



**CARL DATA SOLUTIONS INC.**  
**(FORMERLY CARL CAPITAL CORP.)**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2016**

**(UNAUDITED)**

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**MANAGEMENT'S COMMENTS ON  
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS**

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

The accompanying unaudited condensed consolidated interim financial statements of CARL Data Solutions Inc. (formerly Carl Capital Corp.) (the "Company") have been prepared by and are the responsibility of the Company's management. The unaudited condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards and reflect management's best estimates and judgment based on information currently available.

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

**CARL DATA SOLUTIONS INC. (FORMERLY CARL CAPITAL CORP.)**  
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION  
(UNAUDITED)

<i>As at</i>	<b>DECEMBER 31, 2016</b>	<b>JUNE 30, 2016</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 463,425	\$ 136,010
Accounts and other receivables (note 8)	424,222	275,061
Prepaid expenses	270,583	206,541
	1,158,230	617,612
<b>Non-Current Assets</b>		
Software in development (note 9)	287,600	287,600
Software application (notes 7 and 9)	269,066	294,059
Customer list (notes 7 and 9)	536,887	563,816
Goodwill (note 7)	36,421	36,421
<b>Total Assets</b>	<b>\$ 2,288,204</b>	<b>\$ 1,799,508</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (note 10)	\$ 718,663	\$ 658,447
Loans payable (note 12)	71,007	515,104
	789,670	1,173,551
<b>Convertible Note</b> (note 11)	387,086	60,238
<b>Total Liabilities</b>	1,176,756	1,233,789
<b>Shareholders' Equity</b> (note 2)		
Share Capital	7,620,846	4,674,982
Reserves	264,174	249,727
Equity conversion feature on convertible note	40,184	7,687
Accumulated other comprehensive income	43,427	(2,352)
Deficit	(6,857,183)	(4,364,325)
	1,111,448	565,719
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 2,288,204</b>	<b>\$ 1,799,508</b>

**Nature of Operations and Going Concern** (note 1)

**Commitment** (note 20)

**Subsequent Events** (note 21)

**APPROVED ON BEHALF OF THE BOARD OF DIRECTORS**

"Jason Scharfe" (signed)  
Director

"Chris Johnston" (signed)  
Director

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

**CARL DATA SOLUTIONS INC. (FORMERLY CARL CAPITAL CORP.)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS**  
**(UNAUDITED)**

<i>(Expressed in Canadian dollars)</i>	Three months ended December 31, 2016	Three months ended December 31, 2015	Six months ended December 31, 2016	Six months ended December 31, 2015
<b>Revenue</b>				
Data services	\$ 197,311	\$ 263,952	\$ 410,656	\$ 285,202
Other	88,292	-	160,976	-
	285,603	263,952	571,632	285,202
<b>Expenses</b>				
Accretion	54,186	-	77,670	-
Amortization (note 7)	73,894	114,247	147,583	114,247
Bad debt	15,985	44,719	13,585	44,719
Computer	10,675	17,129	25,404	24,753
Consulting	151,399	141,483	885,718	227,067
Filing and transfer agent	30,029	9,492	34,188	13,519
Financing (note 10)	236,805	100,000	252,575	100,000
Foreign exchange loss	(8,799)	(33,951)	(26,113)	(33,951)
Interest (note 12)	68,867	28,109	84,849	28,109
Investor relations	203,501	22,073	249,888	145,929
Loss on conversion of convertible note	264,175	-	264,175	-
Marketing	5,151	23,498	14,731	23,498
Occupancy	16,339	17,234	34,176	26,459
Office	49,695	40,213	95,379	44,067
Professional	82,633	117,515	125,144	143,814
Share-based payments (note 13)	94,681	-	152,206	-
Salaries and wages	329,101	179,215	590,052	179,215
Travel	17,958	9,229	43,280	25,136
	(1,696,275)	(830,205)	(3,064,490)	(1,106,581)
<b>Loss before income tax</b>	(1,410,672)	(566,253)	(2,492,858)	(821,379)
Income tax expense	-	(69,674)	-	(69,674)
<b>Loss for the period</b>	(1,410,672)	(635,927)	(2,492,858)	(891,053)
<b>Other comprehensive loss (gain)</b>				
Foreign exchange loss (gain) on translation of subsidiary	(27,256)	(94,141)	(45,780)	(94,141)
<b>Comprehensive loss for the period</b>	\$ (1,437,928)	\$ (541,786)	\$ (2,538,638)	\$ (796,912)
<b>Weighted Average Number of Common Shares Outstanding</b>				
Basic and Diluted	36,511,110	6,399,361	33,988,789	6,377,653
<b>Loss Per Share</b>				
Basic and Diluted	(\$0.04)	(\$0.08)	(\$0.07)	(\$0.12)

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

**CARL DATA SOLUTIONS INC. (FORMERLY CARL CAPITAL CORP.)**  
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Six months ended December 31, 2016	Six months ended December 31, 2015
<b>Cash Flows used in Operating Activities</b>		
Loss for the period	\$ (2,492,858)	\$ (891,053)
Non-cash items		
Amortization	130,198	114,247
Accrued interest expense	748	28,109
Accretion expense	77,670	-
Income tax expense	-	69,674
Share-based payments	152,206	-
Financing fees	136,000	75,000
Loss on conversion of convertible note	264,175	-
Changes in non-cash working capital items:		
Accounts and other receivables	(149,161)	(78,420)
Prepaid expenses	(64,042)	(17,540)
Accounts and other payables	983,084	(478,929)
	(961,980)	(1,178,912)
<b>Cash Flows provided by (used in) Investing Activities</b>		
Software development	-	(48,519)
Acquisition of FlowWorks, Inc. (note 7)	-	124,056
	-	75,537
<b>Cash Flows provided by (used in) Financing Activities</b>		
Proceeds from issuance of common shares	900,000	177,200
Proceeds from exercise of stock options	-	22,000
Share issuance costs	-	(2,016)
Proceeds from exercise of warrants	65,910	-
Proceeds from convertible note	422,500	-
Advances from short-term loans, net of repayments	-	546,000
Short-term loans	3,037	-
Repayment of short-term loans	(74,137)	-
	1,317,310	743,184
<b>Effect of foreign exchange on cash</b>	(27,915)	(13,134)
<b>Change in cash during the period</b>	327,415	(373,325)
<b>Cash – beginning of period</b>	136,010	430,130
<b>Cash – end of period</b>	\$ 463,425	\$ 56,805

**Supplemental Information** (see note 18)

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

**CARL DATA SOLUTIONS INC. (FORMERLY CARL CAPITAL CORP.)**  
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF SHAREHOLDERS' EQUITY  
(UNAUDITED)

(Expressed in Canadian dollars, except share amounts)

<b>Share Capital</b>							
	<b>Shares</b>	<b>Amount</b>	<b>Reserves</b>	<b>Equity conversion feature on convertible note</b>	<b>Accumulated other comprehensive income</b>	<b>Deficit</b>	<b>Total</b>
<b>Balance – June 30, 2015</b>	19,700,000	\$ 1,122,351	\$ 144,817	\$ -	\$ -	\$ (574,036)	\$ 693,132
Net loss for the period	-	-	-	-	-	(891,053)	(891,053)
Shares issued for:							
Acquisition of FlowWorks, Inc. (note 7)	7,629,397	2,441,407	-	-	-	-	2,441,407
Cash	664,000	177,200	-	-	-	-	177,200
Financing fees	250,000	75,000	-	-	-	-	75,000
Exercise of options	200,000	34,643	(12,643)	-	-	-	22,000
Share issuance costs – cash	-	(2,016)	-	-	-	-	(2,016)
Share issuance costs – warrants	-	(1,036)	1,036	-	-	-	-
Foreign currency translation	-	-	-	-	94,141	-	94,141
<b>Balance – December 31, 2015</b>	28,443,397	3,847,549	133,210	-	94,141	(1,465,089)	2,609,811
Net loss for the period	-	-	-	-	-	(2,899,236)	(2,899,236)
Shares issued for:							
Debt	1,109,334	332,800	-	-	-	-	332,800
Financing fees	375,000	187,500	-	-	-	-	187,500
Convertible note	400,000	236,000	-	-	-	-	236,000
Exercise of warrants	210,080	71,133	(17,057)	-	-	-	54,076
Share-based payments	-	-	133,574	-	-	-	133,574
Conversion feature on convertible note	-	-	-	7,687	-	-	7,687
Foreign currency translation	-	-	-	-	(96,493)	-	(96,493)
<b>Balance – June 30, 2016</b>	30,537,811	4,674,982	249,727	7,687	(2,352)	(4,364,325)	565,719
Net loss for the period	-	-	-	-	45,779	(2,197,966)	(2,147,079)
Shares issued for:							
Cash	2,500,000	900,000	-	-	-	-	900,000
Share issuance costs, shares	200,000	72,000	-	-	-	-	72,000
Share issuance costs, shares	-	(72,000)	-	-	-	-	(72,000)
Exercise of warrants (notes 13)	406,600	77,670	(11,760)	-	-	-	65,910
Fees	425,000	144,000	-	-	-	-	144,000
Debt (note 13(b)(i))	3,177,275	1,432,450	(131,305)	-	-	-	1,301,194
Share issuance costs – warrants	-	(13,306)	13,306	-	-	-	-
Share-based payments (note 15)	-	-	144,206	-	-	-	144,206
Convertible feature on convertible note	-	-	-	38,723	-	-	38,723
Conversion of convertible note	1,191,176	405,000	-	(6,226)	-	-	398,774
<b>Balance – December 31, 2016</b>	38,437,862	\$ 7,620,846	\$ 264,174	\$ 40,184	\$ 43,427	\$(6,857,183)	\$1,111,448

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

**CARL DATA SOLUTIONS INC. (FORMERLY CARL CAPITAL CORP.)**  
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(UNAUDITED)

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*(figures in tables are expressed in Canadian dollars, except per share amounts)*

**1. Description of Business and Nature of Operations**

CARL Data Solutions Inc. (Formerly Carl Capital Corp.), together with its wholly owned subsidiaries, Extend to Social Media Inc. (“ETS”) and FlowWorks Inc. (“FlowWorks”), (“CARL” or the “Company”) was incorporated under the Business Corporations Act (British Columbia) on January 17, 2014. CARL is a developer of Big-Data-as-a-Service (“BDaaS”)-based solutions, providing the next generation data collection, storage and analytic solutions for data-centric companies.

CARL is a public company that is listed on the Canadian Securities Exchange (“CSE”) (under the symbol: CRL). The head office and principal address of the Company is located at Suite 488 - 1090 West Georgia Street, Vancouver, British Columbia, V6E 3V7.

ETS was incorporated in the province of British Columbia on January 30, 2013, and its principal business is the collection of marketing data in the social network marketing industry. ETS has created a software technology that enables companies to reward existing customers for promoting or referring products and services to their social and business networks. CARL acquired all of the outstanding share capital of ETS on May 30, 2014.

FlowWorks, incorporated in Washington State, USA on May 5, 2010, is a company that specializes in providing clients with a suite of web-based water management software applications to analyze data through a variety of collection, analysis, and reporting tools. CARL acquired all of the outstanding share capital of FlowWorks on October 15, 2015 (note 7).

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as recorded in these condensed consolidated interim financial statements. These condensed consolidated interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At December 31, 2016, the Company had not achieved profitable operations, had accumulated a deficit of \$6,857,183 since inception and expects to incur further operating losses in the development of its business. The Company's ability to continue as a going concern is dependent upon the ability to develop its business units, develop marketable software, potentially find, acquire and develop various other business segments with growth potential, its ability to obtain the necessary financing to carry out this strategy, and to meet its corporate overhead needs and discharge its liabilities as they come due. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. This indicates a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

**2. Basis of Preparation and Statement of Compliance**

**Statement of Compliance**

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with IFRS issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). These condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended June 30, 2016. These interim financial statements follow the same accounting policies and methods of computation as compared with the most recent annual financial statements, being for the year ended June 30, 2016 other than as described in note 4 arising from new transactions or the acquisition of FlowWorks. These condensed interim consolidated financial statements were approved for issuance by the Board of Directors on February XX, 2017.

**CARL DATA SOLUTIONS INC. (FORMERLY CARL CAPITAL CORP.)**  
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(UNAUDITED)

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*(figures in tables are expressed in Canadian dollars, except per share amounts)*

**3. Basis of Preparation and Statement of Compliance (cont'd...)**

**Basis of Presentation**

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The condensed consolidated interim financial statements of the Company are presented in Canadian dollars.

**4. Significant Accounting Policies**

**Basis of Consolidation**

These consolidated financial statements include the financial statements of CARL and its controlled and wholly-owned subsidiaries ETS and FlowWorks. Control is achieved where the Company has power over an entity, has exposure or rights to variable returns from its involvement with the entity and has the ability to use its power over the entity to affect the amount of the investor's returns. Subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. All inter-company balances, transactions, revenues and expenses have been eliminated on consolidation.

**Business Combinations**

Business combinations are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values at the date of acquisition, of assets transferred, liabilities incurred or assumed, and equity instruments issued by the Company. The acquiree's identifiable assets and liabilities assumed are recognized at their fair value at the acquisition date. Acquisition-related costs are recognized in earnings as incurred. The excess of the consideration over the fair value of the net identifiable assets and liabilities acquired is recorded as goodwill. Any gain on a bargain purchase is recorded in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. Any goodwill that arises is tested annually for impairment.

**Translation of Foreign Currencies**

The financial statements of each entity in the group are measured using the currency of the primary economic environment in which each entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars.

The functional currency of all entities in the consolidated group, other than FlowWorks, is the Canadian dollar, while the functional currency of FlowWorks is the United States dollar. The financial statements of FlowWorks are translated into the Canadian dollar presentation currency using the current rate method as follows:

- Assets and liabilities – at the closing rate at the date of the statement of financial position.
- Income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates).
- All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from the item are considered to form part of the net investment in a foreign operation and are recognized in other comprehensive income.



**CARL DATA SOLUTIONS INC. (FORMERLY CARL CAPITAL CORP.)**  
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
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**4. Significant Accounting Policies (cont'd...)**

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the period end exchange rate while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in comprehensive loss.

**Revenue recognition**

The Company earns revenue in its subsidiary FlowWorks, through performance of services and subscription software.

Services revenue is recognized when the amount of revenue can be reliably measured, the stage of completion of the work involved in supplying the services can be reliably measured, it is probable that economic benefits associated with the transaction will flow to the Company, and the costs incurred and to be incurred can be reliably measured.

Subscription software revenue is measured at the fair value of the consideration received or receivable for services, net of discounts and sales taxes. Consideration received from customers in advance is recorded as deferred revenue.

The Company earns revenue in its subsidiary, ETS through the supply of social referral software to clients and through data services to clients. Revenue is measured at the fair value of the consideration received or receivable for services, net of discounts and sales taxes. Consideration received from customers in advance is recorded as deferred revenue.

**Intangible assets**

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets acquired through asset acquisitions or business combinations are initially recognized at fair value, based on an allocation of the purchase price. The intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

FlowWorks Customer list	5 years
FlowWorks Software application	3 years

The amortization method, estimated useful lives and residual values are reviewed annually, or more frequently if required, and are adjusted as appropriate.

**Goodwill**

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognized at the date of acquisition.

Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is not subject to amortization but is tested for impairment.

**CARL DATA SOLUTIONS INC. (FORMERLY CARL CAPITAL CORP.)**  
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
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**5. Accounting Standards and Amendments Issued but Not Yet Adopted**  
**New standards not yet adopted**

**IFRS 9 Financial Instruments (revised)**

IFRS 9, Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of adopting these amendments on its financial statements.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of adopting these amendments on its financial statements.

**IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets**

IAS 16 and IAS 38 have been amended to (i) clarify that the use of a revenue-based depreciation and amortization method is not appropriate, and (ii) provide a rebuttable presumption that amortization of an intangible asset based on revenue generated by using the asset is inappropriate. The amendments to IAS 16 and IAS 38 are effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of adopting these amendments on its financial statements.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

**6. Significant Accounting Judgments and Estimates**

The preparation of these Condensed consolidated interim 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 period. Actual results could differ from these estimates.

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive loss/income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both. Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the condensed consolidated interim financial statements within the next financial year are discussed below.

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
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**6. Significant Accounting Judgments and Estimates**

**Critical accounting judgments**

The functional currency of an entity is assessed on a standalone basis to determine the economic substance of the currency in which each entity performs its operations. The functional currency of the parent company and its subsidiary, ETS, is the Canadian dollar. The functional currency of FlowWorks is the US dollar.

The application of the Company's accounting policy for software development expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after the expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the statement of comprehensive loss in the period the new information becomes available.

The Company has exercised judgment in quantifying the allowance for doubtful accounts receivable. While it is possible that certain accounts receivable considered good may turn doubtful at a later date, there are no indicators that they would at the present time.

**Critical accounting estimates**

The Company has made estimates with respect to the acquisition date fair values of the identifiable assets and liabilities of FlowWorks, Inc. The valuation of intangible assets requires management to use valuation techniques. The Company uses its judgement to select methods and makes assumptions that reflect market conditions as at the acquisition date (note 7).

The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

**7. Acquisition of FlowWorks**

On October 13, 2015, the Company completed the acquisition of FlowWorks pursuant to the terms of a share exchange agreement between CARL, FlowWorks and the majority shareholders of FlowWorks. CARL acquired 100% of the outstanding common shares of FlowWorks in exchange for 7,629,397 common shares of the Company issued to two shareholders of FlowWorks.

One shareholder of FlowWorks, holding approximately 11% of FlowWorks, dissented to the transaction. The Company agreed to assume any obligation in connection with payment of fair value for such dissenting shares and all expenses in connections with the dissenter's rights. The Company has estimated a provision for this settlement as at the acquisition date.

This acquisition is consistent with the Company's corporate growth strategy to build and acquire applications that assist in the collection, storage and analysis of large volumes of information for data centric companies. FlowWorks has a committed, pre-existing customer base. The Company plans to expand upon FlowWorks' proven marketing strategy to attract new customers by implementing innovative marketing automation technologies, which include the use of the Company's Extend-to-Social Referral Marketing Application.

**CARL DATA SOLUTIONS INC. (FORMERLY CARL CAPITAL CORP.)**  
 NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 (UNAUDITED)

*(figures in tables are expressed in Canadian dollars, except per share amounts)*

**7. Acquisition of FlowWorks (cont'd...)**

<b>Purchase price consideration</b>	
Value of 7,629,397 common shares issued at \$0.32	\$ 2,441,407
<b>Assets acquired and liabilities assumed</b>	
Cash	\$ 124,055
Accounts receivable	215,743
Prepaid expenses	23,978
Software application	387,634
Customer list	659,154
Accounts payable	(515,132)
Dissenter liability	(310,593)
Deferred income tax liabilities	(149,000)
Goodwill on acquisition	2,005,568
	<b>\$ 2,441,407</b>

Accounts receivable acquired with FlowWorks are trade receivables under normal course of business and are recorded at fair value at the date of acquisition. The fair value of the accounts receivable at acquisition equals its carrying value at that date.

The software application is web-based application which enables clients to analyze environmental data for water management purposes. Income tax consequences of the transaction included a deferred income tax liability of \$149,000, which together with the fair values of other assets and liabilities acquired resulted in the recognition of \$2,005,568 in goodwill that is not deductible for tax purposes. The composition of goodwill includes assets that are not separately identifiable including the value of employees working with FlowWorks, and the potential to apply the principles of the web-based application to new industries and industry segments. The software application is amortized over a 3-year term. During the period ended December 31, 2016, the Company recognized amortization of \$64,283. During the Company's annual impairment review, the Company decreased future expectations with respect to revenue which resulted in a negative net present value and decided to write-off the balance of goodwill being \$2,005,568 to profit or loss.

The customer list acquired with FlowWorks is estimated relative to contracted customer subscriptions and recurring customer revenues projected over a period of five years at a 30% discount rate. The customer list is amortized over a 5-year term. In the period ended December 31, 2016, the Company recognized amortization of \$65,915.

FlowWorks' total revenues, total expenses and net loss of \$715,011, \$1,023,111 and \$308,100, respectively, since the acquisition date, have been included in profit or loss for the year ended June 30, 2016. Had the acquisition occurred on July 1, 2015 revenues, total expenses and net loss of \$980,155, \$1,297,183 and \$317,028, respectively, would have been included in profit or loss for the year ended June 30, 2016.

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**8. Accounts and Other Receivables**

	December 31, 2016	June 30, 2016
Accounts receivable	\$ 382,887	\$ 267,428
Goods and services tax ("GST") receivable	41,335	7,633
	<b>\$ 424,222</b>	<b>\$ 275,061</b>

**9. Intangible assets**

**Software in Development**

A total of \$83,428 has been expended on third party software programmers in the development of the customer referral software that ETS has created. The remaining \$204,172 is a fair market valuation adjustment upon the purchase of ETS by CARL. The following table shows the composition of the value of the software in development:

	ETS Software in Development	Fair Value on adjustment of acquisition of ETS	Total
Balance – June 30, 2015	\$ 33,139	\$ 204,172	\$ 237,311
Expenditure on software development	50,289	-	50,289
Balance – June 30 and December 31, 2016	<b>\$ 83,428</b>	<b>\$ 204,172</b>	<b>\$ 287,600</b>

**Software Application**

The software application relates to the web-based application acquired with FlowWorks. The application is in use and is being amortized over a period of three years.

	Fair Value	Amortization	Cumulative Translation Adjustment	Total
Balance – June 30, 2015	\$ -	\$ -	\$ -	\$ -
Acquired software application (note 7)	387,634	-	-	387,634
Amortization	-	(91,641)	-	(91,641)
Foreign currency translation	-	-	(1,934)	(1,934)
Balance – June 30, 2016	387,634	(91,641)	(1,934)	294,059
Amortization	-	(64,283)	-	(64,283)
Foreign currency translation	-	-	39,290	39,290
Balance – December 31, 2016	<b>\$ 387,634</b>	<b>\$ (155,924)</b>	<b>\$ 37,356</b>	<b>\$ 269,066</b>

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**9. Intangible assets (con't...)**

**Customer List**

The customer list relates to the customers acquired with FlowWorks. The asset is a finite life asset and is being amortized straight-line over a period of five years, with approximately 4.25 years remaining unamortized.

	Fair Value	Amortization	Cumulative Translation Adjustment	Total
Balance – June 30, 2015	\$ -	\$ -	\$ -	\$ -
Acquired customer list (note 7)	659,154	-	-	659,154
Amortization	-	(93,383)	-	(93,383)
Foreign currency translation	-	-	(1,955)	(1,955)
Balance – June 30, 2016	\$ 659,154	\$ (93,383)	\$ (1,955)	\$ 563,816
Amortization	-	(65,915)	-	(65,915)
Foreign currency translation	-	-	38,986	38,986
Balance – December 31, 2016	\$ 659,154	\$ (159,298)	\$ 37,031	\$ 536,887

**10. Accounts Payable and Accrued Liabilities**

	December 31, 2016	June 30, 2016
Accounts payable	\$ 598,050	\$ 542,414
Accrued liabilities	120,613	116,033
	\$ 718,663	\$ 658,447

Included in trade and other payables of the Company are amounts due to related parties (note 20).

**11. Convertible Note**

During the year ended June 30, 2016, the Company completed a senior secured collateralized convertible note ("Note") financing of up to \$2,000,000 to be received in tranches. All tranches of the Note bear interest of 10% (12% if in default) per annum, calculated and payable monthly, in advance.

The Company issued an initial tranche of \$500,000 incurring total transaction costs of \$432,075. The principal, at the option of the holder, will be convertible into common shares of the Company at a conversion price of \$0.45 per common share, subject to adjustment as per the agreement.

If at any time following four months after the issue date of any Note, the closing price of the Company is \$0.75 per share for 30 consecutive trading days with a daily weighted-average trading volume of more than 400,000 shares, the Company may force the conversion of one-half of the aggregate principal.

From and after the one-year anniversary of any Note, the Company, at its option, may prepay, without notice or penalty, the principal amount of all the outstanding Notes in full or in part together with any accrued and unpaid interest.

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**11. Convertible Note (con't...)**

Each tranche of the Note contains both an equity component, being the holder's conversion right, and a liability component which are presented separately on the consolidated statement of financial position. The Company allocated the transaction costs to the debt and equity components based on the relative fair values of the Note and the equity conversion option. Interest and transaction costs are recognized by accreting the liability component to its face value over the term of the Note.

The Company paid a non-refundable commitment fee, included in total transaction costs, of \$50,000 and 375,000 shares. The Company shall issue 800,000 bonus shares on the closing date and on the date of conversion. 400,000 of these bonus shares were issued on the closing date and included in total transaction costs.

In the event the Company does not issue Notes in accordance with the terms of the agreement, the Company is subject to a break fee of \$100,000.

At any time after issuance, the holder has the right to convert the principal amount of the Note at the above conversion price.

During the period ended December 31, 2016, the Company initiated monthly issuances of the Company's convertible notes and received \$422,500 in proceeds.

	<b>December 31, 2016</b>		<b>June 30, 2016</b>	
Balance – beginning of period	\$	60,238	\$	-
Issuance of convertible note		322,425		60,238
Settlements – cash		77,670		-
Conversion of convertible note		(73,247)		-
Balance – end of period	\$	387,086	\$	60,238
Face value of Note at maturity	\$	517,500	\$	500,000

During the period ended December 31, 2016, the Company converted \$405,000 of convertible notes (13(b)(ii)).

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**12. Loans Payable**

	December 31, 2016	June 30, 2016
Balance – beginning of period	\$ 515,104	\$ 4,000
Advances of short-term loans	3,037	765,600
Interest accrued	748	178,304
Settlements – cash	(74,137)	(432,800)
Settlements – shares	(373,745)	-
Balance – end of period	\$ 71,007	\$ 515,104

During the period ended December 31, 2016, the Company issued 16,666, 454,803 and 435,111 common shares at deemed prices of \$0.45, \$0.48 and \$0.34, respectively, to settle short term debt in the aggregate of \$373,745.

During the year ended June 30, 2016, the Company entered into the following short term loan agreements:

- (a) A director of the Company loaned the Company \$60,000, unsecured, with a maturity date of May 31, 2016, an interest rate of 15% and a number of shares equal to 15% of the face value of the loan converted at \$0.30 per share. The loan was settled, including accrued interest, for private placement units (note 11).
- (b) An unrelated party loaned the Company \$60,000 and a related party loaned the Company \$23,000 for an aggregate of \$83,000, unsecured, with a maturity date of May 31, 2016, an interest rate of 15% and a number of shares equal to 15% of the face value of the loan converted at \$0.30 per share. Of the loan, \$23,000 and accrued interest were settled with private placement units in the year ended June 30, 2016 (note 11). The balance of the loan remains outstanding as at June 30, 2016.

An unrelated party loaned the Company \$100,000 and a related party loaned the Company \$300,000 for an aggregate of \$400,000, unsecured, with a maturity date of February 22, 2016 for \$100,000 and May 31, 2016 for \$300,000, and a flat fee, on repayment of the loan, of 30% of the principal of the loan, payable in cash or shares converted at \$0.30 per share at the option of the Company. The Company settled principal and accrued interest of \$248,191 with private placement units in the year ended June 30, 2016 (note 11). The balance of the loan remains outstanding as at June 30, 2016.

**12. Share Capital**

**(a) Authorized Share Capital**

As at December 31, 2016, the authorized share capital of the Company is an unlimited number of common shares without par value. All issued shares, consisting only of common shares are fully paid.

**(b) Issued Share Capital**

During the period ended December 31, 2016, the Company issued common shares as follows:



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**13. Share Capital (cont'd...)**

- (i) On November 24, 2016, the Company issued 727,611 common shares to settle debts of \$371,138.
- (ii) On November 24, 2016 the Company issued 1,191,176 common shares for the conversion of \$405,000 in convertible debentures and a further 400,000 common shares as bonuses related to the conversion.
- (iii) On October 24, 2016, the Company completed a non-brokered private placement whereby the Company issued 2,500,000 units at a price of \$0.36 per unit for gross proceeds of \$900,000. Each unit comprised of one common share and one-half of one transferable share purchase warrant. Each warrant entitles the holder thereof to acquire one additional share at a price of \$0.60 for two years. In connection with the offering, the Company issued 200,000 finder units under the same terms as above. The Company recognized a non-cash issue cost of \$13,305 with a corresponding increase in reserves. This expense was calculated using the Black-Scholes option valuation model with the following assumptions: Risk-free rate, 0.49%; Dividend yield, 0%; Expected volatility, 70%; and Expected life, 2 years
- (iv) On October 12, 2016, the Company issued 25,000 bonus common shares to a consultant for services.
- (v) On September 28, 2016, the Company issued 750,000 common shares at a price of \$0.40 per share to settle \$300,000 of debt owed to an arm's length party. The Company recorded a decrease in reserves of \$22,500 based on the difference between the market value of the shares on the settlement date and the value of the debt settled.
- (vi) On September 16, 2016, the Company issued 750,000 common shares at a price of \$0.40 per share to settle \$300,000 of debt owed to a non-arm's length party. The Company recorded a decrease in reserves of \$15,000 based on the difference between the market value of the shares on the settlement date and the value of the debt settled.
- (vii) On August 23 and September 26, 2016, the Company issued a total of 406,600 common shares through the exercise of share purchase warrants for gross proceeds of \$65,910.
- (viii) On July 20, 2016, the Company issued 949,664 common shares including 881,887 common shares at a price of \$0.48 per share and 67,777 common shares at a price of \$0.45 per share to settle \$453,807 of debt owed various arm's length and non-arm's length parties. The Company recorded a decrease in reserves of \$40,019 based on the difference between the market value of the shares on the settlement date and the value of the debt settled

During the year ended June 30, 2016, the Company issued common shares as follows:

- (ix) On June 29, 2016, the Company issued 400,000 bonus common shares at a price of \$0.59 to the purchasers of the \$500,000 convertible note financing (note 10).
- (x) On May 31 and June 10, 2016, the Company issued a total of 210,080 common shares through the exercise of share purchase warrants for gross proceeds of \$54,076.
- (xi) On April 22, 2016, the Company issued 375,000 common shares at a price of \$0.50 per share as partial settlement of a commitment fee for a convertible note financing.

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**13. Share Capital (cont'd...)**

- (xii) On January 21, 2016, the Company issued 1,109,334 units, at a price of \$0.30 per unit, to settle short term loans and accrued interest of \$332,800. Each unit consisted of one common share and one-half share purchase warrant. Each full warrant is exercisable at \$0.45 for a period of 24 months from the date of closing. The warrants are subject to an acceleration provision such that the Company has the right to accelerate the expiry of the warrants to a 30-day period if the Company's common shares trade at a price greater than \$0.75 for a period of ten consecutive trading days.
  
- (vi) On December 29, 2015, the Company issued 224,000 units pursuant to the first tranche of a non-brokered private placement at a price of \$0.30 per unit for gross proceeds of \$67,200. Each unit consisted of one common share and one-half share purchase warrant. Each warrant is exercisable at a price of \$0.45 for a period of two years. The warrants are subject to an acceleration provision such that the Company has the right to accelerate the expiry of the warrants to a 30-day period if the Company's common shares trade at a price greater than \$0.75 for a period of ten consecutive trading days.

In connection with the tranche, the Company issued finders' warrants to purchase 6,720 common shares. The finder warrants are exercisable at a price of \$0.30 per common share until December 31, 2016. The Company recognized a non-cash issue cost of \$1,036 with a corresponding increase in reserves and paid cash finder's fees of \$2,016. This expense was calculated using the Black-Scholes option valuation model with the following assumptions: Risk-free rate, 0.48%; Dividend yield, 0%; Expected volatility, 70%; and Expected life, 1 year.

- (vii) On December 23, 2015, the Company issued 250,000 common shares at a price of \$0.30 per share as a financing fee for the commencement of due diligence to undertake a private placement financing.
  
- (viii) On July 7, 2015, the Company completed a non-brokered private placement and issued 440,000 common shares at a price of \$0.25 per common share for gross proceeds of \$110,000. No finder's fees were associated with the placement.

As at December 31, 2016, a total of 7,310,646 (June 30, 2016 – 9,747,525) common shares remain in escrow with a portion being released every six months until January 21, 2018.

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**14. Warrants**

Details regarding warrants issued and outstanding are summarized as follows:

	Weighted average exercise price	Number of shares issued or issuable on exercise
Balance - June 30, 2015	\$0.25	1,070,680
Issuance of warrants	0.45	673,387
Exercised	0.26	(210,080)
Balance - June 30, 2016	0.25	1,533,987
Issuance of warrants	0.60	1,350,000
Expiry of warrants	0.30	(6,720)
Exercised	0.16	(406,600)
Balance – December 31, 2016	\$0.51	2,470,667

The expiry of agents' and share purchase warrants are as follows:

	Exercise price	Number of warrants	Expiry date
Agents' warrants	\$0.60	100,000	October 23, 2018
Share purchase warrants	\$0.35	524,000	June 5, 2017
Share purchase warrants	\$0.45	42,000	December 29, 2017
Share purchase warrants	\$0.45	554,667	January 21, 2018
Share purchase warrants	\$0.60	<u>1,250,000</u>	October 23, 2018
		2,470,667	

**15. Share-Based Payments**

On January 22, 2015, the Company adopted an incentive stock option plan. Under the terms of this plan, the total number of share purchase options to be granted and outstanding may not exceed 10% of the total issued and outstanding common shares of the Company at the date of grant. Options may be granted with an exercise price equal to the market price of the common shares less any permitted discount on the grant date, vest according to privileges set at the time the options, have a minimum price of \$0.10 and are granted and expire no later than five years from the date of grant.

The changes in incentive share options outstanding are summarized as follows:

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**15. Share-Based Payments (cont'd...)**

	Weighted average exercise price	Number of shares issued or issuable on exercise
Balance – June 30, 2015	\$ 0.11	1,835,000
Granted	\$ 0.40	1,128,600
Exercised, with a weighted average share price of \$0.37	\$ 0.11	(200,000)
Balance – June 30, 2016	\$ 0.23	2,763,600
Cancelled	\$ 0.40	(220,000)
Granted	\$ 0.25	615,247
Balance – December 31, 2016	\$ 0.22	3,158,847

Incentive share options outstanding and exercisable December 31, 2016 are summarized as follows:

Exercise Price	Options Outstanding			Options Exercisable	
	Number of Shares Issuable on Exercise	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Shares Issuable on Exercise	Weighted Average Exercise Price
\$ 0.11	1,635,000	3.06 years	\$0.11	1,635,000	\$
\$ 0.40	908,600	4.06 years	\$0.40	447,150	\$
\$ 0.25	615,247	4.65 years	\$0.25	264,247	\$
	3,158,847			2,436,397	\$0.18

The weighted average fair value of options granted during the period was \$0.25 per option (2015 - \$Nil). Total share-based payments recognized in the statement of shareholders' equity for the period ended December 31, 2016 was \$152,206 (2015 - \$Nil) for incentive options granted and vested and was recognized in the statement of loss and comprehensive loss. All outstanding options have a vesting period of up to three years.

The fair value of options at the date of grant was estimated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	2016	2015
Risk-free interest rate	0.61%	-
Expected life of option	5 years	-
Expected annualized volatility	70%	-
Expected dividend rate	Nil	Nil

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**16. Management of Capital**

The capital managed by the Company includes the components of shareholders' equity as described in the consolidated statements of shareholders' equity. The Company is not subject to externally imposed capital requirements.

The Company's objectives of capital management are to create long-term value and economic returns for its shareholders. It does this by seeking to maximize the availability of funds for growth and development of its projects, and to support the working capital required to maintain its ability to continue as a going concern. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its assets, seeking to limit shareholder dilution and optimize its cost of capital while maintaining an acceptable level of risk. To maintain or adjust its capital structure, the Company considers all sources of finance reasonably available to it, including but not limited to issuance of new capital, issuance of new debt and the sale of assets in whole or in part. The Company's overall strategy with respect to management of capital at September 30, 2016 remains fundamentally unchanged from the year ended June 30, 2015.

**17. Supplemental Cash Flow Information**

During the period ended December 31, 2016, the Company issued

- 3,177,275 common shares at a price of \$0.34 to settle debt of \$1,432,499 for short term loans, accrued interest, and accounts payables.
- 600,000 common shares at a weighted average price of \$0.35, for a total value of \$208,000, as financing fees in connection with a private placement financing.
- 25,000 common shares at a price of \$0.32 for services

During the period ended December 31, 2015, the Company's non-cash investing and financing activities included issuing 6,720 finders' warrants are exercisable at a price of \$0.30 per common share until December 31, 2016 at a value of \$1,036.

During the period ended December 31, 2015, the Company issued 250,000 common shares at a price of \$0.30, for a total value of \$75,000, as a financing fee for commencement of due diligence in connection with a private placement financing.

**18. Segmented Information**

The Company operates in one reportable segment, being data services, which information is regularly reviewed by the Company's President and CEO, being the chief decision making officer. Revenue is earned in two main regions, being Canada and United States. The following is a breakdown of revenue by geographic areas based on each customers' location:

	Three months ended		Six months ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
<b>Revenue</b>				
Canada	\$ 104,040	\$ 113,900	\$ 233,441	\$ 135,150
United States	181,563	150,052	338,191	150,052
	<b>\$ 285,603</b>	<b>\$ 263,952</b>	<b>\$ 571,632</b>	<b>\$ 285,202</b>

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**19. Related Party Transactions**

The Company has entered into an executive consulting agreement for the services of the President and CEO, with a company controlled by the President, CEO and director of the Company. Under the terms of the agreement, the Company will pay the company a total of \$10,833 per month for the services of President and CEO.

The Company has entered into an executive consulting agreement with a company controlled by the CFO of the Company. Under the terms of the agreement, the Company will pay the company a total of \$5,000 per month for the services of CFO. Beginning July 1, 2016, the Company increased the fee to \$7,000 per month.

During the period ended December 31, 2016, the Company paid or accrued, to key management personnel and their related companies, total compensation of \$650,567 (2015 - \$79,500) in consulting fees and expensed \$36,428 (2015 - \$Nil) in share-based payments to key management personnel and their related companies. Key management personnel includes a company controlled by the CEO of the Company, a company controlled by a director of the Company, a company controlled by the CFO of the Company, and the former CFO of the Company.

During the period ended December 31, 2016, the Company issued 3,177,275 common shares, including 2,282,282 to related parties, to settle debt of \$1,432,499, including \$931,597 to related parties;

Included in accounts payable and accrued liabilities is \$17,829 (June 30, 2016 - \$87,986) due to officers, directors, and a spouse of a director of the Company. Additionally, the Company has entered into loan agreements with a related party as detailed in note 12.

On June 9, 2014, ETS signed a referral services agreement with RA Revenue Automation Inc. ("RA") whereby RA agreed to use ETS as its exclusive referral marketing application and include the concept in all relevant business development pitches to customers. A company controlled by the Company's CEO owns 10% of RA.

*Kerr Wood Leidal Associates Ltd. ("KWL")*

KWL, a consulting engineering company, founded and created FlowWorks and is a significant shareholder of the Company. During the period ended December 31, 2016, the Company earned sales revenue from KWL of \$24,950 and incurred expenses from KWL of \$27,985. Included in accounts receivable as at December 31, 2016 is a balance owing from KWL of \$107,209. The Company owed accounts payable of \$153,016 to KWL as at December 31, 2016.

During the year ended June 30, 2016, the Company paid \$433,552 to KWL, on behalf of FlowWorks, to pay down balances owing.

**20. Commitments**

In connection with the convertible note (note 10), a break fee of \$100,000 will be payable to the Investor if, for any reason, the Company decides not to proceed with the financing.

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**21. Subsequent Events**

Subsequent to December 31, 2016, the Company has entered into a settlement agreement with FlowWorks' dissented shareholder (note 7) by agreeing to the following:

- (i) Cash payment of US\$1,000 within 30 days of the signing of final settlement;
- (ii) Cash payment of US\$100,000 within 90 days of the signing of final settlement;
- (iii) Issuing 444,444 common shares of the Company, subject to certain restrictions, within 5 days of the signing of final settlement with certain restrictions not yet finalized;
- (iv) Issuing 444,444 common shares of the Company, subject to certain restrictions, within 10 days of the signing of a final settlement; and
- (v) Issuing 44,444 common shares of the Company, subject to certain restrictions, within 6 months of the signing of final settlement.