

BEXAR VENTURES
(a division of ACT360 Media Ltd.)

CARVE-OUT FINANCIAL STATEMENTS
(Unaudited)

CARVE-OUT STATEMENTS OF FINANCIAL POSITION
AS AT
MARCH 31, 2017 AND 2016

CARVE-OUT STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
CARVE-OUT STATEMENTS OF CASH FLOWS
CARVE-OUT STATEMENTS OF CHANGES IN OWNER'S NET INVESTMENT
FOR THE THREE AND SIX MONTHS ENDED
MARCH 31, 2017 AND 2016

AUDITOR'S INTERIM REVIEW REPORT

June 12, 2017

To the Audit Committee of Kona Bay Technologies Inc.,

Dear Sirs:

In accordance with our engagement letter dated May 31, 2017, we have performed interim reviews of the carve-out statement of financial position of Bexar Ventures as at March 31, 2017, the carve-out statements of operations and comprehensive income for the three and six-month periods ended March 31, 2017 and 2016, and the carve-out statements of cash flows and changes in owner's net investment for the six-month periods ended March 31, 2017 and 2016. These carve-out financial statements are the responsibility of Kona Bay Technologies Inc.'s management.

We performed our interim reviews in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor.

An interim review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the carve-out financial statements. Accordingly, we do not express such an opinion. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit.

Based on our interim reviews, we are not aware of any material modification that needs to be made for these interim carve-out financial statements to be in accordance with the International Financial Reporting Standards.

This report is solely for the use of the Audit Committee of Kona Bay Technologies Inc. to assist it in discharging its regulatory obligation to review these carve-out financial statements, and should not be used for any other purpose.

Yours truly,



De Visser Gray LLP

BEXAR VENTURES

(a division of ACT360 Media Ltd.)

CARVE-OUT STATEMENT OF FINANCIAL POSITION**AS AT MARCH 31, 2017 AND SEPTEMBER 30, 2016**

(Expressed in Canadian dollars)

(Unaudited)

	Notes	MARCH 31, 2017 \$	SEPTEMBER 30, 2016 \$
ASSETS			
Current			
Cash and cash equivalents		25,019	14,731
Accounts receivable	4	1,296	6,612
Prepaid expenses and other assets		1,395	1,223
Due from related parties	2, 7	317,724	187,971
		345,434	210,537
EQUIPMENT	5	7,614	9,500
		353,048	220,037
LIABILITIES			
Current			
Accounts payable and accrued liabilities		13,308	6,346
Unearned revenue		93,885	15,651
Due to Kona Bay	2, 7	65,100	63,100
		172,293	85,097
NET INVESTMENT			
Owner's net investment	6	180,755	134,940
		353,048	220,037

Charles Jenkins, Director

Vincent Wong, Director

The Accompanying Notes are an Integral Part of these Carve-out Financial Statements

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CARVE-OUT STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME**FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2017 AND 2016**

(Expressed in Canadian dollars)

(Unaudited)

		For the Three Months Ended		For the Six Months Ended	
	Notes	March 31, 2017 \$	March 31, 2016 \$	March 31, 2017 \$	March 31, 2016 \$
SALES		104,607	114,809	210,880	211,293
EXPENSES					
Accounting and legal		2,057	2,340	4,267	5,270
Depreciation		943	296	1,886	521
Foreign exchange loss		1,081	701	1,989	619
Selling, office and general		27,934	6,633	48,324	22,038
Wages and benefits		44,341	45,577	90,599	85,955
		76,356	55,547	147,065	114,403
INCOME BEFORE OTHER ITEM		28,251	59,262	63,815	96,890
OTHER ITEM					
Management fees	7	9,000	8,000	18,000	16,000
NET INCOME AND COMPREHENSIVE INCOME		19,251	51,262	45,815	80,890

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CARVE-OUT STATEMENT OF CASH FLOWS**FOR THE SIX MONTHS ENDED MARCH 31, 2017 AND 2016**

(Expressed in Canadian dollars)

(Unaudited)

	March 31, 2017	March 31, 2016
	\$	\$
OPERATING ACTIVITIES		
Net income for the period	45,815	80,890
Items not affecting cash:		
Depreciation	1,886	521
	<u>47,701</u>	<u>81,411</u>
Changes in non-cash working capital items:		
Accounts receivable	5,316	29,757
Prepaid expenses and other assets	(172)	836
Due from related parties	(129,753)	(130,234)
Accounts payable and accrued liabilities	6,962	(1,353)
Unearned revenue	78,234	22,984
Due to Kona Bay	2,000	(9,541)
	<u>10,288</u>	<u>(6,140)</u>
CASH FROM (USED IN) OPERATING ACTIVITIES		
	<u>10,288</u>	<u>(6,140)</u>
INVESTING ACTIVITIES		
Purchase of equipment	-	(1,610)
	<u>-</u>	<u>(1,610)</u>
CASH USED IN INVESTING ACTIVITIES		
	<u>-</u>	<u>(1,610)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	10,288	(7,750)
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD	<u>14,731</u>	<u>14,315</u>
CASH AND CASH EQUIVALENTS – END OF THE PERIOD	<u>25,019</u>	<u>6,565</u>

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CARVE-OUT STATEMENT OF CHANGES IN OWNER'S NET INVESTMENT**FOR THE SIX MONTHS ENDED MARCH 31, 2017 AND 2016**

(Expressed in Canadian dollars)

(Unaudited)

	Owner's Net Investment	Total
	\$	\$
As at October 1, 2015	22,078	22,078
Net income for the period	80,890	80,890
As at March 31, 2016	102,968	102,968
As at October 1, 2015	22,078	22,078
Net income for the period	83,009	83,009
Elimination of income taxes payable	29,853	29,853
As at September 30, 2016	134,940	134,940
Net income for the period	45,815	45,815
As at March 31, 2017	180,755	180,755

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BEXAR VENTURES

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NOTES TO THE CARVE-OUT FINANCIAL STATEMENTS**FOR THE SIX MONTHS ENDING MARCH 31, 2017 AND 2016**

(Expressed in Canadian dollars)

(Unaudited)

1. CORPORATE INFORMATION

Bexar Ventures (the "Spin-Out") is a division of ACT360 Media Ltd. ("ACT360" or the "Parent"), a wholly-owned subsidiary of Kona Bay Technologies Inc. (formerly ACT360 Solutions Ltd.) ("Kona Bay"). The Spin-Out specializes in consumer-oriented internet applications, focusing on high-growth opportunities in the e-commerce and mobile commerce sectors. Historically, the Company developed software related to online testing platforms for training and high-stakes applications, incorporating multimedia elements for reading, writing, speaking, and listening assessments. Higher education clients use the platform to deliver practice tests, high-stakes assessments, and professional training. The address of the Spin-Out's corporate office and its principal place of business is 1116-207 West Hastings Street, Vancouver, BC, V6B 1H7.

On January 12, 2017, Kona Bay announced the proposed spinoff of ACT360's software-as-a-service business into a new corporation, Bexar Ventures Inc., including all of ACT360's right, title and interest in any of the assets and intellectual property relating to the software-as-a-service business. Under the proposed terms of the Plan of Arrangement (the "Plan"), the shareholders of Kona Bay will receive one share of Bexar Ventures Inc. for each share of Kona Bay.

2. BASIS OF PREPARATION**a) Statement of compliance**

These interim Carve-Out financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting under International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). These interim Carve-Out financial statements follow the same accounting policies and methods of application as the Company's most recent annual financial statements and audited Carve-Out financial statements for the years ended September 30, 2016 and 2015 but do not contain all of the information required for full annual financial statements. Accordingly, these interim Carve-Out financial statements should be read in conjunction with the Company's most recent annual financial statements and the Carve-Out financial statements for the years ended September 30, 2016 and 2015, which were prepared in accordance with IFRS as issued by the IASB.

b) Basis of preparation

These Carve-Out financial statements have been prepared from the books and records of the Parent and purport to represent the historical results of operations, financial position, and cash flows of the Company as if it had existed as a separate standalone entity for the periods presented under the Parent's management. Upon completion of the Plan, Bexar Ventures Inc. will cease to be a wholly owned subsidiary of the Parent, pursuant to the transactions contemplated by the Arrangement Agreement.

The historical results of operations, financial position and cash flows of the Spin-Out may not be indicative of what they would actually have been had the Spin-Out been carried out as a separate stand-alone entity, nor are they indicative of what Spin-Out results of operations, financial position and cash flows may be in the future.

The basis of preparation applied for the Carve-Out financial statements is the same as that described for the Carve-Out financial statements for the years ended September 30, 2016 and 2015.

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**NOTES TO THE CARVE-OUT FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDING MARCH 31, 2017 AND 2016**

(Expressed in Canadian dollars)

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2. BASIS OF PREPARATION (continued)

These Carve-Out financial statements, prepared in connection with the Plan, present the historical carve-out financial position, results of operations, changes in net investment and cash flows of the Spin-Out. These Carve-Out financial statements have been derived from the accounting records of ACT360 on a carve-out basis and should be read in conjunction with Kona Bay's annual audited consolidated financial statements and the notes thereto for the year ended September 30, 2016, Kona Bay's condensed interim consolidated financial statements and the notes thereto for the three and six month periods ended March 31, 2017, and the audited Carve-Out financial statements and the notes thereto for the years ended September 30, 2016 and 2015.

Management believes the assumptions and allocations underlying the Carve-Out financial statements are reasonable and appropriate under the circumstances. The expenses and cost allocations have been determined on a basis considered by the Parent to be a reasonable reflection of the utilization of services provided to or the benefit received by the Spin-Out during the periods presented. However, these assumptions and allocations are not necessarily indicative of the costs the Spin-Out would have incurred if it had operated on a stand-alone basis or as an entity independent of the Parent.

c) Presentation and Functional Currency

These Carve-Out financial statements are presented in Canadian dollars. The Canadian dollar is the functional currency of the Spin-Out.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Spin-Out are set out in Note 3 to the annual audited Consolidated Financial Statements as of and for the year ended September 30, 2016 and in Note 3 to the audited Carve-Out financial statements as of and for the years ended September 30, 2016 and 2015, which are incorporated herein by reference. The reader is referred to those statements for a detailed discussion of the accounting policies.

These interim Carve-Out financial statements as at and for the three and six month periods ended March 31, 2017 and 2016 have been prepared in accordance with the policies described in the annual audited Consolidated Financial Statements and the audited Carve-Out financial statements, which have been applied consistently to these financial statements.

Kona Bay and ACT360 make estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The estimates and assumptions of Kona Bay and ACT360 are set out in Note 3 to the annual audited Consolidated Financial Statements as of and for the year ended September 30, 2016 and in Note 3 to the audited Carve-Out financial statements as of and for the years ended September 30, 2016 and 2015, which are also incorporated herein by reference.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

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**NOTES TO THE CARVE-OUT FINANCIAL STATEMENTS
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4. ACCOUNTS RECEIVABLE

The components of accounts receivable are as follows:

	MARCH 31 2017	SEPTEMBER 30, 2016
	\$	\$
Trade accounts receivable	971	6,525
Recoverable goods and services / harmonized sales tax	325	87
	1,296	6,612

5. EQUIPMENT

	Computer Equipment	Furniture and Fixtures	Total
	\$	\$	\$
Cost			
As at October 1, 2015	2,872	643	3,515
Additions	9,530	154	9,684
As at September 30, 2016	12,402	797	13,199
Additions	-	-	-
As at March 31, 2017	12,402	797	13,199
Accumulated Depreciation			
As at October 1, 2015	1,519	428	1,947
Depreciation	1,633	119	1,752
As at September 30, 2016	3,152	547	3,699
Depreciation	1,832	54	1,886
As at March 31, 2017	4,984	601	5,585
Carrying Amounts			
Balance, September 30, 2016	9,250	250	9,500
Balance, March 31, 2017	7,418	196	7,614

6. OWNER'S NET INVESTMENT

Kona Bay's investment in Bexar Ventures is presented as Net Investment in these Carve-Out financial statements. Owner's Net Investment represents the accumulated net earnings of the operations.

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7. RELATED PARTY TRANSACTIONS

The Spin-Out had the following transactions with related parties during the periods presented:

	MARCH 31 2017 \$	MARCH 31 2016 \$
Management fees (a)	18,000	16,000

- (a) ACT360 was charged management fees by Kona Bay during the six months ended March 31, 2017 and 2016. Of this amount, \$18,000 (2016 - \$16,000) was allocated to the Spin-Out. The management fees charged by Kona Bay were recorded at the exchange amount as agreed upon between Kona Bay and ACT360.

Due from related parties is comprised of \$283,815 (September 30, 2016 - \$160,330) receivable from Kona Bay (ultimate parent) and \$33,909 (September 30, 2016 - \$27,641) receivable from wholly-owned subsidiaries of Kona Bay. Also see Note 2.

These related party balances are unsecured, non-interest bearing and have no specific terms of repayment.

8. CAPITAL MANAGEMENT

Kona Bay's objective when managing capital is to safeguard its ability to continue as a going concern, meet financial obligations, have sufficient capital to achieve and maintain profitable operations and to provide returns for shareholders and benefits for other stakeholders.

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9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Spin-Out is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Spin-Out is exposed to risks that arise from its use of financial instruments. This note describes the Spin-Out's objectives, policies, and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these Carve-Out financial statements.

General Objectives, Policies, and Processes

The Board of Directors of Kona Bay has overall responsibility for the determination of the Spin-Out's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to Kona Bay's finance function.

The overall objective of the Board of Directors is to set policies that seek to reduce risk as far as possible without unduly affecting the Spin-Out's competitiveness and flexibility. Further details regarding these policies are set out below.

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and US dollar or other foreign currencies will affect the Spin-Out's operations and financial results. The Spin-Out has significant exposure to foreign exchange rate fluctuation. The Spin-Out is exposed to currency risk to the extent that monetary assets and liabilities held by the Spin-Out are not denominated in Canadian dollars. The Spin-Out has not entered into any foreign currency contracts to mitigate this risk. The Spin-Out holds balances in United States dollars which could give rise to exposure to foreign exchange risk. Sensitivity to a plus or minus 10% change in the foreign exchange rate of the US dollar to the Canadian dollar would affect the reported income and comprehensive income by approximately \$1,785 (September 30, 2016: \$1,921) as detailed below:

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**NOTES TO THE CARVE-OUT FINANCIAL STATEMENTS
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10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

United States Dollar Denominated Balances	MARCH 31, 2017 \$	SEPTEMBER 30, 2016 \$
Cash	17,854	12,687
Trade accounts receivable	-	6,525
	17,854	19,212
10% change in exchange rate impact	1,785	1,921

Credit Risk

Credit risk is the risk of financial loss to the Spin-Out if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Spin-Out consist primarily of cash and cash equivalents and trade accounts receivable. Cash and cash equivalents are maintained with financial institutions of reputable credit and may be redeemed upon demand.

The carrying amount of financial assets represents the maximum credit exposure. The Spin-Out has gross credit exposure at March 31, 2017 and September 30, 2016 relating to cash and cash equivalents of \$25,019 and \$14,731 held in deposits at a Canadian chartered bank. The Spin-Out considers this credit risk to be minimal for all cash and cash equivalent assets based on changes that are reasonably possible at the reporting date. The Spin-Out has gross credit exposure at March 31, 2017 and September 30, 2016 relating to trade accounts receivable of \$971 and \$6,525. The Spin-Out considers this credit risk to be minimal.

Liquidity Risk

Liquidity risk is the risk that the Spin-Out will not be able to meet its financial obligations as they become due. The Spin-Out's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Spin-Out's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.

Typically, the Spin-Out ensures that it has sufficient cash on demand to meet expected operational expenses. To achieve this objective, the Spin-Out prepares annual capital expenditure budgets which are regularly monitored and updated as considered necessary.

The Spin-Out monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable.

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NOTES TO THE CARVE-OUT FINANCIAL STATEMENTS**FOR THE SIX MONTHS ENDING MARCH 31, 2017 AND 2016**

(Expressed in Canadian dollars)

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10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities					
March 31, 2017	13,308	-	-	-	13,308
September 30, 2016	6,346	-	-	-	6,346
	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Due to Kona Bay					
March 31, 2017	-	65,100	-	-	65,100
September 30, 2016	-	63,100	-	-	63,100

Determination of Fair Value

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Statements of Financial Position carrying amounts for cash and cash equivalents, trade accounts receivable, due from related parties, accounts payable and accrued liabilities and due to Kona Bay approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

Fair Value Hierarchy

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).