

# mobio technologies

**Mobio Technologies Inc.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE AND SIX MONTH PERIODS ENDED**

**JANUARY 31, 2016 AND 2015**

**TO OUR SHAREHOLDERS****March 31, 2016****MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is management's discussion and analysis ("MD&A") of Mobio Technologies Inc.'s ("Mobio" or the "Company") operating and financial results for the three and six month periods ended January 31, 2016 and 2015, as well as information and expectations concerning the Company's outlook based on currently available information. This report is dated **March 31, 2016**.

This MD&A should be read in conjunction with the Company's consolidated interim financial statements for the three and six month periods ended January 31, 2016 and 2015, and in conjunction with the Company's audited annual consolidated financial statements for the years ended July 31, 2015 and 2014. Additional information is available at [www.sedar.com](http://www.sedar.com).

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls and to ensure that information used internally or disclosed externally, including the consolidated financial statements and MD&A, is complete and reliable. The Company's Board of Directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The Board's audit committee meets with management no less than quarterly to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

**CAUTION REGARDING FORWARD-LOOKING INFORMATION**

This MD&A contains forward-looking information including the Company's future plans. The use of any of the words "target", "plans", "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. Such forward looking information, including but not limited to statements pertaining to Company's future plans and management's belief as to the Company's potential involve known and unknown risks uncertainties, which could be significant, and other factors which may cause the actual results of the Company and its operations to be materially different from estimated costs or results expressed or implied by such forward-looking statements. Forward looking information is based on management's expectations regarding future growth, results of operations, future capital and other expenditures (including the amount, nature and sources of funding for such expenditures), business prospects and opportunities. These risks related to forward looking information include, but are not limited to: the risks associated with the commercial viability of any technologies the Company is in the process of developing or deploying, delays or changes in plans with respect to any technologies, costs and expenses, the risk of foreign exchange rate fluctuations, risks associated with securing the necessary regulatory approvals and financing to proceed with any planned business venture, product development or deployment, and risks and uncertainties regarding the potential to economically scale and bring to profitability any of the Company's current or planned endeavors. Although the Company has attempted to take into account important factors that could cause actual costs or results to differ materially, there may be other factors that cause the results of the Company's business to not to be as anticipated, estimated or intended.

There can be no assurance that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. See the Risk Management section of this MD&A for a further description of these risks. The forward-looking information included

in this MD&A is expressly qualified in its entirety by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking information.

## 1. SUMMARY OF OPERATIONS, EVENTS AND FUTURE PLANS

The Company was originally incorporated under the *Business Corporations Act* (Alberta) on November 19, 1998. On December 6, 2012, the Company changed its name to LX Ventures Inc. and was continued into British Columbia under the *Business Corporations Act* (British Columbia). On July 7, 2014, the Company again changed its name to Mobio Technologies Inc. to better reflect the activities of the Company at that point in time and anticipated going forward.

### *Development of the Company's Business*

Over the past two years, Mobio has completed a series of acquisitions that give it a footprint in the social media space. The Company is now focused primarily on one of these acquired assets, Strutta.com Media Inc. ("Strutta"). Strutta, acquired in early 2014, is a social promotions platform that allows brands to run contests and sweepstakes across multiple social web channels.

On September 18, 2015, Mobio acquired a controlling interest in Twenty Year Media Corp. ("TYM"), a media and technology company. TYM is developing advanced technologies for the entertainment and motion picture sector, and also owns and operates Emerging Pictures, a US-based all-digital film and alternative content distribution network.

On January 28, 2016, the Company completed a series of transactions with respect to the recapitalization of TYM (see section 2 – *Business Combinations, Acquisitions, and Dispositions*).

### *Convertible Note Financing and Share Consolidation*

On December 15, 2015 the Company entered into a financing arrangement (the "Financing") with NU2U Resources Corp. (the "Lender") by way of a secured convertible debenture in the principal amount of \$375,000 (the "Debenture").

The Debenture matures on June 1, 2016 (the "Maturity Date") and bears interest at a rate of 12% per annum, payable upon maturity ("Interest"). At the option of the Lender, on or prior to the Maturity Date, the Principal Amount and all Interest may be converted into common shares of the Company (the "Conversion Right") at a price per common share of \$0.15, subject to such minimum conversion price as may be prescribed by the policies of the TSX Venture Exchange (the "Conversion"). The Lender may only elect to convert the Principal Amount and Interest in whole and not in part.

In connection with the Financing, the Company effected a consolidation of all of the issued and outstanding common shares of Mobio on the basis of every ten old common shares being consolidated into one new common share (the "Consolidation"), which became effective Friday, December 18, 2015.

All comparative references herein to the number of shares, options, warrants, weighted average number of common shares and loss per share have been restated for the Consolidation.

In connection with the Financing, the Company also issued to the Lender share purchase warrants to purchase up to 1,250,000 common shares of the Borrower, on a post-Consolidation basis (the "Warrants"). The Warrants have a life of one year and an exercise price of \$0.15. Subsequent to the Warrants being

issued, by mutual agreement between the parties, the Warrants were terminated with no further cost to or impact on the Company

On January 15, 2016, the Company entered into a transaction with TYM and the Lender whereby \$250,000 of the Principal Amount and \$2,500 in Interest was assumed by TYM, and the Company agreed to transfer cash in the amount of \$250,000 to TYM, in aggregate, from the date of the Debenture's issuance. Upon completion of this transaction, the Debenture issued by the Company has a Principal Amount of \$125,000. At the time of the transaction, the fair value of the liability component of the Debenture was re-measured, which also resulted in an accompanying reduction to the value of the equity component of the Debenture. The Maturity Date and rate of interest remain unchanged. The Conversion Right now only applies to the resulting \$125,000 Principal Amount and Interest accrued on that resulting Principal Amount up to and including the Maturity Date.

On December 15, 2015, the Company announced the resignation of David Baxby from the board of directors, as Mr. Baxby's focus is presently on other business activities in Asia.

## **2. BUSINESS COMBINATIONS, ACQUISITIONS AND DISPOSITIONS**

### *Acquisition of Twenty Year Media.*

On September 18, 2015, the Company completed the acquisition of control of Twenty Year Media Corp. ("TYM"), a company that is a pioneering demand-driven inventory optimization for the motion picture industry. Upon closing, Mobio acquired approximately 72.9% of the issued and outstanding share capital of TYM. The remainder of TYM's issued and outstanding shares, representing approximately 27.1%, simultaneously became subject to redemption agreements, pursuant to which the underlying shareholders would remain registered holders of those shares until such time that Mobio exercised its right to redeem those shares on specified terms. The redemption agreements also provided Mobio with full voting rights and control of TYM effective as of the closing date.

In consideration for the acquisition of TYM, Mobio committed to issue 2,000,000 common shares of Mobio. Upon closing, Mobio issued 1,457,316 shares of the Company with a fair value of \$510,061 to former shareholders of TYM to acquire its 72.9% interest in TYM (based on a share price of \$0.35 per Mobio share on an adjusted, post-consolidation basis). The balance, being 542,684 Company shares, were due to be issued upon exercise of the rights granted to remaining TYM shareholders under the redemption agreements.

In addition, up to an additional 2,000,000 common shares were to have been issuable by Mobio as certain revenue-based milestones were achieved. At the time of acquisition, the Company estimated the timing and probability of revenue targets being achieved and calculated the fair value of the contingent consideration, along with the timing and probability of rights of redemption being exercised under the redemption agreements. The fair value of contingent and pending share-based consideration was recorded under equity as reserves for contingent share payment reserves.

The acquisition of TYM was accounted for as a business combination under IFRS 3. The assets acquired and liabilities assumed on September 18, 2015 are consolidated in the Consolidated Statements of Financial Position as of September 18, 2015. TYM's revenues and expenses prior to September 18, 2015, are not consolidated into the Company's Consolidated Statements of Comprehensive Loss.

***Allocation of Value – Assets and Liabilities of Twenty Year Media Inc.***

<b>Assets acquired:</b>	
Cash	\$ 26,175
Accounts receivable and deposits	285,566
Prepaid expenses and deposits	13,894
Physical assets	28,350
Intangible assets	1,636,721
Goodwill	108,284
	<b>\$ 2,098,990</b>
<b>Liabilities assumed:</b>	
Accounts payable and accruals	\$ 349,426
Deposits and advances	117,720
Acquisition-related liabilities	263,733
Other liabilities	112,547
Deferred taxes	108,284
	<b>\$ 951,711</b>
<b>Fair value of net assets acquired</b>	<b>\$ 1,147,279</b>
<b>Financed by:</b>	
Cash (loans made prior to acquisition)	90,000
Issuance of common shares	510,061
Contingent consideration	547,218
<b>Total consideration</b>	<b>\$ 1,147,279</b>

In connection with the acquisition of TYM, the Company incurred a charge to “deferred taxes” that arose from temporary differences between accounting values and tax values that resulted from the transaction being structured as a purchase of TYM’s shares. Both TYM and Mobio have unused tax losses from prior years and the transaction did not result in any income taxes being payable by either company.

During the three and six month periods ended January 31, 2016, the Company recorded income tax recoveries against deferred taxes of \$8,631 and \$13,143 respectively (2015 – \$Nil) as the temporary differences between accounting values and tax values narrowed.

Deposits and advances of TYM pertain primarily to amounts held on behalf of clients in relation to marketing services provided by TYM and/or its subsidiaries.

Acquisition-related liabilities of TYM are related to the terms under which TYM’s wholly-owned subsidiary, Emerging Pictures Corp., acquired its business. As part of consideration for the acquisition, Emerging Pictures Corp. has agreed to make certain payments to the vendor based on certain future events (such events being fully at the discretion of Emerging Pictures Corp.).

Other liabilities of TYM are related to funding received by TYM under certain Canadian government programs in prior years. Under these programs, if certain technical initiatives are successful in becoming revenue generating in the future, TYM will repay such funding based on a percentage of revenues

realized, to a maximum of \$975,800. Repayment is not required if such initiatives fail to become revenue generating.

On January 28, 2016, the Company completed a series of transactions with respect to the recapitalization of TYM. In connection with the transactions, TYM assumed \$252,500 in debt from Mobio, which was originally incurred by way of a secured convertible debenture, in the principal amount of \$375,000 on December 15, 2015, issued to NU2U Resources Corp (see section 1 – *Summary of Operations, Events and Future Plans*).

Additionally, Mobio and TYM entered into an agreement whereby, commencing February 1, 2016, TYM will pay to Mobio a monthly payment of \$5,000 per month for a period of 24 months, and thereafter pay Mobio a monthly payment of \$10,000 for an additional 12 months. Also commencing February 1, 2016, TYM will pay Mobio a royalty of up to 3% on revenues, on a quarterly basis, for a period of four years.

Concurrently with the transactions described above, the management team of TYM and third party investors acquired from Mobio common shares of TYM, with Mobio retaining an equity interest in TYM of approximately 29%.

As a result of this series of transactions, the Company now holds investments in TYM consisting of common shares, the right to receive monthly payments, and the right to receive a royalty on TYM's revenues going forward.

#### ***Proposed Recapitalization of INsider ("INsider")***

On December 5, 2014, the Company announced that it has signed a definitive agreement with Red Thread Media Limited ("RTM"), a UK based technology company, to recapitalize 0968998 BC Ltd., the Company's wholly owned subsidiary which operates the *INsider* platform. *INsider* is a social media platform designed to let influencers monetize high rates of fan engagement.

Under the agreement, RTM will acquire 0968998 BC Ltd. by completing an equity financing of approximately C\$900,000 to fund the further development and marketing of the *INsider* platform, and RTM will make the following payments to the Company:

- US\$150,000 in cash;
- US\$10,000 per month under a technical support arrangement;
- A royalty on future *INsider* revenues of 9%, declining to 3% as benchmark royalty payments are made; and
- Preferred shares of RTM equal to 20% of RTM's pre-financing fully diluted share capital.

RTM has also agreed to complete a going public transaction with an AIM listed company, pursuant to which the Company's preferred shares of RTM will be exchanged for listed shares of the public company.

During the year ended July 31, 2015, the Company received an initial payment from RTM pursuant to the terms of the agreement in the amount of \$85,000, which is included under "deferred revenue and deposits" on the Company's Consolidated Statements of Financial Position.

As of the date hereof, RTM has not fulfilled all of its covenants under the agreement, and closing of the transaction remains subject to RTM satisfying all conditions precedent.

### 3. EARNINGS AND EXPENSES

Following is a discussion of the Company's consolidated interim financial results for the three and six month periods ended January 31, 2016 and 2015. The consolidated interim financial statements of the Company for the periods ended January 31, 2016 and 2015 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). All inter-company balances and transactions have been eliminated upon consolidation.

#### *Revenue*

The Company's revenues primarily consist of software licensing fees, management and recurring revenues fees generated by Strutta, and from September 18 (the date upon which the Company acquired control of TYM) through to January 28, 2016 (the date upon which the Company completed a series of transactions which resulted in the disposition of control of TYM), revenues generated from the digitizing, digital distribution, and marketing of movies and other content.

The Company's revenues for the three and six month periods ended January 31, 2016 and 2015 were \$202,247 and \$347,672 respectively (2015 - \$155,095 and \$312,415 respectively). The increase in revenues during the current year compared to the prior year is due to the inclusion of TYM's revenues in the current periods.

#### *Expenses*

Expenses consist primarily of staffing costs, professional services costs to fulfill customer arrangements, marketing costs, hosting and computing costs, and general operating expenses. Expenses for the three and six month periods ended January 31, 2016 and 2015 were \$1,405,826 and \$2,536,592 respectively, compared to \$1,030,877 and \$2,260,603 for the same periods in the prior year. The increase in expenses in the current year compared to the prior year is attributable to the inclusion of TYM's expenses in the current periods.

The Company's single largest expense is the amortization of intangible assets, which pertain to Strutta and to TYM. Amortization of intangibles costs for the three and six month periods ended January 31, 2016 and 2015 were \$623,580 and \$1,184,894 respectively, compared to \$551,361 and \$1,102,722 for the same periods in the prior year.

After amortization of intangible assets, personnel costs are presently the most significant cost category for the Company. Personnel costs for the three and six month periods ended January 31, 2016 and 2015, were \$471,886 and \$827,515 respectively, compared to \$202,937 and \$432,651 for the same periods in the prior year. The increase in personnel costs for the current periods is due to the increased headcount arising from the acquisition of TYM.

During the six month period ended January 31, 2016, marketing costs were \$25,260, compared to \$251,676 for the same period in the prior year. These costs in the prior year pertained primarily to the operations of *INSider*. The Company is no longer incurring marketing costs with respect to *INSider* due to its intended recapitalization.

**Other Gains and Losses**

Other gains and losses for the three and six month periods ended January 31, 2016 were \$11,995 and pertained to the series of transactions with respect to the restructuring of TYM, and the assignment of a portion of the Debenture to TYM. For the comparative three month period for the prior year, the Company recorded a loss of \$109,375 on the revaluation of contingent consideration liabilities in respect of the acquisition of Strutta in prior years. For the comparative six month period for the prior year, the Company recorded a gain of \$136,719 with respect to such revaluations. All obligations with respect to contingent consideration potentially payable in connection with the acquisition of Strutta expired in the prior year, as revenue-based milestones were not achieved within the timelines prescribed in the acquisition agreements.

**Loss and Loss Per Share**

The Company's net and comprehensive loss for the three and six month periods ended January 31, 2016 and 2015 were \$1,243,491 and \$2,218,275 respectively, compared to net and comprehensive losses of \$1,008,484 and \$1,815,904 for the comparative periods in the prior year. The increase in the Company's net and comprehensive losses during the current fiscal period is primarily attributable to the operating loss of TYM being consolidated into the Company's financial statements in the current periods.

Loss Per Share for the three and six month periods ended January 31, 2016 and 2015 was \$0.10 and \$0.17 respectively, compared to \$0.10 and \$0.18 for the comparative periods in the prior year. The Company's loss per share is illustrated in the following table:

<b>Loss Per Share Calculation</b>	<b>Weighted Average Shares Outstanding</b>	<b>Net Loss</b>	<b>Loss Per Share</b>
Three months ended January 31, 2016	13,059,718	\$ (1,243,491)	\$ (0.10)
Three months ended January 31, 2015	10,235,829	\$ (1,008,484)	\$ (0.10)
Six months ended January 31, 2016	12,679,569	\$ (2,218,275)	\$ (0.17)
Six months ended January 31, 2015	10,235,829	\$ (1,815,904)	\$ (0.18)

**4. ASSETS**

**Current Assets**

Current assets held by the Company as of January 31, 2016 consist of cash in the amount of \$240,449 (July 31, 2015 - \$859,604), restricted cash in the amount of \$25,222 (July 31, 2015 - \$25,216), accounts receivable in the amount of \$83,426 (July 31, 2015 - \$61,549), and deposits and prepaid expenses in the amount of \$45,883 (July 31, 2015 - \$83,640). Accounts receivable are primarily represented by trade receivables of Strutta, and excise taxes recoverable. Deposits and prepaid expenses pertain primarily to amounts paid on deposit with respect to future performance of services by certain vendors and to annual insurance policies.

**Capital Assets**

The Company's capital assets consist of computers and related equipment. As of January 31, 2016, the book value of fixed assets was \$4,308 (July 31, 2015 - \$4,799).

### Investments

In prior fiscal years, the Company made minority investments in several companies. For a detailed discussion of the acquisition of and transactions in the prior year, please refer to *Note 8 – Investments, and Note 6 – Business and Asset Acquisitions and Dispositions* in the Company's annual audited consolidated financial statements for the years ended July 31, 2015 and 2014.

During the prior fiscal year, the Company advanced \$50,000 to TYM by way of a promissory note. During the current fiscal year, and prior to the Company completing the acquisition of control of TYM, the Company advanced an additional \$40,000 to TYM.

Upon completion of the acquisition of control of TYM, the Company ceased to account for advances to TYM as investments, and these amounts were consolidated into its financial statements. Upon the Company ceasing to control TYM, the Company reclassified its remaining interests in TYM as investments.

The Company's investee companies other than TYM are focused on the online gaming, travel information, and business services sectors. Investments consist of common shares and preferred shares, and the Company does not presently have any positions that result in significant influence. Equity investments are carried at fair value, with changes recorded through profit or loss.

The following table sets forth the changes to the Company's investments during the six month period ended January 31, 2016:

<b>Investments</b>				
	<b>Opening Balance</b>	<b>Additions</b>	<b>Reclassified</b>	<b>Fair Value</b>
Investments	137,939	253,539	(90,000)	301,478
	\$ 137,939	\$ 253,539	\$ (90,000)	301,478

### Intangibles and Goodwill

The Company's intangible assets as of January 31, 2016, were as follows:

<b>Cost</b>	<b>Software-related technology</b>		<b>Goodwill</b>	<b>Total</b>
Balance, July 31, 2015	\$ 7,539,896	\$ 1,359,896		8,899,792
Acquired through business combinations	1,636,721	108,284		1,745,005
Disposals during the period	(1,438,061)	(108,284)		(1,546,345)
Balance, January 31, 2016	\$ 7,738,556	\$ 1,359,896	\$	9,098,452
<b>Amortization and impairment losses</b>				
Balance, July 31, 2015	\$ 4,581,194	\$ 739,257	\$	5,320,451
Amortization for the period	1,184,894	-		1,184,894
Balance, January 31, 2016	\$ 5,766,088	\$ 739,257	\$	6,505,345
Carrying amounts, July 31, 2015	\$ 2,958,702	\$ 620,639	\$	3,579,341
Carrying amounts, January 31, 2016	\$ 1,972,468	\$ 620,639	\$	2,593,107

The Company's intangible assets pertain to software-related intangibles. As part of the acquisitions of Strutta and TYM, the Company acquired significant software-related intangible assets. The Company also acquired goodwill in connection with the acquisitions of Strutta and TYM. These amounts were de-recognized upon the disposition of control of TYM.

## 5. LIQUIDITY AND CAPITAL RESOURCES

At January 31, 2016, the Company had a working capital deficit of \$362,648, compared to working capital of \$505,290 at July 31, 2015. Management has been actively engaged in developing new business, curtailing costs and in securing the resources necessary from internal and external sources to fulfill all of the Company's planned activities. The Company's continued activities over the long term are dependent upon the Company's ability to raise additional capital in the future, achieve profitability, monetize one or more of its proprietary technologies, or reduce discretionary expenditures.

## 6. SELECTED ANNUAL INFORMATION

The following table provides a summary of the Company's financial operations for the three most recently completed fiscal years. For more detailed information pertaining to the Company, please see Mobio's audited annual consolidated financial statements for the years ended July 31, 2015 and 2014.

SELECTED ANNUAL INFORMATION					
Year ended July 31,	2015		2014		2013
Revenue	\$	556,045	\$	926,098	\$ 31,026
Expenses	\$	5,145,020	\$	10,644,330	\$ 1,661,688
Other expenses (income)	\$	(29,686)	\$	1,854,457	\$ 17,943
Net loss	\$	(4,559,289)	\$	(10,195,182)	\$ (1,731,015)
Loss per share, basic and fully diluted	\$	(0.04)	\$	(0.17)	\$ (0.06)
Cash	\$	859,604	\$	738,485	\$ 449,898
Working capital	\$	505,290	\$	700,681	\$ 259,677
Total assets	\$	4,752,088	\$	9,263,242	\$ 2,986,542
Total long-term liabilities	\$	-	\$	-	\$ -
Shareholders' equity	\$	4,227,369	\$	7,819,865	\$ 2,615,409
Cash dividends	\$	-	\$	-	\$ -

The Company presently does not pay and does not anticipate paying any dividends on its common shares, as all available funds will be used to develop the Company's business for the foreseeable future.

## 7. SELECTED QUARTERLY INFORMATION

The following table provides a brief summary of the Company's financial results for each of the eight most recent quarters. For additional information pertaining to the Company's quarterly results, please refer to the Company's audited annual consolidated financial statements for the years ended July 31, 2015 and 2014, and to the Company's consolidated interim financial statements for corresponding periods, and to the MD&A for each period presented, which are available at [www.sedar.com](http://www.sedar.com).

SUMMARY OF QUARTERLY RESULTS								
Quarter ended	Jan. 31 2016	Oct. 31 2015	Jul. 31 2015	Apr. 30 2015	Jan. 31 2015	Oct. 31 2014	Jul. 31 2014	Apr. 30 2014
Revenue	\$ 202,247	\$ 145,425	\$ 120,202	\$ 123,428	\$ 155,095	\$ 157,320	\$ 170,255	\$ 659,327
Expenses	1,405,826	1,130,779	1,994,698	906,366	1,030,877	1,229,727	4,726,845	4,397,596
Net loss	(1,243,491)	(987,924)	(1,892,057)	(901,399)	(1,008,484)	(814,265)	(3,354,664)	(3,984,405)
Loss per share, basic and fully diluted*	(0.10)	(0.10)	(0.17)	(0.10)	(0.10)	(0.10)	(0.40)	(0.50)
Cash	240,449	323,664	859,604	261,369	235,072	405,238	738,485	186,544
Working capital	(362,648)	(108,800)	505,290	25,923	6,338	221,290	700,681	478,874
Total assets	3,293,873	5,606,839	4,752,088	5,661,868	7,370,722	8,153,282	9,263,242	15,483,063
Total long-term liabilities	-	-	-	-	-	-	-	-
Shareholders' equity	2,536,245	4,308,787	4,227,369	5,267,637	6,121,304	7,050,703	7,819,865	11,527,496
Cash dividends	-	-	-	-	-	-	-	-

\*all numbers adjusted for a 1 new for 10 old share consolidation effective December 18, 2015

## 8. RELATED PARTY TRANSACTIONS

Payments to key management and directors, for the three and six month periods ended January 31, 2016 and 2015 were as follows:

Six months ended January 31,	2016	2015
Management fees paid to current and former directors and/or officers, or to companies controlled by directors and/or officers	\$ 117,000	\$ 165,000
Share-based payments:		
Number of options granted	-	375,000
Fair value of options granted	\$ -	\$ 70,928
Total compensation	\$ 117,000	\$ 235,928

The Company has agreements with officers or companies controlled by officers of the Company which contain provisions for severance payments upon termination without cause by the Company, such termination payments potentially equating to up to six months of equivalent base salary, as follows:

- Michael Edwards, Chief Executive Officer: the Company may terminate the contract at any time, without cause, by providing six (6) months written notice.
- Kevin Rathbun, Chief Financial Officer: the Company may terminate the contract at any time, without cause, by providing thirty (30) days written notice.

Fees paid to directors and officers are included in the line item "Personnel" in the Company's Consolidated Statements of Comprehensive Loss.

As of January 31, 2016, "Accounts receivable" on the Company's Consolidated Statements of Financial Position included \$11,792 due from a director and officer of the Company.

All related party transactions were in the normal course of business and have been measured at the agreed upon exchange amounts, which is the amount of consideration established and agreed to by the related parties. The exchange amounts approximate fair values.

## 9. FUTURE ACCOUNTING CHANGES

The IASB has made the pronouncements related to accounting changes, which have not yet been adopted by the Company. As of the date hereof, these standards, amendments and interpretations have not been early adopted and are not expected to have a material effect on the Company's future results and financial position.

### **Financial Instruments**

In November 2013, the IASB issued IFRS 9, *Financial Instruments*, (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39). IFRS 9 (2009) establishes the measurement and classification of financial assets. Financial assets are measured either at fair value through earnings or at amortized cost if certain conditions are met. IFRS 9 (2010) includes guidance on the classification and measurement of financial liabilities.

The most recent amendment, IFRS 9 (2013) includes a new general hedge accounting model, which will align hedge accounting more closely with risk management. Additionally, the new standard removes the January 1, 2015 effective date. The new mandatory effective date of this standard is January 1, 2018.

The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements and expects to apply the standard in accordance with its future mandatory effective date.

### **Revenue from Contracts with Customers**

On May 28, 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. The new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for fiscal years beginning on or after January 1, 2018 and is available for early adoption.

The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements and expects to apply the standard in accordance with its future mandatory effective date.

### **Separate Financial Statements**

IAS 27, *Separate Financial Statements*, has been amended for the issuance of IFRS 10, *Consolidated Financial Statements*, but retains the current guidance for separate financial statements. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

### **Investments in Associates and Joint Ventures**

IAS 28, *Investments in Associates and Joint Ventures*, has been amended for conforming changes based on the issuance of IFRS 10, *Consolidated Financial Statements*, and IFRS 11, *Joint Arrangements*. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

### **Intangible Assets**

On May 12, 2014, the IASB issued amendments to IAS 38, *Intangible Assets*. The amendments in IAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption could be overcome only when revenue and consumption of the economic benefits of the intangible asset are highly correlated or when the intangible asset is expressed as a measure of revenue.

The Company intends to adopt the amendments to IAS 38 in its consolidated financial statements for the annual period beginning on August 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

## **10. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, restricted cash, accounts receivable, investments in equity securities, trade and other payables, and convertible debentures. As at January 31, 2016, there were no significant differences between the carrying amounts of these items and their estimated fair values. The carrying value of these items approximates their fair values.

Convertible debentures are measured at amortized cost using the effective interest rate method and transaction costs associated with the convertible debenture are amortized through income over the life of the debenture.

### *Fair Value*

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy based on the degree to which the inputs used to determine the fair value are observable. The three levels of the fair value hierarchy are:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's primary financial instruments are classified as follows:

Cash and restricted cash	Loans and receivables
Investments	Fair value through profit or loss
Accounts receivable and notes	Loans and receivables
Accounts payable and advances	Other financial liabilities

As of January 31, 2016, all of the Company's investments are classified as Level 3.

## 11. RISK MANAGEMENT

Early stage technology companies face many risks. While management is unable to eliminate risks, the Company is intent on identifying and mitigating such risks as much as is reasonably possible.

Many early stage technology companies are unsuccessful in achieving development of their product or commercialization thereof due to external factors that cannot be predicted, anticipated, or controlled by management, and even one such factor may result in the economic viability of a particular project being detrimentally impacted to the point where it is not feasible nor economical to proceed. The Company frequently evaluates and monitors its activities and the risk factors which could impact those activities, and makes timely decisions in regard to risk management. Management occasionally seeks the assistance of experienced professionals when appropriate to address risks.

Risks faced by the Company include:

- Credit risk
- Liquidity risk and funding risk
- Interest rate risk
- Market risk
- Currency risk

### ***Interest Rate Risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company manages its financial instruments with the objective of minimizing potential interest rate risk, which generally means avoiding interest-bearing obligations other than in unusual circumstances.

### ***Credit Risk***

Credit risk is the risk of potential loss to the Company if the counter party to a financial instrument fails to meet its contractual obligations. The credit risk of the Company is associated with cash, restricted cash, accounts receivable. Management believes that the credit risk with respect to cash and restricted cash is minimal as balances are held with a high-credit quality financial institution. Accounts receivable have historically been subject to very few bad debts.

During the six month period ended January 31, 2016, the Company recorded bad debts of \$193. All other outstanding receivables were collected or are reasonably assured for their collectability. The Company believes that its current credit practices mitigate exposure to bad debts.

### ***Liquidity Risk***

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable, purchasing commitments and obligations or raising funds to sustain operations. The Company controls liquidity risk by management of working capital and cash flows.

### ***Market Risk***

The Company's exposure to financial market risk is limited, as it presently does not have any investments where value fluctuates as a result of changes in prices quoted in open markets.

***Currency risk***

The Company is headquartered in Canada and its functional reporting currency is the Canadian dollar. The Company's cash assets and liabilities are denominated in Canadian dollars and in US dollars. Additionally, a portion of Strutta's revenues are denominated in US dollars. As such, the Company's results of operations are subject to foreign currency fluctuation risks and these fluctuations may adversely affect the financial position and operating results of the Company. As of January 31, 2016, the Corporation does not use derivative instruments to reduce its exposure to currency risk.

**12. ACCOUNTING POLICIES & USE OF CRITICAL ESTIMATES**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. An area subject to significant estimates is the impairment of non-financial assets. Other areas include stock-based compensation. Actual results could differ from those estimates.

The Company assesses impairment at each reporting date by evaluating conditions specific to the Company that may lead to asset impairment. The recoverable amount of an asset or a cash generating unit ("CGU") is determined using the greater of fair value less costs to sell and value in use which requires the use of various judgments, estimates, and assumptions. The Company identifies CGUs as identifiable groups of assets that are largely independent of the cash inflows from other assets or groups of assets. Value in use calculations require estimations of discount rates and future cash flows derived from revenue growth, gross margin and operating costs. Fair value less costs to sell calculations require the Company to estimate fair value of an asset or a CGU using market values of similar assets as well as estimations of the related costs to sell.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Management prepares the consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considered a wide range of factors relating to current and expected profitability, and potential sources of replacement financing. As a result of the assessment, management concluded the going concern basis of accounting is appropriate based on its profit and cash flow forecast and expectations with respect to access to financing for the future twelve months. However, management is aware, in making its assessment, of uncertainty related to events or conditions with respect to the Company's ability to continue as a going concern.

### 13. OUTSTANDING SHARE DATA

As of January 31, 2016, common shares issued and outstanding were as follows:

<b>Common Shares Issued and Outstanding*</b>	<b>Number</b>	<b>Amount</b>
Balance, August 1, 2014	10,235,829	\$ 19,994,695
Shares issued in private placements	1,366,600	\$ 694,958
Share issuance costs	-	\$ (46,182)
Expiration of warrants	-	\$ 1,190,133
Balance, July 31, 2015	11,602,429	\$ 21,833,604
Shares issued in acquisitions	1,457,316	\$ 510,061
Share consolidation adjustment	(27)	\$ -
Balance, January 31, 2016	13,059,718	\$ 22,343,665

As of January 31, 2016, the Company had the following stock options issued, vested and exercisable:

<b>Outstanding</b>	<b>Exercisable</b>	<b>Exercise</b>	<b>Expiry</b>
<b>(#)</b>	<b>(#)</b>	<b>Price (\$)</b>	<b>Date</b>
385,000	385,000	\$ 0.50	Oct. 31, 2019
100,000	100,000	\$ 0.50	Dec. 3, 2019
72,000	72,000	\$ 1.50	Oct. 4, 2018
105,000	105,000	\$ 1.60	Nov. 15, 2017
25,000	25,000	\$ 2.50	Apr. 2, 2019
5,000	5,000	\$ 2.70	May 10, 2018
25,000	25,000	\$ 3.20	May 30, 2018
38,500	38,500	\$ 5.00	Dec. 24, 2018
755,500	755,500		

As of January 31, 2016, the Company had the following share purchase warrants issued and outstanding:

	<b>Number of</b>	<b>Weighted Average</b>
	<b>Warrants</b>	<b>Exercise Price</b>
Balance, August 1, 2014	2,141,195	\$ 3.20
Warrants issued during the year	731,130	\$ 1.00
Warrants expired during the year	(2,141,195)	\$ 3.20
Balance, July 31, 2015	731,130	\$ 1.00
Warrants issued during the period	1,250,000	\$ 0.15
Warrants expired/cancelled during the period	(1,250,000)	\$ 0.15
Balance, January 31, 2016	731,130	\$ 1.00

Effective December 18, 2015, the Company completed a consolidation of its share capital on the basis of one new share for every 10 old shares. All instrument convertible into common shares were also adjusted accordingly. As of the date of this MD&A, the fully diluted share capital of the Company is 14,546,348 shares, comprising 13,059,718 common shares, 731,130 share purchase warrants, and 755,500 stock options.

#### 14. CORPORATE INFORMATION

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Jeff Durno, Chairman and director  
Mike Edwards, Chief Executive Officer and director  
Derek Lew, director

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