

FTC CARDS INC

Independent Auditors' Report

Financial statements

As of December 31, 2016 and 2015

FTC CARDS INC

Financial statements  
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## INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

To  
The Director and Shareholders of  
FTC CARDS INC.  
São Paulo - SP

We have audited the consolidated financial statements of FTC Cards Inc. ("Company"), which comprise de statement of financial position as at December 31, 2016 and 2015, and respective statement of income, comprehensive income, changes in shareholder's equity and cash flows for the years then ended, and a summary of the significant accounting policies and other notes.

### Management's responsibility for the consolidated financial statements

The Company's management is responsible for the fair presentation and preparation of the consolidated financial statements in accordance with International Financial Reporting Standards - (IFRS) and for the internal controls considered necessary to allow the preparation of the consolidated financial statements free of 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 audit, conducted in accordance with international auditing standards. These auditing standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit includes performing procedures to obtain evidence supporting the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of consolidated financial statement, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the 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 Company's internal controls. 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, referred to above, present fairly, in all material respects, the financial position of FTC Cards Inc. as of December 31, 2016 and 2015, and the result of its operations for the years then ended, in accordance with International Financial Reporting Standards.



### Going concern

FTC Cards Processamento e Serviços de Fidelização Ltda. ("FTC Brazil"), controlled company of FTC Cards Inc., is the only company in the group with operating activities. Currently, the main project of FTC Brazil is with BR Distribuidora, representing approximately 95% of the Company's billings. Besides, as mentioned in Note°1.4, BR Distribuidora did not renew the service contract with FTC Brazil. We draw attention to the risks related to the Company's continuity as a going concern. Our opinion is not qualified in respect of this matter.

São Paulo, April 26 2017.



BDO RCS Auditores Independentes SS  
CRC 2 SP 013846/O-1

A handwritten signature in black ink, appearing to read 'Esmir de Oliveira'.

Esmir de Oliveira  
Contador CRC 1 SP 109628/O-0

# FTC CARDS INC.

## Statements of financial position As at December 31, 2016 and 2015 (In thousands of Canadian Dollars)

Assets				Liabilities and shareholders' equity			
	Note	2016	2015		Note	2016	2015
Current				Current liabilities			
Cash and cash equivalents	4	4,833	2,655	Trade accounts payable	10	1,289	1,003
Trade accounts receivable	6	1,831	2,124	Labor and social liabilities	11	330	620
Other current assets		462	268	Tax payable	12	277	290
Total current assets		7,126	5,047	Due to related parties	19	870	796
Non-current assets				Total current liabilities		2,766	2,709
Long term investments	5	2,485	1,856	Shareholders' equity			
Deposit of rent		40	34	Share capital	14	8,305	8,305
Deferred income taxes	17	76	60	Retained earnings		1,369	3,857
		2,601	1,950	Capital transactions		(310)	(310)
Investment	7	182	579	Other comprehensive income		(2,032)	(3,309)
Property and equipment	8	119	322	Total Shareholders' equity		7,332	8,543
Intangible	9	70	3,354				
Total non-current assets		371	4,255				
Total assets		10,098	11,252	Total liabilities and shareholders' equity		10,098	11,252

The accompanying notes are an integral part of these financial statements

# FTC CARDS INC.

## Statement of income

For the years ended December 31, 2016 and 2015

(In thousands of Canadian Dollars)

	Note	2016	2015
Net sales	14	14,718	13,867
Cost of sales	15	(10,550)	(9,686)
Gross income		4,168	4,181
Other revenues (expenses)			
Sales and marketing	15	(1,630)	(1,680)
Administration	15	(2,886)	(2,784)
Others expenses	15	(2,301)	-
Financial expenses, net		408	305
		(6,410)	(4,159)
Net income before income tax and social contribution		(2,242)	22
Income tax and social contribution - current	16	(262)	(181)
Income tax and social contribution - deferred		16	89
Net income		(2,488)	(70)

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

# FTC CARDS INC.

## Statement of comprehensive income For the years ended December 31, 2016 and 2015 (In thousands of Canadian Dollars)

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	<u>2016</u>	<u>2015</u>
Net income/(loss)	(2,488)	(70)
Other comprehensive income/(loss)		
Exchange rate gains/(losses) of foreign investments	<u>1,277</u>	<u>(2,393)</u>
Total comprehensive income/(loss) for the period	<u><u>(1,211)</u></u>	<u><u>(2,463)</u></u>

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

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# FTC CARDS INC.

## Statement of changes in shareholder's equity

For the years ended December 31, 2016 and 2015

(In thousands of Canadian Dollars)

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	Share capital	Shareholders transactions	Retained earnings	Accumulated other comprehensive income	Shareholders' equity
Balance, December 2014	8,305	(310)	3,928	(916)	11,007
Net income for the year	-	-	(70)	-	(70)
Exchange rate gains (losses) of foreign investments	-	-	-	(2,393)	(2,393)
Balance, December 2015	<u>8,305</u>	<u>(310)</u>	<u>3,857</u>	<u>(3,309)</u>	<u>8,543</u>
Net income for the year	-	-	(2,488)	-	(2,488)
Exchange rate gains (losses) of foreign investments	-	-	-	1,277	1,277
Balance, December 2016	<u><u>8,305</u></u>	<u><u>(310)</u></u>	<u><u>1,369</u></u>	<u><u>(2,032)</u></u>	<u><u>7,332</u></u>

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

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# FTC CARDS INC

## Statement of cash flows

For the years ended December 31, 2016 and 2015

(In thousands of Canadian Dollars)

	2016	2015
Cash flow from operating activities:		
Net income for the period	(2,488)	(70)
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and depreciation	2,247	1,709
Loss/(gain) on investment	397	215
Impairment loss	2,487	-
Exchange rate gains/(losses)	(654)	1,055
Deferred income tax and social contribution	(16)	255
Accounts receivable	292	988
Other current assets	(200)	24
Trade accounts payable	286	(156)
Accrued liabilities	(290)	428
Tax payable	(13)	(277)
Due to related parties	74	(199)
Cash flows provided by/(used in) operating activities	<u>2,123</u>	<u>3,972</u>
Cash flows from investing activities:		
Long term investment	(629)	202
Purchase of property and equipment net of disposals	(8)	(101)
Purchase of software development	(585)	(1,101)
Cash flows provided by/(used in) investing activities	<u>(1,222)</u>	<u>(1,000)</u>
Effect of changes in cumulative translation adjustment	1,277	(2,393)
Increase/(decrease) in cash and cash equivalents	<u><u>2,178</u></u>	<u><u>579</u></u>
Cash and cash equivalents, beginning of period	2,655	2,076
Cash and cash equivalents, end of period	4,833	2,655
	<u><u>2,178</u></u>	<u><u>579</u></u>

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

1. Operations

1.1. Corporate structure

FTC Cards Inc. ("FTC Canada" and the "Company") was incorporated under the name "0934977 B.C. Ltd." under the laws of the Province of British Columbia by articles of incorporation dated March 9, 2012. On May 16, 2012, the name was changed to "FTC Cards Inc."

The Company was incorporated by CTF Technologies Inc. ("CTF") for the purposes of completing a reorganization whereby, pursuant to the terms of an Arrangement agreement between CTF, and FleetCor Technologies Inc. ("FleetCor"), FleetCor would acquire all of the shares of CTF from its existing shareholders and FTC Canada would be "spun-out" from CTF, i.e. all of the shares of FTC Canada owned by CTF would be dividend to its shareholders so that the former CTF shareholders became the new shareholders of FTC Canada. Consequently, on July 3, 2012, the completion date, FTC Canada ceased to be a wholly-owned subsidiary of CTF and became a reporting issuer, although its common shares are currently not listed on any exchange for trading in Canada or elsewhere.

Also, pursuant to the terms of the Arrangement agreement, when the FTC Canada shares were issued to CTF, in return the Company acquired approximately 90.5% of the equity of FTC Cards Processamento e Serviços de Fidelização Ltda. ("FTC Brazil") from CTF and assumed the management of the business of FTC Brazil. FTC Brazil is a limited liability company limited under the laws of Brazil and was incorporated on April 7, 2011. The balance of the equity in FTC Brazil was initially held by Technis Planejamento e Gestão em Negócios Ltda. ("Technis"), a limited liability company limited under the laws of Brazil and a related party.

On October 17, 2014, at the request of the minority shareholder of FTC Brazil the 9.5 interest held by Technis was repurchased and canceled, such that FTC Brazil became a wholly-owned subsidiary of FTC Canada with effect from October, 2014

These consolidated financial statements include the results of FTC Canada for the years 2016 and 2015, 100% (one hundred percenter) of FTC Canada thereafter to December 31, 2016.

The registered and records office of FTC Canada is located at 1500 Royal Centre, 1055 West Georgia Street, Vancouver, British Columbia, V6E 4N7. The head office of FTC Canada is located at 2000-1066 West Hastings Street, Vancouver, British Columbia, V6E 3X2. The registered and head office of FTC Brazil is located at Alameda Tocantins, No.125, 33rd floor, room 3302, Building 01 of Condominio West Side - Alphaville, in the city of Barueri, State of Sao Paulo, Brazil.

As commented in note n°1.4 "Subsequent events", the Company's didn't renew contract with "Petrobras Distribuidora" or "BR", which represented almost all of the Company's revenue. Continued operations of the Company are dependent on the Company's ability to receive financial support, necessary financings, or generate continued profitable operations in the future.

These consolidated financial statements are prepared under the assumption the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company may incur losses and may not have the financial resources to sustain operations in the long-term. There is no assurance that financing will be available or be available on favorable terms to fund continued operations. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

#### 1.2. Business of the company

The Company's primary operations are in Brazil and involve service implementation, maintenance and operation of systems for the Promotion Award, Fidelity and Acquiring, leasing, subleasing and the provision of electronic terminals or other equipment to enable the capture, transmission and processing of data relating to transactions arising from the use of credit cards and/or debit cards, Direct Consumer credit - CDC, purchase, service and other means of payment, provision of service installation and maintenance of electronic terminals and of equipment for capturing, transmitting and processing data related to transactions arising from the use of payment cards. Previously, targeted at the franchise gas stations of Petrobras Distribuidora S.A. ("BR Distribuidora").

#### 1.3. Acquisition of FTC Cards Processamentos e Serviços de Fidelização Ltda.

The Company acquired its 99.99 per cent interest in its operating subsidiary in exchange for the issue of 58,351,052 common shares of its capital as part of the Arrangement Agreement as described in note 1 on July 3, 2012 from its former parent company, CTF Technologies Inc., a related party. As a consequence, the value of the assets acquired and the liabilities assumed were valued at their respective recorded amounts, which approximate their fair values, and the value of the shares issued to CTF amounted to the net of these assumed assets and liabilities as at July 3, 2012 converted at the prevailing exchange rate for the Brazilian real of \$0.5071.

1.4. Renewal agreement BR

The agreement "Instrument for Implementation of BR System of Promotion, Rewards, Loyalty, and Acquisition" signed with BR Distribuidora in January 2011 has a term of 60 months and expires January 2016, if agreed the parties have the right to continue the existing operation considering that the same commercial conditions are maintained.

- On September 2015, BR authorized a one-year extension to the original contract to continue operations December, 2016;
- In October 2016, BR informed FTC Cards about intention of not renewing and closing the contract on January 3, 2017.

The communication justifies the decision for strategic issues of the BR, for having opted for a standard market platform.

The FTC Cards is discussing some noncompliance with the contractual clauses with BR and Cielo.

2. Presentation of financial statements

2.1. Presentation of financial statements

- a. Statement of compliance (related to the accounting practices adopted in IFRS)

These consolidated financial statements have been prepared and are presented in accordance with the "International Financial Reporting Standard - IFRS" and include the financial statements of the Company.

The financial statements were approved at the Board meeting performed in April 26, 2017.

- b. Measurement basis

The preparation of the consolidated financial statements was based on historic cost, except the financial instruments, which were measured at fair value.

c. Functional currency and presentation currency

These consolidated financial statements are presented in Canadian Dollars (CDN.\$), which is the presentation currency of the parent. Each entity of FTC Cards Inc. determines its own functional currency, and those whose functional currencies are different from the Canadian Dollar, primarily FTC Brazil, use the functional currency of the Brazilian Reals (R\$), and the financial statements are translated at the actual exchange rates as follows.

d. Transactions and balances

Transactions in foreign currencies are recorded in the functional currency and then they are converted at the end of the period to the Canadian dollar using the average rate for the period. The conversion of assets and liabilities are translated to Canadian dollars using the rate at the close of each period.

All differences are recorded in the consolidated statement of comprehensive income.

e. Critical accounting 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 financial statements and the reported expenses during the year.

There were no significant assumptions about the future and other sources of estimate on uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made.

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Critical judgments

The preparation of the consolidated financial statements requires us to make judgments regarding the going concern of the Company as discussed in Note 1.

#### Key sources of estimation uncertainty

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant estimates made by management affecting the consolidated financial statements include:

#### Deferred tax assets & liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected.

The measurement of the deferred income tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities.

#### Fixed assets and Intangible useful life

Fixed and intangible assets are depreciated or amortized over their useful life. The useful life is based on the Company's management estimates regarding the period in which the assets will generate income, which are periodically reviewed for continuous adequacy. Changes in the estimates may result in significant variances in the accounting value and the values are adjusted in the period according to the new estimates.

#### Provision for contingencies

According to the IFRS, the Company recognizes a provision when there is a present obligation arising from a past event, whenever a transfer of economic benefits is probable and the transfer cost value can be reliably estimated. In the cases when the criteria are not yet complied with, a contingent liability can be disclosed in the explanatory notes to the financial statements. The obligations arising from contingent liabilities that were disclosed or that are not actually recognized or disclosed in the financial statements, could have a material effect on the balance sheet of the Company. The application of these accounting principles to litigation requires the Company's administration to make calculations. The Company revises the outstanding judicial processes, monitoring their evolution at every date the reports are prepared, in order to appraise the need for provisions and disclosure in the financial statements. Factors considered when making decisions on provisions include: litigation nature, claim or additional tax assessment, the judicial process and the potential level of indemnity in the jurisdiction where the litigation, claim or additional tax assessment was made, the development of the process (including its progress after the financial statement date, but before they are issued), opinion from legal advisors, past experience in similar situations, and any decision of the Company about the way it will respond to the litigation, claim or additional tax assessment.

#### Loss on Impairment of non-financial assets

A loss due to impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of fair value less costs to sell and value in use. The estimated fair value less cost of sales is based on information available from the sale of similar assets or market prices less additional costs to dispose of the asset. The calculation of value in use is based on a discounted cash flow model. Cash flows are derived from the budget for the next five years and do not include restructuring activities to which the Company is not yet committed and where significant future investments will improve the asset base of a cash-generating unit. The recoverable amount is sensitive to the discount rate used in the method of discounted cash flow, the cash receipts and expected future growth rate used for extrapolation and the principal assumptions used to determine the recoverable amount of the various cash-generating units, including sensitivity analysis.

## 2.2. Capital management

The Company seeks capital alternatives in order to meet its operational needs, aiming a capital structure that takes into consideration appropriate parameters for the financial costs, maturity terms of the funding and their guarantees.

The Company monitors its financial leverage level, which corresponds to net debt, including short and long-term loans, divided by the total capital. Information related to risks inherent to the Company's operation and the use of financial instruments to prevent those risks, as well as the policies and risks related to the financial instruments.

## 3. Significant accounting policies

The accounting policies were applied consistently to all periods presented in these financial statements, except where indicated otherwise.

### Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and its controlled subsidiary. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements include the accounts of the Company and its direct 99.9 per cent-owned subsidiary, FTC Cards Processamento e Serviços de Fidelização Ltda. All significant intercompany transactions and balances have been eliminated.

### Statement of operations and comprehensive loss, and revenue recognition

The operating result (revenues, costs and expenses) is calculated in accordance with the accrual basis of accounting. Revenue from product sales is recognized when its value can be measured reliably, all the risks and benefits are transferred to the buyer, and all terms and conditions of the sale have been satisfied.

### Financial instruments

The Company classifies its financial assets into one of the following categories as follows:

- Fair value through profit or loss - This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss;



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- 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 amortized cost using the effective interest method less any provision for impairment;
- 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 less any provision for impairment;
- 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 (loss). 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 through profit or loss. All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

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

- Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss;
- Other financial liabilities: This category consists of liabilities carried at amortized cost using the effective interest method.

The Company also provides disclosure about inputs used in making fair value measurements, including their classification within a hierarchy that prioritized their significance. Three levels of the fair value hierarchy are:

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

#### Evaluation of the financial assets recoverability

Financial assets are evaluated at every balance sheet date, identifying if they are fully recoverable or if there is impairment losses on these financial instruments.

##### a. Cash and cash equivalents

These include balances of cash, bank deposits and financial investments redeemable within up to 90 days from the investment date, recorded at cost, plus the income earned to the balance sheet date which does not exceed the market value.

The financial investments are recognized and measured at fair value and the financial income earned in these transactions is directly stated in the statement of income.

##### b. Trade accounts receivable

Trade accounts receivable are initially stated at present value, less allowance for doubtful accounts. The allowance for doubtful accounts is recognized when conclusive evidence shows that the Company will not be able to recover all amounts due according to the original terms of accounts receivable. In case of losses, the allowance is the difference between their book and recoverable amounts.

##### c. Suppliers

These amounts substantially correspond to the amounts payable for services from the preparation and dissemination of events and advertising.

##### d. Property and equipment

Property and Equipment is recorded at cost. Depreciation is computed using the straight-line method and recognized in income in accordance with the rates disclosed in Note 08.

In accordance with the change of accounting practice for full adherence to international practice, the initial adoption of Accounting Pronouncements Committee (IAS 16) and (IAS 40), permits an option to make adjustments to the opening balances similar to that permitted by international accounting standards, using the concept of cost allocated (deemed cost) as provided in the Technical Pronouncements (IFRS 1).

The Company opted not to evaluate their fixed assets at fair value as assigned cost since: (i) the cost method, less provision for losses, is the best method to assess the fixed assets of the Company, (ii) the Company has effective controls over fixed assets that enable the identification of losses and changes in the estimated useful life of assets, and (iii) the depreciation rates used adequately represent the lifetime of property which shows that the asset value is close to its fair value. Consequently the application of these pronouncements did not have a significant impact on the Company.

e. Intangible assets

Licenses for the use of computer software are capitalized and amortized according to their estimated useful lives at the rates described in Note 9.

Expenses associated with the development or maintenance of software are recognized as incurred. Costs by third parties to develop identifiable and discrete software for the Company, and which will probably generate economic benefits higher than costs for more than a year, are recognized as intangible assets.

Software development expenses recognized as assets are amortized using the straight-line method over their useful lives, at the rates described in Note 9.

Analysis of the recoverability of assets

The Administration reviews at least annually the net book value of assets (including, among other assets, goodwill and intangible) in order to evaluate events or changes in economic conditions, technological or operational, which may indicate deterioration or loss of its recoverable amount. When such evidence is identified, or annually for goodwill as required, the recoverable amount is estimated as the higher of fair value less costs to sell and value in use. To determine the value in use, the management considers the future cash flows generated through the use of the asset or its cash-generating unit, as appropriate and discounts the cash flow to present value using a discount rate before tax that reflects the current market conditions for the value of money over time and risks associated with the specific asset. When the net book value exceeds the recoverable amount, provision for impairment is made by adjusting the net value booked to the recoverable amount.

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f. Other assets

These amount are presented at cost or realizable value, including, where applicable, income and changes incurred.

g. Labor and tax liabilities

These amounts represent the values of taxes and contributions owed by the Company. This group also includes the amounts payable to employees arising from wages and benefits. The vacation pay, the proportional and their respective costs incurred through the balance sheet date are appropriate considering the vesting period of individual employees.

h. Other current liabilities

These amount are made by known or estimated amounts plus, if applicable, the corresponding financial charges and monetary variations incurred.

i. Income and Social Contribution Taxes

When applicable, Income and Social Contribution Taxes are calculated and accounted for based on income adjusted according to the legislation in effect. Effects from Income and Social Contribution Taxes on temporary differences between the carrying value and the tax basis of assets and liabilities were recorded as assets or liabilities, depending on their nature.

Social contribution provision: This was calculated on the adjusted net income before provision for income taxes, being applied at the rate of 9%.

Income tax provision: This was established based on taxable income, using the rate of 15% plus an additional 10% on annual taxable income exceeding R\$ 240 thousand.

j. Deferred taxes

Deferred income tax (deferred tax) is calculated on the temporary differences between the tax bases of assets and liabilities and their carrying amounts. Deferred tax is determined using tax rates enacted and expected to be applied when the deferred tax assets are realized or when the income tax liability is settled.

Deferred tax assets are recognized only in proportion to the expectation or likelihood that future taxable income will be available against which the temporary differences, tax losses and tax credits can be used.

Deferred tax assets and liabilities are offset if there is a legal right to offset current tax assets and liabilities, and they are related to income taxes levied by the same taxation authority on the same taxable entity.

k. Assets and liabilities and legal obligations

Accounting practices for recording and disclosure of contingent assets and liabilities and legal obligations are as follows: (i) Contingent assets are recognized only when there are guarantees or favorable judicial decisions, final decisions. Contingent assets with probable successes are only disclosed in the notes (ii) Contingent liabilities are accrued when losses are assessed as probable and the amounts involved can be measured with sufficient reliability. Contingent liabilities assessed as possible losses are only disclosed in the notes and contingent liabilities assessed as remote losses are not provisioned, or, disclosed, and (iii) Legal obligations are recorded as required, independent assessment of the likelihood of successful process in which based on the Company challenged the constitutionality of taxes.

l. Earnings per share

Basic earnings per share are calculated by dividing the net income attributed to the Company's controlling and non-controlling shareholders by the weighted average number of outstanding common shares for the year. Diluted earnings per share is determined through the abovementioned outstanding share average, adjusted by instruments potentially convertible in shares with dilution effect for the presented years.

m. New standards not yet adopted

a) New standards, interpretations and changes in effect since January 01, 2016

There are no new standards or interpretations with effective application for the first time for periods started on or after January 01, 2016 with significant impact on the Company's financial statements. Additionally, none of the amendments to standards and interpretations effective since January 1, 2016 resulted in significant impact on the Company's financial statements.

b) New standards, interpretations and changes in effect since December 31, 2016

There are three new standards which will be effective in 2018 and 2019 that can affect several types of entities and shall result in very significant amendments on their financial statements. These standards are IFRS 9 Financial instruments, IFRS 15 Revenue from contracts with customers and IFRS 16 Leases. Therefore, they were not early adopted in these financial statements and, accordingly, may cause significant impacts on the Company's financial statements in the future.

IFRS 9 Financial Instruments

IFRS 9 will be in effect for years ended as from January 01, 2018. This new standard has three main categories for classification and measurement of financial assets: (i) Amortized cost; (ii) Fair Value recorded through Other Comprehensive Income (Loss); and (iii) Fair Value recorded through Income (Loss) for the year (residual category). One of the main changes is related to financial assets classified in the category of "Fair Value through Other Comprehensive Income (Loss)", being also applicable to certain financial liabilities which meet certain classification criteria. Therefore, the financial instruments in the category "Fair Value through Other Comprehensive Income (Loss)" are recorded in the balance sheet through its fair value (to reflect cash flows expected from sales), being the part related to amortized cost recorded in income (loss) for the year (to reflect the receipt of contractual cash flows), and the difference recorded in Other Comprehensive Income (Loss), being later recycled to income (loss) for the year when the financial instrument is sold/written off. The other main change is related to impairment of financial assets, such as allowances for doubtful accounts, in which the model of "expected loss" replaces the model of "incurred loss". The new model of "expected loss" shall cause material impacts for all entities holding financial instruments in the categories of "Amortized Cost" and "Fair Value through Other Comprehensive Income (Loss)".

IFRS 15 Revenues from contracts with customers:

IFRS 15 will be effective for the years ended as from January 01, 2018. This new standard has significantly more guidelines and requirements compared with the existing standards and interpretations. In the new standard, revenues shall be recognized taking into consideration the following five criteria that need to be met: (i) identify the contract; (ii) identify performance obligations; (iii) determine the transaction price; (iv) allocate the transaction price for each performance obligation; and (v) recognize revenue only when each performance obligation is satisfied. The adoption of this new standard may result in the fact that in many entities the timing and nature of revenue recognition shall be modified.

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IFRS 16 Leases

IFRS 16 will be effective for the years ended as from January 01, 2019. This new standard replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The accounting requirements for lessors remain substantially the same in comparison with the standards currently in effect. However, there are significant changes for lessees as IFRS 16 determines a single model for them, by eliminating the distinction between financial and operating lease in a way to result in a balance sheet reflecting a "right of use" of assets and a related financial liability. Therefore, for many entities, the effect of recording all lease transactions in the balance sheet may be very significant.

The Company and its subsidiary has analyzed these standards and concluded that they will not cause significant impact in the financial statements.

4. Cash and cash equivalents

	2016	2015
Cash and balances in bank current accounts	29	20
Financial investments (*)	4,804	2,538
	<u>4,833</u>	<u>2,558</u>

(\*) Financial investments are considered to be cash equivalents because they can be redeemed at any time, with no impact on interest accrued. Their carrying amount approximates fair value.

5. Long term investments

	2016	2015
Long term investments	2,485	1,856
	<u>2,485</u>	<u>1,856</u>

(\*) Long term investments are not considered to be cash equivalents because they can't be redeemed at any time, only after twelve months started, with no impact on interest accrued. Their carrying amount approximates fair value, please see, (note °21).

This amount is withheld by Banco Bradesco and cannot be redeemed because, according to the Bank, there is a court-ordered freeze on Technis' assets (former partner of FTC Brazil) due to a crime investigation related to one of Technis shareholders (that is shareholder of the former partner of FTC Brazil).

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The management of FTC CARDS understands that the blocking of the financial investments is not due for several reasons, including (i) the fact that the court order has a object Technis' assets, not the assets of FTC Brazil, and (ii) at the time of the court order Technis was no longer partner of FTC Brazil. The management also cleared up that another bank, with which FTC Brazil has transaction, received the same court order and did not freeze the funds of FTC Brazil.

FTC Brazil filed a civil suit (Process No. 1024728-52.2014.8.0405) against the financial institution in order to release these unduly blocked financial assets..

6. Trade accounts receivable

	2016	2015
Domestic trade account receivable	1,831	2,124
	<u>1,831</u>	<u>2,124</u>

On December 31, 2016, there were no trade accounts receivable overdue, and maturity not to exceed 30 days from the base date.

7. Investments

In 2013 FTC Inc. made an investment in "Snipp Interactive Inc." or "Snipp" to launch Snipp's mobile solutions into the Brazilian market. Snipp is an international provider of mobile marketing solutions listed on the TSX Venture Exchange (TSX VENTURE: SPN). The securities issued pursuant to the Private Placement were subject to a four-month hold period that expired on December 20, 2013.

- On November 3, 2014, FTC sold 700.000 Shares at CND 0,30 cost per shares and received CND\$ 210.000;
- On December 31, 2015 the total common shares off Snipp Interactive Inc. was 1.300.000 and the price per share was CND 0,445;
- On December 31, 2016 the total common shares off Snipp Interactive Inc. was 1.300.000 and the price per share was CND 0,14.

Expressed of Canadian Dollars:

12/31/2015		
Amount of shares		1,300
Price per share		0,445
		<u>579</u>
12/31/2016		
Amount of shares		1,300
Price per share		0,14
		<u>182</u>



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8. Property and equipment

	% Rate (p.y)	2015	Additions	Disposal	Depreciation	Exchange	2016
Furniture and utensils	20%	66	-	-	(10)	5	62
Machinery and equipment	20%	184	-	(139)	(90)	45	-
Computer equipment	20%	73	8	-	(22)	(2)	57
		<u>322</u>	<u>8</u>	<u>(139)</u>	<u>(120)</u>	<u>48</u>	<u>119</u>

	% Rate(p.y)	2014	Additions	Disposal	Depreciation	Exchange	2015
Furniture and utensils	20%	41	40	-	(8)	(8)	66
Machinery and equipment	20%	291	31	-	(79)	(59)	184
Computer equipment	20%	75	30	-	(17)	(15)	73
		<u>407</u>	<u>101</u>	<u>0</u>	<u>(104)</u>	<u>(82)</u>	<u>322</u>

9. Intangible assets

	% Rate (p.y)	2015	Additions	Disposal	Amortization	Exchange	2016
Software	20%	57	20	-	(17)	10	70
Software development*	20%	3,297	566	(2,348)	(2,110)	595	0
		<u>3,354</u>	<u>585</u>	<u>(2,348)</u>	<u>(2,127)</u>	<u>606</u>	<u>70</u>

	% Rate (p.y)	2014	Additions	Amortization	Exchange	2015
Software	20%	14	52	(5)	(4)	57
Software development*	20%	4,819	1,049	(1,600)	(972)	3,297
		<u>4,833</u>	<u>1,102</u>	<u>(1,605)</u>	<u>(976)</u>	<u>3,354</u>

(\*) Systems for the Promotion Award, Fidelity and acquiring. The main intangible assets were developed for the BR System of Promotion, Rewards, Loyalty, and Acquisition. As commented in note 1.4, the BR Distribuidora service contract wasn't renewed so FTC Cards recognized a loss due to impairment in the financial statements.

10. Trade accounts payable

	2016	2015
Domestic	<u>1,289</u>	<u>1,003</u>
	<u>1,289</u>	<u>1,003</u>

11. Labor and social liabilities

	2016	2015
Provision (*)	330	526
Others	-	94
	<u>330</u>	<u>620</u>

(\*) Basically refers to accrued vacation and their labor costs.

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12. Tax liabilities

	2016	2015
Social charges (INSS)	71	44
Social charges (FGTS)	4	8
VAT Municipal tax (ISS)	24	25
Social integration tax (PIS)	20	30
Social integration tax (COFINS)	94	137
Payroll tax (IRRF)	49	46
Others	14	-
	<u>277</u>	<u>290</u>

13. Shareholders' equity

Authorized

Unlimited number of common shares without par value

Issued

The capital was subscribed and paid in the amount of \$1 on March 9, 2012, consisting of 1 common share with no par value. On July 3, 2012 pursuant to the terms of the Arrangement Agreement, (note 1.3) the Company acquired all of the shares of FTC Brazil from its former parent, CTF Technologies Inc., in exchange for 58,351,052 common shares, and these shares were in turn divided by CTF to its shareholders, at which time the Company became a reporting issuer in the Province of British Columbia.

There were no warrants or options issued during the period and there were no warrants or options outstanding at December 31, 2016 and December 31, 2015.

Earnings per share - Basic and diluted earnings

Basic earnings per share is calculated by dividing the earnings attributable to the Company's shareholders by the weighted average number of common shares issued during the year, excluding the common shares purchased by the Company and held as treasury shares.

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Diluted earnings per share are calculated by adjusting the weighted average number of outstanding common shares, assuming the conversion of all possible common shares that would cause the dilution. The Company doesn't have a class of possible common shares that would cause dilution.

Basic and diluted	2016	2015
Net income attributable to the Company's shareholders	(2,488)	(70)
Weighted average number of common shares issued	58,351	58,351
Weighted average number of treasure shares	-	-
Weighted average number of outstanding common shares	<u>58,351</u>	<u>58,351</u>
Basic earnings per share - C\$	<u>(0,0426)</u>	<u>(0,001200)</u>

14. Net sales

	2016	2015
Redering of services	<u>16,602</u>	<u>15,767</u>
Sales deduction		
Tax on services (ISS)	(317)	(222)
Tax on sales (PIS)	(281)	(258)
Tax on sales (COFINS)	(1,297)	(1,186)
Others	11	(235)
	<u>14,718</u>	<u>13,867</u>
Revenues's composition		
Service	15,395	12,785
Rent	1,207	2,982
	<u>16,602</u>	<u>15,767</u>

15. Cost of sales and operating expenses

	2016	2015
Services costs personnel	(759)	(647)
Services costs operating	(7,839)	(7,439)
Amortization and depreciation	(1,952)	(1,600)
Rental	(197)	(42)
Expenses utilities and services	(102)	(191)
Professional services expenses	(1,953)	(1,895)
Amortization and depreciation	-	-
Tax expenses	(45)	(45)
Sales and marketing	-	(111)
Employee expenses	(1,852)	(1,845)
Impairment loss	(2,301)	-
Others	(368)	(335)
	<u>(17,368)</u>	<u>(14,150)</u>
Cost of sales	<u>(10,550)</u>	<u>(9,686)</u>
Sales and marketing	(1,630)	(1,680)
Administration	(2,886)	(2,784)
Others expenses	(2,301)	-
	<u>(17,368)</u>	<u>(14,150)</u>

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## 16. Income taxes - Nominal and effective rate reconciliation

Income taxes are assessed on taxable income, according to prevailing legislation and rates. Deferred income tax assets and liabilities are recognized on temporary differences.

## a. Composition of deferred income tax assets:

Description	2016	2015
	Income and Social Tax Contribution	Income and Social Tax Contribution
Adjustment for competence	223	177
Basis	223	177
Fiscal rate	34%	34%
	<u>76</u>	<u>60</u>

## b. Reconciliation of current income tax:

	2016	2015
	Income and Social Tax Contribution	Income and Social Tax Contribution
Income (loss) before taxes	(2,242)	22
Additions (deductions)		
Non-deductible expenses	171	688
Provision for impairment loss	2,301	
Provisions for receivables and cost adjustments	223	(177)
Others	317	
	<u>770</u>	<u>533</u>
Fiscal rate	34%	34%
	<u>(262)</u>	<u>(181)</u>

## 17. Financial instruments

## Identifying and valuing financial instruments

The Company holds various financial instruments, particularly cash and cash equivalents, including financial investments, trade receivables and trade payables.

Considering the nature of financial instruments, the fair value is basically calculated by applying the discounted cash flow method. The amounts recorded in current assets and current liabilities have immediate liquidity or maturity, mostly with terms less than three months. Considering the term and features of these financial instruments, which are systematically renegotiated, book values approximate their fair values.

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Credit risk

The Company is exposed to credit risk only with respect to uncertainties as to timing and amount of collectability of accounts receivable. As the Company's operations are situated primarily in Brazil, the Company's operations are also subject to the economic risk associated with that country.

Foreign exchange risk

The Company's primary operation is in Brazil. A significant portion of the Company's operational transactions are originally or effectively denominated in Reais, the local currency. Accordingly, the carrying values of the Company's assets and liabilities and the results of its operations and comprehensive income as stated in Canadian dollars will be impacted by exchange rate fluctuations. The Company has not entered into foreign exchange contracts to hedge this risk.

Liquidity risk

Liquidity risk is the risk of the Company not having sufficient liquid funds to fulfill its financial obligations due to a mismatch between expected receipts and payments in terms of maturity and volume.

To manage cash liquidity in domestic and foreign currency, assumptions are made about future disbursements and receipts and monitored daily by the Treasury Department.

Concentrations of credit risk

The Company has adopted several measures to reduce its exposure to credit risk to acceptable levels, as sales actually of FTC Brazil was made in full for a single operation between "Petrobras" and "Cielo".

Financial instruments by category

Financial assets	Category		2016	2015
Cash and equivalents	Loan and receivables	CND\$	28	117
Short term investment	Assets at fair value through (gains/losses) recognized in result	CND\$	7,290	4,394
Investment	Assets at fair value through (gains/losses) recognized in result	CND\$	182	579
Accounts receivable	Loan and receivables	CND\$	1,831	2,124
Trade accounts payable	Financial liabilities measured at amortized cost	CND\$	1,289	1,003

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Fair value hierarchy

	2016	
	Level 1	Level 2
Financial Investments	-	7,290
Investments "SNIPP"	182	-
	<u>182</u>	<u>7,290</u>
	2015	
	Level 1	Level 2
Financial Investments	-	4,394
Investments "SNIPP"	579	-
	<u>579</u>	<u>4,394</u>

18. Related-party transactions

Intercompany transactions basically refer to the services directly related to the Company's operating activities and are conducted in conditions similar to those stipulated in the market, whose realization deadlines of operations are within 30-180 days. This is the same deadline for commercial transactions with non-related parties. These transactions do not have special terms and conditions, fees or guarantees given or received, nor are there risks of doubtful accounts.

The concept of "related parties" was established by the IAS 24. Under this standard, it is understood that parties are related if one party is related to the entity: (a) directly or indirectly through one or more intermediaries, where the party: (i) controls, is controlled by, or is under common control of the entity, (ii) has an interest in the entity that gives it significant influence over the entity, or (iii) has joint control over the entity, (b) if the party is affiliated entity, (c) if party is a joint venture (joint venture) in which the entity is an investor, (d) if the party is a member of key management personnel of the entity or its parent, (e) if the party is a close family member or any person referred to in subparagraphs (a) or (d), (f) if the controlled entity, jointly controlled or significantly influenced by, or in which significant voting power in such entity resides with, directly or indirectly, any person referred to in (d) or (e) or (g) if the benefit plan for post-employment benefit of employees of the entity, or any entities related party of the Company

The Company considered as "key Management Personnel", the members of its executive board, composed of the chairman and financial director, and members of the board.

Transactions with related parties are recorded at the exchange amount to which is agreed by both parties, as follows:

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Liabilities: At the request of the minority shareholder of FTC Brazil, the advance from the minority shareholder with interest to September 30, 2014, totaling R\$ 1,847,479, (CDN.\$ 845,605), was repaid on October 17, 2014, and concurrently the 1,750,000 quotas of FTC Brazil held by the shareholder were repurchased and cancelled at a cost of R\$ 2,464,298 (CDN. \$1,127,928), such that FTC Brazil became a wholly-owned subsidiary of FTC Cards Inc. with effect from October 1, 2014.

On December 31, 2016 the FTC Brazil has a liability in the amount of CND 870 to pay for Technis regarding repurchase of the shares.

#### Cost and expenses

	2016	2015
Camagui	-	21
Sidon	891	1,392
	<u>891</u>	<u>1,413</u>

#### Due to related parties

	2016	2015
Technis	870	796
	<u>870</u>	<u>796</u>

Sidon is represented by one individual who is member of FTC CARDS Inc. in Canada.

Camagui is represented by one individual who is part of the board of directors of FTC CARDS Brazil. It provides services to the company such as operational and technology consulting

Technis is the shareholder excluded in October, 2014

#### Management compensation

The Company paid to its managers, through salary and variable remuneration, CND 500 in 2015 and paid CND 779 in 2016.

19. Provision for contingencies

In the ordinary course of conducting its business, the Company is involved in labor, civil, tax, social security, and environmental proceedings. Management, relying on its legal counsel's opinion or that of other specialists, when applicable, evaluates the possible outcome of ongoing lawsuits, and the need for setting up provisions for contingencies arising from them. As at December 31, 2016, the Company had no contingencies requiring provision or disclosure in the financial statements.

20. Insurance (Unaudited)

The Company's policy is to maintain insurance coverage in an amount appropriate to the potential risks with their property accident experience.

The value of insurance contracts at December 31, 2016 is considered sufficient in the opinion of expert counsel to cover potential losses.

21. Subsequent events

As commented in note 5, the Company has long term investments by Banco Bradesco involved in civil suit (Process No. 1024728-52.2014.8.0405) against the financial institution. However, in accordance with the judicial decision in March 2017 it was determinate it's to unblock and the Company received this amount in its current account in April, 2017.