



**REWARDSTREAM SOLUTIONS INC.
CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2016
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)**

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

**REWARDSTREAM SOLUTIONS INC.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
EXPRESSED IN CANADIAN DOLLARS**

	December 31, 2016 (unaudited)	September 30, 2016 (audited)
ASSETS		
CURRENT ASSETS		
Cash	\$ 378,164	\$ 645,058
Accounts receivable (note 9)	156,333	245,804
Investment tax credits receivable (notes 5 and 8)	-	298,305
Prepaid expenses and deposits	66,681	126,448
	601,178	1,315,615
DEPOSITS	18,720	18,720
EQUIPMENT AND LEASEHOLD IMPROVEMENTS (note 3)	128,890	131,416
	\$ 748,788	\$ 1,465,751
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 9)	\$ 176,224	\$ 322,958
Deferred revenue	69,135	61,201
Current portion of finance lease obligations (note 4)	6,488	4,206
Loans payable (notes 5 and 9)	62,689	108,215
	314,536	496,580
FINANCE LEASE OBLIGATIONS (note 4)	3,363	2,205
LEASE IMPROVEMENT ALLOWANCE (note 11)	80,014	84,225
	397,913	583,010
EQUITY (DEFICIENCY)		
SHARE CAPITAL (note 6)	11,682,848	11,682,848
SHARE-BASED COMPENSATION RESERVE (note 6)	1,739,148	1,715,223
WARRANT RESERVE (note 6)	207,042	207,042
DEFICIT	(13,278,163)	(12,722,372)
	350,875	882,741
	\$ 748,788	\$ 1,465,751

Subsequent event (note 13)

On behalf of the Board:

" Ralph Turfus "

" Martin Bernholtz "

Mr. Ralph Turfus, Director

Martin Bernholtz, Director

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

**REWARDSTREAM SOLUTIONS INC.
CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
EXPRESSED IN CANADIAN DOLLARS
FOR THE THREE MONTHS ENDED DECEMBER 31
(UNAUDITED)**

	2016	2015
REVENUE (note 12)	\$ 359,919	\$ 436,309
COST OF SALES (note 12)	147,143	173,367
	212,776	262,942
EXPENSES		
Sales and marketing (note 7)	292,301	117,756
General and administrative (note 7)	332,727	293,273
Research and development, net of investment tax credits (notes 7 and 8)	114,356	13,435
Share-based compensation (notes 6 and 7)	23,925	577,845
Depreciation (note 3)	7,366	2,269
	770,675	1,004,578
LOSS FROM OPERATIONS	(557,899)	(741,636)
OTHER INCOME (EXPENSES)		
Foreign exchange gain	6,896	1,894
Finance expense (note 5)	(4,788)	(22,581)
	2,108	(20,687)
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	\$ (555,791)	\$ (762,323)
LOSS PER SHARE, BASIC AND DILUTED	\$ (0.01)	\$ (0.07)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	38,657,069	10,820,683

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

**REWARDSTREAM SOLUTIONS INC.
CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
EXPRESSED IN CANADIAN DOLLARS
(UNAUDITED)**

	SHARE CAPITAL		RESERVES			Deficit	Total Equity
	Number of Shares	Amount	Share-Based Compensation Reserve	Warrant Reserve			
Balance at September 30, 2015	10,637,577	\$ 6,618,213	\$ 1,411,472	\$ -	\$ (8,003,689)	\$ 25,996	
Exchange of options for common shares (note 6)	767,286	565,720	-	-	-	565,720	
Exercise of warrants (note 6)	75,000	-	-	8,573	-	8,573	
Share-based compensation	-	-	12,892	-	-	12,892	
Net loss for the period	-	-	-	-	(762,323)	(762,323)	
Balance at December 31, 2015	11,479,863	\$ 7,183,933	\$ 1,424,364	\$ 8,573	\$ (8,766,012)	\$ (149,142)	
Balance at September 30, 2016	38,657,069	\$ 11,682,848	\$ 1,715,223	\$ 207,042	\$ (12,722,372)	\$ 882,741	
Share-based compensation (note 6)	-	-	23,925	-	-	23,925	
Net loss for the period	-	-	-	-	(555,791)	(555,791)	
Balance at December 31, 2016	38,657,069	\$ 11,682,848	\$ 1,739,148	\$ 207,042	\$ (13,278,163)	\$ 350,875	

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

**REWARDSTREAM SOLUTIONS INC.
STATEMENTS OF CASH FLOWS
EXPRESSED IN CANADIAN DOLLARS
FOR THE THREE MONTHS ENDED DECEMBER 31
(UNAUDITED)**

	2016	2015
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss for the period	\$ (555,791)	\$ (762,323)
Items not involving cash:		
Depreciation	7,366	2,269
Leasehold improvement	(4,211)	-
Interest expense	4,474	22,044
Share-based compensation	23,925	577,845
Changes in non-cash working capital items:		
Accounts receivable	89,471	(44,641)
Investment tax credits receivable	298,305	283,530
Prepaid expenses and deposits	59,767	(5,949)
Accounts payable and accrued liabilities	(146,734)	2,957
Deferred revenue	7,934	(32,221)
	(215,494)	43,511
FINANCING ACTIVITIES		
Repayment of finance lease obligations	3,440	(940)
Repayment of loans payable	(50,000)	(38,829)
	(46,560)	(39,769)
INCREASE (DECREASE) IN CASH DURING THE YEAR	(266,894)	3,742
CASH, BEGINNING OF YEAR	645,058	273,472
CASH, END OF YEAR	\$ 378,164	\$ 277,214
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid – finance lease obligations	\$ 235	\$ 254
Interest paid – loans payable	\$ -	\$ 13,265
Share subscription receivable	\$ -	\$ 9,340

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**REWARDSTREAM SOLUTIONS INC.
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
EXPRESSED IN CANADIAN DOLLARS
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1. NATURE OF BUSINESS AND CONTINUANCE OF OPERATIONS

RewardStream Solutions Inc. (formerly RewardStream Inc.) (the “Company” or “Solutions”) is a provider of Software as a Service (“SaaS”) marketing technology that powers loyalty marketing programs, referral programs and source code licensing programs. The Company’s clients subscribe to the Company’s proprietary Spark™ product to operate marketing programs that acquire, engage, optimize and retain customers and sales channels.

On July 28, 2016, an amalgamation was completed with Musgrove Minerals Corp. (“Musgrove”), a publicly traded company on the TSX *Venture* Exchange (the “Exchange”), and the private company RewardStream Solutions Inc. (“RewardStream”), to form a single amalgamated company (the “Amalgamation”). Prior to the completion of the Amalgamation and in connection with this transaction, Musgrove completed a private placement totaling \$2,028,500 in two tranches on May 27, 2016 for \$1,000,000 and on July 27, 2016 for \$1,028,500 by issuing a total 16,228,000 Units (the “Private Placement”). Of the 16,228,000 Units issued, 784,000 were issued to related parties of the Company. Each Unit consisted of one common share of Musgrove and one-half of one common share purchase warrant of Musgrove. Each full warrant is exercisable at a post-Amalgamation price of \$0.50 per share for a period of two years from the date of issuance.

These unaudited condensed interim financial statements have been prepared on a going concern basis of presentation, which assumes that the Company will continue operations for the foreseeable future and be able to realize the carrying value of its assets and discharge its liabilities and commitments in the normal course of business. The Company’s ability to continue as a going concern is dependent upon its ability to obtain additional financing and or achieve profitable operations in the future.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee.

The policies applied in these unaudited interim financial statements are based on IFRS issued and outstanding as of February 28, 2017, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim financial statements as compared with the most recent annual financial statements as at and for the year ended September 30, 2016. Any subsequent changes to IFRS that give effect to the Company’s annual financial statements for the year ending September 30, 2017 could result in restatement of these unaudited interim consolidated financial statements.

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3. EQUIPMENT

	Computer Equipment	Furniture and Equipment	Leasehold Improvements	Total
Cost				
Balance, September 30, 2015	\$200,960	\$106,825	-	\$307,785
Additions	-	-	106,607	106,607
Balance, September 30, 2016	\$200,960	\$106,825	\$106,606	\$414,392
Additions	4,840			4,840
Balance, December 31, 2016	\$205,800	\$106,825	\$106,606	\$419,232
Accumulated Depreciation				
Balance, September 30, 2015	\$176,246	\$97,438	-	\$273,684
Charge for the period	7,414	1,877	-	9,292
Balance, September 30, 2016	\$183,660	\$99,315	-	\$282,976
Charge for the period	1,660	375	5,330	7,366
Balance, December 31, 2016	\$185,320	\$99,690	\$5,330	\$290,342
Carrying Value				
September 30, 2016	\$17,300	\$7,510	\$106,606	\$131,416
December 31, 2016	\$20,480	\$7,135	\$101,276	\$128,890

Included in Computer Equipment is leased computer equipment with a net carrying value of \$20,480 (September 30, 2016 - \$17,300).

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4. FINANCE LEASE OBLIGATIONS

The Company finances certain computer equipment using finance leases. The liability recorded under the finance lease represents the minimum lease payments payable, net of imputed interest.

The Company's obligations under finance leases as at December 31, 2016 and September 30, 2016 consist of:

	December 31, 2016	September 30, 2016
Lease payable in monthly instalments ranging from \$36 to \$220, including interest, ranging from 9.99% to 10.1% per annum	\$ 10,549	\$ 6,872
Less: Interest	698	460
	9,851	6,411
Less: Current portion	6,488	4,206
	\$ 3,363	\$ 2,205

Minimum repayments are as follows:

2017	\$4,982
2018	4,686
2019	183
	\$9,851

5. LOAN PAYABLE

On May 1, 2015, the Company received a Scientific Research and Experimental Development ("SR&ED") loan from three unrelated individuals for a total of \$300,000 at an interest rate of 20%, calculated and compounded monthly. Included in general and administrative expenses is an interest expense of \$12,982 for the period ended December 31, 2015. This loan was secured by a general security agreement on the assets of the Company. On December 9, 2015, the Company received its 2015 SR&ED payment of \$403,616 and repaid this loan and accrued interest.

On September 25, and November 13, 2015, pursuant to a proposed amalgamation with Manado Gold Corp. ("Manado"), the Company received \$200,000 ("Note #1") and \$300,000 ("Note #2") loans from Manado. The loans were unsecured, had an interest at a rate of 10% per annum, and were due six months from issuance. On April 8, 2016, the Company terminated the proposed amalgamation with Manado. On April 18, 2016, Manado, the Company, and a third party (the "Third Party") entered into a Loan Debt Assignment and Extension Agreement for Note #1 and Note #2. Under the terms of this agreement, the Third Party purchased Note #2 for \$150,000 cash paid to Manado and also received an option to purchase Note #1 for 400,000 shares of the Company following the Amalgamation. The option to purchase Note #1 was exercisable until the earlier of seven business days following the Amalgamation and October 31, 2016. The terms of Note #1 and Note #2 were extended until October 31, 2016. On July 14, 2016, the Company executed an agreement with the Third Party to convert Note #1 and Note #2 to common shares of Solutions ("Note Conversions"). Under the terms of the Note Conversions, principal and interest owing for

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5. LOAN PAYABLE (Continued)

Note #1 and Note #2 loans were convertible into common shares of Solutions at a conversion price of \$0.25 per share upon completion of the Amalgamation. The Company recorded a finance expense of \$23,943 being the fair value of the conversion right granted to the Third Party. On July 28, 2016, Solutions issued 400,000 common shares to Manado to allow the Third Party to complete its acquisition of the notes and then convert the notes into common shares of Solutions. The fair value of the 400,000 common shares issued to Solutions was estimated to be \$100,000 and recorded as a finance expense in connection with the settlement of the Note #1 and Note #2. On July 28, 2016, the \$300,000 loan and accrued interest of \$21,363 was converted to 1,285,452 common shares of Solutions. On August 9, 2016, the \$200,000 loan and accrued interest of \$17,489 was converted to 869,954 common shares of Solutions. As these loans were converted and retired prior to the 3 months ended December 31, 2016, interest in the period was nil (2016 - \$9,062).

On March 4, 2016, the Company entered into a credit agreement with Code Consulting Limited ("Code") (the "Credit Agreement"). Under the terms of the Credit Agreement, Code agreed to lend up to \$200,000 to the Company in two advances of \$100,000. The loan had an interest rate of 10% per annum compounded monthly. Code was also entitled to receive 40,816 warrants of the Company for each \$100,000 advanced. The warrants were exercisable at a price of \$0.98 and expire on March 4, 2018. The loan was payable in full on June 12, 2016 and was secured by a general security agreement on the assets of the Company (the "Security"). Interest on the outstanding balance accrued at 20% per annum upon the occurrence of an event of default. The loan is in default if the Company failed to make any payment of principal or interest when due or if the Company failed to complete the Manado Amalgamation by April 15, 2016. On an event of default, Code, had the right to demand payment of all monies owed and the Company may, within 30 days of such demand, redeem the Security by paying Code all amounts owed. On March 4, 2016, the Company received an advance of \$100,000 and issued 40,816 warrants. The Company bifurcated the loan into its components using a discounted cash flow model with an estimated fair value interest rate of 20% to estimate the fair value of the liability component of \$94,276. The residual amount of \$5,723 was recorded to warrant reserves. On April 15, 2016, the Manado Amalgamation was not completed resulting in the Credit Agreement being in default. The Company repaid the outstanding balance and accrued interest from the funds received from the loan with a related party (see below).

On April 26, 2016, the Company entered into a loan agreement with Musgrove. Under the terms of the agreement, Musgrove loaned \$100,000 to the Company. The loan had an annual interest rate of 10%, compounded monthly, and is payable on November 30, 2016. The loan is secured by the assets of the Company. On June 20, and July 26, 2016, Musgrove advanced an additional \$150,000 on each date under the same terms. On July 28, 2016, due to completion of the Amalgamation, this loan and accrued interest was cancelled and the security over the assets of the company was discharged. \$3,928 in interest expense is included in finance expense for the period ended September 30, 2016.

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5. LOAN PAYABLE (Continued)

On May 2, 2016, the Company entered into a loan agreement with a related party. Under the terms of the agreement, the related party loaned \$102,093 to the Company so that it could repay the defaulted Credit Agreement. The loan has an annual interest rate of 15%, compounded monthly, and is payable on October 31, 2016. The loan is secured by the assets of the Company. The related party also received 108,899 warrants with an exercise price of \$0.39, exercisable until May 2, 2018. The Company has bifurcated the loan into its components using a discounted cash flow model with an estimated fair value interest rate of 20% to estimate the fair value of the liability component of \$93,174. The residual amount of \$8,919 was recorded to warrant reserves. During the period \$50,000 of this loan was repaid and the remaining balance remains outstanding and past due. Included in finance expense is accretion and interest expense of \$4,473 for the period ended December 31, 2016 (2016 – nil).

6. SHARE CAPITAL

a) Authorized:

- unlimited common shares, without par value

b) Issued and outstanding:

At September 30, 2016, the issued and outstanding shares of the Company consisted of 38,657,069 common shares.

On December 11, 2015, the Company issued 75,000 common shares on the exercise of warrants for proceeds of \$8,573.

On December 11, 2015, the Company approved the exchange of 2,154,500 options for 767,286 common shares of the Company to certain option holders for a share subscriptions receivable of \$767. The fair value of the common shares was estimated to be \$565,720. The difference between the fair value and gross proceeds was recorded as share-based compensation expense of \$564,953.

On May 13, 2016, the Company issued 1,076,962 common shares on the exercise of warrants for proceeds of \$10,770. On exercise, the Company transferred \$392,449 previously recorded in the stock-based compensation reserve to share capital.

On May 19, 2016, the Company issued 256,410 common shares at a price of \$0.39 per share to a trust controlled by a director of the Company for gross proceeds of \$100,000.

On July 28, 2016, the Company completed the Amalgamation resulting in the issuance of 15,151,659 common shares of Solutions with a fair value of \$3,636,401 to the shareholders of Musgrove (note 2).

On July 28, 2016, in connection with private placements completed by Musgrove prior to completing the Amalgamation, Solutions issued a finder's fee of 950,000 common shares with a fair value of \$237,500. The common shares were accounted for as a share issue cost.

On July 28, 2016 and August 9, 2016, Solutions issued 1,685,452 and 869,954 common shares, respectively, at \$0.25 per share on the conversion of Note #1 and Note #2 (note 5). On conversion, the Company recorded an additional \$23,943 to share capital being the value of the conversion right that had been granted to the third party note holders.

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6. SHARE CAPITAL (Continued)

c) Stock options

Pursuant to the terms of the Amalgamation, the 4,028,008 outstanding stock options of RewardStream were cancelled. The Company recorded \$90,292 of share-based compensation relating to these options during the year ended September 30, 2016. There were no outstanding options of Musgrove prior to the Amalgamation.

The Company continued the stock option plan of Musgrove which provides for the granting of incentive stock options up to a maximum of 10% of the Company's issued and outstanding common shares. Terms of the options granted are subject to determination and approval by the Board of Directors. Following the Amalgamation, the number of options available to be granted were 3,865,707.

On September 7, 2016, the Board of Directors of the Company approved the grant of 3,588,333 options to directors, officers, employees and advisors of the Company. The options had an exercise price of \$0.30 and expire on September 7, 2019. The grant date fair value of these options was \$0.13. The Company recorded \$210,485 in share-based expense related to these options.

Activity under the Plan for the period ended December 31, 2016 is as follows:

	Number of Options	Weighted Average Exercise Price
Balance, September 30, 2016	3,588,333	\$0.30
Options granted	-	-
Options cancelled	-	-
Options expired	-	-
Balance, December 31, 2016	3,588,333	\$0.30

Activity under the Plan for the year ended September 30, 2016 is as follows:

	Number of Options	Weighted Average Exercise Price
Balance, September 30, 2016	4,028,008	\$0.35
Options granted	3,588,333	0.30
Options cancelled	(3,977,008)	0.35
Options expired	(51,000)	0.25
Balance, September 30, 2016	3,588,333	\$0.30

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6. SHARE CAPITAL (Continued)

c) Stock options (continued)

Company stock options outstanding and exercisable at December 31, 2016 are as follows:

Expiry (Years)	Exercise Price	Outstanding	Exercisable
2019	\$0.30	3,588,333	1,775,835
		3,588,333	1,775,835

Company stock options outstanding and exercisable at September 30, 2016 are as follows:

Expiry (Years)	Exercise Price	Outstanding	Exercisable
2019	\$0.30	3,588,333	1,594,584
		3,588,333	1,594,584

The weighted average remaining contractual life of options outstanding at December 31, 2016 is 2.68 (September 30, 2016 – 2.94) years.

The Company applies the fair value method using the Black-Scholes option pricing model to account for options granted to employees, directors and non-employees. The Black-Scholes option pricing model requires management to make certain estimates. These estimates include volatility. The Black-Scholes option pricing model was calculated based on the following weighted average assumptions:

	2016	2015
Expected life (years)	3	6.08
Interest rate	0.55%	1.27%
Volatility	71%	67%
Dividend yield	0%	0%
Fair value	\$0.13	\$0.26

During the period ended December 31, 2016, the Company recorded \$23,925 (2015 - \$577,845) in recognition of share-based compensation.

Due to the lack of historical pricing information for the Company, the expected volatility is based on an average of historical prices of a comparable group of companies within the same industry. The risk-free rate of return is the yield on a zero-coupon Canadian treasury bill of a term consistent with the assumed option life. The expected average option term is the average expected period to exercise, based on the historical activity patterns for each individually vesting tranche.

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6. SHARE CAPITAL (Continued)

c) Stock options (continued)

Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of nil (2016 - 22.40%) in calculating the fair value of share-based compensation.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

d) Warrants

During the year ended September 30, 2012, the Company issued 75,000 warrants with an exercise price of \$0.40 expiring March 31, 2020. On December 11, 2016, the Company amended the exercise price of these warrants to \$0.1143 and the warrants were exercised for cash of \$8,573.

On March 4, 2016, the Company issued 40,816 warrants, with an exercise price of \$0.98 and expiring on March 4, 2018, in connection with the loan from Code Consulting Limited (note 5). The Company recorded \$5,724 to warrant reserve related to the issuance of these warrants. Pursuant to the Amalgamation, these warrants were re-priced and subdivided per the exchange ratio of 1.56 (see above) to \$0.63 and 63,673 warrants, respectively.

On April 18, 2016, the Company issued 1,085,123 warrants exercisable for common shares of the Company at \$0.01 per common share and expire on May 13, 2016. The Company applied the fair value method using the Black-Scholes option pricing model to these warrants based on the following weighted average assumptions:

Expected life (years)	0.07
Interest rate	0.5%
Volatility	4.8%
Dividend yield	0%

On May 2, 2016, the Company issued 108,899 warrants, with an exercise price of \$0.39 expiring on May 2, 2018 warrants in connection with the loan from a related party (note 5). The Company recorded \$8,919 to warrant reserve related to the issuance of these warrants. Pursuant to the Amalgamation, these warrants were re-priced and subdivided per the exchange ratio of 1.56 (see above) to \$0.25 and 169,882 warrants, respectively.

Following the Amalgamation, the Company had 4,057,000 warrants outstanding related to the Private Placement (note 1). 2,000,000 of these warrants will expire on May 26, 2018, 2,057,000 will expire on July 27, 2018. In addition, prior to the Amalgamation, Musgrove had 740,740 warrants with an exercise price of \$0.36, and expiring on August 18, 2017. On completion of the Amalgamation these warrants were converted to warrants of the Company and consolidated to 370,370 warrants with an exercise price of \$0.72.

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6. SHARE CAPITAL (Continued)

d) Warrants (continued)

The table below summarizes the information on the outstanding warrants of the Company as at December 31, 2016:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
		\$	
Balance, beginning of period	4,660,925	0.51	1.66
Warrants granted	-	-	-
Warrants exercised	-	-	-
Warrants expired	-	-	-
Balance, end of period	4,660,925	0.51	1.41

The table below summarizes the information on the outstanding warrants of the Company as at September 30, 2016:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
		\$	
Balance, beginning of year	75,000	0.40	3.50
Warrants granted	1,318,678	0.07	1.54
Warrants exercised	(1,151,962)	0.02	-
Warrants expired	(8,161)	0.01	-
Warrants acquired from Private Placement	4,057,000	0.50	1.74
Warrants acquired from Musgrove	370,370	0.72	0.88
Balance, end of year	4,660,925	0.51	1.66

7. RELATED PARTY TRANSACTIONS

The compensation costs for key management personnel are as follows:

Three months ended December 31	2016	2015
Wages and benefits	\$208,462	\$187,372
Share-based compensation	137,499	10,364
	\$345,961	\$197,736

Incurred wages and benefits of \$208,462 (2016 - \$187,372) are included in the following:

- Sales and marketing \$64,712 (2016 - \$31,250);
- General and administrative \$121,250 (2016 - \$99,872); and
- Research and development \$22,500 (2016 - \$56,250)

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8. RESEARCH AND DEVELOPMENT

Due to the Company being a publicly traded company in the period, it is no longer eligible for the same type and amount of research and development tax credits as prior to the Amalgamation. The Company incurred the following research and development expenditures net of the investment tax credits for the following periods:

Three months ended December 31	2016		2015	
Research and development	\$	114,356	\$	133,521
Investment tax credit ("ITC")		-		(120,086)
	\$	114,356	\$	13,435

As of December 31, 2016, the Company has an accrued ITC receivable of nil (September 30, 2016 - \$298,305) The Company received the ITC receivable of \$298,305 in the period ended December 31, 2016.

9. FINANCIAL INSTRUMENTS

The carrying values of cash, accounts receivable, loan payable, finance lease obligations, and accounts payable and accrued liabilities approximate their fair values due to their short-term nature.

Financial assets and liabilities measured at fair value on a recurring basis are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. Certain non-financial assets and liabilities may also be measured at fair value on a non-recurring basis.

Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and consider the implications of market conditions in relation to the Company's activities.

There are no changes in the Company's objective, policies and processes for managing the risks and the methods used to measure the risks during the period ended December 31, 2016.

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash is held at large Canadian financial institutions in interest-bearing accounts. The Company's amounts receivable consists of amounts from large customers. Accounts receivable from four customers comprise 79% (September 30, 2016 - 79%) of the total accounts receivable balance, and therefore the Company is subject to risk should one of these major customers not pay their balance.

The Company does not anticipate any default as it transacts with creditworthy customers, and management does not expect any losses from non-performance by these customers. As such, a provision for doubtful accounts has not been recorded at December 31, 2016.

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9. FINANCIAL INSTRUMENTS (Continued)

a) Credit risk (continued)

and September 30, 2016. The following table summarizes the four largest receivable balances from the Company's customers as at December 31, 2016 and September 30, 2016:

December 31, 2016	0 to 60 days	61 to 90 days	Greater than 90 days	Total
Customer 1	\$83,869	\$ -	\$ -	\$83,869
Customer 2	20,033	-	-	20,033
Customer 3	10,500	-	-	10,500
Customer 4	8,390	-	-	8,390
	\$122,792	\$ -	\$ -	\$122,792

September 30, 2016	0 to 60 days	61 to 90 days	Greater than 90 days	Total
Customer 1	\$41,090	\$ -	\$ -	\$41,090
Customer 2	36,125	-	-	36,125
Customer 3	9,815	9,826	-	19,641
Customer 4	8,244	8,254	-	16,498
	\$95,274	\$18,080	\$ -	\$113,354

b) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The accounts payable and accrued liabilities are typically due in 30 days. The Company uses cash to settle its financial obligations as they fall due. The ability to do this relies on the Company collecting its accounts receivable in a timely manner and by maintaining sufficient cash on hand through working capital management.

The following table summarizes information about the Company's financial obligations as at December 31, 2016 and September 30, 2016:

	December 31, 2016	September 30, 2016
Accounts payable and accrued liabilities	\$ 176,224	\$ 322,958
Loan payable	62,689	108,215
	\$ 238,913	\$ 431,173

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9. FINANCIAL INSTRUMENTS (Continued)

c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's operations, income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the returns. The Company is exposed to market risk as follows:

(i) 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 is not exposed to significant interest rate risk due to the short term to maturity of its financial instruments. The Company had no interest rate swap or financial contracts in place as at December 31, 2016 and September 30, 2016.

(ii) Foreign currency risk

The Company is exposed to foreign currency risk to the extent expenditures incurred or funds received and balances maintained by the Company are denominated in currencies other than the Canadian dollar (primarily United States dollars ("USD")). As at December 31, 2016, the Company has monetary assets of \$212,931 (September 30, 2016 - \$95,839) and monetary liabilities of \$10,667 (September 30, 2016 - \$ 4,802) denominated in USD. For the period ended December 31, 2016, the Company's sensitivity analysis suggests that a change in the absolute rate of exchange in USD by 4% will increase or decrease net loss by approximately \$8,000 (September 30, 2016 - \$23,000). There will be no impact on other comprehensive loss. The Company has not entered into any foreign currency contracts to mitigate this risk.

10. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. The Company's assets were collateral for the outstanding SR&ED loan, the loans with Musgrove, and the Credit Agreement - which were repaid – and currently for the loan with the related party (note 5). As at December 31, 2016, the Company considers capital to consist of all components of equity and the loan payable. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue common shares, or dispose of assets or adjust the amount of cash on hand.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

At this stage of the Company's development, in order to maximize ongoing operational development efforts, the Company does not pay dividends.

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11. COMMITMENTS

The Company leases its premises and certain equipment under long-term leases. The leases expire between 2017 and 2021. The minimum annual lease commitments during the next five years are:

2017	\$182,460
2018	238,837
2019	244,062
2020	244,062
<u>2021</u>	<u>252,252</u>
	<u>\$1,161,673</u>

Rent expense for the current period amounted to \$47,138 (2015 - \$63,563).

During the year ended September 30, 2016, the Company received a lease incentive allowance of \$84,225 related to leasehold improvements as an inducement to a 5-year lease term for the Vancouver office. This amount is amortized over the term of the lease.

12. SEGMENTED INFORMATION

The Company historically had three operating segments, as described below, which were the Company's strategic business units and one geographic segment. The Company discontinued the Loyalty and Source Code segments in the latter half of fiscal 2016. The following summary describes the operations of the Company's reportable segments:

- (i) The Loyalty segment includes recurring, monthly fee-based loyalty programs and custom solutions developed for clients to manage customer loyalty through various customer engagement programs, surveys and point redemption features.
- (ii) The Referrals segment is comprised of both Custom and Spark™ referrals. The Custom segment includes custom solutions developed for clients to engage their customers to generate sales leads through different program incentives. The Spark™ referral segment includes the productized and configurable solution for clients to engage their customers to generate sales leads through incentivized referrals.
- (iii) The Source Code segment includes licensing a copy of the Company's proprietary Lifecycle Marketing Platform to entities that have the technical ability to further develop the source code to meet their business needs. Source code revenue recognized during the period ended December 31, 2015 pertained to contracts entered into in fiscal 2013. The Company did not enter into any new similar contracts during the current period.

Information regarding the operations of each segment is included below. Segment income (loss) before income tax and operating expenses are used to measure performance, as management believes that such information is most relevant in managing the operations of each segment and evaluating the results of each segment relative to each other and other entities within these industries.

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12. SEGMENTED INFORMATION (continued)

A breakdown of revenues and cost of sales for each reportable segment for the periods ended is as follows:

	Three months ended December 31, 2016			
	Loyalty	Referral	Source Code	Total
Revenue	\$ -	\$359,919	\$ -	\$359,919
Cost of goods sold	-	147,143	-	147,143
	-	212,776	-	212,776
Operating expenses	-	770,675	-	770,675
Loss from operations	\$ -	\$(557,899)	\$ -	\$(557,899)

	Three months ended December 31, 2015			
	Loyalty	Referral	Source Code	Total
Revenue	\$24,999	\$398,220	\$13,090	\$436,309
Cost of goods sold	17,418	144,911	11,038	173,367
	7,581	253,310	2,052	262,942
Operating expenses	57,826	924,154	22,599	1,004,579
Loss from operations	\$(50,245)	\$(670,844)	\$(20,547)	\$(741,636)

13. SUBSEQUENT EVENT

On February 1, 2017, the Company granted 200,000 options to a consultant with an exercise price of \$0.185 and expire on February 1, 2020.