level 3** - Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following section describes the valuation methodologies the Company uses to measure its financial assets and liabilities at fair value.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

As of December 31, 2015					
Description	Measured at Fair Value	Fair Value Hierarchy Level			
		Level 1	Level 2	Level 3	
Restricted cash - certificate of deposit	\$ 76,432	\$ -	\$ 76,432	\$ -	
<u>Derivative liabilities</u> ^{1,2} :					
Derivative liability for the holders' conversion option in the 2013 Debentures	3,000	-	-	3,000	
Derivative liability for the Company's forced conversion option in the 2013 Debentures	1,000	-	-	1,000	
Derivative liability for the holders' conversion option in the 2012 Debentures (defined in Note 12)	250	-	-	250	
Derivative liability for the Company's forced conversion option in the 2012 Debentures (defined in Note 12)	-	-	-	-	
Derivative liability for the voluntary conversion option in the 2015 Bridge Debentures	12,300	-	-	12,300	
Derivative liability for the automatic conversion feature in the 2015 Bridge Debentures	52,700	-	-	52,700	
As of December 31, 2014					
Description	Measured at Fair Value	Fair Value Hierarchy Level			
		Level 1	Level 2	Level 3	
Restricted cash - certificate of deposit	\$ 76,277	\$ -	\$ 76,277	\$ -	
<u>Derivative liabilities</u> ^{1,2} :					
Derivative liability for the holders' conversion option in the 2013 Debentures	3,000	-	-	3,000	
Derivative liability for the Company's forced conversion option in the 2013 Debentures	1,000	-	-	1,000	
Derivative liability for the holders' conversion option in the 2012 Debentures (defined in Note 12)	250	-	-	250	
Derivative liability for the Company's forced conversion option in the 2012 Debentures (defined in Note 12)	-	-	-	-	

Notes:

(1) On the basis of its analysis of the nature, characteristics and risks of the financial instruments, the Company has determined that presenting the financial instruments by their nature is appropriate.

(2) The derivative liabilities related to the 2012 Debentures and 2013 Debentures are included in secured convertible debentures on the consolidated statements of financial position. The derivative liabilities related to the 2015 Bridge Debentures are included in bridge loan debentures on the consolidated statements of financial position.

Changes in the fair value of Level 3 financial instruments were as follows for the year ended December 31, 2015:

	Derivative liability for the holders' conversion option in the 2012 Debentures	Derivative liability for the holders' conversion option in the 2013 Debentures	Derivative liability for the Company's forced conversion option in the 2013 Debentures	Derivative liability for the voluntary conversion option in the 2015 Bridge Debentures	Derivative liability for the automatic conversion feature in the 2015 Bridge Debentures
Balance at 12/31/14	\$ 250	\$ 3,000	\$ 1,000	\$ -	\$ -
Issuance	-	-	-	161,900	47,200
Increase (reduction) in fair value	-	-	-	(149,600)	5,500
Balance at 12/31/15	\$ 250	\$ 3,000	\$ 1,000	\$12,300	\$ 52,700

Changes in the fair value of Level 3 financial instruments were as follows for the year ended December 31, 2014:

	Derivative liability for the holders' conversion option in the 2012 Debentures	Acquisition consideration liabilities - Carus Earn Out	Derivative liability for the holders' conversion option in the 2013 Debentures	Derivative liability for the Company's forced conversion option in the 2013 Debentures
Balance at 12/31/13	\$ 12,000	\$584,178	\$38,000	\$18,000
Satisfaction of liability	-	(403,136)	-	-
Increase (reduction) in fair value	(11,750)	(181,042)	(35,000)	(17,000)
Balance at 12/31/14	\$ 250	\$ -	\$ 3,000	\$ 1,000

The effect of the fair value measurement on profit or loss for the year ended December 31, 2015 for Level 3 financial instruments was a gain of \$144,100, which represents the net change in fair value on the derivative liabilities associated with the 2015 bridge debentures. The effect of the fair value measurement on profit or loss for the year ended December 31, 2014 for Level 3 financial instruments was a gain of \$63,750, which represents the change in fair value on the derivative liabilities, and an adjustment of \$181,042 related to the estimated Carus earn out obligation. This gain is classified as the gain from change in fair value of derivatives and change in estimated fair value of acquisition share consideration, respectively, on the consolidated statements of comprehensive loss.

The valuation processes and results for Level 3 financial instruments are reviewed and approved by the Company's Controller and Chief Financial Officer at least each quarter in line with the Company's quarterly reporting dates. Valuation results are discussed with the Audit Committee as part of its quarterly review of the Company's financial statements.

Acquisition consideration – Carus Earn Out

During 2013, the Company and the representative of former Carus shareholders entered into an agreement to satisfy certain earn out payments related to the 2012 Carus Earn Out calculation. This agreement resolved previous interpretation discrepancies associated with definitions and terms governing the earn out calculations. As a result of the agreement, the Company agreed to pay \$253,136 in cash and issue an aggregate of 126,653 restricted voting common shares to satisfy an aggregate earn out payment of approximately \$403,136. The restricted voting common shares, valued at \$150,000, were issued during the year ended December 31, 2014. The Company paid the \$253,136 related to this obligation

during the year ended December 31, 2014. No further earn out payments are expected based on the Company's calculation under the agreement and no liability was recorded as of December 31, 2015.

2012 and 2013 Debentures

In September 2012, the Company entered into an agreement to sell, on a "bought deal" private placement basis, an aggregate principal amount of CAD\$12,000,000 of secured convertible debentures (the "2012 Debentures"). In March 2013, the Company entered into a trust indenture providing for the issuance, on a private placement basis, of up to an aggregate principal amount of CAD\$10,000,000 of senior secured convertible debentures (the "2013 Debentures").

The 2012 Debentures and 2013 Debentures had two conversion features:

- each CAD\$1,000 principal amount of 2012 Debentures was convertible into approximately 67 voting common shares of the Company at the option of the holder and each CAD\$1,000 principal amount of the 2013 Debentures was convertible into 100 voting common shares of the Company, at the option of the holder ("Conversion at Option of Holder"); and
- on or after October 31, 2014, the Company could, at its option, convert the 2012 Debentures and 2013 Debentures into voting common shares at the conversion price, provided that the weighted average closing price of the Company's voting common shares for the preceding ten trading days was not less than 200% of the conversion price ("Forced Conversion").

These conversion features were accounted for as embedded derivatives and recorded as liabilities at their fair values on the issuance date of the 2012 Debentures and 2013 Debentures. The conversion features are recorded at fair value and there were no changes to the key assumptions during the year ended December 31, 2015. The aggregate fair value of the conversion features as of December 31, 2015 and December 31, 2014 was immaterial.

In January 2016, the Company restructured the debt outstanding under the 2012 Debentures and 2013 Debentures. See Note 21 for additional information on the debt restructuring.

Debentures issued in connection with 2015 bridge financing

During the second quarter of 2015, the Company issued additional debentures as part of the bridge loan financing component of its debt restructuring (the "Initial Bridge Loan"). Of the initial debentures issued, \$50,000 were issued in the form of junior bridge debentures and \$3,353,000 were in the form of senior bridge debentures. These debentures are convertible into voting common shares or restricted voting common shares of the Company at the option of the holder at a conversion price of \$0.32 per share. Additionally, if the Company raises aggregate proceeds of \$10,000,000 pursuant to an equity financing of preferred shares and the Initial Bridge Loan, collectively, all outstanding indebtedness under the Initial Bridge Loan will convert into, at the option of the holder: (A) preferred shares at a conversion price equal to the greater of (i) 80% of the issue price per share under the preferred share financing; and (ii) \$0.32; (B) voting common shares or restricted voting common shares at a price of \$0.32 per share or (C) a combination of (A) and (B) at the holders' option. During the third quarter of 2015, the Company issued additional \$647,000 in senior bridge debentures and \$950,000 in junior bridge debentures under these same terms.

During the second half of 2015, the Company issued additional junior debentures as part of an additional bridge loan financing in the amount of \$1,884,000. These debentures are convertible into voting common shares or restricted voting common shares of the Company at the option of the holder at a conversion price of \$0.25 per share. Additionally, if the Company raises aggregate proceeds of \$10,000,000 pursuant to an equity financing of preferred shares and the Initial Bridge Loan, collectively, all outstanding indebtedness under the bridge loan will convert into, at the option of the holder: (A) preferred shares at a conversion price equal to the greater of (i) 80% of the issue price per share under the preferred share financing; and (ii) \$0.25; (B) voting common shares or restricted voting common shares at a price of \$0.25 per share or (C) a combination of (A) and (B) at the holders' option.

The aforementioned conversion features were accounted for as embedded derivatives and recorded as liabilities at their fair values on the issuance date of the debentures. The conversion features are recorded at fair value as of December 31, 2015.

The conversion features associated with the 2015 Bridge Debentures were accounted for as embedded derivatives and recorded as liabilities at their fair values on the issuance date. The Company utilized a third-party valuation expert that used the Monte Carlo model to value these derivative liabilities at issuance and as of December 31, 2015. The key assumptions used in the model at of the issuance dates of the bridge debentures are as follows:

	May 2015 Senior Tranche	May 2015 Junior Tranche	June 2015 Senior Tranche	July 2015 Senior Tranche
Share price	\$0.11	\$0.11	\$0.16	\$0.19
Principal outstanding ¹	\$2,526,000	\$50,000	\$827,000	\$647,000
Term	0.96 years	0.96 years	0.86 years	0.79 years
Volatility ²	60%	60%	60%	60%
Risk-free rate ³	0.23%	0.23%	0.20%	0.21%

	July 2015 Junior Tranche	August 2015 Junior Tranche	September 4, 2015 Junior Tranche	September 25, 2015 Junior Tranche
Share price	\$0.19	\$0.19	\$0.08	\$0.18
Principal outstanding ¹	\$950,000	\$819,000	\$325,000	\$300,000
Term	0.79 years	0.70 years	0.66 years	0.60 years
Volatility ²	60%	60%	60%	60%
Risk-free rate ³	0.21%	0.29%	0.27%	0.12%

	October 2015 Junior Tranche	November 2015 Junior Tranche
Share price	\$0.19	\$0.16
Principal outstanding ¹	\$250,000	\$190,000
Term	0.54 years	0.48 years
Volatility ²	60%	60%
Risk-free rate ³	0.09%	0.30%

The key assumptions used in the model at December 31, 2015 are as follows:

<u>2015 Senior Bridge Debentures:</u>	December 31, 2015
Share price	\$0.05
Principal outstanding ¹	\$4,000,000
Term	0.33 years
Volatility ²	60%
Risk-free rate ³	0.27%

<u>2015 Junior Bridge Debentures:</u>	December 31, 2015
Share price	\$0.05
Principal outstanding ^{1,4}	\$2,884,000
Term	0.33 years
Volatility ²	60%
Risk-free rate ³	0.27%

Notes:

(1) Represents the value that the underlying asset must exceed for the conversion option to have value and is equal to the face value of the debentures.

(2) In estimating the volatility, the third-party valuation expert analyzed the daily closing stock price of guideline companies and derived the annualized stock volatility for the latest four-year period (utilizing daily returns). The Company does not have sufficient trading history to rely on its volatility.

(3) Represented by the current yield on the U.S. Treasury Bond with the closest time to maturity to the term of the debentures.

(4) Of the principal amount outstanding, \$1,000,000 were issued with conversion price of \$0.32 per share and \$1,884,000 were issued with a conversion price of \$0.25 per share.

The price of the Company's stock is a key observable input for the valuation of the conversion features. The only key unobservable input for the valuation of the conversion features of the debentures is the

volatility. The inter-relationship between the volatility and the fair value of the derivatives is that the higher the volatility of the underlying stock, the higher the fair value of the conversion feature.

Restricted cash

The Company is required to maintain a security deposit for one of its office leases, which is held in the form of a letter-of-credit. At December 31, 2015 and 2014, the Company had a certificate of deposit with a bank as collateral for an irrevocable standby letter-of-credit totaling \$76,432 and \$76,277, respectively. The fair value of the certificate of deposit is based on quotes from the bank.

Non-recurring fair value measurements

Certain financial statement items are measured at fair value when required on a non-recurring basis such as intangibles when impaired. See Note 9 for additional information regarding the impairment of goodwill and intangible assets.

NOTE 6 – Financial Instruments

Fair value of financial instruments

At December 31, 2015, the Company's financial instruments consist of cash, accounts receivable, a line of credit with a related party, a bank promissory note, accounts payable and accrued expenses, debentures and the derivatives related to the convertible debentures. The Company has determined that the fair value of its cash, accounts receivable and financial liabilities approximates their respective carrying amounts as at the balance sheet dates due to their short-term nature. As of December 31, 2015, management considers that events have occurred subsequent to the inception of the convertible debentures that would indicate that the fair value differs substantially from the carrying value.

During 2016 the Company restructured the outstanding debt related to its outstanding debentures. Under the restructuring, the Company reduced the debt outstanding under the 2012 Debentures and 2013 Debentures from CAD\$22 million to \$11.5 million. See Note 21 for additional information on the debt restructuring.

Risk management

The Company, through its financial assets and liabilities, is exposed to risks of varying degrees of significance that could impact its ability to achieve its strategic growth objectives. The main objective of the Company's risk management process is to ensure that risks are properly identified and addressed. The Company has exposure to credit risk, liquidity risk, currency risk and interest rate risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk from customers.

Generally, the carrying amount on the Consolidated Statements of Financial Position of the Company's financial assets exposed to credit risk represent the Company's maximum exposure to credit risk. No additional credit risk disclosure is provided, unless the maximum potential loss exposed to credit risk for certain financial assets differs significantly from their carrying amount. The Company's main credit risk exposure is from accounts receivable. Credit risk from accounts receivable encompasses the default risk of its customers. For the Company, account receivables are comprised principally of amounts related to the sale of magazine subscriptions, educational books and consumer products to consumers, support and professional services for the deployment of customer subscriptions, and the licensing of content.

Our accounts receivable consisted of the following as of December 31, 2015 and December 31, 2014:

	December 31, 2015	% of Total	December 31, 2014	% of Total
Accounts receivable, gross	2,185,007		1,062,633	
Allowance for doubtful accounts	(288,966)		(93,955)	
Accounts receivable, net	\$ 1,896,041		\$ 968,678	
Analysis:				
Less than 31 days	\$ 1,111,817	51%	\$ 529,537	50%
31 – 60 days	636,795	29%	117,908	11%
61 – 90 days	118,579	5%	205,267	19%
90+ days	317,816	15%	209,921	20%
Less: allowance for doubtful accounts	(288,966)		(93,955)	
Total accounts receivable, net	\$ 1,896,041		\$ 968,678	

The details of the December 31, 2015 gross accounts receivable balance are shown below:

- 36% due from customers for the sale of subscriptions of children's magazines, educational books and consumer products;
- 63% due from licensing of content.
- 1% due from sponsorship partners

The details of the December 31, 2014 gross accounts receivable balance are shown below:

- 50% due from customers for the sale of subscriptions of children's magazines, educational books and consumer products;
- 50% due from licensing of content.

Of the receivable balance of \$317,816 and \$209,921 that is over 90 days past due at December 31, 2015 and December 31, 2014, an allowance for doubtful accounts balance of \$222,843 and \$86,348 has been recorded, respectively.

The rollforward of the allowance for doubtful accounts consisted of the following for the years ended December 31, 2015 and 2014:

Balance at December 31, 2013	\$	118,545
Provision		29,672
Reduction in allowance/ write-offs		(54,262)
Balance at December 31, 2014	\$	93,955
Provision		306,575
Reduction in allowance/ write-offs		(111,564)
Balance at December 31, 2015	\$	288,966

Of the \$288,966 balance of allowance for doubtful accounts \$270,776 is related to the sale of children magazine subscriptions, educational books and consumer products. There is an allowance of \$11,496 related to receivables from advertising customers of the Nexify business which was sold in 2015. Lastly, there is \$6,694 of allowance related to content licensing receivables at December 31, 2015. A total of \$93,453 of the allowance for doubtful accounts balance at December 31, 2014 is for the sale of subscriptions of children's magazines, educational books and consumer products and there was an allowance of \$502 for receivables from license agreements, support and professional services at December 31, 2014. Sponsorship customers have historically paid their respective balances due in a timely manner, therefore, an allowance of \$0 was recorded at December 31, 2014.

At December 31, 2015, one content licensing partner accounted for approximately 41% of the Company's net accounts receivable balance. During the year ended December 31, 2015, no single media distribution agent accounted for more than 10% of the Company's revenue. At December 31, 2014, one content licensing customer accounted for approximately 30% of the Company's net accounts receivable balance. During the year ended December 31, 2014 and 2013, no single media distribution agent accounted for more than 10% of the Company's revenue.

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in interest rates. The 2012 Debentures have a fixed interest rate of 6.50% per annum and the 2013 Debentures have a fixed interest rate of 10.00% per annum. Additionally, the 2015 Bridge Debentures have a fixed interest rate of 5%. The Company's only exposure to interest rate risk from these debentures is from a cost of funds perspective. If interest rates rise, the value of the convertible debentures decreases. In January 2016, the Company restructured the debt outstanding under the 2012 Debentures and 2013 Debentures. See Note 21 for additional information on this debt restructuring.

Currency risk

Currency risk is defined as the risk that the fair value of future cash flows will fluctuate because of changes in foreign exchange rates. The Company incurs almost all of its revenues and expenses in USD, but does have several transactions in CAD, including the proceeds from the 2012 Debentures and 2013 Debentures. The historical currency risk between USD and CAD has increased slightly during 2015 since the foreign exchanges rates have varied more than historical exchange rates during 2015.

The Company's obligations related to the principal and interest payments on the 2013 Debentures and the 2012 Debentures were in CAD which created an exposure to currency risk between CAD and the Company's functional currency of USD. The related debenture agreements specified that for the computation of the principal and interest payments, any currency other than Canadian dollars was to be converted into Canadian dollars at the applicable Bank of Canada noon rate of exchange on the date which such computation was to be made.

In January 2016 the Company restructured its debenture debt into debt denominated in US dollars. See Note 21 for additional information on the debt restructuring.

The Company does not bear currency risk on transactions with NeuPals as all remittance of profits and other sums payable to the Company out of China shall be made to a foreign bank account designated by the Company in USD in accordance with the foreign exchange regulations of China.

Liquidity risk

See discussion of going concern and liquidity at Note 2.

NOTE 7 – Inventory

Inventory at December 31, 2015 and 2014 consisted of the following:

	December 31,	
	2015	2014
Finished goods	\$ 450,986	\$ 463,340
Work-in-process	156,794	165,424
Total gross	607,780	628,764
Less: reserve	(204,994)	(179,994)
Balance	\$ 402,786	\$ 448,770

Finished goods inventory consists of printed magazines and various commerce products available for sale. Work-in-progress inventory consists of paper and other costs associated with the production of the Company's print publications. The amount of inventory cost recognized in cost of sales on the Consolidated Statements of Comprehensive Loss related to continuing operations was \$1,419,810 and \$2,095,180 for the year ended December 31, 2015 and 2014, respectively. An expense of \$42,702 was

recognized during the year ended December 31, 2014, respectively for changes in reserves to bring the value of the inventory to the lower of cost or net realizable value.

NOTE 8 – Property and equipment

The table below shows the rollforward of the cost and accumulated depreciation for the Company's property and equipment:

Cost rollforward:	Computer & office equipment	Software	Equipment under finance lease obligations	Leasehold improve- ments	Furniture & fixtures	Total
Balance at 12/31/13	\$ 1,272,735	\$ 703,472	\$ 369,572	\$ 6,476	\$ 110,583	\$ 2,462,838
Additions	49,278	1,999	-	-	-	51,277
Disposals	-	(235,259)	-	(6,476)	-	(241,735)
Foreign currency translation	(3,749)	(658)	-	-	-	(4,407)
Balance at 12/31/14	1,318,264	469,554	369,572	-	110,583	2,267,973
Additions	3,095	-	-	-	-	3,095
Foreign currency translation	(6,934)	(1,218)	-	-	-	(8,152)
Balance at 12/31/15	<u>\$ 1,314,425</u>	<u>\$ 468,336</u>	<u>\$ 369,572</u>	<u>\$ -</u>	<u>\$ 110,583</u>	<u>\$ 2,262,916</u>
Accumulated depreciation rollforward:						
Balance at 12/31/13	\$ (952,439)	\$ (621,572)	\$ (324,874)	\$ (5,197)	\$ (109,548)	\$ (2,013,630)
Depreciation expense	(150,326)	(54,607)	(31,414)	(1,277)	(1,035)	(238,659)
Disposals	-	235,259	-	6,474	-	241,733
Foreign currency translation	3,749	658	-	-	-	4,407
Balance at 12/31/14	(1,099,016)	(440,262)	(356,288)	-	(110,583)	(2,006,149)
Depreciation expense	(98,149)	(32,525)	(10,897)	-	-	(141,571)
Adjustments	-	11,513	-	-	-	11,513
Foreign currency translation	6,934	1,218	-	-	-	8,152
Balance at 12/31/15	<u>\$ (1,190,231)</u>	<u>\$ (460,056)</u>	<u>\$ (367,185)</u>	<u>\$ -</u>	<u>\$ (110,583)</u>	<u>\$ (2,128,055)</u>
Net book value at 12/31/14	<u>\$ 219,248</u>	<u>\$ 29,292</u>	<u>\$ 13,284</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 261,824</u>
Net book value at 12/31/15	<u>\$ 124,194</u>	<u>\$ 8,280</u>	<u>\$ 2,387</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 134,861</u>

NOTE 9 – Goodwill & Other Intangible Assets

Goodwill

For the years ended December 31, 2015 and 2014, changes in the carrying amount of goodwill by CGU are as follows:

	Former ePals CGU	Media CGU	Total
Rollforward:			
Balance at December 31, 2013	\$955,908	\$13,464,045	\$14,419,953
Business acquisition	-	55,854	55,854
Impairment loss	(955,908)	-	(955,908)
Balance at December 31, 2014	-	13,519,899	13,519,899
Impairment loss	-	(39,932)	(39,932)
Balance at December 31, 2015	\$ -	\$13,479,967	\$13,479,967

Goodwill of \$55,854 was recorded from an immaterial business acquisition in 2014.

Impairment testing of goodwill and indefinite lived intangibles

2015 Goodwill Impairment Test

An impairment test for the Media cash generating unit ("CGU") was performed at November 30, 2015. The recoverable amount of the CGU for the goodwill impairment test was determined based on the fair value less costs to sell ("FVLCS"). Aside from goodwill, the Media CGU has a marketing intangible generated from the 2011 acquisition of Carus Publishing Company. The Company used a public company analysis to determine the FVLCS for the Media CGU. To obtain the FVLCS, three comparable public companies in the educational publishing industry were evaluated based on various factors including revenue, revenue growth (both historical and forecasted) and EBITDA. Ultimately the use of a revenue multiple was selected as the Company and CGU has generated losses in the current year and revenue is considered a more reliable indication of value, which represents a level 2 input on the fair value hierarchy. As a result of the analysis, implied multiples were calculated with respect to total enterprise value as a function of revenue. Upon evaluating the multiples of the public companies included in the analysis, it was determined that a multiple of 0.75x should be applied to the Media CGU's last twelve months of revenue. Due to the Company's historical operating performance and subjective nature of the forecast resulting from the current stage the Company's business, the implied multiple of 0.75x represents a discount to the low end of the implied multiples range of 0.79x to 2.12x. The application of this multiple resulted in an implied enterprise fair value of approximately \$9.8 million. This value less costs to sell of approximately \$263,000 is slightly lower than the carrying value of \$9.5 million for the Media CGU. As a result, the Company recognized an impairment of goodwill of \$39,932 during the year ended December 31, 2015. No impairment charge was recorded to the Media CGU for its marketing related indefinite lived intangible asset.

2014 Goodwill Impairment Test

An impairment test for the Media CGU was performed at November 30, 2014. The recoverable amount of the CGU for the goodwill and indefinite lived intangible impairment test was determined based on the fair value less costs to sell ("FVLCS"). Aside from goodwill, the Media CGU has a marketing intangible generated from the 2011 acquisition of Carus Publishing Company. The Company used a public company analysis to determine the FVLCS for the Media CGU. To obtain the FVLCS, three comparable public companies in the educational publishing industry were evaluated based on various factors including revenue, revenue growth (both historical and forecasted) and EBITDA. Ultimately, the use of a revenue multiple was selected as the Company and CGU has generated losses in the current year and revenue is considered a more reliable indication of value. As a result of the analysis, implied multiples were calculated with respect to total enterprise value as a function of revenue. Upon evaluating the multiples of the public companies included in the analysis, it was determined that a multiple of 0.75x should be applied to the Media CGU's last twelve months of revenue. Due to the Company's historical operating performance and subjective nature of the forecast resulting from the current stage the Company's business, the implied multiple of 0.75x is consistent with the low end of the implied multiples range of 0.66x to 2.22x. The application of this multiple resulted in an implied enterprise value of

approximately \$10.9 million. If the implied multiple were to fall below 0.66x the recoverable amount would have been lower than the carrying amount, resulting in an impairment of goodwill.

The recoverable amount of the Media CGU at November 30, 2014 of \$10.6 million exceeded the carrying value of the assets assigned to that CGU by \$1.1 million using the revenue multiple methodology; therefore, no impairment charge was recorded to the Media CGU for goodwill or its marketing related indefinite lived intangible asset.

During the year ended December 31, 2014, management determined the Company would suspend the expansion of sponsorship and global community activities in an attempt to shift resources to more profitable areas of the business. As a result, the goodwill generated by the 2006 merger of In2Books and ePals Classroom to form the legacy platform business was evaluated for impairment. Upon completing the evaluation, the Company determined the value of the goodwill was no longer recoverable. An impairment loss of \$902,178 was recognized during the year ended December 31, 2014 related to the goodwill, which represents a full write off. During the year ended December 31, 2014, the Company determined it would discontinue its Iguana business that was acquired in 2012. As a result, an additional goodwill impairment charge of \$53,730 was recorded during 2014.

Other intangible assets

Other intangible assets include marketing, customer, technology and artistic intangibles from business acquisitions, brands acquired in the merger between In2Books and ePals Classroom Exchange in 2006, and internally generated trademarks, patents and owned permissions. The carrying basis in the tables below is adjusted for any impairment losses incurred.

Other intangible assets consist of the following at December 31, 2015:

		Adjusted carrying basis	Accumulated amortization	Net book value
Acquired artistic intangibles and owned permissions	Useful life 5 - 11 years	\$4,597,136	\$(2,255,337)	\$2,341,799
Acquired technology intangibles	3 to 4 years	109,000	(109,000)	-
Acquired customer intangibles	10 years	588,690	(459,434)	129,256
Patents ¹	remaining life of patent	452,558	(13,415)	439,143
Domain names	3 years	54,618	(52,422)	2,196
Total finite life intangibles		5,802,002	(2,889,608)	2,912,394
Trademarks/brands/acquired marketing intangibles ²	indefinite	1,527,145	-	1,527,145
Total other intangible assets, net		<u>\$7,329,147</u>	<u>\$(2,889,608)</u>	<u>\$4,439,539</u>

Notes:

(1) Primarily represents legal costs related to pending patent applications.

(2) Includes \$283,145 of internally generated trademarks. The remainder represents brands acquired in the merger between In2Books and ePals Classroom Exchange in 2006 and the marketing intangibles acquired from Carus.

Other intangible assets consist of the following at December 31, 2014:

	Useful life	Adjusted carrying basis	Accumulated amortization	Net book value
Acquired artistic intangibles and owned permissions	5 - 11 years	\$4,004,398	\$(1,645,581)	\$2,358,817
Acquired technology intangibles	3 to 4 years	109,000	(109,000)	-
Acquired customer intangibles	10 years	588,690	(412,274)	176,416
Patents ¹	remaining life of patent	378,957	(7,299)	371,658
Domain names	3 years	54,618	(45,547)	9,071
Total finite life intangibles		5,135,663	(2,219,701)	2,915,962
Trademarks/brands/acquired marketing intangibles ²	indefinite	1,459,093	-	1,459,093
Total other intangible assets, net		<u>\$6,594,756</u>	<u>\$(2,219,701)</u>	<u>\$4,375,055</u>

Notes:

(1) Primarily represents legal costs related to pending patent applications.

(2) Includes \$214,993 of internally generated trademarks. The remainder represents brands acquired in the merger between In2Books and ePals Classroom Exchange in 2006 and the marketing intangibles acquired from Carus.

The rollforward of intangibles from December 31, 2014 to December 31, 2015 is shown below:

	Net book value at 12/31/14	Additions	Amortization¹	Impairment losses and write-offs	Net book value at 12/31/15
Acquired artistic intangibles and owned permissions	\$ 2,358,817	\$ 597,170	\$ (614,188)	\$ -	\$ 2,341,799
Acquired customer intangibles	176,416	-	(47,160)	-	129,256
Patents ²	371,658	97,069	(6,115)	(23,469)	439,143
Domain Names	9,071	-	(6,875)	-	2,196
Total finite life intangibles	2,915,962	694,239	(674,338)	(23,469)	2,912,394
Trademarks/brands/acquired marketing intangibles	1,459,093	68,052	-	-	1,527,145
Total other intangible assets, net	<u>\$4,375,055</u>	<u>\$ 762,291</u>	<u>\$ (674,338)</u>	<u>\$ (23,469)</u>	<u>\$ 4,439,539</u>

Notes:

(1) Amortization of intangibles is classified in "depreciation & amortization" on the Consolidated Statements of Comprehensive Loss.

(2) Primarily represents legal costs related to pending patent applications.

The rollforward of intangibles from December 31, 2013 to December 31, 2014 is shown below:

	Net book value at 12/31/13	Additions	Amortization¹	Impairment losses and write-offs	Net book value at 12/31/14
Acquired artistic intangibles and owned permissions	\$ 3,164,407	\$ 521,790	\$ (626,722)	\$ (700,658)	\$ 2,358,817
Acquired technology intangibles	38,097	-	(38,097)	-	-
Acquired customer intangibles	214,551	15,000	(53,135)	-	176,416
Patents ²	479,067	92,888	(4,027)	(196,270)	371,658
Domain Names	9,985	6,730	(7,644)	-	9,071
Total finite life intangibles	3,906,107	636,408	(729,625)	(896,928)	2,915,962
Trademarks/brands/acquired marketing intangibles	3,486,045	33,340	-	(2,060,292)	1,459,093
Total other intangible assets, net	<u>\$7,392,152</u>	<u>\$ 669,748</u>	<u>\$ (729,625)</u>	<u>\$ (2,957,220)</u>	<u>\$4,375,055</u>

Notes:

(1) Amortization of intangibles is classified in "depreciation & amortization" on the Consolidated Statements of Comprehensive Loss.

(2) Primarily represents legal costs related to pending patent applications.

The net carrying amount of intangibles with indefinite lives as of December 31, 2015 and 2014 is allocated to the following CGUs:

	December 31, 2015	December 31, 2014
Former ePals CGU	\$ 295,145	\$ 227,093
Media CGU	1,232,000	1,232,000
Balance	<u>\$1,527,145</u>	<u>\$1,459,093</u>

Cricket Media obtained artistic-related, customer-related, technology-related and marketing-related intangibles from its acquisition of Carus in December 2011. The artistic-related intangibles, primarily in the form of owned permissions, are specifically Carus' book and magazine content to which it retains ownership rights, with the fair value determined using a relief-from-royalty valuation method. As of December 31, 2015, the artistic-related intangibles will continue to be amortized over their remaining useful life to 2022. The technology-based intangible assets are primarily Carus' developed app technology for the iPhone, iPad and iPod Touch which leverage Carus' existing magazines and content. The marketing-related intangible assets are primarily the acquired trade names for Carus and its magazines.

Amortization on patents begins upon issuance and the Company has four issued patents as of December 31, 2015. The Company recognized amortization expense of approximately \$6,116 and \$4,027 related to these intangible assets for the year ended December 31, 2015 and December 31, 2014, respectively. The Company wrote off patent legal fees of \$23,469 and \$196,270 during the year ended December 31, 2015 and 2014, respectively related to abandoned patents.

Impairment testing of other intangibles

The Company performed qualitative impairment analyses for intangibles with finite lives on November 30, 2015 and no impairment indicators were determined to be present.

The Company performed impairment analyses for intangibles with finite lives on November 30, 2014 when impairment indicators were determined to be present.

Impairment indicators were present for the Media CGU during the fourth quarter of 2014, therefore the definite-lived acquired artistic intangibles and owned permission intangibles assigned to this CGU were tested for impairment. The fair value analysis of the Media CGU's artistic-related and owned permission intangible assets was updated on November 30, 2014 and the recoverable amount of those assets was compared to their carrying amounts on that date. The recoverable amount, which was determined by calculating fair value less cost to sell, was determined using a discounted cash flow method using forecasted revenue information provided by management and applying royalty percentage to determine the ultimate cash flows attributable to the recoverability of the intangibles. Income expected to be generated by these intangibles in future periods was calculated using a relief from royalty method utilizing a relief from royalty of 7.5%. The analysis concluded that the recoverable amount of the artistic related intangibles and owned permissions was \$2,357,790 as of November 30, 2014, which was calculated by discounting management's ten year revenue forecast at a discount rate of 40%. The inputs utilized in the calculation of fair value less cost to sell, which include management forecast, the royalty rate and the discount rate deemed to be appropriate, constitute Level 3 inputs on the fair value hierarchy. Based on this testing, an impairment loss of \$700,658 was booked to the acquired artistic intangibles and owned permissions in the Media CGU. No impairment loss was booked to the acquired technology-based intangible assets or the acquired customer intangibles.

During the year ended December 31, 2014, management determined the Company would suspend the expansion of sponsorship and global community activities in an attempt to shift resources to more profitable areas of the business. As a result, the Company's intangible assets supported by sponsorship activities, which include the ePals brand name indefinite lived intangible asset, was evaluated for impairment. Upon completing the evaluation, the Company determined the value of the brand name was no longer recoverable. An impairment loss of \$2,060,292 was recognized during the year ended December 31, 2014 related to the brand name intangible, which represents a full write off of the aforementioned asset.

Below is the estimated amortization expense for other intangibles, excluding patents, for each of the next five years. The amortization expense for patents cannot be estimated because that number is based on when the Company's patents are approved. The Company starts amortizing patents when they receive final approval.

	Amortization Expense
2016	\$ 699,466
2017	613,193
2018	479,753
2019	341,249
2020	195,148
Total	<u>\$2,328,809</u>

NOTE 10 – Investment in NeuPals

In March 2012, the Company signed a definitive Joint Venture Contract with NeuEdu Tianjin ("NeuEdu") for a 20-year term whereby the parties agreed to form a partnership named NeuPals Dalian Educational Information Technologies Co., Ltd. ("NeuPals") to create and launch a Chinese version of Cricket Media's Global Community and products. For accounting purposes, the Company does not meet the requirements of having joint control, but instead meets the requirements for having significant influence over NeuPals based on how strategic financial and operating decisions are approved by NeuPals' board of directors. Therefore, NeuPals is being accounted for as an associate of the Company under the equity method of accounting in accordance with IFRS.

The table below shows the activity during the years ended December 31, 2015 and 2014 in the Investment in NeuPals account on the consolidated statements of financial position at December 31, 2015:

Investment in NeuPals at December 31, 2013	\$811,929
Cricket Media share of 2014 loss	(271,663)
Investment in NeuPals at December 31, 2014	<u>540,266</u>
Cricket Media share of 2015 loss	(123,223)
Investment in NeuPals at December 31, 2015	<u>\$417,043</u>

The following table summarizes key financial information for NeuPals as of and for the years ended December 31, 2015 and December 31, 2014:

	December 31, 2015	December 31, 2014
Current assets	\$838,729	\$1,133,910
Non-current assets	8,777	26,169
Current liabilities	1,096	1,938
Total revenues	4,670	-
Net loss	(261,991)	(554,446)

The total amount of the registered capital of NeuPals is currently \$5,000,000, of which the contributions from the Company and NeuEdu are expected to be \$2,450,000 and \$2,550,000, respectively, accounting for 49% and 51%, respectively, of the registered capital. NeuEdu and the Company were required to fund 50% of their portion of the registered capital within 90 days of the issuance of the business license and, prior to the third quarter of 2014, the remaining portion was required to be funded by October 2014. During the third quarter of 2014, the Company and NeuEdu agreed that neither party would make the capital payments initially required by October 2014. The agreement was reached by both parties primarily as the result of an evaluation of the Company and joint venture's current cash position as it relates to the joint venture's current operating strategy. These and other factors will continue to be reviewed by the Company and NeuEdu to determine capital contributions to be made to the joint venture in the future.

NOTE 11 – Accounts payable and accrued expenses

The following is a summary of accounts payable and accrued expenses as of December 31, 2015 and December 31, 2014:

	December 31, 2015	% of Total	December 31, 2014	% of Total
Accounts payable, trade & Accrued liabilities	\$4,434,497	88%	\$ 5,265,309	91%
Accrued wages	579,043	12%	520,661	9%
Accounts payable and accrued expenses	<u>\$5,013,540</u>		<u>\$ 5,785,970</u>	

As of December 31, 2015, approximately \$3.1 million of the trade accounts payable and accrued liabilities was attributable to the ongoing operations of the media business and the remaining amount was attributable to general corporate matters. As of December 31, 2014, approximately \$3.3 million of the trade accounts payable was attributable to the ongoing operations of the media business and the remaining amount was attributable to general corporate matters. Accrued liabilities, which relate to costs incurred but not invoiced as of the end of the period, consists primarily of professional services, legal fees and outsourced third party services.

NOTE 12 - Debt

Debentures

At December 31, 2015, the Company had a principal amount of approximately CAD\$22 million secured convertible debentures outstanding. A rollforward of the secured convertible debentures line in the consolidated statements of financial position is shown below, which is made up of the host debt liability, the derivative liabilities for the Forced Conversion and Conversion at Option of Holder, net of the transaction costs apportioned to the host debt liability component that are being amortized over the estimated term of the debentures under the effective interest method.

Balance of secured convertible debentures at December 31, 2014	\$18,710,994
Accretion of the 2012 Debentures and 2013 Debentures	89,712
Foreign currency translation	(3,023,563)
Balance of secured convertible debentures at December 31, 2015	<u>\$15,777,143</u>

In January 2016, the Company restructured the outstanding debt balance associated with the 2012 Debentures and 2013 Debentures. See Note 21, Subsequent Events, for additional information on the debt restructuring.

Terms of the 2013 Debentures

During 2013, the Company issued the 2013 Debentures in an aggregate principal amount of CAD\$10,000,000. A total of CAD\$9,750,000 of the 2013 Debentures were collectively held by existing investors and an affiliate of two members of the Company's Board of Directors. Each CAD\$1,000 principal amount of the 2013 Debentures is convertible into 100 voting common shares of the Company, at the option of the holder, representing a conversion price of CAD\$10.00 per share (the "2013 Conversion Price").

The 2013 Debentures rank senior to other indebtedness of the Company, including the 2012 Debentures but excluding the senior bridge debentures issued in 2015, and bear interest at a rate of 10.0% per annum, payable annually in arrears on April 30 each year, with the initial interest payment date on April 30, 2014. In April 2014, the Company paid interest on CAD\$6,500,000 in principal of the outstanding 2013 Debentures, of which interest on CAD\$6,250,000 in principal was invested by the holders of the debentures in the Company through a private placement transaction. The Company also entered into an agreement with one of the holders of its 2013 Debentures to defer the interest payment of approximately CAD\$348,000 with respect to CAD\$3,500,000 of principal that was due on April 30, 2014 until March 31, 2015. In January 2016, the interest due was incorporated into the debt restructuring. See Note 21 for additional information on the debt restructuring.

The 2013 Debentures had an original maturity date of October 31, 2014, which was extended to October 31, 2016 at the Company's option. The holders of the 2013 Debentures have a senior security interest in all of the present and subsequently acquired tangible and intangible personal property of the Company, with the exception of the holders of the senior bridge debentures issued in 2015. The 2013 Debentures were not redeemable prior to October 31, 2015. On or after October 31, 2015, under certain conditions, the Company had an option to redeem the 2013 Debentures, at par plus accrued and unpaid interest thereon to the redemption date. Further, on or after October 31, 2014, the Company may, at its option, convert the 2013 Debentures into the Company's voting common shares at the 2013 Conversion Price, provided that the volume weighted average trading price of the Company's voting common shares for the preceding 10 trading days is not less than 200% of the 2013 Conversion Price. Holders of converted 2013 Debentures were to receive, in cash, accrued and unpaid interest thereon to the conversion date.

Terms of the 2012 Debentures

The 2012 Debentures were issued with substantially the same terms as the 2013 Debentures with the exception of the conversion price and interest rate. Each CAD\$1,000 in principal of the 2012 Debentures was convertible into approximately 67 voting common shares of the Company at the option of the holder representing a conversion price of CAD\$15.00 per share. The maturity date of the 2012 Debentures was also extended to October 31, 2016 at the Company's option.

Restrictions on the 2012 Debentures

The agreements for the 2012 Debentures prohibited the Company from incurring senior indebtedness over CAD\$10,000,000. As of December 31, 2015, the Company had issued the maximum amount of senior indebtedness permitted under the trust indenture governing the terms of the 2012 Debentures through the issuance of the 2013 Debentures.

The agreements for the 2012 Debentures prohibited the Company from the following:

- (i) incurring additional indebtedness senior or pari passu to the 2013 Debentures exceeding the combined specified limit of CAD\$10,000,000 minus any amount of debt issued under the 2013 agreements;
- (ii) creating or assuming any security interests on any of its assets, other than encumbrances specifically permitted under the debenture agreements;
- (iii) making payments to, entering into, making, purchasing or acquiring any investments other than investments specifically permitted under the debenture agreements (which include investments made in cash or joint ventures up to a permitted investment limit of CAD\$5,000,000 plus an amount equal to the Company's proceeds from any future equity raise or debt financing transactions);
- (iv) making any payment to, selling, leasing or transferring, or otherwise disposing of any of its properties or assets to, or purchase any assets or property from, any affiliate under terms and conditions which are no less favorable to the Company than those that would be been obtained in an arms-length transaction.

Restructuring of the 2012 Debentures and 2013 Debentures

In January 2016, the Company restructured the debt outstanding under the 2012 Debentures and 2013 Debentures. See Note 21 for additional information on the restructuring of the 2012 Debentures and 2013 Debentures.

2015 Bridge Debentures

During the year ended December 31, 2015, the Company issued additional debentures as part of the bridge loan financing component of its debt restructuring. Of the debentures issued, \$2.9 million were issued in the form of junior debentures and \$4.0 million were in the form of senior bridge debentures. A rollforward of the secured convertible debentures line in the condensed consolidated interim statements of financial position is shown below, which is made up of the initial host debt liability of approximately \$6.6 million and the derivative liabilities for the conversion features, net of the transaction costs apportioned to

the host debt liability component that are being amortized over the estimated term of the debentures under the effective interest method.

Balance of bridge debentures at December 31, 2014	\$ -
Issuance of the 2015 Bridge Debentures, net	6,753,031
Accretion of the 2015 Bridge Debentures	235,999
Change in fair value of conversion features	(144,100)
Balance of bridge debentures at December 31, 2015	<u>\$ 6,844,930</u>

Terms of the 2015 Bridge Debentures

The 2015 Bridge Debentures will mature on April 30, 2016 and carry an annual interest rate 5%. The debentures are convertible into voting common shares or restricted voting common shares of the Company at the option of the holder at a conversion price ranging between \$0.25 and \$0.32 per share. Additionally, if the Company raises aggregate proceeds of \$10,000,000 pursuant to an equity financing of preferred shares and the Initial Bridge Loan, collectively, all outstanding indebtedness under the 2015 Bridge Debentures will convert to, at the option of the holder: (A) preferred shares at a conversion price equal to the greater of (i) 80% of the issue price per share under the preferred share financing; and (ii) \$0.25 or \$0.32 (as detailed in the respective debenture agreement); (B) voting common shares or restricted voting common shares at a price ranging between \$0.25 and \$0.32 per share per the relevant agreements or (C) a combination of (A) and (B) at the holders' option. The senior bridge debentures rank senior to the 2012 Debentures and 2013 Debentures and the junior bridge loan debentures rank junior to the 2012 Debentures and 2013 Debentures.

As of December 31, 2015, the holders of the senior bridge debentures held a senior security interest in all of the present and subsequently acquired tangible and intangible personal property of the Company.

In April 2016, the Company reached an agreement with Cricket Acquisition Group, Inc. ("CAG") in which CAG will acquire the equity securities of the Company (excluding securities held by members of CAG) as well as the outstanding 5% secured convertible debentures as issued in January 2016 in connection with the Company's debt restructuring. As part of the acquisition arrangement, the outstanding debt related to the 2015 Bridge Debentures will be converted into preferred stock of CAG. See Note 21 for additional information on the acquisition transaction.

Accounting for the Debentures

Since the Company's 2012 Debentures and 2013 Debentures were issued in a currency other than the Company's functional currency of USD and the Company's common stock is denominated in CAD, the Company's debentures fail the 'fixed-for-fixed' criteria for equity classification under IFRS. The two conversion features (Forced Conversion and Conversion at Option of Holder) of the 2012 Debentures and 2013 Debentures were accounted for as embedded derivatives and recorded as liabilities at their fair values on the debentures issuance date. The conversion features were measured first at their fair values and recorded separately, with the host debt liability component measured at the residual after deducting the fair value attributable to the conversion features from the convertible debenture as a whole. The proceeds from the debenture tranches were bifurcated between the host debt liability and these conversion features on their respective issuance dates. Additionally, while the 2015 Bridge Debentures were issued in USD, the Company's stock tied to the conversion features is denominated in CAD and thus these debentures also failed the 'fixed-for-fixed' criteria for equity classification under IFRS. As a result, the 2015 Bridge Debentures are being accounted for in the same manner as the 2012 Debentures and 2013 Debentures.

Transaction costs were apportioned to the host debt liability component and are being amortized over the estimated term of the convertible debenture using the effective interest method. The host debt liability component, net of the transaction costs, is being accreted to the face value of the liability using the effective interest method. As of December 31, 2015, the accretion of the liability is charged at a weighted average effective interest rate of 10.3% for the 2013 Debentures and 7.3% for the 2012 Debentures such that at maturity, the liability component is equal to the face value of the outstanding debentures. As of December 31, 2015, the accretion of the liability is charged at a weighted average effective interest rate of 15.4% for debentures issued under the bridge loan such that at maturity, the liability component is equal to the face value of the outstanding debentures.

A portion of the 2015 Bridge Debentures were issued to related parties with a fixed annual interest rate of 5%. As a result, the Company evaluated whether these debentures were issued at a discount. Including considerations related to the conversion features, it was determined that the fair value of tranches issued in May 2015 was lower than the host debt amount by approximately \$50,000. This discount is being amortized over the life of these debenture tranches.

The Company remeasured the fair value of the conversion features in the 2015 Bridge Debentures and recognized a gain of \$144,100 and \$63,750 to adjust the conversion features to their fair value during the year ended December 31, 2015 and December 31, 2014, respectively. See Note 5 for additional information on the fair value of these conversion features.

In February 2013, the TSX-V approved the 2012 Debentures to be listed and posted for trading on that exchange. Trading commenced on February 21, 2013 and traded under the symbol CKT.DB prior to the debt restructuring. See Note 21 for additional information on the debt restructuring.

Credit agreements with insiders

As of December 31, 2015, the Company had a \$3,500,000 revolving line of credit with ZG Ventures, LLC ("ZG"), an affiliate of two members of the Company's Board of Directors, to provide funding for the Company's strategic initiatives and working capital needs.

In March 2015, ZG forgave an aggregate of \$1,000,000 of indebtedness outstanding under the line of credit. As partial consideration for the forgiveness of debt, Cricket Media, Inc. agreed, subject to certain conditions, to indemnify Miles Gilburne and Nina Zolt, the principals of ZG, from all payment obligations that may be incurred by them in connection with a personal guarantee they have provided in connection with the Company's bank line-of-credit with The National Capital Bank of Washington, whereby they guaranteed the repayment by ePals Foundation Inc., an entity which Cricket Media, Inc. controls, of \$1,500,000 of indebtedness incurred by ePals Foundation pursuant to a commercial line of credit with The National Capital Bank of Washington prior to the restructuring of that debt in June 2015 as described below. ZG also provided a payment guaranty to The National Capital Bank of Washington related to the promissory note replacing the revolving bank line of credit. Due to the related party nature of this transaction with a significant shareholder, the debt forgiveness was recorded as a reduction to the debt outstanding and an increase to additional paid-in-capital. No gain was recognized in connection with this transaction.

Additionally, approximately \$1.8 million of the 2015 Bridge Debentures discussed above were issued in settlement of amounts outstanding under the revolving line of credit. See Note 18 for additional information on this transaction.

During the year ended December 31, 2014, the Company repaid \$10.1 million outstanding under the facility with the issuance of 10.7 million restricted common shares. See Note 18 for additional information on this transaction.

As of December 31, 2015, the Company was fully drawn under the revolving line of credit with ZG.

Bank promissory note

In April 2014, the Company renewed the \$1,500,000 bank line-of-credit agreement with the same local bank for a one-year term. The line-of-credit agreement was renewed under terms where the Company will repay \$10,000 of principal per month from October through December 2014 and \$15,000 per month from January 2015 through March 2015. Interest rate terms were substantially similar to the previous agreement. In April 2015 the Company restructured the line-of-credit in the form of a promissory note to carry a 5.0% interest rate with repayment due over five years, which took effect in June 2015. Under the new line-of-credit, which matures on September 30, 2020, the Company will make monthly payments of principal and interest of approximately \$27,000. At December 31, 2015 and December 31, 2014 the Company was in compliance with all covenants in the debt agreements. Two directors of the Company (the "Guarantors") have provided a guaranty to the bank with respect to the promissory note and the Company has agreed to reimburse the Guarantors for amounts that may be paid by the Guarantors to the bank in connection with the guarantee.

At December 31, 2015, the Company had \$1,298,241 outstanding under the promissory note, of which \$263,364 was classified as a current note payable and \$1,034,877 was classified as a long-term note payable as of September 30, 2015. At December 31, 2014, the Company had \$1,470,000 outstanding on the bank line-of-credit. The outstanding balance under the line-of-credit was classified as a current liability at December 31, 2014. Due to the low current market interest rates, exposure to interest rate risk is minimal.

NOTE 13 – Share Capital

Authorized share capital

An unlimited number of voting common shares and an unlimited number of restricted voting common shares without par value are authorized at December 31, 2015. An unlimited number of preferred shares without par value are authorized at December 31, 2015, issuable in series.

On July 9, 2014, the Company announced that the TSX-V approved the consolidation of the Company's issued and outstanding voting common shares and the Company's issued and outstanding restricted voting common shares, each on the basis of one post-consolidation share for every 25 outstanding pre-consolidation shares. Effective at the opening of trading on July 10, 2014, the voting common shares commenced trading on the TSX-V on a consolidated basis and continued to trade under the symbol "CKT". The outstanding convertible securities of the Company were adjusted in accordance with the terms to reflect the consolidated capital structure of the Company.

Voting common shares

During the year ended December 31, 2015, the Company completed two additional tranches of its previously announced non-brokered private placement and issued approximately 2.2 million Units at a price of CAD\$0.65 per Unit for proceeds of approximately \$1.25 million. Each Unit consisted of one voting common share of the Company and one-third of one Warrant. Each Warrant entitled the holder to purchase one additional voting common share of the Company at a price of CAD\$0.65 until March 31, 2015. The Warrants were not exercised before the expiration date.

During the year ended December 31, 2015, the Company issued 345,385 voting common shares in connection with the settlement of restricted stock units granted to members of the Board of Directors. During the year ended December 31, 2015, approximately 3.7 million voting common shares were issued due to the conversion of restricted shares to voting shares.

During the year ended December 31, 2014, the Company issued equity instruments through a previously announced non-brokered private placement transaction. Under this private placement, the Company issued approximately 1.1 million Units at prices ranging between CAD\$0.65 and CAD\$1.875 per Unit for gross proceeds of approximately \$1.1 million, of which approximately 400,000 units were issued to a related party. Each Unit consists of one voting common share of the Company and one-third of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitled the holder to purchase one additional voting common share of the Company at prices ranging between CAD\$0.65 and CAD\$1.875.

The holders of the Company's voting common shares are entitled to the following:

- a. to receive notice of and to attend all meetings of the Company's shareholders;
- b. one vote per share at meetings of the Company's shareholders, except for the election of directors when the voting common shares carry cumulative voting rights;
- c. to receive dividends as and when declared by the Company's Board of Directors, as long as the same dividend is declared and paid on the Company's restricted voting common shares; and
- d. in the event of any voluntary or involuntary liquidation, dissolution or winding up, or any other distribution of assets among the Company's shareholders for the purpose of winding up its affairs, to share ratably, together with the holders of restricted voting common shares, in the assets of the Company available for distribution.

The voting common shares of the Company trade on the TSX-V. All voting common shares outstanding are fully paid and non-assessable and not subject to any pre-emptive rights, conversion or exchange rights, redemption, retraction or surrender provisions, sinking or purchase fund provisions, provisions

permitting or restricting the issuance of additional securities or provisions requiring a shareholder to contribute additional capital. The rights, privileges, restrictions and conditions attached to the voting common shares may not be added to, changed or removed without the prior approval of two-thirds of the holders of the restricted voting common shares and the voting common shares voting separately.

Restricted voting common shares

During the year ended December 31, 2015, the Company issued 445,551 restricted voting common shares in connection with the settlement of restricted stock units granted to employees and members of the Board of Directors.

In March 2014, the Company issued 126,653 restricted voting common shares to satisfy \$150,000 of the outstanding obligation associated with the Carus Earn Out. The restricted voting common shares of the Company issued under this transaction are subject to resale restrictions for a period of four months from the issue date. See Note 5 for additional information on the Carus Earn Out.

During the year ended December 31, 2014, 10,653,763 restricted voting common shares were issued to repay a total of \$10.1 million of funds previously borrowed under the Company's revolving line of credit with an affiliate of two members of the Company's Board of Directors. The shares were issued at a weighted average price of CAD\$1.04 per share. The shares were issued at an agreed upon price that differed from the market price on the day of the transaction. The difference in market value was recorded to additional paid-in-capital on the Company's consolidated balance sheet.

During the year ended December 31, 2014, the Company issued equity instruments through a non-brokered private placement transaction. Under this private placement, the Company issued approximately four million Units at prices ranging between CAD\$0.65 and CAD\$1.875 per Unit for gross proceeds of approximately \$3.5 million, of which approximately 1.6 million Units were issued to an affiliate of two members of the Company's Board of Directors and affiliates. Each Unit consisted of one restricted voting common share of the Company and one-third of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitled the holder to purchase one additional restricted voting common share of the Company at prices ranging between CAD\$0.65 and CAD\$1.875. No value was assigned to these warrants as of December 31, 2014.

The holders of the Company's restricted voting common shares are entitled to the following:

- a. to receive notice of and to attend all meetings of the Company's shareholders;
- b. one vote per share at all meetings of the Company's shareholders except for the election of directors where there are no voting rights;
- c. to receive dividends as and when declared by the Company's Board of Directors, as long as the same dividend is declared and paid on the Company's voting common shares;
- d. in the event of any voluntary or involuntary liquidation, dissolution or winding up, or any other distribution of assets among the Company's shareholders for the purpose of winding up its affairs, to share ratably, together with the holders of voting common shares, in the assets of the Company available for distribution;
- e. each restricted voting common share may be converted into one voting common share of Cricket Media for no additional consideration; and
- f. in connection with an offer to purchase the Company's common shares which is made to all or substantially all of the Company's shareholders, the restricted voting common shares are redeemable (at a price per share equal to the value of the consideration offered, which in the case of non-cash consideration, shall be determined by the Company's Board of Directors) at the option of the holder.

The restricted voting common shares of the Company do not trade on the TSX-V. The rights, privileges, restrictions and conditions attached to the restricted voting common shares may not be added to, changed or removed without the prior approval of two-thirds of the holders of restricted voting common shares, and without the prior approval of holders of voting common shares.

Preferred shares

Cricket Media Group Ltd. had no preferred shares issued or outstanding at December 31, 2015 or 2014. See Note 21 for additional information on preferred shares.

Unvested voting common stock

During the year ended December 31, 2014, 965 voting common shares of the Company were released from restriction in accordance with the Company's February 2009 cooperative agreement with Gabriel Piedrahita Uribe Foundation.

Treasury stock

ePals Foundation owns 28,800 common shares of Cricket Media Group Ltd. at December 31, 2015 and 2014. The treasury stock is presented on the balance sheet at the value of the assets and liabilities of In2Books, Inc. on June 2008 when ePals Foundation assumed those assets and liabilities in exchange for the shares.

NOTE 14 – Share-Based Compensation

2006 Incentive Stock Option Plan

ePals, Inc. adopted an incentive stock option plan in 2006 (the "2006 Stock Option Plan"). Under the terms of the 2006 Stock Option Plan, ePals, Inc. could grant options for up to 640,430 common shares. The 2006 Stock Option Plan remains in place and options issued prior to the Merger will continue to be governed by this plan; however, no further options will be issued pursuant to this plan. Employees with options issued by ePals, Inc. continued to hold the options and such securities continued to represent the right to receive shares of ePals, Inc. Upon exercise of the stock options, each share of ePals, Inc. can be exchanged for 0.377 voting common shares and 0.623 restricted voting common shares of ePals, subject to adjustment based on stock splits, etc. (the holder exercising the stock option may elect to receive ePals, Inc. shares in lieu of ePals shares and the ePals, Inc. shares may be exchanged at the option of the holder, at any time, for shares of ePals).

2011 Incentive Stock Option Plan

As a result of the Merger, the Company established the 2011 Incentive Stock Option Plan (the "2011 Stock Option Plan"). All stock options issued after the Merger are issued under this plan. The aggregate number of common shares that may be reserved for issuance pursuant to the 2011 Stock Option Plan and any of the Company's other share compensation arrangements, including the Restricted Share Unit Plan and the 2006 Stock Option Plan, shall not exceed 10% of the outstanding common shares at the time of the granting of an option. This plan was amended in 2015 to exclude restricted stock units from the aforementioned threshold. Stock options issued under the 2011 Stock Option Plan may be settled either by the optionees' payment of cash for the Company's common shares or the Company's purchase of the options from the optionee for the in-the-money value for cash. That option is only permitted by the 2011 Stock Option Plan as long as the Company is designated as a Tier 1 issuer on the TSX-V and the Company's Board of Directors has full discretionary authority to accept or reject such request. It is not the intent of the Company to permit such requests.

The Company's Board of Directors determines the manner, if any, in which options under the 2011 Stock Option Plan vest and become exercisable. Each option granted under the 2011 Stock Option Plan terminates upon the expiration of 10 years from the grant date. In the event that a grantee is a 10% shareholder, the option price for an "incentive stock option" (within the meaning of the United States Internal Revenue Code of 1986) granted should not be less than 110% of the fair market value of a common share on the grant date and the option granted is not exercisable after the expiration of five years from its grant date.

Stock options

Presented below is a summary of the stock option activity for the year ended December 31, 2015 and 2014:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>
Outstanding at January 1, 2014	453,301	\$ 8.67	
Granted	519,239	1.22	
Exercised	-	-	
Forfeited or expired	<u>(189,182)</u>	6.68	
Outstanding at December 31, 2014	<u>783,358</u>	<u>\$ 4.07</u>	<u>7.16</u>
Exercisable at December 31, 2014	<u>461,596</u>	<u>\$ 5.72</u>	<u>6.41</u>
Outstanding at January 1, 2015	783,358	\$ 4.07	
Granted	2,580,518	0.20	
Exercised	-	-	
Forfeited or expired	<u>(456,583)</u>	1.23	
Outstanding at December 31, 2015	<u>2,907,293</u>	<u>\$ 0.70</u>	<u>8.89</u>
Exercisable at December 31, 2015	<u>1,153,778</u>	<u>\$ 1.31</u>	<u>8.42</u>

The following table summarizes the range of exercise prices for the stock options outstanding at December 31, 2015:

<u>Exercise price</u>	<u>Options outstanding</u>	<u>Options vested</u>
\$0.08 - \$0.19	685,250	90,189
\$0.20 - \$0.84	1,644,957	622,968
\$1.02 - \$2.96	500,139	363,707
\$4.61 - \$8.00	21,440	21,407
\$11.79 - \$14.70	55,507	55,507
	<u>2,907,293</u>	<u>1,153,778</u>

At December 31, 2015 and December 31, 2014, the Company's total outstanding and total exercisable stock options had no intrinsic value. The fair value of options granted during the year ended December 31, 2015 and 2014 was \$153,123 and \$248,710, respectively, and is being expensed over the vesting period.

The Company charged to operations stock compensation expense for stock options totaling \$139,363 and \$198,979 for the year ended December 31, 2015 and 2014, respectively. The weighted-average grant date fair value of options granted during the years ended December 31, 2015 and 2014 was \$0.06 and \$0.48, respectively.

As of December 31, 2015, there was approximately \$76,194 of total unrecognized compensation cost related to stock option compensation arrangements.

During the year ended December 31, 2014, the Company issued 12,000 stock options to a consultant for services to be provided between January 2014 and April 2014. The fair value of \$50,000 attributed to these options was based on the fair value of the services received. The fair value of each stock option award to employees is estimated from the date of grant using the Black-Scholes Option Pricing Model with assumption ranges for the years ended December 31, 2015 and 2014 noted in the following table:

	December 31, 2015	December 31, 2014
Expected volatility	46.00 – 61.00%	45.00 – 57.00%
Expected dividends	0.00%	0.00%
Expected term (in years)	1.00 – 4.00	1.25 – 4.00
Risk-free interest rate	0.25 – 1.42%	0.17 – 1.36%

The expected volatility of the options granted was estimated using the historical volatility of share prices of publicly traded companies within the technology and education industry as a substitute for the historical volatility of the Company's common shares, which is not determinable without an active external or internal market with a sufficient amount of history. The expected dividends are based on the Company's historical estimated issuance and management's expectations for dividend issuance in the future. The expected term for options that vest on a graded/step basis used in the Black-Scholes calculation is derived from analyzing the options as separate tranches based on increments in which they vest. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Restricted share units

As part of the Merger, the Company adopted the 2011 Restricted Share Unit Plan (the "Restricted Share Unit Plan"), which was amended in 2015. Each restricted share unit ("RSU") represents the right to receive one restricted voting common share of the Company on the vesting date without monetary consideration paid to the Company. There are no standard vesting terms for RSUs as the terms vary by grant, with some RSUs vesting immediately upon grant.

Awards of RSUs under the Restricted Share Unit Plan are granted to the Company's directors, officers, employees and consultants, with the timing and amounts of such issuances determined by the Compensation Committee of the Company's Board of Directors. Under the 2015 amendment to the plan, the maximum number of common shares reserved for issuance is 21,511,169. Prior to the amendment, the aggregate number of common shares that may be reserved for issuance pursuant to the Restricted Share Unit Plan and any of the Company's other share compensation arrangements, including the Company's stock option plans, shall not exceed 10% of the outstanding common shares at the time of the granting of an award. Additionally, the aggregate number of common shares issued to all persons within any consecutive twelve months shall not exceed the greatest of: (i) \$1,000,000; (ii) 15% of total assets of the Corporation, measured at its most recent annual balance sheet date; or (iii) 15% of outstanding common shares, measured at the Company's most recent annual balance sheet date.

The fair value of the RSUs granted to the Company's officers and employees is equal to the market price of the common shares of the Company at the time of grant.

The fair value of RSUs granted in 2015 and 2014 were \$163,234 and \$47,397, respectively. Stock-based compensation for RSUs of \$136,490 and \$147,874 was recorded during the year ended December 31, 2015 and 2014, respectively. As of December 31, 2015 and December 31, 2014, there was \$3,131 and \$14,010 of total unrecognized compensation cost related to RSUs, respectively.

Presented below is a summary of the restricted share unit activity for the years ended December 31, 2015 and 2014:

	Number of RSUs	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2014	54,579	\$ 4.00
Granted	42,000	1.25
Vested	(68,812)	3.16
Forfeited	(7,600)	1.70
Outstanding at December 31, 2014	20,167	2.06
Granted	1,016,154	0.16
Vested	(790,936)	0.18
Forfeited	-	-
Outstanding at December 31, 2015	<u>245,385</u>	\$ 0.23

All of the RSUs awarded in 2015 and 2014 were to directors, officers and employees of the Company.

Stock warrants

Warrants issued by Cricket Media Group Ltd.

As discussed in Note 13, the Company issued stock warrants through a non-brokered private placement during 2015 and these warrants expired on March 31, 2015. The Company issued approximately 700,000 stock warrants with a strike price of CAD\$0.65 per warrant. There were certain dilution events that could have potentially changed the strike price of these warrants, including: (i) the issuance of common shares, or securities exchangeable for or convertible into restricted voting common shares, issued to all or substantially all shareholders as a stock dividend; (ii) any distribution on its outstanding or voting common shares; (iii) the occurrence of a stock split; or (iv) the occurrence of a reverse stock split. None of the warrants granted during 2015 were exercised before the expiration date.

During the year ended December 31, 2014, the Company issued stock warrants through a non-brokered private placement. The Company issued approximately 1.8 million stock warrants with a weighted average strike price of CAD\$0.98 per warrant. There were certain dilution events that could have potentially changed the strike price of these warrants, including: (i) the issuance of common shares, or securities exchangeable for or convertible into restricted voting common shares, issued to all or substantially all shareholders as a stock dividend; (ii) any distribution on its outstanding or voting common shares; (iii) the occurrence of a stock split; or (iv) the occurrence of a reverse stock split. The fair value of the stock warrants was derived using a Monte-Carlo simulation model and the Company recognized a reduction to common stock on the consolidated balance sheet of \$45,962. The assumptions used in the Monte-Carlo simulation and include various dilution scenarios, which were weighted based on the chance of occurrence. These stock warrants expired in August 2014 and therefore no liability was recorded as of December 31, 2015 or December 31, 2014. The value of warrants outstanding as of December 31, 2014 was immaterial.

Presented below is a summary of the warrant activity for the years ended December 31, 2015 and 2014:

	Number of Warrant Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at January 1, 2014	1,777,366	\$ 3.75	
Granted	1,821,426	0.98	
Exercised	(235,834)	1.88	
Forfeited or expired	(1,875,714)	3.00	
Outstanding at December 31, 2014	1,487,244	4.69	0.78
Granted	731,574	0.53	
Exercised	-	-	
Forfeited or expired	(2,064,394)	0.58	
Outstanding at December 31, 2015	154,424	\$ 10.08	4.39

The following table summarizes the range of exercise prices for the warrants outstanding at December 31, 2015:

Exercise price	Warrants outstanding	Warrants vested
\$2.50	35,880	35,880
\$12.38	118,544	118,544
	154,424	154,424

NOTE 15 – Revenue

The Company sub-classifies revenue within the following categories: (1) subscriptions, (2) licensing, (3) commerce and (4) sponsorship. Subscription revenue is comprised of subscriptions of children's magazines and digital content. Licensing includes revenue generated from content licensing, agreements related to the Company's application programming interfaces ("APIs"), licensing the Company's platform to third parties and the licensing of school suite solutions. Commerce revenues are comprised of the sales of back magazine issues, educational digital apps, games, books and other physical and digital products directly to consumers and through partnerships. Sponsorship revenues include revenue from the Company's sponsorship agreements with corporate and non-profit sponsors.

Presented below is the Company's revenue from continuing operations broken out between goods and services for the years ended December 31, 2015 and 2014:

	Year ended December 31,	
	2015	2014
Goods: media products & commerce revenue	\$ 11,066,961	\$ 12,594,806
Services revenue: licensing & sponsorship	2,211,374	2,001,878
Total revenue	\$ 13,278,335	\$ 14,596,684

Presented below is the Company's revenue from continuing operations by category for the years ended December 31, 2015 and 2014:

	Year ended December 31,	
	2015	2014
Subscriptions	\$10,335,523	\$10,911,918
Licensing	2,111,047	1,876,282
Commerce	731,765	1,683,328
Sponsorship	100,000	125,156
Total revenue	\$13,278,335	\$14,596,684

NOTE 16 – Income Taxes

The income provision (benefit) for income taxes consists of the following:

	For the years ended December 31,	
	2015	2014
Current provision	\$10,296	\$21,389
Deferred provision	-	-
Total provision	\$10,296	\$21,389

The provision is a minimum tax amount that is not based on profit or loss from the Company's ordinary activities. The expense is classified in "general & administrative expenses" on the Consolidated Statements of Comprehensive Loss.

The income tax provision (benefit) varies from the income taxes provided based on the U.S. statutory rate as follows for the years ended December 31, 2015 and 2014:

	For the years ended December 31,	
	2015	2014
Current statutory income tax rate	34%	34%
Tax (benefit) provision at Federal statutory rate	\$(3,226,838)	\$(7,510,711)
State taxes	(458,148)	(552,199)
Loss on stock sale of subsidiary	\$(1,013,638)	-
Other	(847,707)	295,198
Changes in net deferred tax assets not recognized	5,406,469	7,598,312
Foreign rate differential	150,158	190,789
Income tax expense (benefit)	\$ 10,296	\$ 21,389

The income tax provision (benefit) is reconciled to the applicable U.S. statutory rate since the Company is taxed primarily in the United States on its consolidated income.

The Company assessed the likelihood that its U.S. and foreign deferred tax assets will be recovered based on all available information, and management concluded that it is not probable that these assets will be recovered. Accordingly, a deferred tax asset has not been recorded. As of December 31, 2015 and 2014, the Company did not recognize deferred tax assets of approximately \$54 million and \$49 million, respectively. The Company established a Deferred Tax Liability relating to intangibles with an indefinite life which are not expected to reverse prior to the expiration of the Deferred Tax Asset. The Company reassesses unrecognized deferred tax assets at the end of each reporting period and will recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Net deferred taxes have not been recognized for the following assets (liabilities):

	December 31,	
	2015	2014
Accrued expenses	79,542	247,935
Allowance for doubtful accounts	110,268	43,416
Deferred rent	47,014	43,064
Unrealized gain/loss	(1,077,330)	-
Depreciation and amortization	(959,227)	(1,401,442)
Inventory reserve	82,772	74,043
Prepaid expenses	(83,760)	(55,802)
Share-based compensation	-	-
Other	369,506	314,798
Net operating and capital losses – U.S.	51,884,856	46,596,937
Net operating losses – foreign	3,893,853	3,297,079
Unrecognized deferred tax asset, net	<u>\$54,347,494</u>	<u>\$49,160,028</u>

The net operating losses carryforwards begin to expire in various years beginning in 2018 through 2035, with most carryforwards expiring after 2026. The capital loss carryforward will expire in 2020. The use of these net operating loss carryforwards may be subject to limitation under the rules regarding a change of ownership as determined by the Internal Revenue Service. The effects of potential ownership changes, if any, have been analyzed by the Company and would not have a material impact to the financial statements since the deferred tax asset related to the net operating loss carryforwards has not been recognized.

NOTE 17 – Retirement Plans

Effective January 1, 2013, the Company combined its previously existing 401(k) Savings Plan (“Carus Savings Plan”) for all employees of Carus Publishing Company and the retirement savings plan (the “Cricket Media Savings Plan”) for all other employees (the “Plan”). The Plan allows elective and Roth 401(k) employee contributions of between one percent and 90% of eligible compensation subject to the maximum allowed under federal tax provisions. The Company recorded no contributions to the Cricket Media Savings Plan or the Carus Savings Plan for the years ended December 31, 2015 and 2014. The Company does not sponsor any post-retirement and/or post-employment benefit plan.

NOTE 18 – Transactions with Related Parties

In March 2015, ZG forgave an aggregate of \$1,000,000 of indebtedness outstanding under the Company’s revolving line of credit. As partial consideration for the forgiveness of debt, Cricket Media, Inc. agreed, subject to certain conditions, to indemnify Miles Gilburne and Nina Zolt, the principals of ZG and members of the Company’s Board of Directors, from all payment obligations that may be incurred by them in connection with a personal guarantee they have provided in connection with the Company’s bank line-of-credit with The National Capital Bank of Washington, whereby they have guaranteed the repayment by Cricket Media, Inc. of \$1,500,000 of indebtedness incurred by Cricket Media, Inc. pursuant to a commercial line of credit with The National Capital Bank of Washington prior to the restructuring of that debt in June 2015. ZG also provided a payment guaranty to The National Capital Bank of Washington related to the promissory note replacing the revolving bank line of credit. See Note 12 for additional information on the debt forgiveness.

During the year ended December 31, 2015, the Company issued debentures associated with the bridge financing component of the Company’s overall debt restructuring. Of the \$6.9 million in 2015 Bridge Debentures issued as of December 31, 2015, approximately \$3.2 million are held by members or affiliates of the Company’s Board of Directors. As of December 31, 2015, \$9,750,000 of the 2013 Debentures outstanding were held by existing investors and an affiliate of two members of the Company’s Board of Directors. See Note 5 and Note 12 for additional information about the Company’s debentures.

During the year ended December 31, 2015, the Company repaid approximately \$1.8 million of debt outstanding under the related party line of credit through the issuance of bridge debentures. See Note 12 for additional information on the Company's bridge debentures.

In 2013, the Company entered into a publishing agreement with NeuPals for the translation and publication of Chinese language versions of the Company's children's magazines and content. NeuPals will pay royalty payments to the Company based on a percentage of NeuPals' gross sales revenue from the sale of Chinese-translated magazines, books and back issues it translates (the "Derivatives"). The Company will pay to NeuPals royalty payments calculated as a percentage of the Company's gross sales revenue from Derivatives sold outside of China. No revenues were earned and no royalties were incurred under this agreement during the year ended December 31, 2015. NeuPals and NeuEdu are affiliated with Neusoft Holdings. See Note 10 for more information about NeuEdu's relationship with the Company.

During the year ended December 31, 2014, the Company settled \$10,050,000 outstanding under the revolving line of credit with an affiliate of two members of the Company's Board of Directors through the issuance of approximately 10.7 million restricted voting common shares at a weighted average price of CAD\$1.04 per share.

The Company extended its agreement through October 2014 for financial advisory services with a company that invested in the 2012 Debentures and the 2013 Debentures. The agreement provides for a service fee of \$25,000 per month. The Company incurred a total expense of \$250,000 in 2014 related to this agreement.

In April 2016, the Company announced that it reached an agreement with Cricket Acquisition Group, Inc. ("CAG") to purchase all outstanding voting common shares, restricted voting common shares and Series A preferred stock (issued during 2016), as well as the secured convertible debentures as restructured and outstanding as of that date. Upon closing, holders of securities in CAG will consist of approximately 90% of the company's current investor base, including ZG. See Note 21 for additional information on this transaction, the Company's Series A preferred stock and the debt restructuring.

Key management personnel compensation

IAS 24 defines key management personnel as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Based on that definition, the key management personnel of the Company during the year ended December 31, 2015 were the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief of Staff, Chief Technology Officer, & SVP General Counsel & Corporate Development, and the Company's Board of Directors. The key management personnel of the Company during the year ended December 31, 2014 were the President, Chief Executive Officer, Chief Financial Officer, Chief Technology Officer, Chief Operating Officer, EVP & General Manager, and the Company's Board of Directors.

During the years ended December 31, 2015 and 2014, key management personnel compensation was comprised of the following benefits:

	Year ended December 31,	
	2015	2014
Short-term employee benefits ¹	\$1,150,949	\$1,354,896
Post-employment benefits	-	-
Other long-term benefits	-	-
Termination benefits	412,456	693,013
Share-based payments ²	90,601	67,628
Total	\$1,654,006	\$2,115,537

Notes:

(1) Short-term benefits include wages, annual incentives, and bonuses payable within twelve months of the end of the period.

(2) Represents the total expense of RSUs granted and does not take into account each RSUs' vesting schedule.

NOTE 19 – Commitments

As of December 31, 2015, the Company leases office space under two noncancelable operating lease agreements, which expire at various dates ranging from December 2015 to January 2024.

Operating leases for office space

In 2015, the Company signed an extension to its noncancelable operating lease for corporate office space in Virginia that was originally scheduled to expire in December 2015. That lease now has an expiration date of June 30, 2016. The lease agreement and amendments require the Company to pay its proportionate share of the operating expenses and real estate taxes during the lease period. The Company is required to maintain a security deposit for this lease, which it holds in the form of a letter-of-credit. At December 31, 2015 and December 31, 2014, the Company has a certificate of deposit ("CD") held at a bank as collateral for an irrevocable standby letter-of-credit totaling \$76,432 and \$76,277, respectively. In accordance with the operating lease agreement, the Company must maintain the balance of the CD at a minimum of \$68,743. This CD expires on November 13, 2016.

Operating leases for equipment

The Company also leases computer equipment under a noncancelable operating lease agreements which expired in 2015.

Finance leases for equipment

In March 2013, the Company entered into a 5-year noncancelable finance lease agreement for furniture that has a \$1 end of lease purchase option. The balance of the finance lease obligation related to this lease at December 31, 2015 is \$70,953.

Future minimum lease payments

The following table is a schedule by year of the future minimum lease payments required under the noncancelable finance and operating leases, which have an initial or remaining term in excess of one year at December 31, 2015.

<u>Years ending December 31,</u>	<u>Finance Leases</u>	<u>Operating Leases</u>
2016	\$37,344	\$428,297
2017	37,344	234,691
2018	6,221	219,003
2019	-	195,003
2020	-	200,853
Thereafter	-	715,535
Total future minimum lease payments	<u>\$80,909</u>	<u>\$1,993,382</u>
Less: interest	<u>(9,956)</u>	
Present value of minimum lease payments	70,953	
Less: current portion of obligations under finance leases	<u>(32,748)</u>	
Noncurrent portion of obligations under finance leases	<u>\$38,205</u>	

Rent expense aggregated \$702,003 and \$764,190 for the years ended December 31, 2015 and 2014, respectively. Rent expense is recorded straight-line over the term of the lease period.

NOTE 20 – Capital Management

The Company's objective is to develop a strong capital base to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions. The Company manages its capital with the objective of ensuring that there are adequate capital resources. The capital structure of the Company consists of cash, debt and components of shareholders' equity including retained earnings and common

shares. The Company also intends to increase its capital base by continuing to issue shares and related equity instruments and debt as allowed under its debt and other agreements.

The Company makes adjustments to its capital structure in light of general economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Board of Directors reviews and approves any material transactions not in the ordinary course of business, including significant acquisitions or other major investments.

It is not anticipated that the Company will pay dividends for the foreseeable future. See Note 12 under the heading “Restrictions on the October 2012 Debentures” and Note 12 under the heading “Senior secured convertible debentures” for the Company’s externally imposed capital requirements. The Company complied with these restrictions during 2015 and 2014. See Note 21 for additional information on the Company’s capital structure.

NOTE 21 – Subsequent Events

Debt Restructuring

In January 2016, the Company completed the restructuring of the Company’s 6.5% secured convertible debentures in the aggregate principal amount of CAD\$11,999,000 (the “Junior Indebtedness”) issued pursuant to a trust indenture dated October 19, 2012 and the Company’s 10% secured convertible debentures in the aggregate principal amount of CAD\$10,000,000 (the “Senior Indebtedness”) issued pursuant to a trust indenture dated March 20, 2013, as more fully described below (the “Debt Restructuring”).

The Debt Restructuring required the approval of holders of 66 2/3% of the aggregate principal amount of Junior Indebtedness and holders of 66 2/3% of the aggregate principal amount of Senior Indebtedness.

Pursuant to the Debt Restructuring the Junior Indebtedness and the Senior Indebtedness were consolidated into a single class of U.S. dollar senior indebtedness (“New Senior Indebtedness”) evidenced by secured convertible debentures in the aggregate principal amount of \$14,130,016. Holders of Junior Indebtedness received New Senior Indebtedness in a principal amount equal to \$566 for every CAD\$1,000 of Junior Indebtedness held and holders of Senior Indebtedness received New Senior Indebtedness in a principal amount equal to \$705 for every CAD\$1,000 of Senior Indebtedness held. Immediately following the closing of the Debt Restructuring, New Senior Indebtedness held by affiliates of two members of the board of directors of the Company in the aggregate principal amount of \$2,625,000 converted into an aggregate of 3,414,634 Series A Preferred Shares of the Company. Accordingly, New Senior Indebtedness in the amount of \$11,505,016 is currently outstanding and the debt will mature on January 21, 2020. In connection with the Debt Restructuring, the debentures representing the Junior Indebtedness were de-listed by the TSX Venture Exchange. The debentures represented by the New Senior Indebtedness will not be listed for trading.

Shares for Debt

In January 2016, the Company completed a shares for debt transaction and has issued an aggregate of 4,328,816 Series A Preferred Shares in settlement of aggregate indebtedness of \$3,549,629.22 payable to ZG Ventures, LLC pursuant to a revolving loan facility in favour of Cricket Media, Inc., a wholly-owned subsidiary of the Company. The Series A Preferred Shares were issued at a deemed price of \$0.82 per share.

Private Placement

In February 2016, the Company announced that it would conduct a non-brokered private placement (the “Junior Bridge Loan”) of secured convertible debentures in the aggregate principal amount of up to \$4,500,000 (the “Junior Bridge Debentures”). The Junior Bridge Loan will mature on April 30, 2016 and bears interest at a rate of 5% per annum. The Company has the option to pay accrued interest in cash, or by issuing the lenders under the Junior Bridge Loan Series B preferred shares of the Company (“Series B Shares”) at a price of \$0.25 per Series B Share, provided that, if the market price of the voting common shares of the Company at the time of the settlement is greater than \$0.25, the Company shall instead issue voting common shares or restricted voting common shares to the lender at such market

price. The Junior Bridge Debentures are convertible into Series B Shares at the option of the holder at a conversion price of \$0.25 per share. In the event that the Company raises aggregate gross proceeds of a minimum of \$5 million pursuant to an equity financing (the "Financing") of preferred shares (the "Financing Preferred Shares") all outstanding indebtedness under the Junior Bridge Loan will convert into, at the option of the holder: (A) Financing Preferred Shares at a conversion price equal to the greater of: (i) 80% of the issue price per share under the Financing; and (ii) US\$0.15 per share; or (B) Series B Shares at a price of US\$0.25 per share, or a combination of (A) and (B) at the holder's option. The Company intends to use the net proceeds of the Junior Bridge Loan to fund operating expenses.

The Junior Bridge Debentures rank junior to the Company's 5% secured convertible debentures in the aggregate principal amount of US\$4,000,000 (the "Existing Senior Bridge Loan") and the Company's 5% secured convertible debentures in the aggregate principal amount of US\$11,505,016 issued pursuant to an amended and restated trust indenture dated January 21, 2016. The Junior Bridge Debentures rank pari passu with the Company's 5% secured convertible debentures in the aggregate principal amount of US\$2,884,000 (the "Existing Junior Bridge Loan"). In the event of the winding up or liquidation of the Company or a sale of all or substantially all of the assets or capital stock of the Company, the principal amount of the Junior Bridge Loan, the Existing Senior Bridge Loan and the Existing Junior Bridge Loan outstanding at such time will be deemed to have increased by 100%, which increased amount will form a secured debt obligation of the Company which will rank pari passu with the principal amount of each of the Junior Bridge Loan and the Existing Junior Bridge Loan as well as the Company's bank indebtedness.

As of April 29, 2016, the Company had issued additional Junior Bridge Debentures in the aggregate principal amount of \$2,346,000.

Cricket Acquisition Group

In February 2016, the Company announced that it had entered into an arrangement agreement (the "Arrangement") pursuant to which Cricket Acquisition Group, Inc., a newly incorporated entity created for the purpose of the transaction described herein (the "Purchaser") would acquire all of the outstanding voting common shares of Cricket Media, all of the outstanding restricted voting common shares of Cricket Media, and all of the outstanding Series A preferred shares of Cricket Media, in each case for CAD\$0.14 per share in cash. The acquisition of such shares would exclude those shares of Cricket Media which will be exchanged by certain shareholders of Cricket Media for shares in the capital of the Purchaser pursuant to roll-over and investment agreements (the "Rollover Agreements") to be executed by such shareholders with the Purchaser.

The purchase price represented a premium of approximately 56% to the closing price of Cricket Media's voting common shares on the TSX Venture Exchange on February 26, 2016 and represented a premium of approximately 55% to Cricket Media's volume weighted average share price for the twenty trading days ending on February 26, 2016.

The Purchaser is currently comprised of ZG Ventures, LLC ("ZGV"), who currently own and/or control in aggregate approximately 7% of the outstanding voting common shares of Cricket Media, 64% of the outstanding restricted voting common shares of Cricket Media and 89% of the outstanding Series A preferred shares of Cricket Media as of February 26, 2016. The Company held a special meeting of the shareholders and debtholders at which the resolution for the acquisition arrangement was approved on April 14, 2016.

Pursuant to the Arrangement, the Purchaser was also to acquire 5% secured convertible debentures of Cricket Media issued pursuant to a trust indenture dated January 21, 2016 (the "New Convertible Debentures"). The terms upon which the New Convertible Debentures will be acquired by the Purchaser will be described in a management information circular to be mailed to Cricket Media shareholders and holders of New Convertible Debentures in advance of the meeting to approve the Arrangement (the "Circular"), and will be set out in agreements (the "Debt Agreements") to be entered into by certain holders of New Convertible Debentures and the Purchaser prior to closing.

At a special meeting of the holders of voting common shares, restricted voting common shares and Series A preferred shares of Cricket Media, and holders of New Convertible Debentures, held on April 14, 2016 (the "Meeting"), the holders of Cricket Media voting common shares, restricted voting common

shares and Series A preferred shares and New Convertible Debentures approved the requisite special resolution in respect of the Arrangement.

On April 20, 2016, the Arrangement was approved by a final order of the Ontario Superior Court of Justice (Commercial List).

Upon completion of the arrangement in the second quarter of 2016, all of the outstanding voting common shares, restricted voting common shares and Series A preferred shares of Cricket Media, and the New Convertible Debentures, will be owned by the Purchaser. Trading of the voting common shares of the Company is currently halted and will remain halted pending delisting, which is anticipated to occur subsequent to the closing of the acquisition.