Internet of Things Inc.

Consolidated Financial Statements

January 31, 2017 and 2016

Internet of Things Inc.

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Independent Auditors' Report

To the Shareholders of Internet of Things Inc.:

We have audited the accompanying consolidated financial statements of Internet of Things Inc., which comprise the statements of financial position as at January 31, 2017 and 2016, and the consolidated statements of changes in deficiency, comprehensive loss, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 auditors' 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 auditors consider 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 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 Internet of Things Inc. as at January 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on Internet of Things Inc.'s ability to continue as a going concern.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
May 30, 2017

MNP

Consolidated Statements of Financial Position

	January 31, 2017	January 31, 2016
Assets		
Current assets		
Cash	**$ 7,553**	$ 58,073
Prepaids, receivables and sundry assets	**21,566**	100,261
	29,119	158,334
Non-current assets		
Software technology (Note 5)	**255,019**	334,388
Investment (Note 6)	**500,000**	500,000
Goodwill (Note 4)	**55,070**	55,070
	$ 839,208	$ 1,047,792
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	**$ 361,064**	$ 211,623
Loans payable (Note 7)	**211,500**	-
Convertible debentures (Note 8)	**918,376**	-
	1,490,940	211,623
Convertible debentures (Note 8)	**-**	825,203
Deferred income tax liability (Note 12)	**10,340**	33,044
	1,501,280	1,069,870
Equity		
Share capital (Note 9)	**6,894,979**	6,894,979
Contributed surplus (Notes 9 and 10)	**561,316**	493,090
Warrants reserve (Note 9)	**1,135,595**	88,595
Deficit	**(9,253,962)**	(7,498,742)
	(662,072)	(22,078)
	$ 839,208	$ 1,047,792

Going concern *(Note 1)*
Subsequent events *(Note 14)*

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

Approved by the Board

Signed: **"Michael Frank"**

Director

Signed: **"Millard Roth"**

Director

Internet of Things Inc.

Consolidated Statements of Changes in Deficiency
for the years ended January 31, 2017 and 2016

	Share Capital					
	Number of Shares	**Amount**	**Contributed Surplus**	**Warrants Reserve**	**Deficit**	**Total**
Balance, February 1, 2015	**140,677,557**	**$ 6,440,259**	**$ 2,000**	**$ -**	**$ (6,692,785)**	**$ (250,526)**
Issued shares – acquisition of Double Door (Note 4)	10,000,000	400,000	-	-	-	400,000
Issued shares – settlement of debt	400,000	16,000	-	-	-	16,000
Issued shares and warrants– debenture conversion	1,600,000	38,720	-	41,280	-	80,000
Convertible debenture equity component (Note 8)	-	-	147,838	-	-	147,838
Compensation warrants (Note 9)	-	-	-	515	-	515
Finders' warrants to be issued (Note 6)	-	-	-	46,800	-	46,800
Share-based payments charged to operations (Note 10)	-	-	343,252	-	-	343,252
Loss for the year	-	-	-	-	(805,957)	(805,957)
Balance, January 31, 2016	**152,677,557**	**6,894,979**	**493,090**	**88,595**	**(7,498,742)**	**(22,078)**
Warrants issued (Note 6)	-	-	-	1,047,000	-	1,047,000
Share-based payments charged to operations (Note 10)	-	-	68,226	-	-	68,226
Loss for the year	-	-	-	-	(1,755,220)	(1,755,220)
Balance, January 31, 2017	**152,677,557**	**$ 6,894,979**	**$ 561,316**	**$ 1,135,595**	**$ (9,253,962)**	**$ (662,072)**

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

Consolidated Statements of Comprehensive Loss
for the years ended January 31, 2017 and 2016

	2017	2016
Revenue	**$ -**	$ 16,572
Expenses		
Management fees (Note 11)	**108,000**	87,000
Professional and consulting fees	**115,313**	145,223
General and administrative expenses (Note 11)	**120,447**	181,462
Impairment on investment (Note 6)	**1,047,000**	-
Amortization expenses (Note 5)	**79,369**	59,000
Share-based payments (Note 10)	**68,226**	343,252
	1,538,355	815,937
Loss from operations before accretion, interest expense and income taxes	**(1,538,355)**	(799,365)
Accretion expense (Note 8)	**93,173**	30,992
Interest expense (Notes 7 and 8)	**146,396**	50,562
Net loss for the year before income taxes	**(1,777,924)**	(880,919)
Income tax recovery (Note 12)	**22,704**	74,962
Net loss and comprehensive loss for the year	**$ (1,755,220)**	$ (805,957)
Loss per share - basic and diluted	**$ (0.01)**	$ (0.01)
Weighted average number of common shares - basic and diluted	**152,677,557**	148,781,667

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

Statements of Cash Flows
for the years ended January 31, 2017 and 2016

	2017	2016
Cash flow from operating activities		
Net loss for the year	**$ (1,755,220)**	$ (805,957)
Adjustments to net profit for non-cash items:		
Accretion expense	**93,173**	30,992
Amortization	**79,369**	59,000
Share-based payments	**68,226**	343,252
Income tax recovery	**(22,704)**	(74,962)
Impairment on investment	**1,047,000**	
Finders' warrants to be issued	**-**	46,800
	(490,156)	(400,875)
Changes in non-cash working capital:		
Decrease in prepaids and other receivables	**78,695**	104,524
Increase (decrease) in accounts payable and accrued liabilities	**149,441**	(182,433)
	(262,020)	(478,784)
Cash flow from investing activities		
Payment for equity investment	**-**	(500,000)
Cash acquired on investment in Double Door	**-**	1,066
	-	(498,934)
Cash flow from financing activities		
Proceeds from convertible debenture, net of issue costs	**-**	1,075,500
Increase (decrease) in (repayment of) loans payable	**211,500**	(13,386)
(Decrease) in (repayment of) loans to related parties	**-**	(31,094)
	211,500	1,031,020
(Decrease) increase in cash	**(50,520)**	53,302
Cash, beginning of year	**58,073**	4,771
Cash, end of year	**$ 7,553**	$ 58,073

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

1. Corporate Information and Going Concern

Internet of Things Inc. ("the Company" or "ITT Inc") is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of Ontario and its shares are listed on the TSX Venture Exchange. The consolidated financial statements of the Company as at and for the year ended January 31, 2017 comprise the Company and its wholly owned subsidiary of IOT Labs Inc. and operates a 50% joint venture, BrainGrid Solution Ltd.

Internet of Things Inc. is an IoT technology accelerator and industry acquisition company. The Company is focused on accelerating IoT-based technology companies, and the development and implementation of disruptive IoT-based solutions. The Company will partner with companies across a wide range of industries to leverage the power of IoT.

The head office, principal address, registered office, and records of the Company are located at 151 Bloor Street West, Suite 703, Toronto, Ontario, Canada, M5S 1S4.

On May 14, 2015 the Company received approval to transfer its listing from the NEX to the TSX Venture Exchange following the closing of the Change of Business Transaction between the Company and Double Door Communications Inc. ("Double Door"). In conjunction with the Change of Business (“COB”), the Company raised a total of $525,000 in a private placement financing as convertible debenture and the shares of the Company were listed as a Tier 2 issuer on the TSX-V. The COB involved the acquisition of all of the issued and outstanding common shares of Double Door by the Company. Concurrently with the closing of the COB, the Company changed its name to Internet of Things Inc.

These consolidated financial statements were approved by the Company’s Board of Directors and authorized for issue on May 30, 2017.

Going Concern

Since inception, the Company has incurred losses amounting to $9,253,962 (2016 - $7,498,742). During the year, the Company reported a net comprehensive loss of $1,755,220 (2016 –$805,957). As at January 31, 2017, the Company had working capital deficiency of $1,461,821 (2016 – $53,289). The ability of the Company to continue as a going concern is dependent upon generating profitable operations from its acquisition and change of business, the continuing financial support of shareholders or other investors, or obtaining new financing on commercial terms acceptable to the Company. All of these outcomes are uncertain and cast significant doubt over the ability of the Company to continue as a going concern.

The accompanying consolidated financial statements of the Company have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The consolidated financial statements do not include any adjustments to reflect any events since January 31, 2017 or the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from this uncertainty.

2. Statement of Compliance and Basis of Preparation

Statement of Compliance

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC"). The policies applied in these consolidated financial statements are based on IFRS in effect as at January 31, 2017.

Basis of presentation

The accompanying consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency, and include the accounts of IOT Labs Inc. (formally known as Double Door Communications Inc.). All significant intercompany accounts and transactions have been eliminated.

3. Summary of Significant Accounting Policies

Financial Instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss ("FVTPL") - This category comprises derivatives, or assets acquired or incurred principally for the purpose of being sold or repurchased in the near term. They are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in the consolidated statements of comprehensive loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the consolidated statements of comprehensive loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in the consolidated statements of comprehensive loss.

3. Summary of Significant Accounting Policies - continued

Financial assets - continued

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at the end of each reporting period. Financial assets are impaired when there is any objective evidence that the future cash flows from a financial asset or a group of financial assets has been negatively impacted. Different criteria to determine impairment are applied for each category of financial assets described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the corresponding liability was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss ("FVTPL") - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of being sold or repurchased in the near term. They are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in the consolidated statements of comprehensive loss.

Other financial liabilities - This category includes all other financial liabilities, all of which are recognized at amortized cost.

The Company's financial instruments consist of the following:

Financial assets:	**Classification:**
Cash	VTPL
Receivables and sundry assets	Loans and receivables

Financial liabilities:	**Classification:**
Accounts payable and accrued liabilities	Other financial liabilities
Loans payable	Other financial liabilities
Loans from related parties	Other financial liabilities
Convertible Debentures	Other financial liabilities

Fair value hierarchy

The Company classifies its financial instruments according to a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three levels of fair value hierarchy are as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
- Level 3 - Inputs for assets or liabilities that are not based on observable market data.

All of the Company's financial assets and liabilities are classified within level 1 of the fair value hierarchy.

3. Summary of Significant Accounting Policies - continued

Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in deficiency in assets or other comprehensive loss.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in loss and comprehensive loss or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At the end of each reporting period, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain. The impact of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas where estimates are significant to these consolidated financial statements are as follows:

i) The estimates used in determining the stock option and warrant fair values, utilizes estimates made by management in determining the appropriate input variables in the Black-Scholes valuation model.

ii) The carrying value of intangibles acquired from acquisitions and estimates on any applicable impairment.

iii) Significant judgment is involved in the determination of the useful life for the computation of intangible assets. No assurance can be given that actual useful lives will not differ significantly from current assumptions.

3. Summary of Significant Accounting Policies - continued

Provisions and contingencies

Provisions are recognized when a legal or constructive obligation exists, as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where the effect is material, the provision is discounted using an appropriate current market-based pre-tax discount rate. The increase in the provision due to passage of time is recognized as interest expense.

When a contingency substantiated by confirming events can be reliably measured and is likely to result in an economic outflow, a liability is recognized as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

Loss per share

Basic loss per share is calculated using the weighted-average number of common shares outstanding during the period. Diluted loss per share is computed using the treasury stock method. Stock options and warrants outstanding are not included in the computation of diluted earnings per share if their inclusion would be anti-dilutive.

Share-based payments

The Company uses the fair value method whereby the Company recognizes compensation costs for the granting of all stock options and direct awards of stock based on their fair value over the period of vesting using the Black-Scholes option pricing model. Any consideration paid by the option holders to purchase shares is credited to capital stock.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity settled share based payment transactions and measured at the fair value of goods or services received. If the fair value of the goods or services received cannot be estimated reliably, the share based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

Intangible assets

Intangible assets acquired are recorded at fair value when acquired during a business acquisition. Intangible assets are amortized over their estimated useful lives of 5 years.

3. Summary of Significant Accounting Policies - continued

The IASB issued new standards and amendments not yet effective.

IFRS 9, Financial Instruments (“IFRS 9”) was initially issued by the IASB on November 12, 2009 and issued in its completed version in July 2014, and will replace IAS 39, "Financial Instruments: Recognition and Measurement" (“IAS 39”). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for financial years beginning on or after January 1, 2018. The Company is currently assessing the effects of IFRS 9 and intends to adopt on its effective date.

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”) was issued by the IASB in May 2014 and clarifies the principles for recognizing revenue from contracts with customers. IFRS 15 will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (i.e. service revenue and contract modifications) and improve guidance for multiple-element arrangements. IFRS 15 is effective for periods beginning on or after January 1, 2018 and is to be applied retrospectively. The Company's preliminary assessment of IFRS 15 has determined there will not be a significant impact to the consolidated financial statements as a result of the adoption of this standard

IFRS 16, Leases (“IFRS 16”) was issued by the IASB in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17. An entity applies IFRS 16 for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 Revenue from Contracts with Customers has also been applied. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. The Company is currently assessing the effects of IFRS 16 and intends to adopt on its effective date.

4. Acquisition of Double Door Communications Inc.

On April 30, 2015 the Company acquired Double Door Communications Inc. (“Double Door”) through the purchase all of the issued and outstanding shares in Double Door. On closing, the Company issued 10,000,000 shares of Internet of Things Inc. In addition, the Company committed to issue a maximum of 5,000,000 additional shares of Internet of Things Inc. based on achievement of certain revenue targets.

If Double Door achieved revenue of at least $540,000 for the year ending December 31, 2015, 4,500,000 escrowed shares would have been released to the former owners of Double Door. If Double Door achieved revenue of greater than $600,000 for the year ending December 31, 2015, 5,000,000 escrowed shares would have been released to the former shareholders. If Double Door achieved revenue of greater than $540,000 but less than $600,000 for the year ending December 31, 2015, the 500,000 shares between the targets noted above would be issued on a pro-rata basis. At the time of the acquisition, the Company valued this contingent consideration at NIL, as based on past results and a change of direction of the Company, the targets did not appear achievable. The targets were not met, as Double Door generated approximately $60,000 of revenue for the year ended December 31, 2015.

4. Acquisition of Double Door Communications Inc. - continued

Common Shares issued were subject to all applicable securities and regulatory hold periods. In addition to regulatory hold periods, the 10,000,000 Common Shares issued at the Closing Date are being released to the vendors over a period of 8 months, commencing on the four month anniversary of the Closing Date and ending on the twelve month anniversary of the Closing Date, (the "Share Escrow Period").

The following table summarizes the consideration paid and the net assets acquired at acquisition:

Consideration Transferred:		
Fair value of 10,000,000 shares	$	400,000
Total Consideration Transferred	**$**	**400,000**
Fair value of assets acquired:		
Current assets (primarily accounts receivable)	$	188,847
Current liabilities (primarily accounts payable)		(182,185)
Software technology (Note 5)		393,338
Goodwill		55,070
Deferred income tax liability		(55,070)
Acquiree's identifiable net assets	**$**	**400,000**

Double Door's revenues of $16,572 and net loss of $83,412 are included in the consolidated statements of comprehensive loss for the year ended January 31, 2016. The contribution to the Company's consolidated revenues and net loss for the year ended January 31, 2016 would have been approximately $60,000 and $110,000, respectively, had the acquisition occurred on February 1, 2015.

5. Software Technology

On April 30, 2015, the Company acquired all of the issued and outstanding common shares of Double Door. The fair value of Double Door's software technology was valued at $393,388 on the date of the acquisition. The software is being amortized on a straight line basis over 5 years. The chart below outlines the net book value of the software technology.

Cost: February 1, 2015 and January 31, 2017	**$**	**393,388**
Accumulated Amortization:		
Charge for the year		59,000
Accumulated depreciation, January 31, 2016		59,000
Charge for the year		79,369
Accumulated depreciation, January 31, 2017	**$**	**138,369**
Net book value, January 31, 2016	$	334,388
Net book value, January 31, 2017	**$**	**255,019**

6. Investment in BrainGrid

On December 15, 2015, the Company and BrainGrid Corporation ("BrainGrid") a designer, manufacturer, and marketer of advanced digital communication devices and software systems that enable the Internet of Things, have entered into a joint venture agreement. The joint venture company, BrainGrid Solutions Ltd. ("BrainGrid Solutions”) will market, sell and distribute BrainGrid's flagship product, the Sentroller and related BrainGrid IoT technology applications.

BrainGrid Solutions is owned equally by both parties and shall have a license to use BrainGrid's current and future developed intellectual property, including without limitation, API's, source code, data (derived from customers of BrainGrid Solutions), data analytics, patents and trademarks. The JV Company is also the exclusive partner/distributor for any current and future products, applications and services utilizing BrainGrid's intellectual property in markets such as China, Taiwan, Hong Kong as well as any other markets that the parties may agree upon.

The Company has acquired a minority equity position in BrainGrid for $500,000 as an initial investment with an option to increase its interest over the next 6 months. The Company issued 15.5 million warrants to BrainGrid as it directs, with each warrant exercisable into a common share at an exercise price of $0.05 per share for a period of 60 months. Any common shares issued pursuant to the exercise of the warrants shall be subject to resale restrictions during the first 24 months, with 5% of the shares being available for resale on a monthly basis following expiration of the four month hold period. The fair value of the warrants ($1,047,000) were included in the cost of the investment. Subsequently to the initial recognition, the Company recorded an impairment on the investment of $1,047,000 included in the consolidated statements of comprehensive loss.

In addition, the Company will be issuing 900,000 warrants to an arm's length party as a finder's fee, each warrant exercisable into a common share at an exercise price of $0.05 per share for a period of 60 months. Any shares issued pursuant to the exercise of these warrants will be subject to the same resale restrictions as govern the warrants issued to BrainGrid. The fair value of these warrants was determined to be $46,800 and has been expensed on the consolidated statement of comprehensive loss within the General and administrative expenses line item.

For the years ended January 31, 2017 and 2016, there has been no activity within the joint venture.

The fair value of the Finder Warrants and warrants to BrainGrid to be issued were determined using the Black-Scholes option pricing model using the following assumptions:

	Finder Warrant	**Warrants to BrainGrid**
Share price	$0.055	$0.07
Exercise price	$0.05	$0.05
Expected life	2 years	4.35 years
Volatility	170%	195.44%
Dividend yield	0%	0%
Interest rate	0.68%	0.64%
Fair Value	$0.05	$0.0675

7. Loans Payable

On April 26, 2016, the Company received unsecured demand loans $50,000 bearing interest at 12% per annum with quarterly interest payments.

On May 25, 2016, the Company received unsecured demand loans $25,000 bearing interest at 12% per annum with quarterly interest payments.

On August 20, 2016, the Company received unsecured demand loans $10,000 bearing interest at 12% per annum with quarterly interest payments.

On September 27, 2016, the Company received unsecured demand loans $10,000 bearing interest at 12% per annum with quarterly interest payments.

On October 27, 2016, the Company received unsecured demand loans $40,000 bearing interest at 12% per annum with quarterly interest payments.

In January 2017, the Company received unsecured demand loans $76,500 bearing interest at 12% per annum with quarterly interest payments and accrued interest $16,212 (2016 - $Nil).

8. Convertible Debentures

On April 30, 2015, the Company completed a convertible debenture financing for gross proceeds of $525,000. The financing is comprised of the issuance of convertible debentures which have a maturity date of two years from the date of issuance and pay interest at the rate of 12% per year, calculated and payable quarterly in arrears. All amounts owing under the convertible debentures are secured by a fixed and floating charge against the assets of the Company. The debentures are convertible to units comprised of one common share and one common share purchase warrant. Each warrant is convertible into a common share at an exercise price of $0.075. The conversion price is $0.05 per unit for the first 12 months and $0.10 until maturity. At the time of issuance, the equity portion of this convertible debt issuance was valued at $76,577.

On January 5, 2016, the Company completed a convertible debenture financing for gross proceeds of $551,000. The financing is similarly comprised of the issuance of convertible debentures which have a maturity date of two years from the date of issuance and pay interest at the rate of 12% per year, calculated and payable quarterly in arrears. All amounts owing under the Convertible Debentures are secured by a fixed and floating charge against the assets of the Company. The debentures are convertible to units comprised of one common share and one common share purchase warrant. Each warrant is convertible into a common share at an exercise price of $0.125. For one series of the issuance of the debentures, the conversion price is $0.05 per unit for the first 12 months and $0.10 until maturity. For another series of the issuance, the conversion price is $0.10 per unit until maturity. At the time of issuance, the equity portion of this convertible debt issuance was valued at $124,197.

8. Convertible Debenture - continued

The Company has incurred accretion expense of $93,173 (2016 - $30,992) and interest expense of $130,183 (2016 - $49,093) for the year ended January 31, 2017 relating to the two debenture issuances.

	30-April-2015	05-January-2016	Total
Balance, February 1, 2015	**-**	**-**	**-**
Face value of debenture upon issuance	$525,000	$551,000	$1,076,000
Less: Finders' fee and transaction costs	(1,015)	-	(1,015)
Less: Value of conversion feature	(76,577)	(124,197)	(200,774)
Book value of the debenture on initial recognition	447,408	426,803	874,211
Accretion expense during the year	26,575	4,417	30,992
Balance of the debenture prior to conversions	473,983	431,220	905,203
Conversions	(80,000)	-	(80,000)
Balance, January 31, 2016	**393,983**	**431,220**	**825,203**
Accretion expense during the year	30,990	62,183	93,173
Balance, January 31, 2017	**$424,973**	**$493,403**	**$918,376**

9. Share Capital and Warrants Reserve

Authorized

Unlimited	First Preferred shares, may be issued in series with rights and restrictions as determined by the Board of Directors
Unlimited	Second Preferred shares, may be issued in series with rights and restrictions as determined by the Board of Directors
Unlimited	Common shares

As at January 31, 2017, 8,000,000 (2016 – 14,000,000) common shares are held in escrow.

9. Share Capital and Warrants Reserve - continued

Transactions

On April 30, 2015, the Company completed a convertible debenture financing of $525,000 of convertible debentures. In connection with the financing, the Company paid cash finder fees of $500 and issued 20,000 finder warrants (a "Finder Warrant") which are convertible into units for a period of two years at an exercise price of $0.05 per unit, with each unit comprised of one common share and one warrant. Each warrant convertible into a common share for a period of two years at an exercise price of $0.075 per share.

The fair value of the Finder Warrants was determined using the Black-Scholes option pricing model using the following assumptions:

	Finder Warrant
Share price	$0.04
Exercise price	$0.05
Expected life	2 year
Volatility	170%
Dividend yield	0%
Interest rate	0.68%
Fair value	$0.04

On April 30, 2015, 400,000 common shares were issued on the settlement $16,000 of debt.

On November 18, 2015, $70,000 convertible debentures were converted to 1,400,000 common shares and 1,400,000 warrants.

On December 10, 2015, $10,000 convertible debentures were converted to 200,000 common shares and 200,000 warrants.

The fair value of the Warrants was determined using the Black-Scholes option pricing model using the following assumptions:

	November 18, 2015 Warrants	December 10, 2015 Warrants	September 1, 2016 Warrants
Share price	$0.075	$0.06	$0.07
Exercise price	$0.075	$0.075	$0.05
Expected life	2.39 Years	2.45 Years	4.35 years
Volatility	170%	170%	195.44%
Dividend yield	0%	0%	0%
Interest rate	0.68%	0.68%	0.64%
Fair value	$0.06	$0.05	$0.068

10. Share-Based Payments

In August 2011, the Stock Option Plan was approved by the Company's shareholders. The Stock Options Plan was adopted to provide the Company with a share ownership incentive to attract, retain and motivate qualified executives, directors, employees and consultants, to reward their contributions.

The Stock Option Plan provides that, subject to the requirements of the Exchange, the aggregate number of Common Shares reserved for issuance, set aside and made available for issuance under the Stock Option Plan may not exceed 10% of the number of issued Common Shares of the Company at the time the options are granted. The maximum number of Common Shares which may be reserved for issuance in any 12 month period to any one individual, upon exercise of all stock options held by that individual, may not exceed 5% of the issued and outstanding Common Shares, calculated at the date the option was granted. The maximum number of options which may be granted in any 12 month period to participants under the Stock Option Plan engaged in investor relations activities may not exceed 2% of the issued and outstanding Common Shares, calculated at the date the option was granted.

On September 11, 2015, the Company granted 7,600,000 incentive stock options to directors and officers of the Company. On November 16, 2015, a further 6,000,000 options were issued.

The following summarizes the options outstanding:

	Number of Options	Weighted Average Exercise Price
Outstanding as at February 1, 2015	-	$ -
Granted	13,600,000	0.05
Outstanding as at January 31, 2016	13,600,000	0.05
Granted	-	-
Outstanding as at January 31, 2017	**13,600,000**	**$0.05**
Options exercisable as at January 31, 2016	7,900,000	$0.05
Options exercisable as at January 31, 2017	**11,700,000**	**$0.05**

10. Share-Based Payments - continued

The fair value of the options was determined using the Black-Scholes option pricing model using the following assumptions:

	September 11, 2015 Options	November 16, 2015 Options
Share price	$0.03	$0.045
Exercise price	$0.05	$0.05
Expected life	5 Years	2 Years
Volatility	170%	170%
Dividend yield	0%	0%
Interest rate	0.68%	0.68%
Fair value	$0.06	$0.05

The weighted average remaining contractual life for the stock options outstanding as at January 31, 2017 was 2.37 years (2016 – 3.38 years). The weighted average stock price for the options outstanding as at January 31, 2017 was $0.05 (2016 - $0.05). $68,226 (2016 - $343,252) of stock based compensation expense was recorded during the year ended January 31, 2017

11. Related Party Balances and Transactions

The Company incurred management fees to related parties in the amount of $108,000 (2016 - $70,000), $60,000 payable to the CEO (2016 - $30,000) and $48,000 payable to the CFO (2016 - $16,000) are deferred and included in current liabilities.

The Company was charged $14,744 (2016 - $Nil) to a corporation with director and officer in common for rent, administration, office charges and telecommunications.

The Company incurred interest expense in the amount of $13,800 (2016 - $922) on convertible debentures outstanding to a director and officer of the Company.

12. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate to the effective tax rates is as follows:

	2017	2016
Net loss before recovery of income taxes	$ (1,777,924)	$ (880,919)
Statutory rate	26.5 %	26.5 %
Expected income tax recovery	$ (471,150)	$ (233,444)
Increase (decrease) resulting from:		
Change in tax benefits not recognized	152,916	64,034
Tax rate changes and other adjustments	-	3,275
Non-deductible costs	295,530	91,173
Income tax (recovery)	$ (22,704)	$ (74,962)

The following table summarizes the components of deferred tax:

	2017	2016
Deferred tax assets		
Non-capital losses carried forward	$77,530	$ 100,548
Deferred tax liabilities		
Intangible asset	(67,570)	(88,600)
Convertible debentures	(20,300)	(44,992)
Net deferred tax	$ (10,340)	$ (33,044)

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in net deferred tax liabilities:

	2017	2016
Balance at the beginning of year	(33,044)	-
Recognized in profit/loss	22,704	$ 74,962
Recognized in equity	-	(52,936)
Recognized in goodwill	-	(55,070)
Balance at the end of the year	$ (10,340)	$ (33,044)

12. Income Taxes - continued

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2017	2016
Non-capital losses carried forward	$ 1,812,810	$ 1,436,902
Share issue costs	$ 1,310	$ 2,212
Schedule 13 reserves	$ 202,000	-
Intangible assets	$ 66,780	$ 66,775

The Canadian non-capital loss carry forwards expire as noted in the table below. Share issue and financing costs will be fully amortized in 2020. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's Canadian non-capital income tax losses expire as follows:

2026	**$ 3,680**
2027	**78,060**
2028	**124,330**
2029	**345,120**
2030	**98,820**
2031	**95,490**
2032	**97,220**
2033	**141,750**
2034	**183,210**
2035	**200,860**
2036	**389,780**
2037	**347,060**
	$ 2,105,380

13. Financial Risk Management Objectives and Policies

Capital management

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders (Note 1).

The Company includes deficiency in assets, comprised of issued common shares, contributed surplus, warrants reserve, and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund its current joint ventures. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

The Company is not subject to externally imposed capital requirements.

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. As described in Note 1, the Company has a working capital deficiency of 1,461,821 (2016 - $53,289) and requires the continuing financial support of shareholders or other investors or new financing on commercial terms acceptable to the Company.

Fair value

The fair value of the Company’s financial assets and financial liabilities approximate their recorded values at January 31, 2017 and 2016 for all assets except the convertible debentures issued. View Note 8 for more information.

14. Subsequent Events

(a) After year-end, $605,000 convertible debentures were converted into 6,050,000 common shares and 3,880,000 common share warrants were granted at an exercise price of $0.075 per common share warrant.

(b) After year-end, 950,000 stock options were exercised at $0.05 per stock option and 950,000 common shares were issued.