



**ORCA TOUCHSCREEN TECHNOLOGIES LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 and 2015**

**(Expressed in Canadian Dollars)**



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## INDEPENDENT AUDITORS' REPORT

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To the Shareholders of  
Orca Touchscreen Technology Ltd.

We have audited the accompanying consolidated financial statements of Orca Touchscreen Technology Ltd. which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of comprehensive loss, changes in equity (deficiency) and cash flows for the year then ended, and the related notes comprising 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 as issued by the International Accounting Standards Board, 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider 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 audit is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Orca Touchscreen Technology Ltd. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Orca Touchscreen Technology Ltd. to continue as a going concern.

### **Other Matter**

The consolidated financial statements of Orca Touchscreen Technology Ltd. for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those statements on April 29, 2016.

*Manning Elliott LLP*

CHARTERED PROFESSIONAL ACCOUNTANTS  
Vancouver, British Columbia  
May 1, 2017

**ORCA TOUCHSCREEN TECHNOLOGIES LTD.**  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(Expressed in Canadian Dollars)

	As at December 31, 2016	As at December 31, 2015
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 747	\$ 384,829
Restricted cash	-	5,750
Accounts receivable	7,426	15,089
Prepaid expenses	438	137,157
	<u>8,611</u>	<u>542,825</u>
Loan receivable (Note 3)	-	100,000
Intangible asset (Note 4)	-	40,674
Investment (Note 5)	-	112,080
	<u>\$ 8,611</u>	<u>\$ 795,579</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 127,806	\$ 44,883
Due to related parties (Note 10)	98,085	2,645
	<u>225,891</u>	<u>47,528</u>
<b>Shareholders' equity (deficiency)</b>		
Share capital (Note 9)	3,993,647	3,080,976
Reserve (Note 9)	1,077,567	1,014,666
Share subscriptions	29,539	926,901
Deficit	<u>(5,318,033)</u>	<u>(4,274,492)</u>
	<u>(217,280)</u>	<u>748,051</u>
	<u>\$ 8,611</u>	<u>\$ 795,579</u>

**Nature of operations and going concern** (Note 1)

Approved and authorized by the Board:

/s/ "Soo Rae Park"	Director	/s/ "Yong Chul Kim"	Director
Soo Rae Park		Yong Chul Kim	

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

**ORCA TOUCHSCREEN TECHNOLOGIES LTD.**  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
(Expressed in Canadian Dollars)

	Year ended December 31, 2016	Year ended December 31, 2015
<b>EXPENSES</b>		
Amortization of intangible asset (Note 4)	\$ -	\$ 9,326
Audit and accounting fees	16,920	49,626
Business development (Note 7)	184,600	2,492,308
Consulting fees	179,885	400,800
Filing and regulatory	33,022	39,139
General and administrative	9,062	76,076
Interest expense (recovery)	-	(253)
Investor relations (Note 8)	10,462	34,423
Legal fees	46,823	421,359
Management fees (Note 10)	88,500	73,145
Royalty payments (Notes 4 and 10)	48,000	48,000
Share-based payment (Note 9)	44,245	90,883
Travel	44,268	53,264
Loss before other items	(705,787)	(3,788,096)
<b>Other items:</b>		
Impairment of intangible asset (Note 4)	(40,674)	-
Write-off of investment (Note 5)	(112,080)	-
Write-off of loan receivable (Note 3)	(200,000)	-
Write-off of short term loan (Note 6)	15,000	-
<b>Net and comprehensive loss for the year</b>	<b>\$ (1,043,541)</b>	<b>\$ (3,788,096)</b>
<b>Loss per common share – basic and diluted</b>	<b>\$ (0.02)</b>	<b>\$ (0.08)</b>
<b>Weighted average number of common shares outstanding</b>	<b>55,226,919</b>	<b>44,890,581</b>

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

**ORCA TOUCHSCREEN TECHNOLOGIES LTD.**  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Expressed in Canadian Dollars)

	Year ended December 31, 2016	Year ended December 31, 2015
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>		
Loss for the year	\$ (1,043,541)	\$ (3,788,096)
Items not affecting cash:		
Amortization of intangible asset	-	9,325
Impairment of intangible asset	40,674	-
Share based payments	44,245	90,883
Write-off of investment	112,080	-
Write-off of loan receivable	200,000	-
Write-off of short-term loan	(15,000)	-
Changes in non-cash working capital items:		
Accounts receivable	7,663	(15,089)
Prepaid expenses	136,719	(76,978)
Accounts payable and accrued liabilities	82,923	(16,970)
Due to related parties	95,440	(5,355)
	<u>(338,797)</u>	<u>(3,802,280)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from private placements - shares	215,999	4,026,045
Share issuance costs	(182,034)	(575,264)
Loan received	15,000	(110,929)
Share subscription	-	926,901
	<u>48,965</u>	<u>4,266,753</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Restricted cash	5,750	(5,750)
Loan advanced	(100,000)	(100,000)
	<u>(94,250)</u>	<u>(105,750)</u>
<b>Change in cash during the year</b>	<b>(384,082)</b>	<b>358,723</b>
<b>Cash, beginning of year</b>	<b>384,829</b>	<b>26,106</b>
<b>Cash, end of year</b>	<b>\$ 747</b>	<b>\$ 384,829</b>
<b>Other Supplemental Disclosure:</b>		
<b>Interest paid</b>	<b>\$ -</b>	<b>\$ 4,200</b>
<b>Income tax paid</b>	<b>\$ -</b>	<b>\$ -</b>

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

**ORCA TOUCHSCREEN TECHNOLOGIES LTD.**

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

(Expressed in Canadian Dollars)

	Share capital		Reserve	Share Subscriptions	Deficit	Total
	Number	Amount				
<b>Balance, December 31, 2014</b>	40,440,000	\$ 368,500	\$ 185,479	\$ -	\$ (486,396)	\$ 67,583
Shares issued for cash	1,037,382	518,691	-	-	-	518,691
Share units issued for cash	10,817,852	2,769,049	738,304	-	-	3,507,353
Shares subscribed	-	-	-	926,901	-	926,901
Share unit issue costs	-	(575,264)	-	-	-	(575,264)
Share-based compensation	-	-	90,883	-	-	90,883
Loss and comprehensive loss for the year	-	-	-	-	(3,788,096)	(3,788,096)
<b>Balance, December 31, 2015</b>	52,295,234	3,080,976	1,014,666	926,901	(4,274,492)	748,051
Share units issued for cash and subscriptions received	3,711,204	1,094,705	18,656	(897,362)	-	215,999
Share unit issue costs	-	(182,034)	-	-	-	(182,034)
Share-based compensation	-	-	44,245	-	-	44,245
Loss and comprehensive loss for the year	-	-	-	-	(1,043,541)	(1,043,541)
<b>Balance, December 31, 2016</b>	56,006,438	\$ 3,993,647	\$ 1,077,567	\$ 29,539	\$ (5,318,033)	\$ (217,280)

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

**1. NATURE OF OPERATIONS AND GOING CONCERN**

Orca Touchscreen Technologies Ltd. (the “Company” or “Orca Touchscreen”) was incorporated on December 31, 2013 under the *Business Corporation Act* of British Columbia. The head office of the Company is 1500 – 701 West Georgia Street, Vancouver, British Columbia, V7Y 1C6. The Company has invested in touchscreen technology in an effort to develop and sell electronic devices.

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company was not expected to continue operations for the foreseeable future. At December 31, 2016, the Company has a working capital deficiency of \$217, 280, has not achieved profitable operations and has accumulated losses of \$5,318,033 since inception and expects to incur further losses in the development of its business. This material uncertainty may cast significant doubt about the Company’s ability to continue as a going concern. The Company’s continuation as a going concern is dependent on its ability to attain profitable operations to generate funds and/or its ability to raise equity capital or borrowings sufficient to meet its current and future obligations. Although the Company has been successful in the past in raising funds to continue operations, there is no assurance it will be able to do so in the future.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Statement of Compliance**

These consolidated financial statements for the year ended December 31, 2016, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The consolidated financial statements were authorized for issue by the Board of Directors on May 1, 2017.

**Basis of Consolidation and Presentation**

The consolidated financial statements have been prepared on a historical cost basis in Canadian dollars, which is the Company’s and its wholly owned subsidiary’s functional currency. Functional currency is the currency of the primary economic environment in which an entity operates.

These consolidated financial statements incorporate the financial statements of the Company and its wholly controlled subsidiary Orca Mobile Solutions Ltd. 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 wholly-owned subsidiary. All significant intercompany transactions and balances have been eliminated.

**(a) Basis of Measurement**

The financial statements have been prepared on an accrual basis and are based on historical costs.

The financial statements are presented in Canadian dollars which is also the Company’s and the subsidiary’s functional currency.

**(b) Significant accounting estimates and judgments**

The preparation of 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 reported amounts of expenses during the reporting year. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future years if the revision affects both current and future years. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Critical accounting judgments**

Critical accounting judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

*Going concern*

The assumption that the Company will be able to continue as a going concern is subject to critical judgments by management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investing and financing activities and management's strategic planning. Should those judgments prove to be inaccurate, management's continued use of the going concern assumption could be inappropriate.

*Intangible assets*

The recoverability of expenditures incurred on its intangible. The Company evaluates these amounts at least annually for indicators of impairment.

**Critical accounting estimates**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

*Assumptions used in the calculation of the fair value assigned to share-based payments and warrants issued as part of private placement units*

The Company uses the Black-Scholes option pricing model for valuation of share-based payments and warrants issued as part of private placement units. Option pricing models require the input of subjective assumptions, including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's equity reserves.

*Income taxes*

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities.

**(c) Cash and restricted cash**

Cash includes cash on deposit at financial institutions.

Restricted cash consisted of a GIC held at the bank to secure the Company's corporate credit card.

**(d) Income taxes**

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in net income (loss), except to the extent that it relates to items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current and deferred income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.



**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(d) Income taxes (continued)**

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

**(e) Share capital**

The proceeds from the exercise of stock options and warrants and the cost initially recognized on their issuance are recorded within share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company.

Commissions paid to agents, and other related share issue costs, such as finder's fees, legal, auditing, and printing, on the issue of the Company's shares are charged directly to share capital.

**Valuation of equity units issued in private placements**

The proceeds from the issue of units are allocated between common shares and common share purchase warrants on a relative fair value basis. The fair value of the common share purchase warrants is determined using the Black-Scholes option pricing model.

**Earnings (loss) per share**

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

**(f) Share-based payments**

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period using the graded vesting method. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in profit or loss. Amounts related to the issuance of shares are recorded as a reduction of capital stock.

When the value of goods or services received in exchange for the share-based payments cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

All equity-settled share-based payments are reflected in reserves until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to capital stock, and adjusted for any consideration paid.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Share-based payments (continued)**

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation or settlement as an acceleration of vesting and immediately recognizes the amount that otherwise would have been recognized for services received over the revised vesting period.

**(g) Financial instruments**

**Financial assets**

The Company classifies its financial assets in the following categories: fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

**Fair value through profit or loss ("FVTPL")**

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss. The Company's cash and restricted cash are classified as FVTPL.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost less any impairment. Loans and receivables are comprised of loan receivable.

**Impairment of financial assets**

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the 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.

**Financial liabilities**

The Company classifies its financial liabilities in the following categories: other financial liabilities.

*Other financial liabilities*

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Other financial liabilities are classified as current or non-current based on their maturity date. Other financial liabilities include accounts payable and due to related parties.

**(h) Intangible assets**

Intangible assets consist of touchscreen technology and patents acquired externally and are recorded at cost less accumulated amortization and impairment losses. The intangible assets are amortized on a straight-line basis over 5.63 years starting January 1, 2015.

Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet certain criteria for deferral and amortization. The Company assesses whether it has met the relevant criteria for deferral and amortization at each reporting date.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(h) Intangible assets (continued)**

**Impairment of tangible and intangible assets**

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**(i) New standards, interpretations and amendments adopted**

As of January 1, 2016, the Company adopted the new and amended IFRS pronouncements in accordance with transitional provisions outlined in the respective standards. The Company has adopted the following new standards without any significant effect on its consolidated financial statements.

*IFRS 11 Accounting for Acquisitions of Interests in Joint Operations*

The amendments provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business.

*IAS 27 Equity Method in Separate Financial Statements*

The amendment restores the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

*IAS 1 Presentation of Financial Statements*

The amendments are part of an overall disclosure initiative to improve the effectiveness of disclosure in financial statements.

**(j) New standards not yet adopted**

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are not mandatory for accounting periods beginning before January 1, 2017. They have not been early adopted in these consolidated financial statements, and are expected to affect the Company in the period of initial application. In all cases the Company intends to apply these standards from application date as indicated below.

Effective for annual periods beginning on or after January 1, 2017

*IAS 7 Statement of Cash Flows*

The amendments to improve information provided to users of financial statements about an entity's changes in liabilities arising from financing activities.

*IAS 12 Income Taxes*

The amendments relate to the recognition of deferred tax assets for unrealized losses associated with debt instruments measured at fair value.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(h) New standards not yet adopted (continued)**

Effective for annual periods beginning on January 1, 2018

*IFRS 2 Share-based Payment*

The amendments clarify the classification and measurement of share-based payment transactions.

*IFRS 9 Financial Instruments – Classification and Measurement*

IFRS 9 is the first step in the process to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 is a new standards which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition.

Effective for annual periods beginning on January 1, 2019

*New standard IFRS 16 Leases*

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties of a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

**3. LOAN RECEIVABLE**

On December 11, 2015, the Company, through its wholly-owned subsidiary Orca Mobile, agreed to advance the principal amount of \$200,000 to an unrelated third party, Smart Sollen Inc. (“Smart Sollen”) of Seoul, South Korea to be used to develop its operations to procure and sell electronic components to various joint venture companies in which Orca Mobile would acquire an interest (Note 5). The principal amount was advanced in two instalments: \$100,000 on December 11, 2015 and \$100,000 on January 31, 2016. The term of the agreement was 2 years. Smart Sollen agreed to repay the principal plus interest at a simple rate of 6% per annum by no later than the fifth business day following the last day of the term provided however that Orca Mobile may at any time and from time to time in its sole discretion and on 30 days’ notice convert all of the principal and interest then due into 51% of the issued and outstanding common shares of Smart Sollen as fully paid and non-assessable which would entitle Orca Mobile to appoint a majority of the members of the board of directors of Smart Sollen. If on the sixth business day following the end of the term, Orca Mobile had not so converted and if Smart Sollen failed to pay the unpaid principal and interest then due, then the unpaid principal and interest then due shall be deemed to have converted automatically as aforementioned and Orca Mobile would be entitled to appoint a majority of the directors as aforementioned. During the year ended December 31, 2016, the Company wrote off the loan receivable of \$200,000 and associated interest accrued of \$11,951 as management of the Company deemed the loan to be uncollectible.

**4. INTANGIBLE ASSET**

On May 12, 2014, the Company, through its wholly-owned subsidiary Orca Mobile, entered into an asset purchase agreement and a patent and technology license agreement with Sollensys Corporation (“Sollensys”), a company incorporated and based in South Korea.

Sollensys is a related party to the Company as its principal shareholder, a senior officer and a director GwanJe (Frank) Woo, is a principal shareholder and CEO and President of the Company (Note 10).

**ORCA TOUCHSCREEN TECHNOLOGIES LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Years ended December 31, 2016 and 2015  
(Expressed in Canadian Dollars)

**4. INTANGIBLE ASSET (continued)**

In accordance with these agreements, the Company acquired:

- i. Sollensys' patent for folding and laminating touch sensor panels to produce touchscreens for \$50,000 (paid);
- ii. an exclusive 6-year worldwide license to use all of Sollensys' technology and remaining 18 patents for consideration of a royalty payable as to:
  - 10% on gross revenues derived from the patents; and
  - 80% of the net revenues received from the sale of Sollensys products sold by the Company.

Royalty payments are due on the last day of December each year during the term and are payable as to \$4,000 per month on the first day of each month beginning July 1, 2014 as a guaranteed advance payment of the royalty. During the year ended December 31, 2016, the Company incurred \$48,000 (2015 - \$48,000) in royalty payments pursuant to the terms of the agreement. As at December 31, 2016, \$57,292 of advanced royalties are included in accounts payable and accrued liabilities.

The intangible assets were being amortized on a straight-line basis over 5.63 years starting January 1, 2015. The accumulated amortization as at December 31, 2016 is \$nil (2015 - \$9,326). During the year ended December 31, 2016, the Company determined that no future benefit is expected to be derived from the intangible assets and as a result recorded an impairment of \$40,674.

	2016	2015
Cost	\$ 50,000	\$ 50,000
Accumulated amortization	(9,326)	(9,326)
Writedown of intangible asset	(40,674)	-
Ending balance	\$ -	\$ 40,674

**5. INVESTMENT**

On September 30, 2014, the Company entered into a letter of intent with Sollensys and Mr. Carlos Fernando Rivers Sandoval, governing the proposed incorporation of a Guatemala joint venture company called Sollen-Mobile SA ("Sollen Guatemala") for the purpose of developing, manufacturing and marketing computer and telecommunications hardware and software. The initial paid-in capital of Sollen Guatemala was US\$300,000, of which the Company paid US\$100,000 (\$112,080 CDN) for its 30% share of the investment.

On February 11, 2016, the Company, through its wholly-owned subsidiary, Orca Mobile, entered into a definitive agreement for the joint venture which governs the investment in and the management of Sollen Guatemala.

During the year ended December 31, 2016, the investment in Sollen Guatemala was written down to \$nil as the Company ceased operations in Guatemala to focus on other opportunities.

**6. SHORT-TERM LOANS**

During the year ended December 31, 2016, short-term loans totaling \$15,000 were received by the Company from Smart Sollen for general working capital. The short-term loans bears interest at a simple rate of 6% per annum, are unsecured and are payable on demand. During the year ended December 31, 2016, the Company wrote off the short-term loan payable of \$15,000 to Smart Sollen against the loan receivable from Smart Sollen which was deemed uncollectible (Note 3).

**7. BUSINESS DEVELOPMENT**

On March 18, 2015, the Company entered into a service agreement with a private equity and venture capital firm (the "Firm") based in Singapore pursuant to which the Firm agreed to provide business development services. The initial term of the agreement is three years, unless terminated by either party on thirty days' written notice. Subsequently, by amendment dated October 31, 2015, the Company and the Firm agreed to change the Firm's compensation to a rate of \$500 per hour as invoiced. For the year ended December 31, 2016, business development expenses were \$184,600 (2015 - \$2,492,308).

**8. INVESTOR RELATIONS**

On January 30, 2015, the Company entered into a consulting agreement with an investor relations consultant (the "Consultant") of Toronto, Ontario, by which the Consultant agreed to act as the Company's investor relations consultant by providing proactive, customized investor and media relations services. The initial term of the agreement was for 1 year, beginning January 2015. The term renews automatically on a month-to-month basis until terminated by either party on 30 days' written notice. For the year ended December 31, 2016, the Company paid \$10,000 (2015 – \$28,000) to the Consultant for investor relation services rendered. On May 31, 2016, the agreement was terminated by mutual agreement.

**9. SHARE CAPITAL AND RESERVES**

**(a) Authorized share capital**

Unlimited number of common and preferred shares without par value.

**(b) Issued share capital**

As at December 31, 2016, 56,006,438 common shares were issued and outstanding (2015 – 52,295,234).

Details of common shares issued during the years ended December 31, 2016 and 2015 are as follows:

For the year ended December 31, 2016:

- i. On February 1, 2016, the Company completed a private placement of 1,259,244 units at a price of \$0.30 per unit for gross proceeds of \$377,773. Each unit is comprised of one common share and one-half warrant, with each full warrant exercisable at \$0.40 for one common share of the Company at a price of \$0.40 for a period of five years. The Company paid finders a commission of \$66,834 which was recorded as a share issuance cost;
- ii. On February 16, 2016, the Company completed a private placement of 524,190 units at a price of \$0.30 per unit for gross proceeds of \$157,257. Each unit is comprised of one common share and one-half warrant, with each full warrant exercisable at \$0.40 for one common share of the Company at a price of \$0.40 for a period of five years. The Company paid finders a commission of \$27,000 which was recorded as a share issuance cost;
- iii. On March 4, 2016, the Company completed a private placement of 270,000 units at a price of \$0.30 per unit for gross proceeds of \$81,000. Each unit is comprised of one common share and one-half warrant, with each full warrant exercisable at \$0.40 for one common share of the Company at a price of \$0.40 for a period of five years. The Company paid finders a commission of \$16,200 which was recorded as a share issuance cost.
- iv. On April 18, 2016, the Company completed a private placement of 1,471,150 units at a price \$0.30 per unit for gross proceeds of \$441,345. Each unit is comprised of one common share and one-half warrant, with each full warrant exercisable at \$0.40 for one common share of the Company at a price of \$0.40 for a period of five years. The Company paid finders a commission of \$72,000 which was recorded as a share issuance cost.
- v. On August 16, 2016, the Company completed a private placement of 186,620 units at a price \$0.30 per unit for gross proceeds of \$55,986. Each unit is comprised of one common share and one-half warrant, with each full warrant exercisable at \$0.40 for one common share of the Company at a price of \$0.40 for a period of five years.

**9. SHARE CAPITAL AND RESERVES (continued)**

**(b) Issued share capital (continued)**

For the year ended December 31, 2015:

- i. On January 23, 2015, the Company issued 1,037,382 common shares at a price of \$0.50 for gross proceeds of \$518,691.
- ii. On May 11, 2015, the Company completed a private placement of 1,871,413 units at a price of \$0.44 per unit for gross proceeds of \$823,422. Each unit was comprised of one common share and one-half warrant. The Company issued 935,708 warrants whereby each warrant holder is entitled to purchase one Company share at an exercise price of \$0.55 for a period of 5 years from the issuance date of such warrant. The Company paid finders a commission of \$150,054 which was recorded as a share issuance cost.
- iii. On July 27, 2015, the Company completed a private placement of 1,557,716 units at a price of \$0.30 per unit for gross proceeds of \$467,315. Each unit was comprised of one common share and one-half warrant. The Company issued 778,859 warrants whereby each warrant holder is entitled to purchase one Company share at an exercise price of \$0.40 for a period of 5 years from the issuance date of such warrant. The Company paid finders a commission of \$77,972 which was recorded as a share issuance cost.
- iv. On July 28, 2015, the Company completed a private placement of 897,594 units at a price of \$0.30 per unit for gross proceeds of \$269,278. Each unit was comprised of one common share and one-half warrant. The Company issued 448,797 warrants whereby each warrant holder is entitled to purchase one Company share at an exercise price of \$0.40 for a period of 5 years from the issuance date of such warrant. The Company paid finders a commission of \$44,930 which was recorded as a share issuance cost.
- v. On September 25, 2015, the Company completed a private placement of 3,726,604 units at a price of \$0.30 per unit for gross proceeds of \$1,117,981. Each unit was comprised of one common share and one-half warrant. The Company issued 1,863,302 warrants whereby each warrant holder is entitled to purchase one Company share at an exercise price of \$0.40 for a period of 5 years from the issuance date of such warrant. The Company paid finders a commission of \$139,273 which was recorded as a share issuance cost.
- vi. On November 30, 2015, the Company completed a private placement of 2,764,525 units at a price of \$0.30 per unit for gross proceeds of \$829,358. Each unit was comprised of one common share and one-half warrant. The Company issued 1,382,265 warrants whereby each warrant holder is entitled to purchase one Company share at an exercise price of \$0.40 for a period of 5 years from the issuance date of such warrant. The Company paid finders a commission of \$163,035 which was recorded as a share issuance cost.

**(c) Escrow Agreement**

Pursuant to a stock restriction agreement, 8,902,000 common shares of the Company are subject to restrictions on transfer. The restricted shares are to be released at 10% on the listing date and an additional 15% every six months thereafter with the final tranche being released on June 13, 2017. As at December 31, 2016, 1,335,300 (2015 – 4,005,900) common shares of the Company are restricted.

**(d) Stock options**

On July 15, 2014, the Company adopted a stock option plan authorizing the Company to grant options to officers, directors, employees and consultants to acquire, in the aggregate, up to 10% of the issued and outstanding common stock of the Company. The options can be granted for a maximum of five years and vest as determined by the Board of Directors. The exercise price of each option granted may not be less than the greater of the closing market prices of the common shares on (i) the trading day prior to the date of grant and (ii) the date of grant, pursuant to Canadian Securities Exchange Policy 6.

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**9. SHARE CAPITAL AND RESERVES (continued)**

**(d) Stock options (continued)**

On December 18, 2015, the Company granted to its directors, officers and certain consultants stock options exercisable to purchase an aggregate of 2,900,000 common shares at an exercise price of \$0.20 expiring on December 18, 2020. Of these stock options, 1,200,000 vest immediately with the remainder vesting at 25% every three months following the date of grant with the first vesting on March 18, 2016.

There were no options granted during the year ended December 31, 2016.

The fair value of options granted during the year ended December 31, 2015 was determined using the Black-Scholes pricing model with the following assumptions:

	<b>2015</b>
Share price	\$0.04
Risk-free interest rate	0.74%
Annualized volatility	100%
Expected dividend yield	Nil
Expected option life in years	4.97~5.00

For the year ended December 31, 2016, share based compensation expense of \$44,245 (2015 - \$90,883) based on the grant date fair value of the awards recognized over the vesting period, was recorded in net loss.

Details of stock options activities for the year ended December 31, 2016 and 2015 are as follows:

	<b>Number of options</b>	<b>Weighted Average Exercise Price</b>
Balance outstanding, December 31, 2014	600,000	\$0.80
Granted	2,900,000	\$0.20
Expired	(600,000)	\$0.80
<b>Balance outstanding, December 31, 2015 and 2016</b>	<b>2,900,000</b>	<b>\$0.20</b>
<b>Balance exercisable, December 31, 2016</b>	<b>2,900,000</b>	<b>\$0.20</b>

The weighted average remaining life of options outstanding is 3.96 years.

The weighted average fair value of stock options issued in 2016 is \$nil (2015 - \$0.30).

**(e) Warrants**

The fair value of warrants issued during the years ended December 31, 2016 and December 31, 2015 were determined using the Black Scholes pricing model with the following assumptions:

	<b>2016</b>	<b>2015</b>
Share price	\$0.03	\$0.04
Risk-free interest rate	0.59%~0.89%	0.81%~0.96%
Annualized volatility	100%	100%
Expected dividend yield	Nil	Nil
Expected warrant life in years	5.0	5.0



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**9. SHARE CAPITAL AND RESERVES (continued)**

**(e) Warrants (continued)**

Details of warrants activity is as follows:

	Number of warrants	Exercise Price	Expiry Date
Balance outstanding, December 31, 2014	-	\$ -	-
May 11, 2015 private placement	935,708	0.55	2020-05-11
July 27, 2015 private placement	778,859	0.40	2020-07-27
July 28, 2015 private placement	448,797	0.40	2020-07-28
September 25, 2015 private placement	1,863,302	0.40	2020-09-25
November 30, 2015 private placement	1,382,265	0.40	2020-11-30
Balance outstanding, December 31, 2015	5,408,931	\$0.43	
February 1, 2016 private placement	629,622	0.40	2021-02-01
February 16, 2016 private placement	262,095	0.40	2021-02-16
March 4, 2016 private placement	135,000	0.40	2021-03-04
April 18, 2016 private placement	735,575	0.40	2021-04-18
August 16, 2016 private placement	93,310	0.40	2021-08-16
Balance outstanding, December 31, 2016	7,264,533	\$0.42	-

The weighted average remaining life of warrants outstanding is 3.81 years.

The weighted average fair value of warrants issued in 2016 is \$0.01 (2015 - \$0.19).

**(f) Reserve**

The Company's equity reserve is comprised of share-based payments and the fair value of warrants issued.

**10. RELATED PARTY TRANSACTIONS AND BALANCES**

Related party transactions are comprised of services rendered by directors and/or officers of the Company and a company controlled by an officer of the Company. Related party transactions are in the ordinary course of business and are measured at the exchange amount.

Key management personnel are the Chief Executive Officer, the Chief Financial Officer, the Secretary and three Directors of the Company. The remuneration of key management personnel is as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Management fees	\$ 88,500	\$ 73,145
Accounting fees	13,500	7,500
Legal fees	32,656	17,189
Share-based payments	37,379	90,883
	\$ 172,035	\$ 188,717

As at December 31, 2016 \$98,085 (2015 - \$2,645) was due to officers and directors of the Company for unpaid management fees.

On May 12, 2014, the Company, through its wholly-owned subsidiary Orca Mobile, entered into an asset purchase agreement and a patent and technology license agreement, both with Sollensys. Sollensys is a related party to the Company as its principal shareholder, a senior officer and a director is GwanJe (Frank) Woo, a principal shareholder and CEO and President of the Company (Note 4).

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**10. RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

During 2014, the Company paid Sollensys \$50,000 in consideration of a patent for folding and laminating touch sensor panels to produce touchscreens; the payment was capitalized as an intangible asset (Note 4). In 2016 the Company incurred \$48,000 (2015 - \$48,000) in advance royalty expenses for continuing use of the patent.

**11. INCOME TAX**

The difference between tax expense for the periods and the expected income taxes based on the statutory tax rate arises as follows:

	2016	2015
	\$	\$
Net loss for the period	(1,043,541)	(3,788,096)
Expected tax recovery at a combined federal and provincial rate of 26%	(271,321)	(984,905)
Net adjustments for deductible and non-deductible items	(46,857)	(3,378)
Tax benefit not recognized	318,178	988,283
Deferred income tax recovery	-	-

No deferred tax asset has been recognized in respect of the following losses and temporary differences as it is not considered probable that sufficient future taxable profit will allow the deferred tax asset to be recovered:

	2016	2015
	\$	\$
Non-capital loss carry forwards	1,376,750	1,066,521
Share issuance costs	127,604	119,655
Total unrecognized deferred tax assets	1,504,354	1,186,176

Management had determined that the realization of the potential income tax benefits related to the non-capital losses is uncertain at this time, and cannot be viewed as more likely than not. Accordingly, the Company has recorded the potential deferred income tax asset.

At December 31, 2016, the Company has Canadian non-capital losses of approximately \$5,295,000 (2015 - \$4,102,000) which, if not utilized to reduce income in future periods will expire as follows:

<b>Expiry of income tax non-capital loss carry-forwards</b>	
December 31, 2033	\$ 12,000
December 31, 2034	289,000
December 31, 2035	3,801,000
December 31, 2036	1,193,000
	<b>\$ 5,295,000</b>

## **12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

### **Financial Instruments**

#### *Fair value hierarchy*

*The following table summarizes the fair value hierarchy under which the Company's financial instruments are valued.*

*Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;*

*Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and*

*Level 3 - Inputs for the asset or liability that are not based upon observable market data.*

Cash is carried at fair value using a level 1 fair value measurement. The carrying value of loans receivable and accounts payable approximate their fair value because of the short-term nature of these instruments.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

### **Financial risk factors**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2016, the Company had a cash balance of \$747 to settle current liabilities of \$225,891.

There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipated it will need additional capital in the future to finance on-going developments of its technology, such capital to be derived from the completion of other equity financings. The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for future development of its technology, although the Company has been successful in the past in financing its activities through the previously mentioned financing activities. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and the success of its technology. In recent years, the securities markets have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

#### *Credit risk*

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and cash equivalents, loans receivable, and short-term investments. The Company limits exposure to credit risk on liquid financial assets by maintaining its cash with high-credit quality financial institutions.

**12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

**Financial Instruments (continued)**

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company does not have a practice of trading derivatives.

a) Interest rate risk

The Company's financial assets exposed to interest rate risk consist of cash and restricted cash. The Company's current policy will be to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at December 31, 2016, the Company did not have any investments in investment-grade short-term deposit certificates.

b) Foreign currency risk

The majority of the Company's business is conducted in South Korea and Guatemala in United States dollars. As such, the Company is exposed to foreign currency risk in fluctuations between the Canadian dollar and the US dollar. Fluctuations in the exchange rate between the Canadian dollar and the US dollar may have a material adverse effect on the Company's business and financial condition. Fluctuations do not have a significant impact on operating results.

c) Price risk

The markets for touchscreens are fragmented, highly competitive and rapidly changing. With the introduction of technological advances and new entrants into these markets at a rapid pace, the Company expects competition to intensify in the future, which could harm the Company's ability to develop a customer base for its products and to begin generating revenue.

**13. CAPITAL MANAGEMENT**

The Company considers capital to be the sole element of shareholders' equity. The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance the sale and distribution of its products. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements.