DeepMarkit Corp.

Condensed Interim Financial Statements
for the three and six months ended June 30, 2016
(Unaudited)
(Expressed in Canadian Dollars)

DeepMarkit Corp.
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June 30, 2016
(Unaudited)
(Expressed in Canadian Dollars)

Management's Responsibility for Financial Reporting

To the Shareholders of DeepMarkit Corp.:

The accompanying condensed interim financial statements have been prepared by Management in accordance with International Financial Reporting Standards and have been approved by the Board of Directors. In support of this responsibility, Management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The condensed interim financial statements include amounts which are based on the best estimates and judgments of Management.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors exercises this responsibility principally through the Audit Committee.

The Audit Committee consists of a majority of independent directors not involved in the daily operations of the Company. The Audit Committee meets with Management and the external auditors to satisfy itself that Management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.

The auditor has not performed a review of the unaudited condensed interim financial statements for the three and six month period ending June 30, 2016.

August 26, 2016

(signed) "*Darold H. Parken*" ,
Director and President and Chief Executive Officer

(signed) "*Sandra Généreux*" ,
Chief Financial Officer

DeepMarkit Corp.
Condensed Interim Statements of Financial Position
As at June 30, 2016
(Unaudited)
(Expressed in Canadian Dollars)

		June 30, 2016		December 31, 2015
Assets				
Current				
Cash and cash equivalents	**$**	**89,276**	$	257,615
Accounts receivable		**5,236**		15,189
Prepaid expenses and deposits		**9,746**		775
		104,258		273,579
Property and equipment (Note 5)		**32,762**		26,035
	$	**137,020**	$	299,614
Liabilities				
Current				
Accounts payable and accrued liabilities (Notes 6 & 8)	**$**	**139,848**	$	92,449
Debenture payable (Note 6)		**684,592**		-
		824,440		92,449
Shareholders' Equity				
Share capital (Note 7)		**9,738,904**		9,738,904
Contributed surplus		**1,429,355**		1,404,785
Accumulated deficit		**(11,855,679)**		(10,936,524)
		(687,420)		207,165
	$	**137,020**	$	299,614

Going concern (Note 2)

Commitments (Note 9)

Subsequent events (Note 13)

Approved by the Board:

(signed) "Darold H. Parken" , Director

(signed) "Leo R. Kelly" , Director

DeepMarkit Corp.
Condensed Interim Statements of Loss and Comprehensive Loss
For the three and six months ended June 30, 2016
(Unaudited)
(Expressed in Canadian Dollars)

	For The Three Months Ended		For The Six Months Ended	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Expenses				
Wages and benefits (Note 8)	**$ 320,307**	$ 205,758	**$ 619,433**	$ 310,553
General and administrative (Note 8)	**132,764**	46,856	**242,319**	89,152
Stock-based compensation (Notes 7 & 8)	**15,409**	259,796	**24,570**	280,591
Professional fees (Note 8)	**10,920**	3,500	**18,420**	7,518
Listing and filing fees	**1,961**	12,718	**10,520**	28,690
Amortization (Note 5)	**2,722**	683	**4,877**	1,091
Gain on foreign exchange	**(18)**	(77)	**(591)**	(526)
Interest income	**(248)**	(1,138)	**(393)**	(2,611)
Net Loss and Comprehensive Loss	**$ 483,817**	$ 528,096	**$ 919,155**	$ 714,458
Loss per share - basic and diluted	**$ (0.01)**	$ (0.01)	**$ (0.01)**	$ (0.01)
Weighted average number of shares outstanding (Note 7)	**62,321,618**	57,524,365	**62,321,618**	56,901,452

DeepMarkit Corp.
Condensed Interim Statements of Changes in Equity
For the six months ended June 30, 2016
(Unaudited)
(Expressed in Canadian Dollars)

	Share capital	Contributed surplus	Accumulated deficit	Total equity
Balance - January 1, 2015	$ 9,140,154	$ 1,088,303	$ (9,288,290)	$ 940,167
Shares issued in private placements	600,000	-	-	600,000
Share issue costs	(8,750)	-	-	(8,750)
Stock-based compensation	-	280,591	-	280,591
Comprehensive loss	-	-	(714,458)	(714,458)
Balance - June 30, 2015	**$ 9,731,404**	**$ 1,368,894**	**$ (10,002,748)**	**$ 1,097,550**
Balance - January 1, 2016	$ 9,738,904	$ 1,404,785	$ (10,936,524)	$ 207,165
Stock-based compensation	-	24,570	-	24,570
Comprehensive loss	-	-	(919,155)	(919,155)
Balance - June 30, 2016	**$ 9,738,904**	**$ 1,429,355**	**$ (11,855,679)**	**$ (687,420)**

DeepMarkit Corp.
Condensed Interim Statements of Cash Flows
For the six months ended June 30, 2016
(Unaudited)
(Expressed in Canadian Dollars)

	2016	2015
Cash provided by (used in):		
Operating activities		
Net loss	**$ (919,155)**	$ (714,458)
Non cash items		
Amortization (Note 5)	**4,877**	1,091
Amortization of transaction costs (Note 6)	**4,592**	-
Stock-based compensation (Note 7)	**24,570**	280,591
	(885,116)	(432,776)
Change in non-cash working capital items (Note 12)	**48,381**	(9,791)
	(836,735)	(442,567)
Investing activities		
Purchase of property and equipment (Note 5)	**(11,604)**	(9,904)
Financing activities		
Debenture payable (Note 6)	**680,000**	-
Issuance of common shares and warrants	**-**	591,250
	680,000	591,250
Increase (decrease) in cash	**(168,339)**	138,779
Cash and cash equivalents, beginning of periods	**257,615**	983,817
Cash and cash equivalents, end of periods	**$ 89,276**	$ 1,122,596

Supplemental disclosure of cash flow information		
Interest income received	**$ 393**	$ 2,611

1. Nature of operations

DeepMarkit Corp. (the “Corporation” or the “Company”) was incorporated under the Business Corporation Act (Alberta) on November 20, 2007 under the name Challenger Deep Resources Corp. On October 30, 2015, the Company changed its name to DeepMarkit Corp. The Company now trades on the TSX-V under the symbol MKT and is a Technology Issuer. Until recently, the Company was in the business of acquiring, exploring and developing coal properties, both directly and through joint ventures. In 2014, the Company divested all of its exploration and evaluation assets and discontinued its coal exploration operations. To date the Company has not generated significant revenues from operations. The registered address of the Company is Suite 202, 615 15th Avenue SW Calgary, Alberta T2R 0R4.

2. Going concern

These condensed interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations.

The Company’s ability to maintain its current level of operations is dependent on its ability to generate sufficient cash to fund its strategic business plan. To date, the Company has no ongoing source of significant revenue. At June 30, 2016, the Company had cash of $89,276 (December 31, 2015 - $257,615) and a working capital deficit of $35,590 (December 31, 2015 - surplus of $181,130).

During the six months ended June 30, 2016, the Company received financing from a private corporation in the amount of $700,000 in the form of a secured debenture financing. In fiscal 2015, the Company completed private placements for gross proceeds of $600,000. In addition to any capital raised from new financing, if any, there are 32,189,744 (December 31, 2015 – 32,189,744) share purchase warrants exercisable at prices ranging from $0.10 to $0.25 expiring at various points from June 2017 to April 2018. Each share purchase warrant is exercisable into one common share.

While Management believes the Company has sufficient cash to discharge its obligations in the normal course of operations for the short-term, future operations will continue to be dependent upon the successful development of the Company’s new business plan and raising of sufficient capital to execute on that plan, and the corresponding generation of future cash flows. Management believes the going concern assumption is appropriate for these condensed interim financial statements. The Company’s ability to continue as a going concern on a medium and longer term basis depends on its ability to successfully raise additional financing for further activity and development or to enter into profitable operations. In order to fund the Company’s 2016 capital and operating budget, additional financing will be required.

While the Company has been successful to date 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 acceptable to the Company. If the going concern assumption were not appropriate for these condensed interim financial statements, adjustments might be necessary to the carrying value of assets and liabilities, reported revenues and expenses and the statement of financial position classifications used.

3. Basis of presentation

(a) Statement of compliance

The condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Specifically they have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting. The unaudited condensed interim financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015 which have been prepared in accordance with IFRS.

The condensed interim financial statements were authorized for issue by the Board of Directors on August 26, 2016.

(b) Basis of measurement

The condensed interim financial statements have been prepared on the historical cost basis except for available-for-sale financial assets measured at fair value. The condensed interim financial statements are presented in Canadian dollars.

(c) Use of estimates and judgments

The preparation of the financial statements requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results may differ from these estimates. The more significant areas requiring the use of Management estimates and assumptions are discussed below. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) <u>Estimate of recoverability for non-financial assets</u>
Events or changes in circumstances, may give rise to significant impairment charges or reversals of impairment in a particular year. In accordance with the Company's accounting policy, each non-financial asset or cash generating unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss recognized to the extent that carrying amount exceeds recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs to sell and value in use. Impairment testing is also performed annually for goodwill, if any. 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, and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. Value in use is also generally determined as the present value of the estimated future cash flows, but only those expected to arise from the continued use of the asset in its present form and its eventual disposal. Present values are determined using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset. Future cash flow estimates are based on expected sales volumes, operating costs and future capital expenditure. This policy requires Management to

3. Basis of presentation, continued

make these estimates and assumptions which are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged against the income statement.

(ii) Share-based payments
The Company provides compensation benefits to employees, directors and officers through a stock option plan. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. Expected volatility is based on historical volatility of the Company's share price. Historical data is utilized to estimate option exercises and forfeiture behaviour with the valuation model. The risk-free rate for the expected term of the option is based on the Government of Canada yield curve in effect at the time of the grant.

(iii) Fair value of financial instruments, including embedded derivatives
Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(iv) Taxation
The Company's accounting policy for taxation requires Management's judgment in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the statement of financial position. Deferred tax assets, including those arising from tax loss carry-forwards, capital losses and temporary differences are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on Management's estimates of future cash flows. These depend on estimates of future sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the statement of financial position and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amount of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

4. Summary of significant accounting policies

The same accounting policies and methods of computation are followed in these unaudited condensed interim financial statements as compared with the most recent audited annual consolidated financial statements for the year ended December 31, 2015.

(Expressed in Canadian Dollars)

5. Property and equipment

The Company expended the following amounts on equipment during 2015 and the six months ended June 30, 2016:

Cost		Office equipment
Balance, December 31, 2014	$	6,557
Additions		30,811
Balance, December 31, 2015		37,368
Additions		11,604
Balance, June 30, 2016	**$**	**48,972**
Accumulated amortization		
Balance, December 31, 2014	$	(6,557)
Amortization for the year		(4,776)
Balance, December 31, 2015		(11,333)
Amortization for the period		(4,877)
Balance, June 30, 2016	**$**	**(16,210)**
Net Book Value		
Balance, December 31, 2015	$	26,035
Balance, June 30, 2016	**$**	**32,762**

6. Debenture payable

During the six months ended June 30 2016, the Company entered into a secured debenture financing (the "Agreement") with a private company controlled by a director of the Company (the "Lender"). Pursuant to the Agreement, the Lender has agreed to advance $700,000 of an up to $1,000,000, bearing an interest rate of ten percent per annum, compounded monthly and payable quarterly. The debenture had a maturity date of August 31, 2017. After the period, the debenture was converted into a new secured participating debenture (see Note 13. - Subsequent events). The debenture is secured by the assets of the Company.

Transaction costs incurred securing the revolving line of credit were $20,000. All transaction costs have been capitalized and deferred. These deferred transaction costs are being amortized over the term of the Agreement under the effective interest method and included in finance costs.

The following table outlines the activity of the debenture payable during the six months ended June 30, 2016:

Amortized cost, January 1, 2016	**$**	**-**
Amounts drawn		**700,000**
Transaction costs		**(20,000)**
Amortization of transaction costs		**4,592**
Balance, June 30, 2016	**$**	**684,592**

As of June 30, 2016, interest expense in the amount of $19,568 were unpaid and thereof included in accounts payable and accrued liabilities.

(Expressed in Canadian Dollars)

7. Share capital

a) **Authorized**
Unlimited number of common shares
Unlimited number of preferred shares, issuable in series

Issued and outstanding common shares:

	June 30, 2016			December 31, 2015		
	Number		**Amount**	Number		Amount
Balance, beginning of periods	**62,321,618**	**$**	**9,738,904**	56,271,618	$	9,140,154
Issued:						
On private placement	**-**		**-**	6,000,000		600,000
Warrants exercised	**-**		**-**	50,000		7,500
Share issue costs	**-**		**-**	-		(8,750)
Balance, end of periods	**62,321,618**	**$**	**9,738,904**	62,321,618	$	9,738,904

(i) 2016 transactions
No transaction during the period.

(ii) 2015 transactions
On June 11, 2015, the Company closed a non-brokered private placement consisting of 6,000,000 units (each a "Unit") of the Company, at a subscription price of $0.10 per Unit for gross proceeds of $600,000. Each Unit consists of one common share and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one additional common share of the Company at an exercise price of $0.15 for a period of two years from the date of issuance of the Units. If, at any time after the expiry of the four-month hold period, the closing price of the common shares on the TSX Venture Exchange is at least $0.50 for a period of 30 consecutive trading days, the Company may, at its option, accelerates the expiry date of the Warrants by issuing a press release and giving written notice thereof to all holders of Warrants, and, in such case, the Warrants will expire on the date which is the earlier of : (i) the 30th day after the date on which the press release is disseminated by the Company, and (ii) the original expiry date.

The Company paid a finder's fee in connection with the issue in the amount of $5,000.

During the year ended December 31, 2015, 50,000 warrants were exercised at a price of $0.15 per warrant.

(Expressed in Canadian Dollars)

7. Share capital, continued

b) Warrants

	June 30, 2016			December 31, 2015		
	Number		**Weighted average exercise price**	Number		Weighted average exercise price
Balance, beginning of periods	**32,189,744**	**$**	**0.15**	26,239,744	$	0.15
Issued:						
On private placement	-		-	6,000,000		0.15
Exercised	-		-	(50,000)		0.15
Balance, end of periods	**32,189,744**	**$**	**0.15**	32,189,744	$	0.15

As of June 30, 2016, the following warrants are outstanding:

Number	Exercise price	Expiry Date
9,316,667	$ 0.25	April 2018
16,923,077	$ 0.10	October 2017
5,950,000	$ 0.15	June 2017
32,189,744		

The weighted average remaining life span of the warrants is 1.37 years (December 31, 2015 - 1.87 years).

c) Stock option plan

The Company has adopted an incentive stock option plan (the “Option Plan”) which provides the Board of Directors of the Company from time-to-time, in its discretion and in accordance with the Exchange requirements, the authority to grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to five years from the date of grant. Options have been granted pursuant to the Option Plan which was last approved by the shareholders of the Company at a special meeting held on October 23, 2015.

(i) <u>2016 transactions</u>
During the period ended June 30, 2016, the Company granted 400,000 options with an exercise prices of $0.15 to employees of the Company. The options vest in equal 25% increments over a period of four years and expire five years from the date of grant.

No options were exercised during the six months ended June 30, 2016, 1,173,750 options expired and 300,000 options were cancelled during the period.

(ii) <u>2015 transactions</u>
During the year ended December 31, 2015, the Company granted 500,000 options with an exercise price of $0.075 to a consultant of the Company. The options vest in equal 25% increments over a period of one year and expire one year form the date of grant.

(Expressed in Canadian Dollars)

7. Share capital, continued

During the year ended December 31, 2015, the Company granted 2,700,000 options with exercise prices from $0.075 to $0.21 to employees of the Company. The options vest in equal 25% increments over a period of four years and expire five years from the date of grant.

During the year ended December 31, 2015, the Company granted 1,700,000 options with an exercise price of $0.20 to directors and officers of the Company. The options vested immediately and expire five years from the date of grant.

In November 2015, 115,865 options expired and in December 2015, 406,250 options were cancelled.

The following weighted average assumptions were used for valuing the options granted during the period ended June 30, 2016, using the Black-Scholes Option Pricing Model.

Risk-free interest rate	0.4% to 0.6%
Expected volatility	111% to 136%
Dividend yield	0%
Expected life of each option issued	1 to 4 years
Forfeiture rate	0% to 20%

Total stock-based compensation recognized during the three-month period ended June 30, 2016 is $15,409 (2015 - $259,796) and during the six-month period ended June 30, 2016 is $24,570 (2015 - $280,591).

Details as to the stock options outstanding are as follows:

	June 30, 2016		December 31, 2015	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance, beginning of periods	**4,873,750**	**$ 0.18**	495,865	$ 0.62
Issued to directors, officers, employees and consultants	**400,000**	**0.15**	4,900,000	0.13
Expired	**(1,173,750)**	**0.29**	(115,865)	0.47
Cancelled	**(300,000)**	**0.11**	(406,250)	0.08
Balance, end of periods	**3,800,000**	**$ 0.14**	4,873,750	$ 0.18

As of June 30, 2016, the following options are outstanding:

Number	Exercised price	Expiry Date
500,000	$ 0.075	January 2020
1,000,000	$ 0.075	February 2020
100,000	$ 0.110	July 2016
1,500,000	$ 0.200	June 2020
300,000	$ 0.210	December 2020
400,000	$ 0.150	April 2021
3,800,000		

(Expressed in Canadian Dollars)

7. Share capital, continued

As of June 30, 2016, the weighted average remaining contractual life for options outstanding is 3.83 years (December 31, 2015 - 3.30 years).

As of June 30, 2016, 1,975,000 (December 31, 2015 - 2,673,750) options are fully exercisable and outstanding at a weighted average exercise price of $0.17 (December 31, 2015 - $0.24).

As of June 30, 2016, there was $88,923 (December 31, 2015 - $96,972) in unvested stock-based compensation expense that will be recorded over the remaining vesting period of the stock options.

d) Earnings per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period as follows:

	June 30, 2016	June 30, 2015
Weighted average number of common shares outstanding	**62,321,618**	56,901,452

Options to purchase common shares and warrants to purchase common shares were outstanding but were not included in the diluted earnings per share as the effect would be anti-dilutive due to the Company being in a loss position. As a result, basic and diluted earnings per share are the same.

8. Related party transactions

Included in wages and benefits, general and administrative, stock-based compensation and professional fees are transactions with related parties. Related party transactions are disclosed below, unless they have been disclosed elsewhere in the condensed interim financial statements.

During the three and six months ended June 30, 2016, the Company incurred $81,764 and $160,476 respectively for wages, benefits and consulting fees (2015 - $68,500 and $120,333 respectively), charged by directors, officers and key management personnel of the Company.

During the three and six months ended June 30, 2016, included in expenses are options having a fair value of $1,720 and $3,694 respectively (2015 - $239,657 and $239,657 respectively), granted to directors, officers and key management personnel of the Company.

During the three and six months ended June 30, 2016, the Company incurred $22,200 and $44,400 respectively for rental fees (2015 - $7,200 and $14,400 respectively), paid to two companies in which a director and officer of the Company is the principal or a significant shareholder.

During the three and six months ended June 30, 2016, the Company incurred $7,500 and $15,000 respectively for accounting fees (2015 - $3,500 and $7,000 respectively), paid to a company in which an officer of the Company is the principal shareholder.

Related party transactions are incurred in the normal course of business and are measured at the exchange amount which is the amount of consideration established and approved by the related parties. As of June 30, 2016, $32,253 (December 31, 2015 $15,538) was due to related parties and included in accounts payable and accrued liabilities with respect to those transactions. The amounts are non-interest bearing, unsecured and have no specific terms of repayment.

(Expressed in Canadian Dollars)

9. Commitments

The Company entered into a three-year office lease agreement commencing August 1, 2013 with a company controlled by an officer and director of the Company. The gross lease amount, including operating expenses, is $2,400 per month. The following table lists the annual commitment as a result of this office lease:

2016	$ 16,800

10. Capital management

The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern.
- To maintain appropriate cash reserves on hand to meet ongoing development and operating costs.
- To invest cash on hand in highly liquid and highly rated financial instruments.

In the management of capital, the Company includes debenture payable and shareholders' equity in the definition of capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company (upon approval from its Board of Directors, as required) may issue additional capital primarily through equity financing. The Company has no externally imposed capital requirements.

The following table describes the Company's capital structure:

Capital Structure	**June 30, 2016**	December 31, 2015
Debenture payable	**$684,592**	$-
Shareholders' Equity	**$(687,420)**	$207,165

11. Financial instruments

As of June 30, 2016 and 2015, the Company's financial instruments are cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and debenture payable. The amounts reflected in the condensed interim statement of financial position are carrying amounts and approximate their fair values due to the short-term nature and negligible credit losses. These financial instruments are classified as follows:

- Cash and cash equivalents – fair value through profit or loss
- Accounts receivable – loans and receivables
- Accounts payable and accrued liabilities and debenture payable – financial liabilities at amortized cost

The Company does not use derivative instruments or hedges to manage risks because the Company's exposure to credit risk, interest rate risk and currency risk is small.

11. Financial instruments, continued

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and cash equivalents is exposed to credit risk, however the risk is deemed small because the counterparty is a highly rated bank. The only balance in Accounts Receivable is the amount due from Canada Revenue Agency in relation to input tax credits arising as a result of the Goods and Services Tax (GST).

b) 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 cash and cash equivalents are exposed to interest rate risk as the Company invests cash and cash equivalents at floating rates of interest in highly liquid instruments. Fluctuations in interest rates impact the value of cash and cash equivalents. For the six months ended June 30, 2016 and 2015, if interest rates had been 1% higher or lower, total interest income received would have changed by approximately $1,700 and $2,600 respectively on an annualized basis.

c) Currency risk

Currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company minimizes its currency risk by maintaining the majority of its liquid assets in stable currencies, including Canadian and US currencies. The Company holds US dollars, a 1% strengthening in the exchange rate between the Canadian dollar and the US Dollar would result in the Company incurring a loss of $60 (June 30, 2015 - $287).

d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's accounts payable and accrued liabilities are all current and due within 90 days of the financial statement date. The Company ensures that it has sufficient capital to meet short term financial obligations after taking into account cash and cash equivalents on hand.

e) Commodity price risk

As the Company has no revenues, the Company is not exposed to any direct commodity price risk.

(Expressed in Canadian Dollars)

11. Financial instruments, continued

f) Fair value risk

The methods and assumptions used to develop fair value measurements for those financial instruments carried at fair value on the condensed interim statement of financial position have been prioritized into three levels of a fair value hierarchy included in IFRS 7. Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities, level two includes inputs that are observable other than quoted prices included in level one and level three includes inputs that are not based on observable market data.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

The Company's cash and cash equivalents are recorded at fair value and is level one fair value measurement.

12. Change in non-cash working capital items

Changes in non-cash working capital, were comprised of the following:

		June 30, 2016		June 30, 2015
Accounts receivable	**$**	**9,953**	$	(4,635)
Prepaid expenses and deposits		**(8,971)**		-
Accounts payable and accrued liabilities		**47,399**		(5,156)
Net change	**$**	**48,381**	$	(9,791)

13. Subsequent events

On July 15, 2016, the Company completed a new secured participating debenture financing (the "Participating Debentures") with various investors, including two related parties. Under this financing the debentureholders have advanced $2,000,000 in long-term debt capital. The aggregate $2,000,000 is made up of the conversion of $700,000 in principal amount of the February, 2016 bridge loan financing into Participating Debentures (see Note 6 – Debenture payable) and $1,300,000 in new debt capital.

The Participating Debentures bear both basic and participating interest. Basic interest on the Participating Debentures will accrue and be paid at the rate of twelve percent (12%) per annum calculated and paid quarterly. Participation interest will be calculated on the basis of twelve percent (12%) of gross FetchBot campaign sales, if any, and will be paid quarterly, one quarter in arrears. The Participating Debentures have a term of four (4) years.

The Participating Debentures are secured by a fixed and floating first charge on all of the assets of the Company. As additional security, debentureholders have been granted a nonexclusive, unrestricted license to use the FetchBot Platform software in the event of a default in payment of any amounts due under the Participating Debentures or in the event that the Company ceases, for any reason, to diligently pursue the commercial sale of FetchBot campaigns. The license will terminate on payment of all amounts owing under the Participating Debentures, in accordance with the provisions thereof.