Applied Inventions Management Corp.

Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended August 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Applied Inventions Management Corp.

We have audited the accompanying consolidated financial statements of Applied Inventions Management Corp. which comprise the consolidated balance sheets as at August 31, 2016 and August 31, 2015 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended August 31, 2016 and August 31, 2015 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Applied Inventions Management Corp. as at August 31, 2016 and August 31, 2015, and its financial performance and its cash flows for the years ended August 31, 2016 and August 31, 2015 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes material uncertainties that may cast significant doubt about Applied Inventions Management Corp.'s ability to continue as a going concern.

Collins Barrow Toronto LLP

Chartered Professional Accountants
Licensed Public Accountants
December 20, 2016
Toronto, Ontario

Applied Inventions Management Corp.
Consolidated Balance Sheets
(Expressed in Canadian Dollars)
As at August 31

	2016	2015
Assets		
Current		
Cash	**$ 726**	$ 3,674
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 3)	**$ 108,105**	$ 33,575
Shareholder advances - non-interest bearing (Note 4a)	**-**	343,154
Shareholder advances - interest bearing (Note 4b)	**11,276**	257,932
	119,381	634,661
Subordinate voting debenture (Note 5b)	**287,912**	-
Multiple voting debenture (Note 5b)	**253,384**	-
	660,677	634,661
Shareholders' Deficiency		
Capital Stock (Note 6)	**2,192,923**	2,192,923
Contributed surplus	**731,785**	731,040
Equity component of convertible debentures (Note 5b)	**128,048**	-
Deficit	**(3,712,707)**	(3,554,950)
	(659,951)	(630,987)
	$ 726	$ 3,674

Nature of Business and Going Concern (Note 1)

Approved by the Board **"Michael Stein"** Director **(Signed)** **"Gabriel Nachman"** Director **(Signed)**

See accompanying notes

Applied Inventions Management Corp.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
Years Ended August 31

	2016	2015
Expenses		
Accretion expense	**$ 24,190**	$ -
Bank charges	**236**	212
Interest on debenture and shareholder advances (Note 8)	**40,589**	22,667
Professional fees (Note 8)	**91,997**	34,216
Stock based compensation	**745**	-
Net loss and comprehensive loss for the year	**$ 157,757**	$ 57,095
Loss per share		
Basic and diluted	**$ 0.10**	$ 0.04
Weighted average number of common shares outstanding		
Basic and diluted	**1,527,774**	1,491,244

Applied Inventions Management Corp.
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)
Years Ended August 31, 2016 and 2015

	Capital Stock (Note 6)	Contributed Surplus	Equity Component of Convertible Debentures	Deficit	Total
Balance, September 1, 2014	**$ 2,142,923**	**$ 731,040**	**$ -**	**$ (3,497,855)**	**$ (623,892)**
Net loss and comprehensive loss	-	-	-	(57,095)	(57,095)
Issuance of Class "B" shares for debt settlement (Note 6c)	50,000	-	-	-	50,000
Balance, August 31, 2015	**$ 2,192,923**	**$ 731,040**	**$ -**	**$ (3,554,950)**	**$ (630,987)**
Net loss and comprehensive loss	-	-	-	(157,757)	(157,757)
Stock based compensation	-	745	-	-	745
Equity component of convertible debentures (Note 5b)	-	-	128,048	-	128,048
Balance, August 31, 2016	**$ 2,192,923**	**$ 731,785**	**$ 128,048**	**$ (3,712,707)**	**$ (659,951)**

Applied Inventions Management Corp.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
Years Ended August 31

	2016	2015
Cash provided by (used in)		
Operations		
Net loss and comprehensive loss	**$ (157,757)**	$ (57,095)
Items not affecting cash		
Interest accrued on debentures and shareholder advances	**40,589**	22,667
Shareholder payment of professional fees	**15,026**	23,160
Accretion expense	**24,190**	-
Stock based compensation	**745**	-
	(77,207)	(11,268)
Net changes in non-cash working capital		
Accounts payable and accrued liabilities	**74,259**	7,440
Accounts receivable	**-**	5,650
	(2,948)	1,822
Financing		
Shareholder advances	**-**	1,000
Net change in cash	**(2,948)**	2,822
Cash, beginning of year	**3,674**	852
Cash, end of year	**$ 726**	$ 3,674

See accompanying notes

1. NATURE OF BUSINESS AND GOING CONCERN

Applied Inventions Management Corp. (the "Company"), is incorporated under the laws of the Province of Ontario. The Company has no assets other than a minimal amount of cash. The Company carries on the business of identification and evaluation of assets or businesses with a view to completing a potential transaction.

While these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis that presumes the realization of assets and discharge of liabilities in the normal course of business, there are material uncertainties related to adverse conditions and events that may cast significant doubt on the Company's ability to continue as a going concern.

The registered office of the Company is located at 1 Adelaide Street East Suite 801 Toronto, Ontario M5C 2V9.

During the year ended August 31, 2016, the Company incurred a loss of $157,757 (2015 - $57,095) and, as of that date, the Company had accumulated deficit of $3,712,707 (2015 - $3,554,950), a working capital deficiency of $118,655 (2015 - $630,987) and cash flows from operations of $(2,948) (2015 - $1,822). These factors create material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

The Company's continuing ability to meet its obligations as they come due is dependent upon continued financial support from related parties (Notes 12, 4, 5 and 8) and the Company's ability to raise additional funds through the issuance of shares or debt.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue operations. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with IFRS and their interpretations adopted by the International Accounting Standards Board ("IASB").

The consolidated financial statements of the Company for the year ending August 31, 2016 were approved and authorized for issue by the Board of Directors on December 20, 2016.

Basis of Presentation

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Applied Inventions Management Corporation U.S.A. and Tour Technologies. The two subsidiaries are inactive.

Functional and Presentation Currency

These consolidated financial statements have been presented in Canadian dollars, which is also the Company's and its subsidiaries' functional currency.

Financial Instruments

Financial assets classified as fair value through profit and loss ("FVTPL") are measured at fair value with any resultant gain or loss recognized in profit or loss. Financial assets classified as loans and receivables and held to maturity, are measured at amortized cost using the effective interest rate method.

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. Financial liabilities are classified as other financial liabilities, and are subsequently measured at amortized cost using effective interest rate method.

The Company's financial assets include cash while the Company's financial liabilities include accounts payable and accrued liabilities, shareholder advances, subordinate and multiple voting debentures. Classification of these financial instruments is as follows:

Financial Instrument	Classification
Cash	FVTPL
Accounts payable and accrued liabilities	Other financial liabilities
Shareholder advances - non-interest bearing	Other financial liabilities
- interest bearing	Other financial liabilities
Subordinate and multiple voting debentures	Other financial liabilities

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

Financial instruments recorded at fair value on the consolidated balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The Company's financial instruments measured at fair value on the consolidated balance sheet consist of cash.

Compound Financial Instruments

Compound financial instruments include subordinate and multiple voting convertible debentures, which are comprised of two components, the debt component and the conversion feature, which is considered equity. The debt component of the instrument is initially recognized at fair value and carried at amortized cost, with the residual being allocated to the conversion feature, classified as equity. Transaction costs are allocated between the debt component and the conversion feature on a pro rata basis.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on modification. Upon conversion of the subordinate voting and multiple voting convertible debenture the value of the equity component is reallocated to Class A and Class B shares. Upon expiry of the conversion feature or repayment of the debenture, the equity component is reallocated to contributed surplus.

Loss Per Share

The Company presents basic and diluted loss per share data for its shares, calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to shareholders and the weighted average number of shares outstanding for the effects of all warrants and options outstanding, if any, that may add to the total number of shares. If the number of shares outstanding increases or decreases as a result of share split or consolidation, the calculation of basic and diluted loss per share for all periods presented, is adjusted retrospectively.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income Taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not record that excess.

Significant Accounting Judgments and Estimates

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities. The estimates and associated assumptions are based on anticipations and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods. The significant judgments and estimates made by management in the preparation of these consolidated financial statements is the fair value of the liability component related to the subordinate voting debenture and multiple voting debenture issued during the year and the assumption that the Company will continue as a going concern.

Recent Accounting Pronouncements

The International Accounting Standards Board ("IASB") issued a number of new and revised standards, amendments and related interpretations which are effective for the Company's financial year beginning on or after September 1, 2016. Many are not applicable or do not have a significant impact on the Company and so have been excluded from the list below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Recent Accounting Pronouncements (Cont'd)

IFRS 9 Financial Instruments was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. 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. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. A new hedge accounting model is introduced and represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. Earlier application is permitted. The Company has not yet begun the process of evaluating the impact of this standard on its consolidated financial statements.

IFRS 15 which was issued in May 2014, will replace all current revenue recognition requirements. IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that effects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 is required for annual periods beginning on or after January 1, 2018, using either a full or modified retrospective application. Earlier adoption is permitted. The Company does not expect this standard to have an effect on the Company’s consolidated financial statements.

IFRS 16, Leases, which was issued in January 2016, will replace current lease accounting standards. It proposes to record all leases on the balance sheet with certain limited exceptions. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Limited earlier adoption is permitted. The Company has not yet begun the process of evaluating the impact of this standard on its consolidated financial statements.

3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
Trade payables	**$ 39,163**	$ 27,075
Debenture interest	**22,139**	-
Accrued liabilities:		
Legal	**40,303**	-
Audit and accounting	**6,500**	6,500
	$ 108,105	$ 33,575

4. SHAREHOLDER ADVANCES

(a) Non-Interest Bearing

Shareholder advances include unpaid management and consulting fees and advances made on behalf of the Company prior to September 1, 2009. They bear no interest, are secured by a general security agreement and have no specified terms of repayment.

(b) Interest Bearing

Shareholder advances, principal plus accrued interest, include advances made by the current controlling shareholder who is also a director and officer of the Company since September 1, 2009. The advances bear interest at the rate of 10% per annum calculated monthly, are secured by a general security agreement and have no specified terms of repayment.

5. DEBT SETTLEMENTS

(a) Demand Debenture

The demand debenture, principal plus accrued interest, was payable to the current controlling shareholder of the Company who is also a director and officer. It bore interest at 10% per annum, and matured on November 5, 1998 and was secured by a general security agreement. The debenture was in default and the conversion features which previously existed have lapsed. This debenture was settled as part of an overall debt settlement on September 2, 2014 by the issuance of 833,333 Class "B" Multiple Voting Shares (Note 6 c).

(b) Voting Debenture

On April 27, 2016, the Company agreed to settle an aggregate of $645,154 of indebtedness owing to the controlling shareholder, who is a director and officer of the Company, and to WFE Investment Corp. (“WFE”), a company controlled by the controlling shareholder of the Company, in exchange for the Company issuing a first secured subordinate voting debenture in the principal amount of $343,154 to the controlling shareholder and a first secured multiple voting debenture in the principal amount of $302,000 to WFE. The debentures bear interest at a stated rate of 10% per annum. Interest is payable quarterly and the principal amounts outstanding are due on April 27, 2018, the maturity date.

The secured subordinate voting debenture and the multiple voting debenture and any unpaid interest thereon are convertible, at the option of the holders into Subordinate Voting Units and Multiple Voting Units respectively at a conversion price of $0.05 per Subordinate Voting Unit or Multiple Voting Unit respectively prior to the maturity date. Each Subordinate Voting Unit and each Multiple Voting Unit will consist of one Class “A” subordinate voting share and one Class “B” multiple voting share respectively and one detachable share purchase warrant. Each warrant shall entitle the holder thereof to acquire one Class “A” subordinate voting share at a price of $0.06 per share until two years from the date of issuance.

(Expressed in Canadian Dollars)

5. DEBT SETTLEMENTS (Cont'd)

(b) Voting Debenture (Cont'd)

The fair value of the liability component at the time of issue of $275,046 and $242,060 for the subordinate voting and multiple voting debentures, respectively, was calculated as the discounted cash flows for the convertible debenture assuming a 22% interest rate which was based on the estimated market interest rate for a convertible debenture without a conversion feature. The fair value of the equity component (conversion feature) of $68,108 and $59,940 for the subordinate voting and multiple voting debentures, respectively, was determined at the time of issue as the difference between the fair value of the compound convertible debentures and the fair value of the liability component corresponding to a rate that the Company would have obtained for a similar financing without the conversion option.

	Subordinate Voting Debenture	Multiple Voting Debenture
Principal value of debentures issued	$ 343,154	$ 302,000
Equity component	(68,108)	(59,940)
Liability component at date of issue	$ 275,046	$ 242,060
Accretion	12,866	11,324
Liability component at August 31, 2016	$ 287,912	$ 253,384

6. CAPITAL STOCK

a) Authorized:

unlimited Class "A" subordinate voting convertible shares, convertible into an equal number of Class B shares at the option of the holder upon an offer to purchase all or substantially all of the Class B shares of the Company;

unlimited Class "B" multiple voting (20 votes per share) convertible shares, convertible into an equal number of Class A shares at the option of the holder;

unlimited Class "C" preference shares.

b) Issued and outstanding:

	Number of Class A Shares	Amount	Number of Class B Shares	Amount
Balance, August 31, 2014	388,435	$ 1,106,187	306,006	$ 1,036,736
Issuance of Class B shares	-	-	833,333	50,000
Balance as at August 31, 2015 and 2016	**388,435**	**$ 1,106,187**	**1,139,339**	**$ 1,086,736**

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (Cont'd)

c) Share issuance:

On September 2, 2014, a current shareholder, officer and director of the Company was issued 833,333 Class "B" multiple voting shares of the Company as a settlement of debt owed to him of $50,000, which was outstanding as at the August 31, 2014 year end. As a result, the shareholder became the controlling shareholder of the Company.

7. INCOME TAXES

Provision for Income Taxes

The Company's effective income tax rate differs from the amount that would be computed by applying the combined federal and provincial statutory rate of 26.50% (2015 - 26.50%) to the net loss and comprehensive loss for the period. The reason for the difference is as follows:

		2016		2015
Loss before income taxes	**$**	**(157,757)**	$	(57,095)
Statutory rate		**26.50 %**		26.50 %
Expected income tax recovery	**$**	**(41,806)**	$	(15,130)
Increase (decrease) resulting from:				
Non-deductible expenses		**198**		-
Change in deferred tax assets not recognized		**41,608**		15,130
Income tax expense	**$**	**-**	$	-

The Company's deferred income tax assets are estimated as follows:

		2016		2015
Deferred income tax assets				
Non-capital losses	**$**	**116,078**	$	74,470
Less: Deferred tax assets not recognized		**(116,078)**		(74,470)
Net deferred income tax asset	**$**	**-**	$	-

(Expressed in Canadian Dollars)

7. INCOME TAXES (Cont'd)

Losses Carried Forward

As at August 31, 2016, the Company has non-capital losses for income tax purposes of approximately $438,000 available to apply against future taxable income. If not utilized, the non-capital losses will expire as follows:

2026	$	6,000
2028		5,000
2030		1,000
2031		56,000
2032		55,000
2033		39,000
2034		62,000
2035		57,000
2036		157,000
	$	**438,000**

8. RELATED PARTY TRANSACTIONS

(a) The interest expense of $40,589 (2015 - $22,667) is due to the current controlling shareholder who is also a director and officer of the Company. Interest expense of $300 (2015 - $22,667) is interest accrued on outstanding shareholder advances that are interest bearing. Interest expense of $22,139 (2015 - $NIL) is interest accrued on the outstanding subordinate and multiple voting debentures. The remaining interest expense accrued on the outstanding shareholder advances that are interest bearing during the year of $18,150 was settled through the issuance of multiple voting debentures described in Note 8b.

(b) As at August 31, 2016 the Company has Shareholder Loans due to the current controlling shareholder who is also an officer and director of the Company, consisting of a $NIL (2015 - $343,154) non-interest bearing advance and a $11,276 (2015 - $257,932) advance bearing interest at 10% per annum, both advances being secured by a general security agreement. On April 27, 2016, the Company agreed to settle an aggregate of $645,154 of indebtedness owing to the controlling shareholder who is a director and officer of the Company, and to WFE Investment Corp. (“WFE”), a company controlled by the controlling shareholder of the Company, in exchange for the Company issuing a first secured subordinate voting debenture in the principal amount of $343,154 to the controlling shareholder and a first secured multiple voting debenture in the principal amount of $302,000 to WFE (Note 5b).

(c) Included in accounts payable and accrued liabilities is $24,200 (2015 - $12,500) related to consulting fees owed to a officer, director and current controlling shareholder.

(Expressed in Canadian Dollars)

9. STOCK OPTION PLAN

The Company's stock option plan provides options that can be exercised for a maximum of 10% of the issued and outstanding Class "A" Subordinate Voting Shares and a maximum of 10% of the issued and outstanding Class "B" Multiple Voting Shares on the date of grant.

On April 29, 2016, 150,000 options to purchase Class ”A” shares were granted pursuant to the Company’s stock option plan to directors of the Company. The options were fully vested at the date of granting, have an exercise price of $0.05 per share and expire on April 29, 2021.

The following summarizes the stock options issued during the year ended August 31, 2016:

	2016		2015	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Beginning balance	**-**	**$ Nil**	-	$ Nil
Issued	**150,000**	**$0.05**	-	$ Nil
Ending balance	**150,000**	**$0.05**	-	$ Nil
Exercisable	**150,000**	**$0.05**	-	$ Nil

The Company had the following options issued at August 31, 2016:

Number of Options	**Exercisable**	**Exercise Price**	**Weighted Average Time to Maturity**
150,000	150,000	$ 0.05	4.66 years
150,000	**150,000**		

The fair value of the options granted of $745 is estimated at the time of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2016
Exercise price	**$ 0.05**
Expected volatility	**100 %**
Risk-free interest rate	**0.87 %**
Expected life	**5.0 years**
Estimated share price	**$ 0.01**

The expected volatility and estimated share price of the options is based on comparable companies in the industry.

10. CAPITAL RISK MANAGEMENT

The Company considers capital stock, contributed surplus and deficit to represent capital. As at August 31, 2016 and 2015, the Company has a shareholders' deficiency and management's objective is to maintain its ability to continue as a going concern (Note 1).

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the years ended August 31, 2016 and 2015.

11. FINANCIAL INSTRUMENTS AND RISK FACTORS

Risk management is the responsibility of management who is of the opinion that the Company is exposed to financial risks as described below. The Company's financial instruments comprised of cash, accounts payable and accrued liabilities, shareholder advances and subordinate and multiple voting debentures, approximate fair values due to the relatively short term maturities of the instruments. It is management's opinion that the Company is not exposed to significant interest and currency risks.

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company minimizes its credit risk by maintaining cash at major banks and financial institutions.

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. As at August 31, 2016, the Company has current liabilities of $119,381 (2015 - $634,661) and no significant assets other than a cash balance of $726 (2015 - $3,674). As a result, the Company is dependent on obtaining additional financing to meet its current obligations. The Company's accounts payable outstanding for over 90 days amount to $21,512 (2015 - $16,524).

12. PROPOSED TRANSACTION

On May 12, 2016, the Company signed a letter of intent proposing to acquire all of the issued and outstanding shares of World Defense Holdings WDH Ltd. ("WDH"), a Montreal, Canada based company providing program based defense services in South America, the Middle East and to certain U.S. allied countries to combat terrorism and the ensure global security, subject to the Company's due diligence and entering into a definitive agreement with WDH and its principle shareholder. WDH holds exclusive license agreements with corporations that offer proprietary products and services servicing the military and public safety industry, including government contracting and procurement services to a wide range of police and military organizations across the world. WDH provides expertise in the areas of engineering design, systems development, assembly, integration and testing of diverse and complex military products, including project management and integrated logistics support management, training programs, maintenance programs for existing equipment and sourcing and advising on certain military equipment. WDH also works closely with certain industrial firms to develop products for their operations that WDH offers to governments worldwide under exclusive licencing.

In consideration for the WDH shares, it is proposed that the principle shareholder of WDH will receive an aggregate of 4,000,000 Units of the Company at a deemed price of $0.25 per Unit of which 3,000,000 Units will be held in escrow for a three-year period, to be released upon WDH achieving certain revenue and gross margin targets, or otherwise cancelled. Each Unit will consist of one Class “A” subordinate voting share of the Company and one share purchase warrant exercisable into one Class “A” share at a price of $0.50 per share for a period of two years from the date of issue. Further a broker/finders fee of 200,000 Class “A” shares may be payable.

The total cost of the proposed transaction to the Company, including the contingent acquisition cost but excluding transaction expenses is estimated to be a maximum of $1,000,000 if all milestones are achieved. The current value of the share purchase warrants is deemed to be nominal at this stage.