



**CARL DATA SOLUTIONS INC.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2019**

**(UNAUDITED)  
(Expressed in Canadian Dollars)**

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

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

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

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

**CARL DATA SOLUTIONS INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
Presented in Canadian Dollars - unaudited

As at	<b>December 31, 2019</b>	<b>June 30, 2019</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 73,907	\$ 30,829
Accounts and other receivables (note 7)	421,151	367,499
Digital currencies (note 8)	283	615
Prepaid expenses	97,486	396,567
	592,827	795,510
<b>Non-Current Assets</b>		
Intangible assets (notes 5 and 10)	1,325,154	1,688,972
Property, equipment, and right-of-use assets (note 6 and 9)	1,659,858	518,787
Goodwill	118,775	118,775
<b>Total Assets</b>	<b>\$ 3,696,614</b>	<b>\$ 3,122,044</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (note 11)	\$ 1,092,462	\$ 1,149,568
Current portion of lease liabilities (note 12)	138,728	-
Proceeds on convertible notes received in advance (note 14)	300,000	-
Deferred revenue	60,167	-
Current portion of convertible notes (note 14)	782,500	741,022
Current portion of loans payable (note 13)	582,158	519,701
	2,956,015	2,410,291
<b>Loans payable (note 13)</b>	<b>225,000</b>	<b>225,000</b>
<b>Lease liabilities (note 12)</b>	<b>996,080</b>	<b>-</b>
<b>Total Liabilities</b>	<b>4,177,095</b>	<b>2,635,291</b>
<b>Shareholders' Equity (Deficiency) (note 15)</b>		
Share capital	16,424,807	15,825,300
Reserves	1,972,153	1,579,170
Equity conversion feature on convertible note (note 14)	87,642	90,206
Commitment to issue shares (note 13)	10,000	10,000
Accumulated other comprehensive income	35,362	40,284
Deficit	(19,010,445)	(17,058,207)
	(480,481)	486,753
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 3,696,614</b>	<b>\$ 3,122,044</b>

**Description of Business and Going Concern** (note 1)  
**Subsequent Event** (note 23)

**APPROVED ON BEHALF OF THE BOARD ON MARCH 2, 2020**

"Kevin Ma"  
**Director**

"Chris Johnston"  
**Director**

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

**CARL DATA SOLUTIONS INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
Presented in Canadian Dollars - unaudited

	<b>Three months ended December 31, 2019</b>	<b>Three months ended December 31, 2018</b>	<b>Six months ended December 31, 2019</b>	<b>Six months ended December 31, 2018</b>
<b>Revenue</b>				
Data services	\$ 313,341	\$ 258,777	\$ 631,803	\$ 506,779
Data hosting	66,134	162,580	187,261	351,580
Digital currency verification services (note 8)	-	3,404	-	7,783
Sale of environmental sensors	56,907	-	56,907	-
Custom programming service contracts	2,480	1,309	3,088	2,240
Social referral software	36,233	24,150	60,383	48,300
	<b>475,095</b>	<b>450,220</b>	<b>939,442</b>	<b>916,682</b>
<b>Expenses</b>				
Accretion of convertible note (note 14)	40,510	2,048	83,978	2,048
Amortization (note 10)	181,797	188,582	363,584	397,622
Bad debts (notes 7 and 21)	2,366	(1,454)	11,695	3,201
Computer hosting costs	91,567	101,033	316,680	175,741
Consulting	263,417	269,116	383,512	576,475
Depreciation (note 9)	89,705	53,856	169,464	107,712
Energy costs	73,774	80,910	153,857	181,561
Filing and transfer agent	8,033	7,793	24,014	10,536
Foreign exchange loss	4,537	(1,428)	3,215	(475)
Interest and penalties (note 13)	29,332	26,150	65,279	58,586
Investor relations	22,862	50,305	250,387	72,763
Marketing	2,541	27,143	13,689	44,378
Materials and supplies	12,678	-	12,678	-
Occupancy	2,790	47,788	10,820	95,839
Office and miscellaneous	39,414	37,971	82,211	97,987
Professional	109,460	72,210	155,425	137,749
Share-based payments (note 17)	52,368	189,782	70,419	208,611
Salaries and wages	233,072	75,825	499,350	383,035
Travel	16,350	19,906	49,942	58,442
	<b>(1,276,573)</b>	<b>(1,247,536)</b>	<b>(2,720,199)</b>	<b>(2,611,811)</b>
<b>Operating loss</b>	<b>(801,478)</b>	<b>(797,316)</b>	<b>(1,780,757)</b>	<b>(1,695,129)</b>
<b>Other items</b>				
Financing costs (note 13)	(150,455)	(15,000)	(150,455)	(45,000)
Gain on settlement of debt (notes 6 and 15)	2,250	5,850	7,250	5,850
Lease accretion (note 12)	(22,211)	-	(33,703)	-
Revaluation of digital currencies (note 8)	(113)	(902)	(332)	(2,732)
Realized loss on sale of digital currencies	-	(839)	-	(839)
Gain on modification of lease liabilities	5,759	-	5,759	-
<b>Loss for the period</b>	<b>(966,248)</b>	<b>(808,207)</b>	<b>(1,952,238)</b>	<b>(1,737,850)</b>
<b>Other comprehensive loss</b>				
Foreign exchange loss on translation of subsidiary	(8,569)	22,819	(4,922)	11,021
<b>Comprehensive loss for the period</b>	<b>\$ (974,817)</b>	<b>\$ (785,388)</b>	<b>\$ (1,957,160)</b>	<b>\$ (1,726,829)</b>
<b>Weighted Average Number of Common Shares Outstanding</b>				
Basic and Diluted	82,153,774	76,234,991	80,830,077	75,997,019
<b>Loss Per Share</b>				
Basic and Diluted	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)

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

**CARL DATA SOLUTIONS INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
Presented in Canadian Dollars - unaudited

For the six months ended	December 31, 2019	December 31, 2018
<b>Cash Flows used in Operating Activities</b>		
Loss for the period	\$ (1,952,238)	\$ (1,737,850)
Non-cash items		
Amortization	363,584	397,622
Accretion expense	83,978	2,048
Accrued commitment to issue shares	-	80,789
Accrued interest expense	52,624	54,614
Accrued financing costs	-	15,000
Depreciation	169,464	107,712
Digital currency verification services	-	(7,783)
Gain on settlement of debt	(7,250)	(5,850)
Lease accretion	33,703	-
Realized loss on sale of digital currencies	332	839
Revaluation of digital currencies	-	2,732
Share-based payments	70,419	208,611
Shares issued for financing costs	-	30,000
Gain on modification of lease liabilities	(5,759)	-
Changes in non-cash working capital items:		
Accounts and other receivables	(55,396)	177,840
Deferred revenue	60,167	-
Prepaid expenses	299,512	5,042
Accounts payable and accrued liabilities	11,793	307,266
	(895,234)	(361,368)
<b>Cash Flows provided by Investing Activities</b>		
Acquisition of i4C Innovation Centre Inc.	6,410	-
	6,410	-
<b>Cash Flows provided by Financing Activities</b>		
Net proceeds from issuance of common shares	736,000	-
Proceeds from warrant exercises	264	-
Repurchase of common shares	(21,807)	(65,153)
Proceeds on convertible notes received in advance	300,000	-
Proceeds on convertible notes issued	-	300,000
Proceeds from disposals of digital currencies	-	7,828
Short-term loans received	30,000	765,000
Payments of lease liabilities	(66,888)	-
Repayment of convertible notes	(62,667)	-
Repayment of short-term loans	-	(600,000)
	935,069	407,675
<b>Effect of foreign exchange on cash</b>	(3,167)	1,529
<b>Change in cash during the period</b>	43,078	47,836
<b>Cash – beginning of period</b>	30,829	247,795
<b>Cash – end of period</b>	\$ 73,907	\$ 295,631
<b>Supplemental Cash Flow Information</b> (see note 19)		

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

**CARL DATA SOLUTIONS INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)**  
Presented in Canadian Dollars - unaudited

	<u>Share Capital</u>		Reserves	Equity feature on convertible note	Commitment to issue shares	Accumulated other comprehensive gain (loss)	Deficit	Total
	Shares	Amount						
<b>Balance – June 30, 2018</b>	75,875,329	\$ 15,638,336	\$ 1,293,509	\$ 1,477	\$ 113,211	\$ 41,663	\$ (13,689,607)	\$ 3,398,589
Net comprehensive loss for the period	-	-	-	-	-	11,021	(1,737,850)	(1,726,829)
Shares issued for:								
Acquisition of assets (notes 5 and 15)	400,000	194,000	-	-	(113,211)	-	-	80,789
Debt settlement (note 15)	330,000	34,650	-	-	-	-	-	34,650
Financing costs (notes 13 and 15)	214,285	22,500	-	-	-	-	-	22,500
Shares repurchased (note 15)	(221,328)	(65,153)	-	-	-	-	-	(65,153)
Accrued financing fees (note 13)	-	-	-	-	10,000	-	-	10,000
Issuance of convertible notes (note 14)	-	-	-	83,077	-	-	-	83,077
Share-based payments (note 17)	-	-	208,611	-	-	-	-	208,611
<b>Balance – December 31, 2018</b>	76,598,286	15,824,333	1,502,120	84,554	10,000	52,684	(15,427,457)	2,046,234
Net comprehensive loss for the period	-	-	-	-	-	(12,400)	(1,630,750)	(1,643,150)
Shares issued for:								
Acquisition of assets (notes 5 and 15)	-	194,000	-	-	-	-	-	19,400
Debt settlement (note 15)	210,000	23,100	-	-	-	-	-	23,100
Shares repurchased (note 15)	(73,776)	(216,133)	-	-	-	-	-	(216,133)
Accrued financing fees (note 13)	-	-	-	-	-	-	-	-
Issuance of convertible notes (note 14)	-	-	-	5,652	-	-	-	5,652
Share-based payments (note 17)	-	-	77,050	-	-	-	-	77,050
<b>Balance – June 30, 2019</b>	76,734,510	15,825,300	1,579,170	90,206	10,000	40,284	(17,058,207)	486,753
Net comprehensive loss for the period	-	-	-	-	-	(4,922)	(1,952,238)	(1,957,160)
Shares issued for:								
Private placement (note 15)	4,000,000	480,000	320,000	-	-	-	-	800,000
Warrant exercises	660	264	-	-	-	-	-	264
Debt settlement (note 15)	1,210,000	127,550	-	-	-	-	-	127,550
Acquisition of i4C Innovation Centre Inc. (note 6)	500,000	77,500	-	-	-	-	-	77,500
Share issuance costs (note 14)	-	(64,000)	-	-	-	-	-	(64,000)
Shares repurchased (note 14)	(73,776)	(21,807)	-	-	-	-	-	(21,807)
Settlement of convertible notes (note 14)	-	-	2,564	(2,564)	-	-	-	-
Share-based payments (note 17)	-	-	70,419	-	-	-	-	70,419
<b>Balance – December 31, 2019</b>	82,371,394	\$ 16,424,807	\$ 1,972,153	\$ 87,642	\$ 10,000	\$ 35,362	\$ (19,010,445)	\$ (480,481)

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

**1. Description of Business and Going Concern**

CARL Data Solutions Inc. (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 OTCQB (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:

<b>Company</b>	<b>Place of Incorporation</b>	<b>Effective Interest</b>
Extend to Social Media Inc. (ETS)	British Columbia	100%
FlowWorks Inc. (FlowWorks)	Washington, USA	100%
Carl Data Solutions PL (Carl PL)	Poland	100%
i4C Innovation Inc. (i4C)	British Columbia	100%
Astra Smart Systems Inc. (Astra)	British Columbia	100%

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as recorded in these consolidated financial statements. These condensed consolidated interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At December 31, 2019, the Company had not achieved profitable operations, had accumulated a deficit of \$19,010,445 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 its 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 condensed consolidated interim 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 condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The condensed consolidated interim financial statements of the Company are presented in Canadian dollars, which is the functional currency of the parent company.

**Significant accounting judgments, estimates, and assumptions**

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

**2. Basis of Preparation** (continued)

**Significant accounting judgments, estimates, and assumptions** (continued)

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.

**Basis of Consolidation**

These condensed consolidated financial statements include the financial statements of CARL and its controlled and wholly-owned subsidiaries ETS, FlowWorks, Astra, i4C, 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-ends to match the Company's year-end in the future. Astra and i4C 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 condensed 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.

**3. Significant Accounting Policies**

Except for the adoption of IFRS 16, the accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the most recent audited annual consolidated financial statements as at and for the year ended June 30, 2019 and reflect all the adjustments necessary for fair presentation in accordance with IAS 34.

**New standards and interpretations adopted**

***IFRS 16 Leases***

The Company adopted IFRS 16 - Leases (IFRS 16) on July 1, 2019. The objective of the new standard is to eliminate the classification of leases as either operating or financing leases for a lessee and report all leases on the statement of financial position. The only exemption to this will be for leases that are one year or less in duration or for leases of assets with low values. Under IFRS 16 a lessee is required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligations to make lease payments. IFRS 16 also changes the nature of expenses relating to leases, as lease expenses previously recognized for operating leases are replaced with depreciation expense on capitalized right-of-use assets and finance or interest expense for the corresponding lease liabilities associated with the capitalized right-of-use leased assets.

The Company adopted IFRS 16 using the modified retrospective approach and did not restate comparative amounts for the year prior to first adoption. For all leases, the lease liability was measured at July 1, 2019 as the present value of any future minimum lease payments discounted using the appropriate incremental borrowing rate. The associated right of use assets was measured at the amount equal to the lease liability on July 1, 2019.

The following leases accounting policies have been applied as of July 1, 2019 on adoption of IFRS 16:

At inception of a contract, we assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. We assess whether the contract involves the use of an identified asset, whether we have the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement and if we have the right to direct the use of the asset.

As a lessee, we recognize a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received. The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain measurements of the lease liability.



**3. Significant Accounting Policies** (continued)

**New standards and interpretations adopted** (continued)

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- É fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- É variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- É amounts expected to be payable under a residual value guarantee;
- É exercise prices of purchase options if we are reasonably certain to exercise that option; and
- É payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in our estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit.

As part of the initial application of IFRS 16, we have elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit on a straight-line basis over the lease term.

**Impact of transition to IFRS 16:**

Effective July 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for the year ended June 30, 2019 has not been restated. The cumulative effect of initial application is recognized in the deficit at July 1, 2019. Comparative amounts for the year ended June 30, 2019 remains as previously reported under IAS 17 and related interpretations.

On initial application, the Company has elected to record right-of-use assets based on the corresponding lease liabilities. Lease liabilities have been measured by discounting future lease payments at the incremental borrowing rate at July 1, 2019. The incremental borrowing rate applied was 10% per annum and represents the Company's best estimate of the rate of interest that it would expect to pay to borrow, on a collateralized basis, over a similar term, an amount equal to the lease payments in the current economic environment.

As of the initial date of application of IFRS 16, the Company has two leases outstanding with remaining non-cancelable periods of 35 and 34 months. The application of IFRS 16 to leases, previously classified as operating leases under IAS 17, resulted in the recognition of right-of-use assets of \$478,772 included within property, equipment, and right-of-use assets (Note 9) and lease liabilities (Note 12) with no net impact on deficit.

**4. Significant Accounting Judgments and Estimates**

**Critical accounting judgments**

The functional currency of an entity is assessed on a standalone basis to determine the economic substance of the currency in which each entity performs its operations. The functional currency of the parent company, ETS, Astra and i4C is the Canadian dollar. The functional currency of FlowWorks is the US dollar and the functional currency of Carl PL is the Polish Zloty.

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

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

**4. Significant Accounting Judgments and Estimates** (continued)

**Critical accounting estimates**

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

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. 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.

**5. 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. 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. On November 29, 2018 this contractor agreement was cancelled and replaced by a consulting agreement, which was terminated on February 15, 2019, ending any working relationship between Carl and AB Embedded. During the year ended June 30, 2019 the Company issued an additional 400,000 common shares valued at \$194,000.

The acquisition of assets constitutes a business combination and the purchase price has been allocated as follows:

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

The property and equipment acquired is comprised of 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 10). The Company also acquired AB Embedded's global production electrical systems certification, which will also be amortized over a 3-year term (note 10).

**CARL DATA SOLUTIONS INC.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED DECEMBER 31, 2019**  
Presented in Canadian Dollars - unaudited

**6. Acquisition of i4C**

On October 29, 2019, the Company completed the acquisition of i4C pursuant to the terms of a securities exchange agreement between CARL, i4C and the sole shareholders of i4C. CARL acquired 100% of the outstanding common shares of i4C in exchange for 500,000 common shares of the Company issued to the sole shareholder of i4C (note 15) and agreed to issue 210,000 common shares in satisfaction of \$32,000 in loans owing to the shareholder in i4C and \$10,000 in accounts payable and accrued liabilities recognized in Astra to a vendor related to the sole shareholder of i4C.

i4C is a technology integration and collaboration company that holds the lease for the data center and sensor manufacturing facility for IIOT devices that Astra subleased up to the date of acquisition. On acquisition and consolidation, the Company has derecognized its existing sub-lease obligation between Astra and i4C of \$201,768 (note 12) and right-of-use asset of \$196,009 (note 9). As at the date of acquisition, \$99,714 was owed from Astra to i4C and has been forgiven.

i4C did not have any business activity outside of the lease for the data center and sensor manufacturing facility that it had subleased to Astra. Accordingly, the Company determined that the acquisition did not constitute a business combination under IFRS 3. The excess of the purchase price over net assets acquired has been applied to i4C's right-of-use asset.

The following table summarizes the consideration paid, the relative fair value of the assets acquired, and the liabilities assumed:

<b>Purchase price consideration</b>	
Value of 500,000 common shares issued at \$0.155	\$ 77,500
<b>Assets and liabilities acquired</b>	
Cash	\$ 6,410
Accounts receivable	100,354
Prepaid expenses	522
Property, equipment, and right-of-use assets	1,027,772
Accounts payable and accrued liabilities	(146,095)
Lease liabilities	(911,463)
<b>Total purchase price allocated</b>	<b>\$ 77,500</b>

**7. Accounts and Other Receivables**

	<b>December 31, 2019</b>	<b>June 30, 2019</b>
Gross trade accounts receivable	\$ 418,133	\$ 356,658
Less: allowance for doubtful accounts	(12,748)	(2,759)
Net trade accounts receivable	405,385	353,899
GST receivable	15,766	13,600
	<b>\$ 421,151</b>	<b>\$ 367,499</b>

Reconciliation of allowance for doubtful accounts is as follows:

	<b>December 31, 2019</b>	<b>June 30, 2019</b>
Balance ó beginning of period	\$ 2,759	\$ 22,740
Change in provision	9,989	-
Recovery	-	(19,981)
Balance ó end of period	<b>\$ 12,748</b>	<b>\$ 2,759</b>

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**8. Digital Currencies**

As at December 31, 2019, the Company's digital currencies had a fair value of \$283. 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](http://www.cryptocompare.com). The Company's holdings of digital currencies consist of the following:

	December 31, 2019		June 30, 2019	
BitCoin	\$	-	\$	-
Ethereum		283		615
Dash		-		-
	\$	283	\$	615

The continuity of digital currencies was as follows:

	December 31, 2019		June 30, 2019	
Balance ó beginning of the period	\$	615	\$	8,244
Digital currency mined		-		20,395
Digital currency sold		-		(18,983)
Digital currency written off		-		(11,413)
Revaluation adjustment		(332)		2,372
	\$	283	\$	615

The Company previously held digital currencies and cash with QuadrigaCX, a cryptocurrency exchange that filed for bankruptcy during the year ended June 30, 2019. As the Company does not expect to recuperate these digital currencies, it has written off the value of digital currencies and cash held with QuadrigaCX at the time of bankruptcy of \$11,413 and \$530 respectively.

**9. Property, Equipment, and Right-of-Use Assets**

	Machinery and equipment		Computer equipment		Furniture and fixtures		Right-of-Use Assets		Digital currency processors		Total	
<b>Cost</b>												
Balance ó June 30, 2018	\$	102,790	\$	10,506	\$	391,546	\$	-	\$	250,000	\$	754,842
Additions		-		1,768		-		-		41,337		43,105
Balance ó June 30, 2019		102,790		12,274		391,546		-		291,337		797,947
Adoption of IFRS 16		-		-		-		478,772		-		478,772
Acquired on acquisition of i4C		-		1,789		11,220		1,014,763		-		1,027,772
Derecognized (note 6)		-		-		-		(222,143)		-		(222,143)
Balance ó December 31, 2019		102,790		14,063		402,766		1,271,392		291,337		2,082,348
<b>Accumulated Depreciation</b>												
Balance ó June 30, 2018		17,911		1,831		2,707		-		30,822		53,271
Depreciation		25,463		2,735		77,768		-		119,923		225,889
Balance ó June 30, 2019		43,374		4,566		80,475		-		150,745		279,160
Depreciation		8,912		1,245		31,481		92,678		35,148		169,464
Derecognized (note 6)		-		-		-		(26,134)		-		(26,134)
Balance ó December 31, 2019		52,286		5,811		111,956		66,544		185,893		422,490
Balance ó June 30, 2019	\$	59,416	\$	7,708	\$	311,071	\$	-	\$	140,592	\$	518,787
Balance ó December 31, 2019	\$	50,504	\$	8,252	\$	290,810	\$	1,204,848	\$	105,444	\$	1,659,858

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**10. Intangible assets**

	<b>FlowWorks Software Application</b>	<b>FlowWorks Customer List</b>	<b>Electrical Systems Certification</b>	<b>Control System Source Code</b>	<b>Augmented Business Intelligence Software</b>	<b>Environmental Sensor Firmware</b>	<b>Preferential Lease</b>	<b>Total</b>
<b>Cost</b>								
Balance ó June 30, 2018, June 30, 2019, and December 31, 2019	\$ 675,234	\$ 659,154	\$ 23,500	\$ 56,000	\$ 540,697	\$ 181,133	\$ 1,079,994	\$ 3,215,712
<b>Accumulated Amortization</b>								
Balance ó June 30, 2018	398,722	357,785	4,569	10,889	7,509	-	11,249	790,723
Amortization	140,637	134,802	7,833	18,667	180,232	-	269,998	752,169
Balance ó June 30, 2019	539,359	492,587	12,402	29,556	187,741	-	281,247	1,542,892
Amortization	47,933	67,223	3,917	9,333	90,116	10,063	134,999	363,584
Balance ó December 31, 2019	587,292	559,810	16,319	38,889	277,857	10,063	416,246	1,906,476
<b>Cumulative Translation Adjustment</b>								
Balance ó June 30, 2018	7,787	9,268	-	-	-	-	-	17,055
Foreign currency translation	138	(1,041)	-	-	-	-	-	(903)
Balance ó June 30, 2019	7,925	8,227	-	-	-	-	-	16,152
Foreign currency translation	-	(234)	-	-	-	-	-	(234)
Balance ó December 31, 2019	7,925	7,993	-	-	-	-	-	15,918
Balance ó June 30, 2019	\$ 143,800	\$ 174,794	\$ 11,098	\$ 26,444	\$ 352,956	\$ 181,133	\$ 798,747	\$ 1,688,972
Balance ó December 31, 2019	\$ 95,867	\$ 107,337	\$ 7,181	\$ 17,111	\$ 262,840	\$ 171,070	\$ 663,748	\$ 1,325,154

**10. Intangible assets (continued)**

*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 reallocated the amount and began 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 0.75 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 5). The asset is a finite life asset and is being amortized over a 3-year term, with approximately 1.00 year 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 5). The asset is a finite life asset and is being amortized over a 3-year term, with approximately 1.00 year 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. The asset is a finite life asset and is being amortized over a 3-year term, with approximately 1.50 years remaining unamortized.

*Environmental Sensor Firmware*

The Environmental 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. The asset is a finite life asset and is being amortized over a 3-year term, with approximately 2.50 years remaining unamortized, as these assets were not put into use until during the period ended September 30, 2019.

*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. 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 is being amortized over a 4-year term, with approximately 2.50 years remaining unamortized.

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**11. Accounts Payable and Accrued Liabilities**

	<b>December 31, 2019</b>	<b>June 30, 2019</b>
Trade accounts payable	\$ 769,222	\$ 672,818
Due to related parties (note 20)	253,410	310,955
Accrued liabilities	69,830	165,795
	<b>\$ 1,092,462</b>	<b>\$ 1,149,568</b>

**12. Lease Liabilities**

Pursuant to the adoption of IFRS 16 (Note 3), the Company has recognized the impact of lease obligations as of June 30, 2019:

	<b>Payments</b>
Future aggregate minimum lease payments as of June 30, 2019	\$ 550,478
Effect of discounting at the incremental borrowing rate	(71,706)
<b>Total lease liabilities on application of IFRS 16 as at July 1, 2019</b>	<b>\$ 478,772</b>

**Lease liabilities**

Balance, July 1, 2019	\$ 478,772
Acquired on acquisition of i4C	911,463
Lease accretion	33,703
Lease payments	(66,888)
Derecognized	(222,242)
Balance, December 31, 2019	1,134,808
Current lease liabilities	(138,728)
Non-current lease liabilities	<b>\$ 996,080</b>

**13. Loans Payable**

	<b>December 31, 2019</b>	<b>June 30, 2019</b>
Balance ó beginning of period	\$ 744,701	\$ 604,000
Advances of loans	30,000	970,000
Interest and fees accrued	40,967	86,765
Repayments ó cash	(8,511)	(616,064)
Settlements ó convertible debenture issued (note 14)	-	(300,000)
Balance ó end of period	807,157	744,701
Current portion	(582,157)	(519,701)
Non - current portion	<b>\$ 225,000</b>	<b>\$ 225,000</b>

**13. Loans Payable (continued)**

During the six-month period ended December 31, 2019, the Company entered into one unsecured loan agreement with an arm's-length party on July 3, 2019 in the amount of \$30,000. In connection with the loan, the Company must pay 20% simple interest per annum.

During the year ended June 30, 2019, the Company entered into the following unsecured loan agreements:

- a) \$300,000 was received from an arm's-length party with a maturity date of September 13, 2018. In connection with the loan, the Company agreed to pay interest of \$15,000 and issue 214,285 common shares on maturity (issued). Additional interest 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. The Company settled the principal of \$300,000 during the period ended December 31, 2019 through the issuance of a convertible note in the same amount (note 14). As at December 31, 2019, interest payable of \$41,695 remains included in the balance of loans payable;
- b) \$100,000 was received from an arm's-length party with a maturity date of January 26, 2019. In connection with the loan the Company agreed to pay a transaction fee of \$5,000 and issue 64,516 common shares. Since the loan was not repaid by January 26, 2019, interest of 13% per annum is accruing on the principal amount of \$100,000. As at December 31, 2019, \$10,000 relating to the common shares has been accrued as a commitment to issue shares and \$5,000 in transaction fees has been included in the balance of loans payable;
- c) \$50,000 was received from an arm's-length party, repayable on demand and non-interest bearing;
- d) \$90,000 was received from two directors of the Company with maturity dates of January 31, 2019. In connection with the loans, the Company pays 20% simple interest per annum. As at December 31, 2019, the loans remain payable with accrued interest;
- e) \$225,000 was received from an arm's-length party on December 3, 2018 bearing interest of prime plus 2.5% on a monthly basis. After 24 months, the Company will make monthly payments over 60 months inclusive of principal and interest component;
- f) an aggregate of \$205,000 received from three loans with an arm's-length party all with maturities of December 31, 2019 bearing interest at a rate of 15% per annum.

**14. Convertible Notes**

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.



**14. Convertible Notes (continued)**

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, 2019 \$150,455 was recorded in prepaid expenses, which was recognized to loss and comprehensive loss on extinguishment during the period ended December 31, 2019. 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.

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 in the consolidated statement of comprehensive 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.

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. 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 until extinguishment during the period ended December 31, 2019.

On the repayment of \$475,000 on June 28, 2018, 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 December 31, 2019, the Company has not initiated any further issuances of the convertible notes from this facility. During the period ended December 31, 2019, the Company closed the facility by repaying the final \$10,000 owing. Upon extinguishment, the Company reclassified \$1,477 relating to the equity component of the settled notes from equity conversion feature on convertible note to reserves.

Separate from the above noted credit facility, during the year ended June 30, 2019, the Company issued the following convertible notes directly:

- a) \$300,000, bearing interest at a rate of 12% per annum and maturing on December 24, 2019. The principal and interest, at the option of the holder, will be convertible into common shares of the Company at a conversion price of \$0.15 per common share. The Company allocated \$41,538 to the equity component of the note;
- b) \$300,000 in settlement of loans payable (note 13), bearing interest at a rate of 12% per annum and maturing on December 27, 2019. The principal and interest, at the option of the holder, will be convertible into common shares of the Company at a conversion price of \$0.15 per common share. The Company allocated \$41,539 to the equity component of the note;
- c) \$70,000, bearing interest at a rate of 20% per annum and maturing on July 28, 2019. The principal and interest, at the option of the holder, will be convertible into common shares of the Company at a conversion price of \$0.15 per common share. The Company allocated \$3,043 to the equity component of the note. During the period ended December 31, 2019, the maturity of the facility was extended, and the interest rate increased to 40% per annum. During the period ended December 31, 2019 a total of \$40,667 in repayments was made which comprised \$25,000 in principal repayment and \$15,667 in interest. Upon repayment of principal, the Company reclassified \$1,087 relating to the equity component of the settled notes from equity conversion feature on convertible note to reserves; and

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**14. Convertible Notes (continued)**

- d) \$60,000, bearing interest at a rate of 20% per annum and maturing on July 28, 2019. The principal and interest, at the option of the holder, will be convertible into common shares of the Company at a conversion price of \$0.15 per common share. The Company allocated \$2,609 to the equity component of the note. During the period ended December 31, 2019, the maturity of the facility was extended, and the interest rate increased to 40% per annum. During the period ended December 31, 2019, the Company made payments of \$16,000 representing interest.

	<b>December 31, 2019</b>	<b>June 30, 2019</b>
Balance, beginning of period	\$ 741,022	\$ 10,000
Additions	-	730,000
Equity component of additions	-	(88,729)
Accretion of convertible note	83,978	89,751
Interest accrued	20,167	
Repayment of convertible note	(62,667)	-
Balance, end of period	782,500	741,022
Current portion	782,500	741,022
Long-term portion	\$ -	\$ -
Convertible note, equity component, end of period	\$ 87,642	\$ 90,206
Face value of notes at maturity	\$ 782,500	\$ 815,000

During the period ended December 31, 2019, the Company received funds of \$300,000 in advance relating to a convertible note issuance that has not yet closed. The notes will have a maturity of one year from issuance, bear interest at 12% and be convertible at \$0.30. As at the date of this report, the transaction has not closed, and the notes have not been issued.

**15. Share Capital**

**(a) Authorized Share Capital**

As at December 31, 2019, the authorized share capital of the Company is an unlimited number of common shares without par value. All issued shares, consisting only of common shares are fully paid.

**(b) Issued Share Capital**

During the period ended December 31, 2019, share activity was as follows:

- (i) On July 11, 2019, the Company repurchased and returned to treasury 36,888 common shares at a price of US\$0.225 per share pursuant to a settlement agreement entered with a former dissenting shareholder and recognized a decrease to share capital of \$10,879.
- (ii) On July 30, 2019, the Company issued 1,000,000 common shares with a fair value of \$0.095 per common share to settle accounts payable and accrued liabilities of \$100,000. The Company recognized a gain of \$5,000 on the settlement.
- (iii) On August 14, 2019, the Company closed a private placement by issuing 4,000,000 common share units (each, a "Unit") at a price of \$0.20 per Unit for gross proceeds of \$800,000. Each Unit consisted of one common share and one-half of one common share purchase warrant, with each full warrant exercisable for a period of two years at a price of \$0.50. The Company allocated \$480,000 to share capital for the common shares with the residual value of \$320,000 for the warrants to reserves. In connection with the private placement, the Company paid a finder's fee of \$64,000.

**15. Share Capital (continued)**

**(b) Issued Share Capital (continued)**

- (iv) On October 17, 2019, the Company repurchased and returned to treasury 36,888 common shares at a price of US\$0.225 per share pursuant to a settlement agreement entered with a former dissenting shareholder and recognized a decrease to share capital of \$10,928.
- (v) On October 29, 2019, the Company issued 500,000 common shares with a fair value of \$0.155 per common share for a total of \$77,500 to acquire 100% of the outstanding shares of i4C (Note 6).
- (vi) On October 29, 2019, the Company issued 210,000 common shares with a fair value of \$0.155 per common share for a total of \$32,550 to settle a total of \$42,000 of liabilities (Note 6).
- (vii) On December 27, 2019, the Company issued 660 common shares at a price of \$0.40 per common share for a total of \$264 on the exercise of warrants by an arm's length party.

During the year ended June 30, 2019, share activity was as follows:

- (i) On August 31, 2018, the Company repurchased 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 and recognized a decrease to share capital of \$54,010.
- (ii) On October 22, 2018, the Company issued 330,000 common shares at a price of \$0.105 per common share, for a total value of \$34,650, to settle accounts payable with a director of \$33,000. The Company recognized a loss of \$1,650 on the settlement.
- (iii) On October 22, 2018, the Company issued 214,285 common shares at a price of \$0.105 per common share, for a total value of \$22,500, to settle finance fees on a short-term loan (note 13) previously accrued at \$30,000. The Company recognized a gain of \$7,500 on the settlement.
- (iv) On November 30, 2018, the Company issued 400,000 common shares at a price of \$0.485 per common share, for a total value of \$194,000, as required per the acquisition of the AB Embedded assets (note 5).
- (v) On December 19, 2018, the Company repurchased and returned to treasury 36,888 common shares at a price of US\$0.225 per share pursuant to a settlement agreement entered with a former dissenting shareholder and recognized a decrease to share capital of \$11,143.
- (vi) On January 14, 2019, the Company repurchased and returned to treasury 36,888 common shares at a price of US\$0.225 per share pursuant to a settlement agreement entered with a former dissenting shareholder and recognized a decrease to share capital of \$11,017.
- (vii) On February 20, 2019, the Company issued 210,000 common shares at a price of \$0.11 per common share, for a total value of \$23,100, to settle accounts payable with a director of \$31,500. The Company recognized a gain of \$8,400 on the settlement.
- (viii) On April 24, 2019, the Company repurchased and returned to treasury 36,888 common shares at a price of US\$0.225 per share pursuant to a settlement agreement entered with a former dissenting shareholder and recognized a decrease to share capital of \$11,116.

As at December 31, 2019 a total of 75,564 (June 30, 2019 ó 149,340) common shares remain in escrow.

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**16. Warrants**

Details regarding warrants issued and outstanding are summarized as follows:

	Weighted average exercise price	Number of warrants
Balance - June 30, 2018	\$0.39	27,650,834
Expired	\$0.60	(1,450,000)
Balance - June 30, 2019	\$0.39	26,200,834
Granted	\$0.50	2,000,000
Exercised	\$0.40	(660)
Expired	\$0.40	(14,408,503)
Balance ó December 31, 2019	\$0.41	13,791,671

The expiry of findersø and share purchase warrants are as follows:

	Exercise price	Number of warrants	Expiry date
Share purchase warrants	\$0.40	11,041,671	January 5, 2020*
Share purchase warrants	\$0.25	750,000	June 29, 2020
Share purchase warrants	\$0.50	2,000,000	August 14, 2021
		13,791,671	

\* Subsequent to the period ended December 31, 2019 these warrants expired unexercised.

**17. Share-Based Payments**

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

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

	Weighted average exercise price	Number of Options
Balance ó June 30, 2018	\$0.27	7,118,425
Expired / Cancelled	\$0.40	(2,194,786)
Granted	\$0.14	3,995,247
Balance ó June 30, 2019	\$0.18	8,918,886
Expired / Cancelled	\$0.15	(623,000)
Granted	\$0.20	500,000
Balance ó December 31, 2019	\$0.18	8,795,886

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**17. Share-Based Payments (continued)**

Incentive share options outstanding and exercisable December 31, 2019 are summarized as follows:

Exercise Price	Options Outstanding			Options Exercisable	
	Number of Shares Issuable on Exercise	Weighted Average Remaining Life	Weighted Average Exercise Price	Number of Shares Issuable on Exercise	Weighted Average Exercise Price
\$0.11	363,637 <sup>(1)</sup>	0.06 years	\$0.11	363,637	\$0.11
\$0.26	2,085,002 <sup>(2)</sup>	0.01 years	\$0.26	2,085,002	\$0.26
\$0.19	100,000	1.32 years	\$0.19	100,000	\$0.19
\$0.19	1,225,000	2.32 years	\$0.19	1,225,000	\$0.19
\$0.16	1,000,000	2.44 years	\$0.16	1,000,000	\$0.16
\$0.14	3,522,247 <sup>(3)</sup>	2.79 years	\$0.14	3,522,247	\$0.14
\$0.20	500,000	1.84 years	\$0.20	500,000	\$0.20
	8,795,886		\$0.18	8,795,886	\$0.18

(1) Subsequent to the period ended December 31, 2019, all of these options were exercised.

(2) Subsequent to the period ended December 31, 2019, all of these options expired unexercised.

(3) Subsequent to the period ended December 31, 2019, 50,000 of these options were exercised.

The weighted average fair value of options granted during the period ended December 31, 2019 was \$0.10 (2018 - \$0.07). Total share-based payments recognized in the statement of shareholders' equity for the period ended December 31, 2019 was \$70,419 (2018 - \$208,611) 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:

	December 31, 2019	June 30, 2019
Weighted average share price	\$0.17	\$0.12
Risk-free interest rate	1.55%	2.37%
Expected life of option	2.00 years	3.00 years
Expected annualized volatility	126.63%	100%
Expected dividend rate	Nil	Nil

**18. Management of Capital**

The capital managed by the Company includes the components of shareholders' equity as described in the condensed consolidated interim statements of changes in 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 December 31, 2019 remains fundamentally unchanged from the year ended June 30, 2019.

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**19. Supplemental Cash Flow Information**

During the period ended December 31, 2019, the Company:

- a) Recognized an increase to right-of-use assets and lease liabilities of \$478,772 on adoption of IFRS 16;
- b) issued an aggregate of 1,210,000 common shares at a value of \$127,550, to settle accounts payable and accrued liabilities of \$134,800;
- c) Reclassified a total of \$2,564 from equity conversion feature on convertible notes to reserves on the settlement of convertible notes; and
- d) Recognized \$99,714 in forgiven accounts payable and accrued liabilities due to i4C on the acquisition of i4C;

During the period ended December 31, 2018, the Company:

- a) settled \$300,000 in loans payable through the issuance of a convertible note with \$258,461 allocated to convertible notes and \$41,539 to the equity component;
- b) issued 330,000 common shares at a price of \$0.105 per common shares, for a total of \$34,650, to settle amounts owed to a director of the Company; and
- c) issued 400,000 common shares valued at \$0.485 per common shares, for a total value of \$194,000, of which \$113,211 had previously been accrued to commitment to issue shares.

**20. Related Party Transactions**

The Company had previously 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 paid the company a total of \$11,667 per month. Effective July 1, 2019, the Company replaced this agreement with a new agreement whereby, the Company will pay monthly consulting fees of \$13,400.

During the period ended December 31, 2019, the Company paid or accrued, to key management personnel and their related companies:

	Consulting Fees	Share-based payments	Total
Chief Executive Officer	\$ 80,400	\$ 5,255	\$ 85,655
Chief Financial Officer	36,000	-	36,000
Non-executive Directors	6,000	5,608	11,608
<b>Total</b>	<b>\$ 122,400</b>	<b>\$ 10,863</b>	<b>\$ 133,263</b>

During the period ended December 31, 2018, the Company paid or accrued, to key management personnel and their related companies:

	Consulting Fees	Share-based payments	Total
Chief Executive Officer	\$ 70,000	\$ 47,876	\$ 117,876
Former Chief Financial Officer	54,000	4,722	58,722
Non-executive Directors	50,000	53,398	103,398
<b>Total</b>	<b>\$ 174,000</b>	<b>\$ 105,996</b>	<b>\$ 279,996</b>

Included in accounts payable and accrued liabilities is \$253,410 (June 30, 2019 - \$241,805) due to officers, directors, and a former officer of the Company.

On June 9, 2014, ETS signed a referral services agreement with RA Revenue Automation Inc. (øRAø) 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 \$48,300 (2018 - \$48,300) recorded in profit or loss is from RA. As at December 31, 2019, \$33,810 (June 30, 2019 - \$33,810) was owed from RA.

**20. Related Party Transactions** (continued)

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

KWL, a consulting engineering company, founded and created FlowWorks and is related through a director of the Company. During the period ended December 31, 2019, the Company earned sales revenue from KWL of \$63,375 (2018 ó \$58,525) and incurred expenses from KWL of \$10,913 (2018 ó \$15,854). Included in accounts receivable as at December 31, 2019 is a balance owing from KWL of \$21,229 (June 30, 2019 - \$30,030).

**21. Financial Risk Management**

**Fair value of financial instruments**

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

The Company's financial instruments consisting of accounts and other receivables, accounts payable and accrued liabilities, loans payable, and convertible notes are classified as amortized cost. The carrying values of these financial instruments approximate their fair values because of their nature and/or relatively short maturity dates or durations.

Cash is classified as being at FVTPL. The fair value of cash as recorded in the condensed consolidated interim statements of financial position is measured in accordance with Level 1 of the fair value hierarchy.

**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 December 31, 2019 and 2018, the Company was not subject to significant market risk.

**21. Financial Risk Management** (continued)

**Financial and capital risk management** (continued)

*Foreign currency risk*

As at December 31, 2019 the Canadian dollar equivalent carrying values of the financial assets and liabilities denominated in foreign balances are as follows:

December 31,	US Dollars		Polish Zloty	
	2019	2018	2019	2018
<b>Financial Assets</b>				
Cash	\$ 13,997	\$ 5,097	\$ 20,545	\$ 112,491
Accounts receivable	275,347	180,951	-	-
<b>Financial Liabilities</b>				
Accounts payable and accrued liabilities	\$ 84,209	\$ 101,734	\$ 29,353	\$ 16,688

The Company's subsidiary, FlowWorks, operates in the United States which, from the perspective of the Company, creates currency risk associated with those operations. For the period ended December 31, 2019, FlowWorks has revenue of \$634,891 (2018 - \$509,019) (Canadian dollar equivalent). A 10% change in the foreign exchange rate would result in a \$63,000 (2018 - \$51,000) (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 December 31, 2019 and June 30, 2019, 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 and other receivables. The Company holds cash at a major Canadian chartered bank in a chequing account, a Washington State, USA bank, and a Polish bank.

The Company is exposed to credit risk on its trade accounts receivable. The Company's credit risk for accounts receivable is concentrated as 36% of its trades account receivable is owing from four customers (June 30, 2019 6 41% from three customers), with more than 10% owing from one of those customers (June 30, 2019 6 two).

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables are assessed primarily based on days past due. The Company has assessed expected credit losses based on 20% of its trade accounts receivables aged past 90 days and has estimated expected credit losses at December 31, 2019 of \$12,748 (June 30, 2019 - \$2,759).

*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 13, respectively. The Company has limited working capital at December 31, 2019 and will need to raise further financing to meet its financial obligations.



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**22. 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 customer's location for the periods ended December 31, 2019 and 2018:

	<b>2019</b>		<b>2018</b>	
<b>Revenue</b>				
Canada	\$	625,911	\$	688,085
United States		313,531		228,597
	\$	939,442	\$	916,682

The following is a breakdown of the Company's revenues based upon reportable segment for the periods ended December 31, 2019 and 2018:

	<b>2019</b>		<b>2018</b>	
<b>Revenue</b>				
Data services	\$	695,274	\$	557,319
Data hosting		187,261		351,580
Sale of environmental sensors		56,907		-
Digital currency verification		-		7,783
	\$	939,442	\$	916,682

**23. Subsequent Event**

Subsequent to December 31, 2019, the Company received a total of \$250,000 from an arms-length individual. The funds have no explicit terms of repayment.