



CARL DATA SOLUTIONS INC.

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

**(AUDITED)
(Expressed in Canadian Dollars)**

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INDEPENDENT AUDITOR’S REPORT

To the Shareholders of CARL Data Solutions Inc.

We have audited the accompanying consolidated financial statements of CARL Data Solutions Inc., and its subsidiaries, which comprise the consolidated statements of financial position as at June 30, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, shareholders’ equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the 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 the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CARL Data Solutions Inc. and its subsidiaries as at June 30, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicates the existence of material uncertainties that may cast significant doubt about CARL Data Solutions Inc.’s ability to continue as a going concern.

Wolrige Mahon Collins Barrow LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

October 25, 2018
Vancouver, B.C.

CARL DATA SOLUTIONS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT JUNE 30,

(Expressed in Canadian dollars)

	2018	2017
ASSETS		
Current Assets		
Cash	\$ 247,795	\$ 40,606
Accounts and other receivables (note 9)	432,408	216,864
Digital currencies (note 10)	8,244	-
Prepaid expenses	434,767	228,993
	1,123,214	486,463
Non-Current Assets		
Intangible assets (notes 5, 7, 8 and 12)	2,442,044	900,837
Property and equipment (notes 7, 8 and 11)	701,571	-
Goodwill	118,775	36,421
Total Assets	\$ 4,385,604	\$ 1,423,721
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current Liabilities		
Accounts payable and accrued liabilities (note 13)	\$ 373,015	\$ 808,984
Loans payable (note 15)	604,000	448,907
Convertible note (note 14)	-	29,735
	977,015	1,287,626
Convertible note (note 14)	10,000	357,999
Total Liabilities	987,015	1,645,625
Shareholders' Equity (Deficiency) (note 16)		
Share capital	15,638,336	7,910,928
Reserves	1,293,509	436,221
Equity conversion feature on convertible note (note 14)	1,477	78,296
Commitment to issue shares (notes 5 and 7)	113,211	317,333
Accumulated other comprehensive income	41,663	16,407
Deficit	(13,689,607)	(8,981,089)
	3,398,589	(221,904)
Total Liabilities and Shareholders' Equity (Deficiency)	\$ 4,385,604	\$ 1,423,721

Nature of Operations and Going Concern (note 1)

Commitments (note 22)

Subsequent Events (note 26)

APPROVED ON BEHALF OF THE BOARD ON OCTOBER 25, 2018

"Kevin Ma"
Director

"Chris Johnston"
Director

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

CARL DATA SOLUTIONS INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED JUNE 30,

(Expressed in Canadian dollars)

	2018	2017
Revenue		
Data services	\$ 856,490	\$ 1,047,271
Data hosting	40,044	-
Digital currency verification services (note 10)	10,587	-
Custom programming service contracts	255,191	92,543
Social referral software	96,600	50,585
	1,258,912	1,190,399
Expenses		
Accretion of convertible note (note 14)	97,266	133,891
Amortization (note 12)	338,160	267,539
Bad debts (notes 9 and 24)	17,434	23,143
Computer hosting costs	286,403	131,947
Consulting	824,172	667,677
Depreciation (note 11)	53,271	-
Filing and transfer agent	68,584	58,040
Foreign exchange loss (gain)	53,443	(37,290)
Interest and penalties (notes 14 and 15)	85,508	134,975
Investor relations	1,973,261	412,554
Marketing	68,711	51,461
Occupancy	158,874	96,024
Office and miscellaneous	185,581	173,473
Professional	301,041	367,400
Share-based payments (notes 16(b)(xiii) and 18)	409,282	242,774
Salaries and wages	931,807	1,295,328
Travel	180,783	96,397
	6,033,581	4,115,333
Operating loss	(4,774,669)	(2,924,934)
Other items		
Financing costs (notes 14 and 16(b)(iv))	(292,028)	(759,349)
Loss on conversion of convertible note	-	(458,012)
Loss on settlement of debt (note 16(b))	(104,478)	(123,627)
Revaluation of digital currencies (note 10)	(2,343)	-
Settlement of contingency (note 5)	-	(350,842)
Loss before income tax	(5,173,518)	(4,616,764)
Deferred income tax recovery (note 23)	465,000	-
Loss for the year	(4,708,518)	(4,616,764)
Other comprehensive loss		
Foreign exchange gain on translation of subsidiary	25,256	18,759
Comprehensive loss for the year	\$ (4,683,262)	\$ (4,598,005)
Weighted Average Number of Common Shares Outstanding		
Basic and Diluted	56,330,938	36,493,279
Loss Per Share		
Basic and Diluted	\$ (0.08)	\$ (0.12)

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

CARL DATA SOLUTIONS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,
(Expressed in Canadian dollars)

	2018	2017
Cash Flows used in Operating Activities		
Loss for the year	\$ (4,708,518)	\$ (4,616,764)
Non-cash items		
Amortization	338,160	267,539
Accrued interest expense	19,060	748
Accretion of convertible note	97,266	133,891
Deferred income tax recovery	(465,000)	-
Depreciation	53,271	-
Digital currency verification services	(10,587)	-
Foreign exchange loss	10,669	-
Share-based payments	409,282	242,774
Financing fees	291,021	702,607
Loss on conversion of convertible note	-	458,012
Loss on settlement of debt	104,478	123,627
Revaluation of digital currencies	2,343	-
Accrued commitment to issue shares	113,211	-
Shares issued for investor relations	-	322,500
Shares to be issued for settlement of contingency (note 5)	-	317,333
Changes in non-cash working capital items:		
Accounts and other receivables	(188,031)	60,144
Prepaid expenses	(10,022)	(68,736)
Accounts payable and accrued liabilities	(345,532)	185,744
	(4,288,929)	(1,870,581)
Cash Flows used in Investing Activities		
Acquisition of Carl Data Solutions PL (note 6)	109	-
Acquisition of Astra Smart Systems Inc. (note 8)	60	-
Purchase of property and equipment	(250,000)	-
	(249,831)	-
Cash Flows provided by Financing Activities		
Net proceeds from issuance of common shares	4,969,150	900,000
Proceeds from exercise of stock options	30,000	109,850
Proceeds from exercise of warrants	-	71,510
Proceeds from convertible note	-	390,000
Repayment of convertible note	(475,000)	-
Short-term loans	609,140	377,900
Repayment of short-term loans	(394,060)	(71,100)
	4,739,230	1,778,160
Effect of foreign exchange on cash	6,719	(2,983)
Change in cash during the year	207,189	(95,404)
Cash – beginning of year	40,606	136,010
Cash – end of year	\$ 247,795	\$ 40,606

Supplemental Information (see note 20)

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

CARL DATA SOLUTIONS INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)
FOR THE YEARS ENDED JUNE 30,

(Expressed in Canadian dollars, except share amounts)

	<u>Share Capital</u>		Reserves	Equity feature on convertible note	Commitment to issue shares	Accumulated other comprehensive gain (loss)	Deficit	Total
	Shares	Amount						
Balance – June 30, 2016	30,537,811	\$ 4,674,982	\$ 249,727	\$ 7,687	\$ -	\$ (2,352)	\$ (4,364,325)	\$ 565,719
Net comprehensive loss for the year	-	-	-	-	-	18,759	(4,616,764)	(4,598,005)
Shares issued for:								
Cash (note 16(c)(vi))	2,500,000	900,000	-	-	-	-	-	900,000
Share issuance costs, shares (note 16(c)(vi))	200,000	72,000	-	-	-	-	-	72,000
Share issuance costs, shares (note 16(c)(vi))	-	(72,000)	-	-	-	-	-	(72,000)
Fees (notes 16(c)(v) and 16(c)(viii))	425,000	164,000	-	-	-	-	-	164,000
Exercise of warrants (notes 16(c)(ii) and 16(c)(x))	422,600	83,270	(11,760)	-	-	-	-	71,510
Exercise of options (note 16(c)(ix))	998,636	172,979	(63,129)	-	-	-	-	109,850
Conversion of convertible note (note 16(c)(viii))	1,191,176	537,485	-	(6,226)	-	-	-	531,259
Debt settlement (notes 16(c)(i), 16(c)(iii), 16(c)(iv) and 16(c)(vii))	3,177,275	1,404,821	-	-	-	-	-	1,404,821
Share issuance costs – warrants (note 16(c)(vi))	-	(26,609)	26,609	-	-	-	-	-
Share-based payments (note 18)	-	-	234,774	-	-	-	-	234,774
Convertible feature on convertible note (note 14)	-	-	-	76,835	-	-	-	76,835
Commitment to issue shares (note 7)	-	-	-	-	317,333	-	-	317,333
Balance – June 30, 2017	39,452,498	7,910,928	436,221	78,296	317,333	16,407	(8,981,089)	(221,904)
Net comprehensive loss for the year	-	-	-	-	-	25,256	(4,708,518)	(4,683,262)
Shares issued for:								
Acquisition of Astra (notes 8 and 16(b)(xiv))	9,300,000	1,348,500	-	-	-	-	-	1,348,500
Cash (notes 16(b)(ii), 16(b)(v), 16(b)(viii) and 16(b)(xi))	21,203,076	5,512,799	-	-	-	-	-	5,512,799
Exercise of options (note 16(b)(vii))	272,727	47,236	(17,236)	-	-	-	-	30,000
Settlement of dissenter contingency (notes 16(b)(i) and 16(b)(x))	933,332	293,999	-	-	(317,333)	-	-	(23,334)
Acquisition of assets (notes 7 and 16(b)(ix))	400,000	194,000	-	-	-	-	-	194,000
Debt settlement (notes 16(b)(iii), 16(b)(iv), 16(b)(vi), 16(b)(xii) and 16(b)(xiii))	4,238,696	1,225,430	-	-	-	-	-	1,225,430
Share issuance costs – cash (notes 16(b)(ii), 16(b)(v), 16(b)(viii) and 16(b)(xi))	-	(543,649)	-	-	-	-	-	(543,649)
Share issuance costs – warrants (notes 16(b)(ii), 16(b)(v) and 16(b)(viii))	-	(26,102)	26,102	-	-	-	-	-
Share issuance costs – options (note 16(b)(xi) and 16(b)(xiii))	-	(338,305)	338,305	-	-	-	-	-
Accrued commitment to issue shares (note 6)	-	-	-	-	113,211	-	-	113,211
Share-based payments (notes 16(b)(xiii) and 18)	75,000	13,500	395,782	-	-	-	-	409,282
Settlement of convertible note (note 14)	-	-	76,819	(76,819)	-	-	-	-
Warrants issued for convertible note (note 14)	-	-	37,516	-	-	-	-	37,516
Balance – June 30, 2018	75,875,329	\$ 15,638,336	\$ 1,293,509	\$ 1,477	\$ 113,211	\$ 41,663	\$ (13,689,607)	\$ 3,398,589

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

CARL DATA SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

1. Description of Business and Nature of Operations

CARL Data Solutions Inc. (“**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 Frankfurt Stock Exchange (under the symbol: 7C5) and the OTC Pink (under the symbol: CDTAF). The head office and principal address of the Company is located at Suite 488 – 1090 West Georgia Street, Vancouver, British Columbia, V6E 3V7. The Company’s consolidated financial statements include the financial statements of the following subsidiaries:

Company	Place of Incorporation	Effective Interest
Extend to Social Media Inc. (“ ETS ”)	British Columbia	100%
FlowWorks Inc. (“ FlowWorks ”)	Washington, USA	100%
Carl Data Solutions PL (“ Carl PL ”)	Poland	100%
Astra Smart Systems Inc. (“ Astra ”)	British Columbia	100%

These consolidated 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 consolidated financial statements. These consolidated 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 June 30, 2018, the Company had not achieved profitable operations, had accumulated a deficit of \$13,689,607 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. These matters indicate material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern.

2. Basis of Preparation

Statement of Compliance

These consolidated financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards (“**IFRS**”) issued by the International Accounting Standards Board (“**IASB**”) and Interpretations of the International Financial Reporting Interpretations Committee (“**IFRIC**”).

Basis of Presentation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The consolidated financial statements of the Company are presented in Canadian dollars, which is the functional currency of the parent company.

Significant accounting judgments, estimates, and assumptions

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year. 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.

CARL DATA SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

2. Basis of Preparation (cont'd...)

Critical accounting judgments

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 consolidated financial statements within the next financial year are discussed below.

Functional currency

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, ETS, and Astra is the Canadian dollar. The functional currency of FlowWorks is the US dollar and the functional currency of Carl PL is the Polish Zloty.

Software development

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 to profit or loss in the year in which the new information becomes available.

Estimate useful life

The useful life of some of the Company's non-current assets is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practices of similar business, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any non-current asset would increase the recorded operating expenses and decrease long-term assets.

Classification of digital currencies

The Company's determination to classify its holding of digital currencies as current assets is based on management's assessment that its digital currencies held can be considered to be commodities, the availability of liquid markets to which the Company may sell a portion of its holdings and that the Company is actively selling its digital currencies in the near future to generate a profit from price fluctuations.

Asset acquisition

Management determines whether assets acquired, and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. During the year ended June 30, 2018, the Company completed the acquisitions of the physical and intangible assets of AB Embedded Systems Ltd. ("**AB Embedded**") (note 7) and all the issued and outstanding shares of Carl PL (note 6) and Astra (note 8) and concluded that each of the transactions qualified as business combinations under IFRS 3, "Business Combinations."

Impairment of accounts receivable

The Company exercises judgment in identifying impaired accounts receivable, the collection of which may be uncertain.

Deferred income tax

The Company has not recognized a deferred tax asset as management believes it is not probable that taxable profit will be available against which deductible temporary differences can be utilized.

CARL DATA SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

3. Basis of Preparation (cont'd...)

Critical accounting judgments (cont'd...)

Going concern

The assessment of the Company's ability to continue as a going concern involves critical judgment based on historical experience. Significant judgments are used in the Company's assessment of its ability to continue as a going concern which are described in Note 1.

Critical accounting estimates

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Valuation of acquired assets

The Company has made estimates with respect to the acquisition date fair values of the identifiable assets and liabilities of FlowWorks (note 5), Astra (note 8), Carl PL (note 6), and AB Embedded (note 7). The valuation of intangible assets requires management to use valuation techniques to assess the fair values of assets and liabilities acquired at acquisition date. The Company used its judgment to select methods and makes assumptions that reflected market conditions as at the acquisition dates.

Equity-settled transactions

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. Equity-settled transactions with non-employees are recorded at the fair value of the service provided, where this is readily determinable. In other instances, they are recorded at the fair value of the equity instruments issued. 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-based award, volatility and dividend yield and making assumptions about them.

3. Significant Accounting Policies

Basis of Consolidation

These consolidated financial statements include the financial statements of CARL and its controlled and wholly-owned subsidiaries ETS, FlowWorks, Astra, and Carl PL. ETS, FlowWorks, and Carl PL have historically maintained a fiscal year-end of December 31 and retained that year-end post acquisition. The Company may change the year-end to match the Company's year-end in the future. Astra historically maintained a fiscal year-end of July 31, which was changed post acquisition to June 30 to match the Company's year-end. 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.

CARL DATA SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

3. Significant Accounting Policies (cont'd...)

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 acquired, 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 profit or loss as incurred, except if related to the issue of debt or equity securities. 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. Any goodwill that arises is tested at least annually for impairment.

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. 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
Electrical systems certification	3 years
Control system source code	3 years
Augmented business intelligence software	3 years
Environmental sensor firmware	3 years
Preferential lease	4 years

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

Impairment

At the end of each reporting period, the Company's long-lived 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 of disposal 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, due to a change in circumstances, 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.

Revenue recognition

The Company earns revenue from the provision of digital currency verification services and in its subsidiaries, FlowWorks, ETS, and Astra through the performance of services revenue and data center hosting.

i. Services revenue

Services revenue includes custom programming service contracts, data services through software subscription revenue, and the supply of social referral software to clients. Services 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.

CARL DATA SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

3. Significant Accounting Policies (cont'd...)

Revenue recognition

i. Services revenue (cont'd...)

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.

ii. Data center hosting

Revenue from data center hosting at the fair value of the consideration received or receivable for services, net of discounts and sales taxes and it 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. Consideration received from customers in advance is recorded as deferred revenue.

iii. Digital currency verification services

The Company provides transaction verification services within digital currency networks, for which it receives digital currency from each specific network as consideration. Revenue is measured based on the fair value of the coins received. The fair value is determined using the closing spot price of the coin on the date of receipt, based on prices available on www.cryptocompare.com. The coins are recorded on the statement of financial position, as digital currencies, at their fair value and re-measured at each reporting date. Revaluation gains or losses, as well as gains or losses on the sale of coins for traditional (fiat) currencies are included in profit and loss in accordance with the Company's treatment of its digital currencies as a traded commodity.

There is currently no specific definitive guidance in IFRS or alternative accounting frameworks for the accounting for the mining and strategic selling of digital currencies and management has exercised significant judgment in determining the appropriate accounting treatment for the recognition of revenue for mining of digital currencies. Management has examined various factors surrounding the substance of the Company's operations, including the stage of completion being the completion and addition of a block to a blockchain and the reliability of the measurement of the digital currency received.

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"). These consolidated financial statements are presented in Canadian dollars.

The functional currency of all entities in the consolidated group, other than FlowWorks and Carl PL, is the Canadian dollar, while the functional currencies of FlowWorks is the United States dollar and Carl PL is the Polish Zloty. The financial statements of FlowWorks and Carl PL 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 year (as this is considered a reasonable approximation to actual rates).
- All resulting changes are recognized in other comprehensive income as foreign exchange gain (loss) on translation of subsidiary.

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3. Significant Accounting Policies (cont'd...)

Translation of Foreign Currencies (cont'd...)

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.

Transactions in currencies other than the functional currency of each entity 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 entity 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 average exchange rate for the year, which approximates those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in profit or loss.

Property and Equipment

On initial recognition, property and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in a manner intended by the Company. Property and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses.

Depreciation is recognized in operations using the declining balance method at the following rates over the assets useful life:

Machinery and equipment	30%
Computer equipment	30%
Furniture and fixtures	20%
Digital currency processors	50%

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate.

Digital Currency Valuation

Digital currencies consist of cryptocurrency denominated assets (Note 10) and are included in current assets. Digital currencies are initially valued at their fair value determined using the closing spot price of the coin on the date of receipt and carried at fair value determined using the closing spot price of the coin at each reporting date, based on prices available on www.cryptocompare.com. The digital currency market is still a new market and is highly volatile; historical prices are not necessarily indicative of future value; a significant change in the market prices for digital currencies would have a significant impact on the Company's earnings and financial position.

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 at least annually for impairment by allocating goodwill to the cash generating units expected to benefit from it and comparing the carrying amount of the units, including the goodwill, with the recoverable amount of the units.

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3. Significant Accounting Policies (cont'd...)

Financial Instruments

The Company recognizes a financial instrument when, and only when, the Company becomes a party to the contractual provisions of the instrument. All transactions related to financial instruments are recorded on a trade date basis. Transactions costs are included in the initial carrying value of financial instruments, except for those carried at fair value through profit or loss for which transactions costs are expensed as incurred.

Financial instruments are classified based on the purpose for which the asset was acquired or incurred.

The Company's accounting policy for each category is as follows:

Fair Value through Profit or Loss

Instruments classified as fair value through profit or loss are recognized at fair value with changes in fair value recognized in profit or loss. The Company does not have any financial assets or liabilities classified in this category.

Held-to-Maturity

Instruments classified as held-to-maturity are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company does not have any financial assets classified in this category.

Available-for-Sale

These financial assets are measured at fair value, with changes in fair value recorded in other comprehensive income and classified as a component of equity until the instrument is derecognized or impaired. The Company does not have any financial assets classified in this category.

Loans and Receivables

These assets are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. The Company's cash and accounts receivable are classified in this category.

Financial Liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise the Company's accounts payable and accrued liabilities, loans payable and convertible note. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the year to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Compound financial liabilities are bifurcated into their debt and equity components with the debt component being initially measured at the fair value of the debt determined by discounting the cash flows associated with the compound instrument at a market rate of interest for the instrument exclusive of the associated equity feature. The equity component is allocated the residual value being the difference between the face value of the compound instrument and the fair value of the debt and is recorded in equity reserve until such time as the convertible debt has been repaid or converted to common shares of the Company at which point it is reclassified from equity reserve to contributed surplus or share capital as applicable. Transaction costs incurred for the issuance of compound financial liabilities are allocated to the debt and equity component, as applicable, based on their initial relative fair values.

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3. Significant Accounting Policies (cont'd...)

Financial Instruments (cont'd...)

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. Accounts receivable balances are reduced through the use of an allowance account or written off directly against the balance owing.

Valuation of equity units issued in private placements

When determining the fair value of equity units issued in private placements, the fair value of the common shares issued in private placements is determined to be the more easily measurable component and is valued at fair value, as determined by the closing quoted bid price on the closing date. The balance, if any, is allocated to the attached warrants. Warrants that are issued as payment for an agency fee or other transaction costs are accounted for as share-based payments.

Share-based payments

The fair value of all share-based awards granted is recorded, at the measurement date fair value, as an asset or a charge to profit or loss and as a credit to contributed surplus under the graded attribution method.

The fair value of share-based awards granted to employees and others providing similar services which vest immediately is recorded at the date of grant. The fair value of share-based awards which vest in the future is recognized over the vesting period, as adjusted for the expected level of vesting of the options. The fair value of share-based awards is estimated using the Black-Scholes pricing model, with estimated volatility based on the historical volatility of the Company's share price.

Share-based awards granted to parties other than employees and those providing similar services are measured at the fair value of the goods and services received on the date of receipt. If the fair value of the goods and services received cannot be reliably measured, their value is estimated using the Black-Scholes option pricing model, with estimated volatility based on the historical volatility of the Company's share price.

Any consideration received on the exercise of share-based awards together with the related portion of contributed surplus attributed to the exercised share-based awards is credited to share capital. When share-based awards expire unexercised the amounts recorded in contributed surplus with respect to those share-based awards are not reclassified within equity.

Earnings per share

Earnings per share is calculated by dividing the net income for the period available to common shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity. The Company uses the treasury stock method of calculating fully diluted loss per share amounts, whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. Basic and diluted earnings per share are the same for the periods presented as stock options or other dilutive instruments outstanding during the periods presented were anti-dilutive.

Government grants

Government grants related to research and development activities are recognized in profit or loss as a deduction from the related expenditure when there is reasonable assurance that the grant will be received. Grants that compensate the Company for the cost of an asset are recognized in profit or loss on a systematic basis over the useful life of the asset.

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3. Significant Accounting Policies (cont'd...)

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of the statement of financial position.

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

Segment reporting

The Company has identified its operating segments based on the internal reports that are reviewed and used by the chief executive officer and the executive management, collectively the chief operating decision maker, in assessing performance and in determining the allocation of resources.

4. Accounting Standards and Amendments Issued but 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 anticipates that application of this standard will not have a material impact on the results and financial position of the Company.

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 anticipates that application of this standard will not have a material impact on the results and financial position of the Company.

IFRS 16 Leases

IFRS 16 replaces IAS 17 – Leases and requires lessees to account for leases on the statement of financial position by recognizing a right to use asset and lease liability. The standard is effective for annual reports beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of the application of this standard.

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5. 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 agreed to a settlement with the dissenter by paying US \$111,000 and issuing 933,332 common shares during the year ended June 30, 2018 (notes 16(b)(i) and (16(b)(x)).

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.

Purchase price consideration	
Value of 7,629,397 common shares issued at \$0.32	\$ 2,441,407
Assets acquired and liabilities assumed	
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
	\$ 2,441,407

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. During the Company's annual impairment review for the year ended June 30, 2016, 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 software application is amortized over a 3-year term (note 12). 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 (note 12).

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6. Acquisition of Carl PL

On March 16, 2018, the Company acquired 100% of the outstanding shares of Carl PL pursuant to a share sale agreement between CARL and Carl PL's shareholders. CARL acquired 100% of the outstanding shares of Carl PL by paying \$2,000.

Prior to the acquisition, Carl PL provided consulting services to the Company and has been involved in the development of an anomaly detection application for CARL's customers using the ETS NoSQL data collection and storage platform. The acquisition of the outstanding shares constitutes a business combination and the purchase price has been allocated as follows:

Purchase price consideration	
Cash	\$ 2,000
Assets acquired and liabilities assumed	
Cash	\$ 2,109
Accounts payable	(109)
	\$ 2,000

7. Acquisition of AB Embedded Assets

On November 30, 2017, the Company completed the acquisition of substantially all of the assets of AB Embedded, an unrelated third party. The acquired combination of hardware designs, development tools and source code provide the Company with the opportunity to provide custom control systems developed in-house, offering synergies with the Company's existing BDaaS solutions.

In exchange for AB Embedded's assets, the Company issued 400,000 common shares valued at \$194,000 (note 16(b)(ix)). Concurrent with the acquisition, the Company entered into an independent contractor agreement with AB Embedded, whereby AB Embedded will provide services to the Company for an indefinite term. The Company will issue an additional 400,000 common shares one year from closing, provided neither party has terminated the independent contractor agreement. As at June 30, 2018, the Company has accrued a commitment to issue shares of \$113,211 recognized as consulting fees relating to the portion of the commitment vested. The acquisition of assets constitutes a business combination and the purchase price has been allocated as follows:

Purchase price consideration	
Value of 400,000 common shares issued at \$0.485	\$ 194,000
Assets acquired	
Property and equipment	\$ 114,500
Electrical systems certification	23,500
Control system source code	56,000
	\$ 194,000

The property and equipment acquired comprise hardware and manufacturing equipment for the development of custom devices, computer equipment, and office furniture and has been recognized at fair value on the date of acquisition. The control system source code relates to various pieces of source code for the development of the custom control systems and will be amortized over a 3-year term (note 12). The Company also acquired AB Embedded's global production electrical systems certification, which will also be amortized over a 3-year term (note 12).

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8. Acquisition of Astra

On June 18, 2018, the Company completed the acquisition of Astra pursuant to the terms of a securities exchange agreement between CARL, Astra and the shareholders of Astra. CARL acquired 100% of the outstanding common shares of Astra in exchange for 9,300,000 common shares of the Company issued to three shareholders of Astra (note 16(b)(xiv)) and agreeing to repay Astra's existing loans by making payments of \$300,000 on July 18, 2018 (paid subsequent to the year ended June 30, 2018) and \$300,000 on December 18, 2018.

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. Astra is a technology company with multiple potential revenue streams including data center hosting, big data analytical services, and the manufacture of Industrial Internet of Things ("IIoT") devices.

Purchase price consideration	
Value of 9,300,000 common shares issued at \$0.145	\$ 1,348,500
Assets acquired	
Cash	\$ 60
Accounts receivable	21,216
Prepaid expenses	158,231
Property and equipment	390,342
Augmented business intelligence software	540,697
Environmental sensor firmware	181,133
Preferential lease	1,079,994
Accounts payable	(40,527)
Loans payable	(600,000)
Deferred income tax liabilities	(465,000)
Goodwill on acquisition	82,354
	\$ 1,348,500

Accounts receivable acquired with Astra are goods and services tax ("GST") receivables 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 property and equipment acquired comprise production and manufacturing equipment for the development of IIoT devices and infrastructure for data center hosting all located in Trail, British Columbia and has been recognized at fair value on the date of acquisition. The environmental sensor firmware relates to various pieces of firmware source code for environmental monitoring devices and will be amortized over a 3-year term (note 12). The augmented business intelligence software acquired is used for the Company's big data analytical service contracts and is amortized over a 3-year term (note 12). The preferential lease acquired relates to a discount on data hosting, office, and manufacturing space along with access and rights to significant volumes of power required for data hosting and is amortized over a 4-year term (note 12).

Loans payable include \$600,000 (note 15) to Astra's former shareholders and their related organizations, of which \$300,000 was due on July 18, 2018 and subsequently paid by CARL and \$300,000 becomes due on December 18, 2018. Income tax consequences of the transaction included a deferred income tax liability of \$465,000, which together with the fair values of other assets and liabilities acquired resulted in the recognition of \$82,354 in goodwill that is not deductible for tax purposes.

The above purchase price allocation ("PPA") calculations are preliminary and have not been finalized. Any future adjustments will be recorded prospectively as changes in estimates. Prior to acquisition, Astra was a private company and financial information was impractical to obtain and verify.

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9. Accounts and Other Receivables

	June 30, 2018	June 30, 2017
Gross trade accounts receivable	\$ 416,239	\$ 216,686
Less: allowance for doubtful accounts	(22,740)	(6,512)
Net trade accounts receivable	393,499	210,174
GST receivable	38,909	6,690
	\$ 432,408	\$ 216,864

Reconciliation of allowance for doubtful accounts is as follows:

	June 30, 2018	June 30, 2017
Balance – beginning of year	\$ 6,512	\$ 10,334
Provision	16,359	23,143
Write-offs	-	(6,053)
Recovery	(131)	(20,912)
Balance – end of year	\$ 22,740	\$ 6,512

10. Digital Currencies

As at June 30, 2018, the Company's digital currencies consisted of the below digital currencies, with a fair value of \$8,244. Digital currencies are carried at their fair value determined using the closing spot price of the coin at the reporting date, based on prices available on www.cryptocompare.com. The Company's holdings of digital currencies consist of the following:

	June 30, 2018	June 30, 2017
BitCoin	\$ 4,717	\$ -
Ethereum	1,554	-
Dash	1,973	-
	\$ 8,244	\$ -

The continuity of digital currencies was as follows:

	June 30, 2018	June 30, 2017
Balance – beginning of the year	\$ -	\$ -
Digital currency mined	10,587	-
Digital currency sold	-	-
Revaluation adjustment	(2,343)	-
	\$ 8,244	\$ -

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11. Property and Equipment

	Machinery and equipment	Computer equipment	Furniture and fixtures	Digital currency processors	Total
Cost					
Balance – June 30, 2017 and 2016	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	102,790	10,506	391,546	250,000	754,842
Balance – June 30, 2018	102,790	10,506	391,546	250,000	754,842
Accumulated Depreciation					
Balance – June 30, 2017 and 2016	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation	17,911	1,831	2,707	30,822	53,271
Balance – June 30, 2018	17,911	1,831	2,707	30,822	53,271
Balance – June 30, 2017	\$ -	\$ -	\$ -	\$ -	\$ -
Balance – June 30, 2018	\$ 84,879	\$ 8,675	\$ 388,839	\$ 219,178	\$ 701,571

Digital currency processors

On January 15, 2018, the Company entered into an agreement with Connected Fintech Inc. (“Connected”), whereby Connected agreed to develop and maintain a cryptocurrency mining facility comprising digital currency processors on the Company’s behalf. Under the terms of the agreement, the Company agreed to pay Connected:

- (a) \$250,000 (paid) plus the issuance of 500,000 common shares on the date of signing;
- (b) 500,000 common shares upon completion of development;
- (c) 500,000 common shares six months from the completion date; and
- (d) 500,000 common shares twelve months from the completion date.

The Company also agreed to pay Connected a royalty equal to 15% of monthly net revenues generated from the mining facility and a monthly retainer of \$4,000.

On May 29, 2018, the Company entered into an amended agreement with Connected removing the requirements to issue the aggregate 2,000,000 common shares and pay the monthly retainer of \$4,000.

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12. Intangible assets

	Software in Development	FlowWorks Software Application	FlowWorks Customer List	Electrical Systems Certification	Control System Source Code	Augmented Business Intelligence Software	Environmental Sensor Firmware	Preferential Lease	Total
Cost									
Balance – June 30, 2016 and 2017	\$ 287,600	\$ 387,634	\$ 659,154	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,334,388
Additions (notes 7 and 8)	-	-	-	23,500	56,000	540,697	181,133	1,079,994	1,881,324
Reallocation	(287,600)	287,600	-	-	-	-	-	-	-
Balance – June 30, 2018	-	675,234	659,154	23,500	56,000	540,697	181,133	1,079,994	3,215,712
Accumulated Amortization									
Balance – June 30, 2016	\$ -	\$ 91,641	\$ 93,383	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 185,024
Amortization	-	132,427	135,112	-	-	-	-	-	267,539
Balance – June 30, 2017	-	224,068	228,495	-	-	-	-	-	452,563
Amortization	-	174,654	129,290	4,569	10,889	7,509	-	11,249	338,160
Balance – June 30, 2018	-	398,722	357,785	4,569	10,889	7,509	-	11,249	790,723
Cumulative Translation Adjustment									
Balance – June 30, 2016	\$ -	\$ (1,934)	\$ (1,955)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3,889)
Foreign currency translation	-	12,407	10,494	-	-	-	-	-	22,901
Balance – June 30, 2017	-	10,473	8,539	-	-	-	-	-	19,012
Foreign currency translation	-	(2,686)	729	-	-	-	-	-	(1,957)
Balance – June 30, 2018	-	7,787	9,268	-	-	-	-	-	17,055
Balance – June 30, 2017	\$ 287,600	\$ 174,039	\$ 439,198	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 900,837
Balance – June 30, 2018	\$ -	\$ 284,299	\$ 310,637	\$ 18,931	\$ 45,111	\$ 533,188	\$ 181,133	\$ 1,068,745	\$ 2,442,044

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12. Intangible assets (cont'd...)

ETS Software in Development

A total of \$83,428 had 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. During the year ended June 30, 2018, the Company integrated the ETS software with the FlowWorks Software Application and accordingly has reallocated the amount and begun amortizing on a straight-line basis over 3 years.

FlowWorks Software Application

The software application relates to the web-based application acquired with FlowWorks. During the year ended June 30, 2018, the integration of the ETS Software in Development was completed and \$287,600 was reallocated to the FlowWorks Software Application.

FlowWorks 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 2.25 years remaining unamortized.

Electrical Systems Certification

The electrical systems certification comprise the fair value of AB Embedded's global production electrical systems certification acquired during the year ended June 30, 2018 (note 7). The asset is a finite life asset and will be amortized over a 3-year term, with approximately 2.5 years remaining unamortized.

Control System Source Code

The control system source code relates to the fair value of various pieces of source code for the development of the custom control systems acquired during the year ended June 30, 2018 (note 7). The asset is a finite life asset and will be amortized over a 3-year term, with approximately 2.5 years remaining unamortized.

Augmented Business Intelligence Software

The Augmented Business Intelligence Software relates to the fair value of the big data analytics software and code obtained on the acquisition of Astra during the year ended June 30, 2018 (note 8). The asset is a finite life asset and will be amortized over a 3-year term, with approximately 3.0 years remaining unamortized.

Environmental sensor firmware

The environment sensor firmware relates to the fair value of the source code for the environmental sensor firmware obtained on the acquisition of Astra during the year ended June 30, 2018 (note 8). The asset is a finite life asset and will be amortized over a 3-year term, with approximately 3.0 years remaining unamortized.

Preferential Lease

The preferential lease relates to the fair value of a favourable sublease agreement obtained on the acquisition of Astra during the year ended June 30, 2018 (note 8). The agreement includes discounted office, data hosting, and manufacturing space in Astra's facility in Trail, BC along with guaranteed access to the significant volumes of power required for the operation of a data hosting facility at favourable rates. The asset is a finite life asset and will be amortized over a 4-year term, with approximately 4.0 years remaining unamortized.

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13. Accounts Payable and Accrued Liabilities

	June 30, 2018	June 30, 2017
Trade accounts payable	\$ 262,386	\$ 440,337
Due to related parties (note 22)	70,529	183,588
Accrued liabilities	40,100	40,500
Dissenter liability payable	-	144,559
	\$ 373,015	\$ 808,984

The dissenter liability was comprised of the cash liability portion payable of \$144,559 as at June 30, 2017 that has been fully settled during the year ended June 30, 2018 (note 5).

14. 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. All tranches mature within two years of the initial issuance.

On June 30, 2016, 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.

Each tranche of the Note contains both an equity component, being the holder’s conversion right, and a liability component, each of 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. Total commitment fees of \$237,500, applicable to the full facility, were initially incurred and deferred. These fees are recognized as part of the initial carrying values of each tranche of debt issued based on the relative percentage of each tranche face value to the total facility value of \$2,000,000. At June 30, 2018 \$169,327 (June 30, 2017 – \$131,813) is recorded in prepaid expenses. 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 year ended June 30, 2017, the Company entered into an amendment allowing the conversion at the price of \$0.34 per share and of the initial \$500,000 tranche, \$405,000 was converted through the issuance of 1,191,176 common shares. The Company recognized \$458,012 to profit or loss as a result of the conversion. In connection with the conversion, the Company was required to issue 400,000 common shares to the holder with a fair value of \$156,000 to settle amounts payable of \$136,000. The 400,000 common shares issued represent the balance of the bonus shares not issued during fiscal 2016.

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14. Convertible Note (cont'd...)

During the year ended June 30, 2017, the Company initiated issuances of the Company's convertible notes and received \$390,000 in proceeds, of which \$87,189 was recognized to equity upon receipt. During fiscal 2017 issuances of Notes with face values and issuance dates were completed as follows: September 1, 2016 - \$160,000; September 30, 2016 - \$150,000 and April 30, 2017 - \$80,000.

During the year ended June 30, 2018, all future royalties, valued at \$291,022, were settled by issuance of 1,119,316 common shares (note 16(b)(iv)). On June 29, 2018, the Company made repayments of \$475,000 and entered into an amending agreement with the issuer whereby the maturity date was extended to December 31, 2019 allowing the Company to purchase an additional \$1,000,000 subject to the same terms as the existing facility. As consideration for the extension, the Company issued 750,000 common share purchase warrants with an exercise price of \$0.25 and life of two years. The fair value of the warrants was estimated to be \$37,516 using the Black-Scholes option pricing model with a volatility of 97.96%, expected life of 2 years, risk free rate of 1.91% and dividend rate of 0% and was included in prepaid expenses as at June 30, 2018.

On the repayment of \$475,000, the Company reclassified \$76,819 relating to the equity component of the settled notes from equity conversion feature on convertible note to reserves. As at June 30, 2018, the Company has not initiated any further issuances of the convertible notes.

	June 30, 2018	June 30, 2017
Balance, beginning of period	\$ 387,734	\$ 60,238
Issuance of convertible notes – face value	-	390,000
Transaction costs	-	(46,313)
Convertible note, equity component	-	(76,835)
Accretion of convertible note	97,266	133,891
Repayment of convertible note	(475,000)	-
Conversion of convertible note	-	(73,247)
Balance, end of period	10,000	387,734
Current portion	-	(29,735)
Long-term portion	\$ 10,000	\$ 357,999
Convertible note, equity component, end of period	\$ 1,477	\$ 78,296
Face value of Note at maturity	\$ 10,000	\$ 485,000

15. Loans Payable

	June 30, 2018	June 30, 2017
Balance – beginning of period	\$ 448,907	\$ 515,104
Advances of short-term loans	609,140	377,900
Interest and fees accrued	19,060	748
Repayments – cash	(394,060)	(71,100)
Assumed on acquisition of Astra (note 8)	600,000	-
Settlements – shares (note 16(b)(iii))	(679,047)	(373,745)
Balance – end of period	\$ 604,000	\$ 448,907

During the year ended June 30, 2018, the Company was advanced a \$609,140 in short term loans from unrelated parties. The loans were unsecured, non-interest bearing, and repayable upon demand. During the year ended, the Company issued 2,611,714 common shares at a deemed price of \$0.26 to settle short term debt in the aggregate of \$679,047 and repaid \$394,060 with cash.

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15. Loans Payable (cont'd...)

During the year ended June 30, 2017, the Company issued 67,777, 406,887 and 435,111 common shares at \$0.52, \$0.52 and \$0.40, respectively, to settle short term debt in the aggregate of \$373,745. A loss on settlement of debt of \$47,128 (2017 - \$nil) was recorded in profit or loss.

During the year ended June 30, 2017, the Company was advanced \$377,900 in short term loans from unrelated parties. The loans were unsecured, non-interest bearing, and repayable upon demand. The full balance of the loans were settled during the year ended June 30, 2018.

16. Share Capital

(a) Authorized Share Capital

As at June 30, 2018, 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 year ended June 30, 2018, the Company issued common shares as follows:

- (i) On July 4, 2017, the Company issued 888,888 common shares in settlement of the dissenting shareholder liability (note 5) at a deemed price of \$0.31 per common share. Included in profit or loss is a gain of \$26,667 related to the difference between market value of the shares on settlement and the value accrued at June 30, 2017.
- (ii) On September 5, 2017, the Company completed the first tranche of a non-brokered private placement by issuing 2,055,000 common share units (each, a "Unit") at a price of \$0.26 per unit for gross proceeds of \$534,300. Each Unit was comprised of one common share and one common share purchase warrant, each warrant being exercisable at a price of \$0.40 per share for a period of two years from issuance and are subject to accelerated expiration in the event that shares trade at a price greater than \$0.75 per share for ten consecutive trading days.

In connection with the offering, the Company paid a cash commission of \$42,744 and issued 164,400 non-transferrable unit finder's warrants, valued at \$21,169. Each finder's warrant entitles the holder to purchase one finder's unit at a price of \$0.33 per finder's unit for a two-year period from the closing date. Each finder's unit contains one common share and one common share purchase warrant, exercisable at \$0.40 for a period of two years from the closing date. The Company incurred additional share issuance costs of \$25,600 in connection with the closing.
- (iii) On September 5, 2017, the Company issued 2,611,714 Units in settlement of loans from unrelated parties (note 15) at a deemed price of \$0.26 per common share. Included in profit or loss is a loss of \$91,409 related to the difference between market value of the shares on settlement and the value of the debt settled.
- (iv) On September 5, 2017, the Company issued 1,119,316 Units to settle future royalty payments on its convertible note (note 14) of \$291,022. Included in profit or loss is a loss of \$39,176 related to the difference between market value of the shares on settlement and the value of the debt settled.
- (v) On October 25, 2017, The Company completed the second and final tranche of a non-brokered private placement by issuing 1,618,824 common share units (each, a "Unit") at a price of \$0.26 per unit for gross proceeds of \$420,894. Each Unit was comprised of one common share and one common share purchase warrant, each warrant being exercisable at a price of \$0.40 per share for a period of two years from issuance and are subject to accelerated expiration in the event that shares trade at a price greater than \$0.75 per share for ten consecutive trading days.

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16. Share Capital (cont'd...)

(b) Issued Share Capital (cont'd...)

In connection with the offering, the Company paid a cash commission of \$11,846 and issued 45,560 non-transferrable unit finder's warrants. Each finder's warrant entitles the holder to purchase one finder's unit at a price of \$0.33 per finder's unit for a two-year period from the closing date. Each finder's unit contains one common share and one common share purchase warrant, exercisable at \$0.40 for a period of two years from the closing date.

- (vi) On October 25, 2017, the Company settled debts with three related party debtholders in the aggregate amount of \$79,500 by issuing 305,768 Units at price of \$0.26 per Unit.
- (vii) On November 2, 2017, the Company issued 272,727 common shares through the exercise of stock options for gross proceeds of \$30,000.
- (viii) On November 27, 2017, The Company completed a non-brokered private placement by issuing 6,486,921 common share units (each, a "Unit") at a price of \$0.26 per unit for gross proceeds of \$1,686,599. Each Unit was comprised of one common share and one common share purchase warrant, each warrant being exercisable at a price of \$0.40 per share for a period of two years from issuance and are subject to accelerated expiration in the event that shares trade at a price greater than \$0.75 per share for ten consecutive trading days.

In connection with the offering, the Company paid a cash commission of \$208 and issued 1,000 non-transferrable finder's warrants exercisable at \$0.40 for a period of two years.

- (ix) On November 30, 2017, the Company issued 400,000 common shares on the acquisition of the assets of AB Embedded (note 7) valued at \$194,000.
- (x) On December 12, 2017, the Company issued 44,444 common shares in settlement of the dissenting shareholder liability (note 5) at a deemed price of \$0.415 per common share. Included in profit or loss is a loss of \$3,333 related to the difference between market value of the shares on settlement and the value accrued at June 30, 2017.
- (xi) On January 5, 2018, the Company completed a rights offering by issuing an aggregate of 11,042,331 units (each, a "Unit") of the Company at a subscription price of \$0.26 per Unit, raising aggregate proceeds of \$2,871,006. Each Unit consisted of one common share and one listed transferable common share purchase warrant with each warrant being exercisable for a two-year period from the date of issuance of the Units at a price of \$0.35 per Share, if exercised prior to July 5, 2018, and at a price of \$0.40 per Share thereafter.

In connection with the offering, the Company paid a corporate finance fee of \$40,000, a cash commission of \$287,100, other share issuance costs of \$74,133 and granted 2,085,002 dealer's options to acquire additional Units at a price of \$0.26 for a period of two years valued using the Black-Scholes model at \$338,305.

- (xii) On January 18, 2018, the Company issued 99,267 common shares at a price of \$0.27 per share for a total value of \$26,802 to settle debt of \$30,723.
- (xiii) On April 17, 2018 the Company issued 102,631 common shares at a price of \$0.18 for a total value of \$18,474 to settle debt of \$19,500 and 75,000 common shares at a price of \$0.18 for a total value of \$13,500 as a bonus payable to an employee.
- (xiv) On June 18, 2018, the Company issued 9,300,000 common shares at a price of \$0.145 for a total value of \$1,348,500 to the former shareholders of Astra on the 100% acquisition of Astra (note 8).

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16. Share Capital (cont'd...)

(c) Issued Share Capital – Year ended June 30, 2017

During the year ended June 30, 2017, the Company issued common shares as follows:

- (i) 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 \$453,806 of debt owed and amounts payable to various arm's length and non-arm's length parties. The Company recorded a loss on settlement of debt of \$40,019 based on the difference between the fair values of the shares on the settlement date and the value of the debt settled.
- (ii) 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.
- (iii) On September 16, 2016, the Company issued 750,000 common shares at a price of \$0.40 per share to settle \$300,000 of accounts payable owed to a non-arm's length party. The Company recorded a loss on settlement debt of \$15,000 based on the difference between the fair value of the shares on the settlement date and the value of the debt settled.
- (iv) On September 28, 2016, the Company issued 750,000 common shares at a price of \$0.40 per share to settle \$300,000 of accounts payable owed to an arm's length party. The Company recorded a loss on settlement of debt of \$22,500 based on the difference between the fair value of the shares on the settlement date and the value of the debt settled.
- (v) On October 12, 2016, the Company issued 25,000 bonus common shares, with a fair value of \$8,000, to a consultant for recruitment services.
- (vi) 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. No amount was allocated to the warrants portion of the units, on a residual value basis, as the share price on issuance was in excess of the unit price. In connection with the offering, the Company issued 200,000 finder's shares and 200,000 finder's warrants under the same terms as above. The Company recognized non-cash issue costs of \$72,000 for the shares and \$26,609 for the warrants, with a corresponding increase in reserves. This expense was calculated using the Black-Scholes option valuation model with the following assumptions: Risk-free rate, 0.48%; Dividend yield, 0%; Expected volatility, 70%; and Expected life, 2 years.
- (vii) On October 24, 2016 and November 23, 2016, the Company issued a total of 727,611 common shares at a price of \$0.34 to settle debts of \$247,388. The Company recorded a loss on settlement of debts of \$53,786 based on the difference between the fair value of the shares on the settlement date and the value of the debts settled.
- (viii) On November 23, 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. The Company recorded the fair value of the bonus shares based on the issuance date fair value of \$156,000.
- (ix) On March 17, 2017, the Company issued 998,636 common shares through the exercise of stock options for gross proceeds of \$109,850.
- (x) On May 2, 2017, the Company issued 16,000 common shares through the exercise of warrants for gross proceeds of \$5,600.

As at June 30, 2018, a total of 296,892 (June 30, 2017 – 4,873,765) common shares remain in escrow.

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17. 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, 2016	\$0.34	1,533,987
Issuance of warrants	\$0.60	1,450,000
Expired	\$0.35	(514,720)
Exercised	\$0.17	(422,600)
Balance - June 30, 2017	\$0.56	2,046,667
Issuance of warrants	\$0.38	26,200,834
Expired	\$0.45	(596,667)
Balance – June 30, 2018	\$0.39	27,650,834

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

	Exercise price	Number of warrants	Expiry date
Finders' warrants	\$0.60	200,000*	October 23, 2018
Share purchase warrants	\$0.60	1,250,000*	October 23, 2018
Share purchase warrants	\$0.40	5,786,030	September 5, 2019
Unit finder's warrants ⁽¹⁾	\$0.33	164,400	September 5, 2019
Share purchase warrants	\$0.40	1,924,592	October 25, 2019
Unit finder's warrants ⁽²⁾	\$0.33	45,560	October 25, 2019
Share purchase warrants	\$0.40	6,486,921	November 27, 2019
Finder's warrants	\$0.40	1,000	November 27, 2019
Share purchase warrants	\$0.35**	11,042,331	January 5, 2020
Share purchase warrants	\$0.25	750,000	June 29, 2010
		27,650,834	

(1) Each unit finder's warrant includes the right to acquire one common share of the Company and one additional warrant exercisable at a price of \$0.40 until September 5, 2019.

(2) Each unit finder's warrant includes the right to acquire one common share of the Company and one additional warrant exercisable at a price of \$0.40 until October 25, 2019.

*Subsequent to the year ended June 30, 2018, these warrants expired unexercised

**On July 5, 2018, the exercise price of these warrants increased to \$0.40

18. 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.

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18. Share-Based Payments (cont'd...)

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

	Weighted average exercise price	Number of Shares issued or issuable on exercise
Balance – June 30, 2016	\$0.23	2,763,600
Exercised (weighted average share price of \$0.33)	(\$0.11)	(998,636)
Granted	\$0.40	1,300,186
Balance – June 30, 2017	\$0.34	3,065,150
Expired / Cancelled	(\$0.41)	(259,000)
Exercised (weighted average share price of \$0.34)	(\$0.11)	(272,727)
Granted	\$0.22	4,585,002
Balance – June 30, 2018	\$0.27	7,118,425

Incentive share options outstanding and exercisable June 30, 2018 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	363,637	1.56 years	\$0.11	363,637	\$0.11
\$0.40	919,600*	2.56 years	\$0.40	744,700	\$0.40
\$0.45	565,247*	3.15 years	\$0.45	356,247	\$0.45
\$0.36	684,939*	3.72 years	\$0.36	285,391	\$0.36
\$0.26	2,085,002	1.52 years	\$0.26	2,085,002	\$0.26
\$0.19	100,000	2.82 years	\$0.19	25,000	\$0.19
\$0.19	1,400,000	3.82 years	\$0.19	1,400,000	\$0.19
\$0.16	1,000,000	3.94 years	\$0.16	1,000,000	\$0.16
	7,118,425		\$0.32	6,259,977	\$0.30

*Subsequent to the year ended June 30, 2018, these options were cancelled unexercised

The weighted average fair value of options granted during the year ended June 30, 2018 was \$0.14 (2017 - \$0.23). Total share-based payments recognized in the statement of shareholders' equity for the year ended June 30, 2018 was \$395,782 (2017 - \$234,774) for incentive options vested and was recognized in the profit or loss.

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:

	June 30, 2018	June 30, 2017
Weighted average share and exercise price	\$0.13	\$ 0.40
Risk-free interest rate	1.97%	0.91%
Expected life of option	3.07 years	5 years
Expected annualized volatility	91%	70%
Expected dividend rate	Nil	Nil

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19. 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 June 30, 2018 remains fundamentally unchanged from the year ended June 30, 2017.

20. Supplemental Cash Flow Information

During the year ended June 30, 2018, the Company:

- a) issued 933,332 common shares at a price of \$0.31 for a total value 293,999 to settle its previously accrued commitment to issue shares;
- b) issued 2,611,714 common shares at a price of \$0.295 for a total value of \$770,456, to settle loans payable valued at \$679,047;
- c) issued 507,666 common shares valued at \$124,776 to settle accounts payable valued at \$129,773;
- d) granted finders' warrants valued at \$26,102 on private placements closed during the period;
- e) granted dealer's options valued at \$338,305 on the rights offering closed during the period;
- f) reclassified \$17,236 from reserves to share capital on the exercise of options;
- g) issued 400,000 common shares at a price of \$0.495 for a total value of \$194,000 to acquire the assets of AB Embedded;
- h) reclassified \$76,819 from equity conversion feature on convertible note to reserves; and
- i) issued 9,300,000 common shares at a price of \$0.145 for a total value of \$1,348,500 on the acquisition of Astra.

During the year ended June 30, 2017, the Company:

- a) the Company's non-cash investing and financing activities included issuing 200,000 finder's warrants exercisable at a price of \$0.60 per common share until October 23, 2018 at a value of \$26,609;
- b) the Company issued 200,000 common shares at a price of \$0.36 for a total value of \$72,000 as finder's fees on a private placement;
- c) the Company issued 400,000 common shares at a price of \$0.45, for a total value of \$180,000, as a bonus fee for the conversion of a portion of the convertible note;
- d) the Company issued 25,000 common shares at a price of \$0.32, for a total value of \$8,000, as a bonus to a former officer;
- e) the Company issued 3,177,275 common shares at various prices for a total value of \$1,432,499, for the settlement of accounts payable and short-term loans; and
- f) the Company issued 1,191,176 common shares at a price of \$0.34 for a total value of \$405,000 for the conversion of a portion of the convertible note.

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21. Related Party Transactions

The Company has entered into an executive consulting agreement 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 \$11,667 per month.

During the year ended June 30, 2018, the Company paid or accrued, to key management personnel and their related companies:

	Consulting Fees	Share-based payments	Total
Chief Executive Officer	\$ 134,166	\$ 80,614	\$ 214,780
Chief Financial Officer	108,000	10,983	118,983
Non-executive Directors	81,500	69,317	150,817
Total	\$ 323,666	\$ 160,914	\$ 484,580

During the year ended June 30, 2017, the Company paid or accrued, to key management personnel and their related companies:

	Consulting Fees	Share-based payments	Total
Chief Executive Officer ⁽¹⁾	\$ 130,000	\$ 151,761	\$ 281,761
Former Chief Financial Officer ⁽²⁾	115,700	116,633	232,333
Non-executive Directors	19,500	11,361	30,861
Total	\$ 265,200	\$ 279,755	\$ 544,955

(1) Included in share-based payments of \$151,761 are guarantee fees of \$148,571 earned for guaranteeing the convertible note liabilities of the Company included in financing costs

(2) Included in share-based payments of \$116,633 are guarantee fees of \$68,571 earned for guaranteeing the convertible note liabilities of the Company included in financing costs.

During the year ended June 30, 2018, the Company issued 305,768 (2017 – 2,282,282) common shares to related parties to settle debt of \$79,500 (2017 – \$931,597). Included in accounts payable and accrued liabilities is \$70,529 (2017 - \$164,901) due to officers and directors.

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. Revenue of \$96,600 (2017 - \$48,300) and \$nil (2017 - \$6,053) in bad debts recorded on the statement of comprehensive loss from RA for the year ended June 30, 2018. As at June 30, 2018, \$42,263 (2017 - \$8,453) was owed from RA.

Kerr Wood Leidal Associates Ltd. (“KWL”)

KWL, a consulting engineering company, founded and created FlowWorks, and is related to a Director of the Company. During the year ended June 30, 2018, the Company earned sales revenue from KWL of \$170,210 (2017 - \$117,300) and incurred expenses from KWL of \$16,061 (2017 - \$75,908). Included in accounts receivable as at June 30, 2018 is a balance owing from KWL of \$88,862 (2017 - \$1,449). The Company owed accounts payable of \$nil (2017 - \$18,657) to KWL as at June 30, 2018.

22. Commitments

The Company has entered into two operating lease contracts for office and production space. The future minimum payments under the leases as at June 30, 2018 are as follows:

2019	\$	151,220
2020		161,203
2021		171,015
2022		156,819
	\$	640,257

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23. Income Taxes

A reconciliation of income taxes (recovery) at statutory rates with the reported taxes for the years ended June 30, 2018 and 2017.

	2018	2017
Loss before income tax for the year	\$ (5,173,518)	\$ (4,616,764)
Expected income tax (recovery)	\$ (1,224,000)	\$ (1,200,000)
Change in statutory, foreign tax rates and other	684,000	169,000
Permanent difference	(146,000)	217,000
Share issuance and financing costs	(312,000)	(28,000)
Deferred tax assets not recognized	533,000	842,000
Income tax expenses (recovery)	\$ (465,000)	\$ -

The significant components of the Company's deferred tax assets (liabilities) are as follows:

	2018	2017
Deferred tax assets:		
Debt with accretion	\$ -	\$ 25,000
Share issuance and financing costs	440,000	268,000
Property and equipment	33,000	-
Non-capital losses available for future periods	3,020,000	1,788,000
	3,493,000	2,081,000
Unrecognized deferred tax assets	(2,495,000)	(1,907,000)
	998,000	174,000
Deferred tax (liabilities):		
Intangible assets	(533,000)	(174,000)
Recognized on acquisition of a subsidiary	(465,000)	-
Net deferred tax assets (liabilities)	\$ -	\$ -

Management has not recognized deferred tax assets in excess of the deferred tax liabilities as there is insufficient certainty as to the timing of when these excess deferred tax assets will be realized in the foreseeable future.

The significant components of the Company's unrecognized temporary differences are as follows:

	2018	2017	Expiry date range
Temporary Differences:			
Debt with accretion	-	97,000	No expiry
Non-capital losses available for future periods	11,227,000	6,330,000	
Canada	9,852,000	4,547,000	2034-2038
USA	1,308,000	1,783,000	2030-2038
Poland	67,000	-	2023
Share issuance and financing costs	1,691,000	1,030,000	2019-2022
Property and equipment	125,000	-	No expiry

Tax attributes are subject to review, and potential adjustment, by tax authorities.

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24. Financial Risk Management

Fair value of financial instruments

The Company classifies the fair value of its financial instruments according to a fair value hierarchy based on the significance of observable inputs used to value the instrument as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs for the asset or liability.

As at June 30, 2018, the Company does not carry any financial instruments at fair value and believes that the carrying values of cash, accounts receivable, accounts payable and accrued liabilities, loans payable, and convertible note approximate their fair values because of their nature and/or relatively short maturity dates or durations.

Classification of financial instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, loans payable, and convertible note. The Company classifies its cash and accounts receivable, as loans and receivables, which are measured at amortized cost. The accounts payable and accrued liabilities, loans payable, and convertible note are classified as other financial liabilities, which are measured at amortized cost.

Financial and capital risk management

The Company examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include market risk, foreign currency risk, interest rate risk, credit risk, and liquidity risk. These risks are reviewed and monitored by the Board of Directors.

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Discussions of risks associated with financial assets and liabilities are detailed below:

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the fair value or future cash flows of a financial instrument. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. At June 30, 2018 and 2017 the Company was not subject to significant market risk, except as noted below.

Foreign currency risk

As at June 30, 2018 the Canadian dollar equivalent carrying values of the financial assets and liabilities denominated in foreign balances are as follows:

	US Dollars		Polish Zloty	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Financial Assets				
Cash	\$ 43,443	\$ 11,720	\$ 65,854	\$ -
Accounts receivable	178,883	210,174	-	-
Financial Liabilities				
Accounts payable and accrued liabilities	\$ 87,806	\$ 199,166	\$ 51,772	\$ -

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24. Financial Risk Management (cont'd...)

Foreign currency risk

The Company's subsidiary, FlowWorks, operates in the United States which, from the perspective of the Company, creates currency risk associated with those operations. FlowWorks has revenue of \$1,111,681 (2017 - \$1,139,814) (Canadian dollar equivalent). A 10% change in the foreign exchange rate would result in a \$111,000 (2017 - \$73,000) (Canadian dollar equivalent) change in profit or loss.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's interest rate risk mainly arises from changes in the interest rates on cash. Cash generates interest based on market interest rates. At June 30, 2018 and 2017, the Company was subject to interest rate risk with respect to its loans payable, some of which bear interest at a fixed rate and others are non-interest bearing, and convertible note, which bears interest at a fixed rate.

Credit Risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company's maximum exposure to credit risk at the reporting date is the carrying value of cash and accounts receivables. The Company holds cash at a major Canadian chartered bank in a chequing account, a Washington State, USA bank, and a Polish bank.

Of the \$210,174 in accounts receivable, \$61,651 has been outstanding for greater than 90 days for which the Company has recognized an allowance for doubtful accounts of \$22,373. The Company's credit risk for accounts receivable is concentrated, as 43% of its accounts receivable owing is from three customers (2017 - 41% from 3 customers), with more than 10% owing from each individual customer.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages liquidity risk by maintaining adequate cash balances. If necessary, the Company may raise funds through the issuance of debt, equity or sale of non-core assets. The Company ensures that there is sufficient capital to meet its obligations by continuously monitoring and reviewing actual and forecasted cash flows and matching the maturity profile of financial assets to development, capital and operating needs. The Company's accounts payable are due within 30 to 60 days. The maturities of convertible note and loans payable are disclosed in notes 14 and 15, respectively. The Company has limited working capital at June 30, 2018 and will need to raise further financing to meet its financial obligations.

25. Segmented Information

The Company operates in three reportable segments, comprised of data services, data hosting, and digital currency verification, for which information is regularly reviewed by the Company's President and CEO, being the chief operating decision-maker. 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:

	June 30, 2018	June 30, 2017
Revenue		
Canada	\$ 531,827	\$ 448,266
United States	727,085	742,133
	\$ 1,258,912	\$ 1,190,399

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25. Segmented Information (cont'd....)

The following is a breakdown of the Company's revenues based upon reportable segment:

	June 30, 2018	June 30, 2017
Revenue		
Data services	\$ 1,208,281	\$ 1,190,399
Data hosting	40,044	-
Digital currency verification	10,587	-
	\$ 1,258,912	\$ 1,190,399

26. Subsequent Events

Subsequent to June 30, 2018, the Company:

- a) entered into a loan agreement with an arm's length party of \$300,000 maturing on September 18, 2018. In connection with the loan, the Company agreed to pay a transaction fee of \$15,000 and issue 214,285 common shares on maturity. An additional transaction fee of \$15,000 is payable on the loan amount at the rate of \$15,000 for any and every part of 59 days that the loan is outstanding after the maturity. As at the date the consolidated financial statements were approved by the Board, the Company has issued 214,285 common shares, while the full amount of the loan and transaction fees remains payable;
- b) purchased and returned to treasury 184,440 common shares at a price of US\$0.225 per share pursuant to a settlement agreement entered with the former dissenting shareholder;
- c) entered into a loan agreement with an arm's length party of \$100,000. The loan is non-interest bearing and repayable on demand;
- d) cancelled an aggregate of 2,169,786 stock options with exercise prices ranging from \$0.36 to \$0.45.
- e) granted 3,995,247 stock options with an exercise price of \$0.14 and a life of four years to various employees, consultants, officers, and directors which vest 50% on grant, 25% after six months, and 25% on the one-year anniversary of grant; and
- f) issued 330,000 common shares at a price of \$0.10 per share to a director of the Company in settlement of accounts payable and accrued liabilities of \$33,000.