
IMEX SYSTEMS INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(EXPRESSED IN CANADIAN DOLLARS)

Independent Auditor's Report

To the Shareholders of Imex Systems Inc.

We have audited the accompanying financial statements of Imex Systems Inc., which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of operations, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Imex Systems Inc. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and 2015 in accordance with International Financial Reporting Standards.

BGD LLP

Chartered Professional Accountants
Licensed Public Accountants
Mississauga, Ontario
May 1, 2017

Imex Systems Inc.
Statements of Financial Position
(Expressed in Canadian Dollars)

	As at December 31, 2016	As at December 31, 2015
ASSETS		
Current assets		
Cash	\$ 5,381	\$ 92,984
Funds held in trust (note 6)	53,520	201,247
Accounts receivable (note 7)	5,529,155	6,787,226
Prepaid expenses	41,067	57,624
Investment tax credits receivable (note 8)	49,000	49,000
Income taxes recoverable (note 24)	350,254	-
Harmonized sales taxes receivable	93,056	-
Total current assets	6,121,433	7,188,081
Non-current assets		
Property, plant and equipment (note 9)	180,984	222,857
Total assets	\$ 6,302,417	\$ 7,410,938
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 10)	\$ 421,934	\$ -
Accounts payable and accrued liabilities (note 11)	1,774,999	1,224,213
Dividends payable	-	480,000
Income taxes payable (note 24)	-	332,564
Harmonized sales taxes payable	-	346,875
Short-term loan (note 13)	421,204	-
Current portion of long-term debt (note 12)	68,393	36,900
Subscription receipts (note 14)	-	200,000
Convertible debentures (note 15)	-	1,673,858
Total current liabilities	2,686,530	4,294,410
Non-current liabilities		
Long-term debt (note 12)	121,052	45,230
Total liabilities	2,807,582	4,339,640
Shareholders' Equity		
Capital stock (note 16)	6,489,127	160,956
Contributed surplus	4,221,997	2,884,967
Warrants (note 18)	498,358	32,800
Equity portion of convertible debentures (note 15)	-	401,810
Deficit	(7,714,647)	(409,235)
Total shareholders' equity	3,494,835	3,071,298
Total shareholders' equity and liabilities	\$ 6,302,417	\$ 7,410,938

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

Subsequent event (note 26)

Approved on behalf of the Board:

"Damodar Arapakota", Director

"Krishnasamy Parthiban", Director

Imex Systems Inc.

Statements of Income (loss) and Comprehensive Income (loss) (Expressed in Canadian Dollars)

	Year Ended December 31, 2016	Year Ended December 31, 2015
Fee revenue	\$ 5,194,057	\$ 8,008,234
Cost of sales		
Consulting contractors	2,282,333	3,195,194
License fees	(625,827)	52,752
Gross margin	3,537,551	4,760,288
Operating expenses		
General and administrative (note 25)	1,192,923	1,070,954
Remuneration (note 25)	1,969,728	1,802,829
Selling (note 25)	295,285	402,651
Occupancy (note 25)	185,295	75,426
Income (loss) before undernoted items	(105,680)	1,408,428
Other expenses (income)		
Loss (gain) on foreign exchange	124,663	(531,857)
Other income	(677)	(1,247)
Investment tax credits	-	(49,000)
Withholding tax	-	408,329
Accretion	207,393	204,586
Listing expense (note 5)	2,155,294	-
Finders' fee expense (note 5)	431,650	-
Penalty shares expense (note 15)	578,411	-
Performance Shares expense (note 19)	1,294,950	-
Bad debt expense (note 7)	3,236,188	-
	8,027,872	30,811
Income (loss) before income taxes	(8,133,552)	1,377,617
Income tax expense (recovery)	(348,140)	350,254
Net income (loss)	(7,785,412)	1,027,363
Other comprehensive income	-	-
Total comprehensive income (loss)	\$ (7,785,412)	\$ 1,027,363
Basic and diluted net income (loss) per share	\$ (0.52)	\$ 0.14
Weighted average number of shares outstanding (note 20)	15,010,276	7,285,464

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

Imex Systems Inc.
Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended December 31, 2016	Year Ended December 31, 2015
Operating activities		
Net income (loss) for the year	\$ (7,785,412)	\$ 1,027,363
Adjustments for:		
Amortization of property, plant and equipment	79,731	84,514
Accretion	207,393	204,586
Accrued interest	13,172	-
Listing expense	2,155,294	-
Finder's fee expense	431,650	-
Penalty shares	578,411	-
Performance shares	1,294,950	-
Finder's options recorded in professional fees	-	18,606
Bad debt expense	3,236,188	-
Changes in non-cash working capital items:		
Accounts receivable	(1,978,117)	(2,876,032)
Prepaid expenses	16,557	30,318
Investment tax credits receivable	-	(3,552)
Income taxes recoverable	(350,254)	329
Harmonized sales taxes receivable	(93,056)	-
Accounts payable and accrued liabilities	512,780	116,866
Salaries payable	-	(44,776)
Dividends payable	-	(36,000)
Harmonized sales taxes payable	(346,875)	(44,190)
Income taxes payable	(332,564)	332,564
Net cash used in operating activities	(2,360,152)	(1,189,404)
Investing activities		
Decrease (increase) in funds held in trust	147,727	(201,247)
Class A Preference shares retracted	-	(300,000)
Purchase of property, plant and equipment	(37,858)	(49,814)
Cash received on reverse take-over	1,522	-
Net cash provided by (used in) investing activities	111,391	(551,061)
Financing activities		
Increase (decrease) in bank indebtedness	421,934	(126,025)
Dividends paid	-	(306,000)
Subscription receipt (refunded) proceeds	(150,000)	200,000
Convertible debentures, net of issue costs	-	1,901,822
Units issued, net of issue costs	1,125,991	200,672
Repayment of long-term debt	(42,685)	(37,020)
Proceeds from long-term debt	150,000	-
Proceeds from short-term loan	655,918	-
Net cash provided by financing activities	2,161,158	1,833,449
Net change in cash	(87,603)	92,984
Cash, beginning of year	92,984	-
Cash, end of year	\$ 5,381	\$ 92,984

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

Imex Systems Inc.
Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Capital stock	Warrants	Equity portion of convertible debentures	Contributed surplus	Retained earnings (deficit)	Total
Balance, December 31, 2014	\$ 300,213	\$ -	\$ -	\$ 2,828,492	\$ (1,130,598)	\$ 1,998,107
Units issued	240,000	-	-	-	-	240,000
Fair value of warrants	(32,800)	32,800	-	-	-	-
Issue costs	(39,328)	-	-	-	-	(39,328)
Finders' options	(7,119)	-	-	56,465	-	49,346
Convertible debentures issued	-	-	401,810	-	-	401,810
Class A Preference shares retracted	(300,000)	-	-	-	-	(300,000)
Class C shares cancelled	(10)	-	-	10	-	-
Dividends paid	-	-	-	-	(306,000)	(306,000)
Net income for the year	-	-	-	-	1,027,363	1,027,363
Balance, December 31, 2015	\$ 160,956	\$ 32,800	\$ 401,810	\$ 2,884,967	\$ (409,235)	\$ 3,071,298
Units issued	1,301,528	-	-	-	-	1,301,528
Fair value of warrants	(177,875)	177,875	-	-	-	-
Issue costs	(175,537)	-	-	-	-	(175,537)
Finders' options	(42,080)	-	-	42,080	-	-
Convertible debentures conversion	2,283,061	-	(401,810)	-	-	1,881,251
Fair value of warrants	(280,850)	280,850	-	-	-	-
Subscription receipts	50,000	-	-	-	-	50,000
Fair value of warrants	(6,833)	6,833	-	-	-	-
Issuance of penalty shares	578,411	-	-	-	-	578,411
Issuance of performance shares	-	-	-	1,294,950	-	1,294,950
Shares issued for finder's fee	431,650	-	-	-	-	431,650
Common shares issued on reverse take-over	2,366,696	-	-	-	-	2,366,696
Dividends payable forgiven	-	-	-	-	480,000	480,000
Net loss for the year	-	-	-	-	(7,785,412)	(7,785,412)
Balance, December 31, 2016	\$ 6,489,127	\$ 498,358	\$ -	\$ 4,221,997	\$ (7,714,647)	\$ 3,494,835

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

Imex Systems Inc.

Notes to Financial Statements

Years Ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

1. Nature of operations

Imex Systems Inc. (the "Company" or "Imex") is incorporated under the laws of Ontario. The Company provides technology and solutions for eGovernment, Smart Cities and Digital Payments, and provides consulting services on various aspects to government agencies. The Company currently derives approximately 100% of its revenue from contracts with ministries of the provincial government, and international governments. The registered office is at 34 Greensboro Drive, Etobicoke, Ontario, Canada.

On June 14, 2016, the Company commenced trading on the TSX Venture Exchange under the symbol IMX. The symbol was subsequently changed to IMEX on November 4, 2016.

The Company will continue to pursue collection of its receivables as well as opportunities to raise additional capital through equity markets and/or debt; however, there is no assurance of the success or sufficiency of these initiatives. The Company's ability to continue as a going concern is dependent upon it securing the necessary working capital to repay its liabilities as they come due. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the going concern assumption were inappropriate, and these adjustments could be material.

2. Significant accounting policies

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these financial statements are based on IFRSs issued and outstanding as of May 1, 2017, the date the Board of Directors approved the statements.

Basis of Measurement

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value and are presented in Canada dollars.

Revenue Recognition

Municipal and Provincial Revenues

The Company derives revenues from iCity cloud services, as well as by providing consulting services to its clients. Consulting fees are recognized as revenue at the time the services are performed. The fees for such services are billed to customers monthly.

iGov Revenues

On the larger contracts, the Company recognizes revenue at the time persuasive evidence of an agreement exists, services have been performed and delivered to the customer, the sales price is fixed and determinable, there is a payment arrangement in existence and collectability is reasonably assured.

Financial instruments

(i) Financial assets

Financial assets are classified as fair value through profit and loss (FVTPL), available for sale, held to maturity or loans and receivables based on management's intention relating to the purpose and nature of financial assets. The company currently has not classified any financial assets as FVTPL, available for sale (AFS) or held to maturity (HTM).

Imex Systems Inc.

Notes to Financial Statements

Years Ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

Financial instruments (continued)

(i) Financial assets (continued)

Financial assets include cash, funds held in trust, accounts receivable and investment tax credits receivable and are measured at amortized cost. The carrying value of these assets approximate their fair value due to the short term nature of these assets.

(ii) Financial assets impairment

A financial asset other than through FVTPL is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset is calculated by reference to its fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the statement of operations. When an AFS financial asset is considered to be impaired, any cumulative gains or losses recognized previously in equity is transferred to the statement of operations.

(iii) Financial liabilities

Financial liabilities include bank indebtedness, accounts payable and accrued liabilities, salaries payable, dividends payable, subscription receipts, convertible debentures, short-term loan and long term debt, and are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Income taxes

Current income tax represents the expected income taxes recoverable (or payable) on taxable income for the period using income tax rates enacted or substantively enacted at the end of the reporting period and taking into account any adjustments arising from prior years.

Deferred income taxes are accounted for using the liability method. Under this method, deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in earnings in the period that includes the substantive enactment date. A deferred tax asset is recognized initially when it is probable that future taxable income will be sufficient to use the related tax benefits and may be subsequently reduced, if necessary, to the extent that it is probable that future taxable profits will be available. A deferred tax expense or benefit is recognized in other comprehensive earnings or otherwise directly in equity to the extent that it relates to items that are recognized in other comprehensive earnings or directly in equity in the same or a different period.

Imex Systems Inc.

Notes to Financial Statements

Years Ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

Property, plant and equipment

Recognition and Measurement

Items of property and equipment are initially measured at cost. Items of property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Classes of property and equipment are classified by significant components, which are individually amortized over the useful life of the component.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) equipment.

The company has determined that individual classes of property and equipment do not have individually significant components.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in the statement of operations.

Subsequent Costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day to day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation is calculated on the depreciable amount, which is the cost of an asset or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives and method of depreciation for property and equipment are as follows:

Furniture and fixtures	20% declining balance
Computer equipment	60% declining balance

Amortization of leasehold improvements is recorded over the remaining term of the lease.

Research and development costs

All current research and development expenditures, including costs of developing new products, changing existing products and pre-production costs, are expensed as incurred.

Imex Systems Inc.

Notes to Financial Statements

Years Ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

Debentures

When debentures are issued, the Company analyzes their terms and conditions and first assesses whether the debenture is equity or a liability using the criteria provided in IAS 32. The Company may also conclude that the convertible debentures have both debt and equity components. Where there is a debt component that meets the definition of a financial liability and also an equity component where the debenture holder has a conversion option, the following paragraphs describe that accounting treatment.

The component parts of debentures issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

Conversion rights classified as equity are determined by deducting the amount of the liability component from the fair value of the convertible debenture as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently re-measured. In addition, the conversion right classified as equity will remain in equity until the conversion right is exercised, in which case, the balance recognized in equity will be transferred to share capital. When the conversion rights remains unexercised at the maturity date of the convertible note, the balance recognized in equity will be transferred to accumulated deficit. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion right.

Subscription receipts

Subscription receipts issued are considered a liability due to the inclusion of a contingent settlement provision that is beyond the control of both the issuer and the holder of the instrument.

Income per share

The Company presents basic and diluted income per share data for its common shares, calculated by dividing the income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. For diluted income per share, the dilutive effect on income per share is calculated presuming the exercise of outstanding options, warrants, convertible debentures and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the year. The Company's diluted income per share does not include the effect of these instruments as they are anti-dilutive.

Accounting estimates

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period.

These estimates are reviewed periodically and are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

Imex Systems Inc.

Notes to Financial Statements

Years Ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

Accounting estimates (continued)

The primary areas in which estimates and judgments are applied are as follows:

Depreciation of property and equipment

Depreciation of property and equipment is dependent upon estimates of useful lives and salvage value, both of which are determined with the exercise of judgment.

Investment tax credits

Investment tax credits relating to the acquisition of equipment, including equipment acquired for research and development, are deducted from the cost of the assets. Similarly, the cost of labour used for research and development is deducted from the labour expenses. Investment tax credits relating to current research and development expenditures are reflected in net income (loss).

Valuation of deferred tax assets

The company assesses the probability of taxable profits being available in the future based on its budget forecasts. These forecasts are adjusted to take into account non taxable income and expenses and specific rules on the use of tax losses. When a forecast shows a new profit, the company considers that the use of deferred assets is probable and recognizes the benefit. When management believes that the benefits will not be realized, a deferred tax asset is not recognized.

Valuation of warrants and finders' options

The fair value of warrants and finder's options is determined using the Black-Scholes option pricing formula. Option pricing models require the input of subjective assumptions including expected dividend yield, expected volatility and expected average life.

Performance shares

The Company has treated the Performance Shares as an equity-settled award to an employee which is valued at the date of the grant and expensed over the expected time to completion. The Performance Shares were value using the following assumptions: (i) all release terms would be met and all Performance Shares would be released and (ii) the conditions would be met over a fifteen month time period.

New standards not yet adopted and interpretations issued but not yet effective

Financial Instruments

In July 2014, the IASB completed the final elements of the proposed new IFRS 9, Financial Instruments standard to be effective January 1, 2018 with early adoption permitted. The project has been divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting. IFRS 9's classification and measurement methodology provides that financial assets are measured at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The company is assessing the possible impact of the proposed standard on the financial statements and the company is considering whether early adoption is warranted.

Imex Systems Inc.

Notes to Financial Statements

Years Ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

New standards not yet adopted and interpretations issued but not yet effective (continued)

Leases

IFRS 16, Leases ("IFRS 16") was issued in January 2016, and supersedes IAS 17, Leases. This standard introduces a single lessee accounting model. The new standard will affect the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including for most leases which are currently accounted for as operating leases. The Standard is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if the Company is also applying IFRS 15. The company intends to adopt the standard on its effective date and is assessing the impact on its financial statements.

Revenues from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which replaces IAS 18, Revenue and IAS 11, Construction Contracts, and the related interpretations on revenue recognition. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments). It establishes a single, comprehensive framework for revenue recognition. This new standard is effective for the company's financial statements commencing January 1, 2018. The company intends to adopt the standard on its effective date and is assessing the impact on its financial statements.

3. Capital risk management

The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- to maximize shareholder return through enhancing value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity comprising capital stock, contributed surplus, warrants, equity portion of convertible debentures and deficit which at December 31, 2016 totaled \$3,494,835 (December 31, 2015 - \$3,071,298).

The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is updated based on activities. Selected information is provided to the Board of Directors of the Company.

4. Financial instruments

The company is exposed to various risks related to its financial assets and liabilities. The following analysis provides a measure of the company's risk exposure and concentrations at December 31, 2016. The financial instruments of the Company and the nature of the risks to which it may be subject to are as follows:

Imex Systems Inc.

Notes to Financial Statements

Years Ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

4. Financial instruments (continued)

Fair value

The Company's financial instruments include cash, funds held in trust, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, salaries payable, dividends payable, subscription receipts, convertible debentures short-term loan and long-term debt. The carrying value of these instruments approximate their fair value due to their short term maturities.

Liquidity risk

Liquidity risk arises from the company's management of working capital, finance charges and principal repayments on its debt instruments. It is the risk that the company will not be able to meet its financial obligations as they fall due.

The company has a comprehensive plan in place to meet its obligations as they come due. As at December 31, 2016, the company had current assets of \$6,121,433 (December 31, 2015 - \$7,188,081) and current liabilities of \$2,686,530 (December 31, 2015 - \$4,294,410). Current working capital of the company as at December 31, 2016 is \$3,434,903 (December 31, 2015 - \$2,893,671).

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 main credit risk relates to its accounts receivable. The accounts receivable are due from various government bodies though the majority is due from a single customer resulting in concentration risk (see note 7).

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: currency risk, interest rate risk and other price risk.

Currency risk

The Company is exposed to currency risk in United States dollars, Botswana pulas and United Arab dirhams. Currency risk is the risk that the exchange rate that was in effect on the date that an obligation in a foreign currency was made to the Company by a customer, or that an obligation in a foreign currency was made by the Company to a supplier, is different at the time of settlement than it was at time that the obligation was determined. The Company does not utilize financial instruments to manage its currency risk.

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 is exposed to interest rate risk on its floating interest rate financial instruments that subject it to a cash flow risk. The company does not enter into any transactions to mitigate this risk.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The company is not exposed to other price risk.

Imex Systems Inc.

Notes to Financial Statements

Years Ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

4. Financial instruments (continued)

Sensitivity analysis

The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash, accounts receivable and accounts payable and accrued liabilities. Financial instruments are denominated in US dollars, Botswana pulas and United Arab dirhams. As at December 31, 2016, foreign currency risk on US dollars, Botswana pulas and United Arab dirhams is not significant.

5. Transaction

Imex entered into a securities exchange agreement (the "Securities Exchange Agreement") dated February 18, 2016 with all of the securityholders of Imex and Ba Ba Capital Inc. (the "Corporation"), pursuant to which all of the securityholders of Imex agreed to exchange all of their securities of Imex for securities of the Corporation on a post-Consolidation basis (the "Transaction").

Immediately prior to completion of the Transaction, the Corporation filed articles of amendment effecting a consolidation of all of the issued and outstanding Common Shares of the Corporation on a 1 for 11 basis resulting in 2,741,442 common shares of the Corporation being issued.

On May 13, 2016, the Transaction was completed, as a result of which:

- all of the issued and outstanding common shares, warrants and finders' options of Imex were exchanged on a one-for-one basis for common shares, warrants and finder options of the Corporation having the same terms as the warrants and the finders' options, on the terms set out in the Securities Exchange Agreement;
- the convertible debentures of Imex were exchanged for common shares of the Corporation and all accrued interest and penalty interest, as applicable, were paid in common shares of the Corporation, in accordance with the terms of the securities being exchanged;
- the Corporation issued 500,000 shares to Paige Capital Inc. as a finder's fee for completion of the Transaction;
- the Corporation completed a short-form amalgamation with its wholly-owned subsidiary Imex resulting in the Corporation changing its name to Imex Systems Inc.; and
- The Corporation has also issued 2,500,000 common shares to Damodar Arapakota, the Chief Executive Officer of the Corporation, which will be subject to the release terms of a performance escrow agreement (see note 19).

Purchase price - consideration paid

2,741,442 common shares	\$ 2,366,696
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Net assets received

Cash	\$ 1,522
Debenture from Imex Systems Inc.	247,886
Accounts payable and accrued liabilities	(38,006)
	<hr/> \$ 211,402

Listing expense	\$ 2,155,294
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6. Funds held in trust

Included in funds held in trust is \$53,520 escrowed funds be spent on certain marketing initiatives as outlined in the Escrow Agreement.

Imex Systems Inc.

Notes to Financial Statements

Years Ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

7. Accounts receivable

The Company is exposed to concentration of credit risk on the trade receivables from its customers. As at December 31, 2016 approximately 92% of the accounts receivable balance is owed from one customer (December 31, 2015 – 88%). The Company is subject to credit risk if it does not sign a new agreement with this customer which could lead to a risk of non-payment. The USD \$14.56M contract has been awarded to the Company through a formal procurement process and was officially announced by the customer and formally accepted by the Company. Therefore a binding contract already exists under the procurement rules of the customer.

As at December 31, 2016 approximately \$5,115,000 (December 31, 2015 – \$5,595,000) is past due. During the year ended December 31, 2016, the Company recorded a bad debt expense of \$3,236,188 (year ended December 31, 2015 – \$nil). See note 23(ii).

8. Investment tax credits receivable

The company makes claims in respect of scientific research and experimental development (SR&ED) expenditures for Federal and Ontario tax purposes. At December 31, 2016 - \$49,000 (December 31, 2015 - \$49,000) of these investment tax credits (ITC's) were receivable. The company is subject to an audit of its SR&ED claims by Canada Revenue Agency prior to approval of the ITC's. The outcome of this audit is unknown at this time.

9. Property and equipment

Cost	Computer equipment	Furniture and fixtures	Leasehold improvements	Total
Balance, December 31, 2014	\$ 247,448	\$ 81,592	\$ 180,136	\$ 509,176
Additions	49,814	-	-	49,814
Balance, December 31, 2015	297,262	81,592	180,136	558,990
Additions	37,858	-	-	37,858
Balance, December 31, 2016	\$ 335,120	\$ 81,592	\$ 180,136	\$ 596,848

Accumulated Depreciation	Computer equipment	Furniture and fixtures	Leasehold improvements	Total
Balance, December 31, 2014	\$ 178,687	\$ 30,091	\$ 42,841	\$ 251,619
Depreciation for the year	56,200	10,300	18,014	84,514
Balance, December 31, 2015	234,887	40,391	60,855	336,133
Depreciation for the year	53,477	8,240	18,014	79,731
Balance, December 31, 2016	\$ 288,364	\$ 48,631	\$ 78,869	\$ 415,864

Carrying Value	Computer equipment	Furniture and fixtures	Leasehold improvements	Total
Balance, December 31, 2015	\$ 62,375	\$ 41,201	\$ 119,281	\$ 222,857
Balance, December 31, 2016	\$ 46,756	\$ 32,961	\$ 101,267	\$ 180,984

Imex Systems Inc.

Notes to Financial Statements

Years Ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

10. Bank indebtedness

A revolving demand facility has been authorized by the Royal Bank of Canada ("RBC") to a maximum of \$600,000 (December 31, 2015 - \$600,000) and bears interest at the bank's prime lending rate plus 3% per annum. The Company has provided a general security assignment over the assets of the company. At December 31, 2016, the Company had drawn \$265,476 (December 31, 2015 - \$nil) from this facility.

The company also has a line of credit with Wells Fargo of up to \$89,000, bearing interest at 10.25% (December 31, 2015 - 10.25%) per annum. At December 31, 2016, the company had drawn \$85,759 (December 31, 2015 - \$nil) from this facility.

11. Accounts payable and accrued liabilities

	As at December 31, 2016	As at December 31, 2015
Accounts payable and accruals	\$ 1,769,258	\$ 1,203,641
Payroll taxes payable	5,741	20,572
	<u>\$ 1,774,999</u>	<u>\$ 1,224,213</u>

12. Long-term debt

\$100,000 payable, interest at 8.50%, repayable in monthly instalments of 2,222 on account of principal, plus interest, due November 2017, secured by a personal guarantee by the primary owner for the full amount of the loan.	\$	26,344
\$50,000 payable, interest at 8.50%, repayable in monthly instalments of 853 on account of principal, plus interest, due November 2019, secured by a personal guarantee by the primary owner for the full amount of the loan.		21,851
\$75,000 payable, interest at 8.70%, repayable in monthly instalments of 1,250 on account of principal, plus interest, due April 2021, secured by a personal guarantee by the primary owner for the full amount of the loan.		66,250
\$75,000 payable, interest at 5.70%, repayable in monthly instalments of 1,250 on account of principal, plus interest, due February 2022, secured by a personal guarantee by the primary owner for the full amount of the loan.		75,000
		189,445
Less: current portion		68,393
	\$	<u>121,052</u>

Minimum principal repayments over the next five years are as follows:

2017	\$	68,393
2018		40,236
2019		30,526
2020		30,000
Thereafter		20,290
	\$	<u>189,445</u>

Imex Systems Inc.

Notes to Financial Statements

Years Ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

13. Short-term loan

During the year ended December 31, 2016, Ba Ba Capital Inc. loaned the Company \$245,000 pursuant to a debenture agreement dated February 17, 2016. The debenture bore interest at 10% per annum. Both the interest and repayment of the debenture were waived on the close of the Transaction (see note 5).

During the year ended December 31, 2016, a shareholder controlled by the Chief Executive Officer advanced USD \$268,000 and \$50,000 to the Company. These amounts bear interest at 10% per annum and are due on demand. Included at December 31, 2016 is accrued interest of \$10,286.

14. Subscription receipts

During the year ended December 31, 2015, the Company issued 700,000 Subscription Receipts at a subscription price of \$1.00 per Subscription Receipt. Each Subscription Receipt was automatically exchanged into one Unit (note 16(ii)) immediately prior to a Going Public Event provided that it occurs within six months of the closing date (December 17, 2015). This condition was not met and \$650,000 of funds were returned to the investors and the remaining \$50,000 Subscription Receipts' Going Public Event date was extended to June 17, 2016 and exchanged for 50,000 Units on the Transaction (see note 5). Total finders' fees of \$40,250 in cash, professional fees of \$20,428 and 40,250 finders' options (valued at \$18,606) were incurred on the issuance and expensed to professional fees.

The fair value of the 25,000 warrants was estimated at \$6,833 using the Black-Scholes option pricing formula with the following assumptions: exercise price – \$1.50, expected dividend yield - 0%, expected volatility - 100%, risk-free interest rate - 0.63% and an expected average life of 1.5 years.

15. Convertible debentures

During the year ended December 31, 2015, the Company issued unsecured convertible debentures with a total principal amount of \$2,055,000. Total finders' fees of \$66,500 in cash, professional fees of \$86,678 and 66,500 finders' options (valued at \$30,740) were incurred on the issuance. The debentures paid interest at a rate of 10% per annum, calculated quarterly and payable in arrears upon the earlier of maturity or a Going Public Event in cash or common shares at the option of the Company. Maturity was 24 months from the date of issuance of the Debentures. The Debentures were automatically converted into 2,055,000 Units at a price of \$1.00 per Unit on the Transaction (see note 5) and the accrued interest was settled by the issuance of 196,331 common shares.

The fair value of the 1,027,500 warrants was estimated at \$280,850 using the Black-Scholes option pricing formula with the following assumptions: exercise price – \$1.50, expected dividend yield - 0%, expected volatility - 100%, risk-free interest rate - 0.63% and an expected average life of 1.5 years.

The convertible debentures issued contained a provision which resulted in the issuance of two common shares (instead of one common share) per \$1 invested if a Going Public Event was not completed within one year of issuance of the convertible debentures. One holder of \$50,000 of convertible debentures issued on April 16, 2015 provided an extension until June 17, 2016 to complete the Going Public Event until the penalty was to become effective. As a result, the Company issued an additional 670,000 common shares (valued at \$578,411).

The Company used the residual value method to allocate the principal amount of the convertible debentures between the liability and equity components. The Company valued the debt component of the debentures by calculating the present value of the principal and interest payments, discounted at a rate of 20%, being management's best estimate of the rate that a non-convertible debenture with similar terms would bear. The equity conversion feature of the debentures comprises the value of the conversion option, being the difference between the face value of the debentures and the liability element calculated above. Based on this calculation, the liability component was \$1,653,190 (\$1,469,273 net of transaction costs) and the residual equity component was \$401,810. Accretion charges attributable to the debentures for the year ended December 31, 2016 was \$207,393. These amounts were added to the liability component on the statements of financial position and is included in accretion expense.

Imex Systems Inc.

Notes to Financial Statements

Years Ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

16. Capital stock

a) Authorized share capital

Unlimited Common shares

Unlimited Class B Preference shares, voting, non cumulative, redeemable and retractable at nominal value

b) Issued

Class A Preference shares	Number	Amount
Balance, December 31, 2014	300,000	\$ 300,000
Retracted	(300,000)	(300,000)
Balance, December 31, 2015 and December 31, 2016	-	\$ -

Class C shares	Number	Amount
Balance, December 31, 2014	5,867,576	\$ 10
Cancelled (i)	(5,867,576)	(10)
Balance, December 31, 2015 and December 31, 2016	-	\$ -

Class D shares	Number	Amount
Balance, December 31, 2014	5,867,576	\$ 203
Converted to common shares (i)	(5,867,576)	(203)
Balance, December 31, 2015 and December 31, 2016	-	\$ -

Common shares	Number	Amount
Balance, December 31, 2014	-	\$ -
Share reorganization (i)	10,000,000	203
Units issued (ii)	240,000	240,000
Fair value of warrants (ii)	-	(32,800)
Issue costs (ii)	-	(39,328)
Finders' options (ii)	-	(7,119)
Balance, December 31, 2015	10,240,000	\$ 160,956
Units issued (iii)	1,301,528	1,301,528
Fair value of warrants (iii)	-	(177,875)
Issue costs (iii)	-	(175,537)
Finders' options (iii)	-	(42,080)
Convertible debentures conversion (note 15)	2,251,331	2,283,061
Fair value of warrants (note 15)	-	(280,850)
Subscription receipts (note 14)	50,000	50,000
Fair value of warrants (note 14)	-	(6,833)
Issuance of penalty shares (note 15)	670,000	578,411
Shares issued for finder's fee (iv)	500,000	431,650
Common shares issued on reverse take-over (note 5)	2,741,442	2,366,696
Balance, December 31, 2016	17,754,301	\$ 6,489,127

Imex Systems Inc.

Notes to Financial Statements

Years Ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

16. Capital stock (continued)

b) Issued (continued)

(i) On April 15, 2015, the Company amended their Articles to reorganize the share structure. 5,867,576 Class C shares were consolidated into 1 share and subsequently cancelled and 5,867,576 Class D shares were converted into 10,000,000 common shares.

(ii) On April 22, 2015 and June 17, 2015, the Company issued 160,000 and 80,000 Units, respectively, at \$1.00 per unit for total gross proceeds of \$240,000. Each Unit consisted of one common share and one-half of one warrant, each whole warrant entitling the holder to subscribe for one common share at an exercise price of \$1.50 per share for a period of 18 months from the completion of a "Going Public Event" (being any one of: (i) an initial public offering by the Company; (ii) completion of a qualifying transaction with a Capital Pool Company on the TSX Venture Exchange; (iii) a merger, amalgamation, reorganization, consolidation or plan of arrangement of Imex with a reporting issuer in Canada or a reporting company in the United States or a public entity in a jurisdiction outside of Canada and the United States); provided, however, that in the event that the closing price of the outstanding common shares on the stock exchange on which the common shares are listed is greater than \$2.25 for a period of 20 consecutive trading days at any time after the Going Public Event (see note 5), the Company may, at its option, accelerate the expiry date of the warrants by giving notice to the holders thereof 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 such notice is given; and (ii) 18 months following the completion of a Going Public Event (see note 5).

Total finders' fees of \$15,400 in cash, professional fees of \$23,928 and 15,400 finders' options (valued at \$7,119) were incurred on the issuance.

The fair value of the 120,000 warrants was estimated at \$32,800 using the Black-Scholes option pricing formula with the following assumptions: exercise price – \$1.50, expected dividend yield - 0%, expected volatility - 100%, risk-free interest rate - 0.63% and an expected average life of 1.5 years.

(iii) On May 13, 2016, the Company issued 1,301,528 Units at \$1.00 per unit for total gross proceeds of \$1,301,528. Each Unit consisted of one common share and one-half of one warrant, each whole warrant entitling the holder to subscribe for one common share at an exercise price of \$1.50 per share for a period of 18 months; provided, however, that in the event that the closing price of the outstanding common shares on the stock exchange on which the common shares are listed is greater than \$2.25 for a period of 20 consecutive trading days the Company may, at its option, accelerate the expiry date of the warrants by giving notice to the holders thereof 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 such notice is given; and (ii) November 13, 2017.

Total finders' fees of \$26,195 in cash, professional fees of \$149,342 and 91,107 finders' options (valued at \$42,080) were incurred on the issuance.

The fair value of the 650,764 warrants was estimated at \$177,875 using the Black-Scholes option pricing formula with the following assumptions: exercise price – \$1.50, expected dividend yield - 0%, expected volatility - 100%, risk-free interest rate - 0.63% and an expected average life of 1.5 years.

(iv) On May 13, 2016, the Company issued 500,000 shares to Paige Capital Inc. as a finder's fee for completion of the Transaction

Imex Systems Inc.

Notes to Financial Statements

Years Ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

17. Finders' options

	Number of stock options	Weighted average exercise price
Balance, December 31, 2014	-	\$ -
Issued (i)	122,150	1.00
Balance, December 31, 2015	122,150	\$ 1.00
Issued (ii)	91,107	1.00
Balance, December 31, 2016	213,257	\$ 1.00

(i) On April 22, 2015 and June 17, 2015, the Company issued 9,800 and 112,350 finders' options, respectively, on the closing of the unit issuance and subscription receipts. Each option entitles the holder to subscribe for one Unit at an exercise price of \$1.00 per unit for a period of 18 months from the completion of a Going Public Event (see note 5).

The fair value of the 122,150 options was estimated at \$56,465 using the Black-Scholes option pricing formula with the following assumptions: exercise price – \$1.00, expected dividend yield - 0%, expected volatility - 100%, risk-free interest rate - 0.63% and an expected average life of 1.5 years.

(ii) On May 13, 2016, the Company issued 91,107 finders' options on the closing of the unit issuance. Each option entitles the holder to subscribe for one Unit at an exercise price of \$1.00 per unit for a period of 18 months.

The fair value of the 91,107 options was estimated at \$42,080 using the Black-Scholes option pricing formula with the following assumptions: exercise price – \$1.00, expected dividend yield - 0%, expected volatility - 100%, risk-free interest rate - 0.63% and an expected average life of 1.5 years.

The following table reflects the actual finders' options issued and outstanding as of December 31, 2016:

Expiry date	Exercise price (\$)	Number of options outstanding	Number of options vested (exercisable)
November 13, 2017	1.00	213,257	213,257

18. Warrants

	Number of warrants	Amount
Balance, December 31, 2014	-	\$ -
Issued (note 16(ii))	120,000	32,800
Balance, December 31, 2015	120,000	\$ 32,800
Issued (notes 14, 15 and 16(iii))	1,703,264	465,558
Balance, December 31, 2016	1,823,264	\$ 498,358

The following table reflects the actual warrants issued and outstanding as of December 31, 2016:

Expiry date	Exercise price (\$)	Number of options outstanding	Grant date fair value
November 13, 2017	1.50	1,823,264	498,358

Imex Systems Inc.

Notes to Financial Statements

Years Ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

19. Performance Shares

On May 13, 2016, the Company issued 2,500,000 common shares (the "Performance Shares") to the Chief Executive Officer of the Company, which are subject to the release terms as follows:

- Upon an aggregate of \$9,000,000 in Booked Sales (signing a contract for a particular dollar amount whether or not the revenue is actually realized in the 18 months immediately following the Transaction) being achieved, 500,000 Performance Shares would be released from escrow;
- Upon an aggregate of \$10,000,000 in Booked Sales being achieved, an additional 500,000 Performance Shares would be released from escrow;
- Upon an aggregate of \$11,000,000 in Booked Sales being achieved, an additional 500,000 Performance Shares would be released from escrow;
- Upon an aggregate of \$12,000,000 in Booked Sales being achieved, an additional 500,000 Performance Shares would be released from escrow; and
- Upon any new large contract being signed whereby an aggregate of \$15,000,000 in Booked Sales is achieved, then an additional 500,000 Performance Shares would be released from escrow.
- The board of Imex would have the discretion to waive target and release Performance Shares from escrow if Imex is close to meeting target Booked Sales.

The Company has treated the Performance Shares as an equity-settled award to an employee which is valued at the date of the grant and expensed over the expected time to completion. The Performance Shares were value at \$2,158,250 based on the value of the common shares to be issued, using the following assumptions: (i) all release terms would be met and all Performance Shares would be released and (ii) the conditions would be met over a fifteen month time period.

During the year ended December 31, 2016, the Company recorded a Performance Shares expense of \$1,294,950.

20. Weighted average number of shares outstanding

For the year ended December 31, 2016, basic and diluted income (loss) per share has been calculated based on the income (loss) attributable to common shareholders of \$(7,785,412) (year ended December 31, 2015 - \$1,027,363) and the weighted average number of common shares outstanding of 15,010,276 (year ended December 31, 2015 - 7,285,464). Diluted loss per share did not include the effect of stock options and warrants as they are anti-dilutive.

21. Related party transactions

Related parties include the Board of Directors, senior management, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

Related party transactions conducted in the normal course of operations are measured at fair value.

(a) The Company entered into the following transactions with related parties:

During the year ended December 31, 2016, the company incurred \$29,250 (year ended December 31, 2015 - \$3,500) for professional fees to a company where the Chief Financial Officer is a senior employee. As at December 31, 2016, \$14,386 (December 31, 2015 - \$nil) was payable.

During the year ended December 31, 2016, the company incurred \$155,000 (year ended December 31, 2015 - \$150,000) for consulting from a former officer of the Company. As at December 31, 2016, \$172,690 (December 31, 2015 - \$50,850) was payable.

See note 13.

Imex Systems Inc.

Notes to Financial Statements

Years Ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

21. Related party transactions (continued)

(b) Remuneration of directors and key management personnel (including the Chief Executive Officer, Chief Financial Officer and directors), other than consulting fees, of the Company was as follows:

	Year Ended December 31, 2016	Year Ended December 31, 2015
Salaries	\$ 180,000	\$ 157,500

As at December 31, 2016, \$63,873 (December 31, 2015 - \$nil) was payable.

22. Segmented information

The Company has determined it has one reportable segment based on how management views and operates the business.

Geographic information

Year ended December 31, 2016

	Canada	Africa/Asia	Total
Fee revenue	\$ 2,494,057	\$ 2,700,000	\$ 5,194,057
Cost of sales	2,078,850	(422,344)	1,656,506
Gross margin	415,207	3,122,344	3,537,551
Operating expenses	3,233,609	409,622	3,643,231
Loss before undernoted items	(2,818,402)	2,712,722	(105,680)
Other expenses	5,034,910	2,992,962	8,027,872
Loss before income taxes	(7,853,312)	(280,240)	(8,133,552)
Income tax expense	(348,140)	-	(348,140)
Net loss	\$ (7,505,172)	\$ (280,240)	\$ (7,785,412)

Year ended December 31, 2015

	Canada	Africa/Asia	Total
Fee revenue	\$ 2,886,038	\$ 5,122,196	\$ 8,008,234
Cost of sales	3,137,230	110,716	3,247,946
Gross margin	(251,192)	5,011,480	4,760,288
Operating expenses	2,776,843	575,017	3,351,860
Income (loss) before undernoted items	(3,028,035)	4,436,463	1,408,428
Other expenses (income)	(373,507)	404,318	30,811
Income (loss) before income taxes	(2,654,528)	4,032,145	1,377,617
Income tax expense	350,254	-	350,254
Net income (loss)	\$ (3,004,782)	\$ 4,032,145	\$ 1,027,363

All of the Company's assets are held in Canada.

Major customers

In the year ended December 31, 2016, two customers accounted for 52.0% and 24.1% respectively of the Company's revenues (year ended December 31, 2015 two customers accounted for 64.0% and 20.6% respectively).

Imex Systems Inc.

Notes to Financial Statements

Years Ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

23. Commitments and contingencies

(i) In the fiscal year ended December 31, 2013, the company entered into a lease agreement committing to a new office space in Toronto for 10 years. The company has the following future minimum lease payments for the premises over the next five years:

2017	\$	72,000
2018		84,000
2019		84,000
2020		84,000
Subsequent years		168,000
	\$	492,000

(ii) During the year ended December 31, 2016, as a result of breaches of contract and continued delays in payment of amounts due, the Company sent a demand letter to a contractor requesting payment of all amounts due, including various costs incurred by the Company. The Company received a response from the contractor disagreeing with its position and demanding payment for losses incurred under the previous contract and claiming breaches of contract on the Company's part. As of the date of these financial statements, no claim or resolution of the difference has occurred.

As a result of the uncertainty regarding the final collection of amounts owing, the Company has recorded a bad debt expense of \$3,236,188.

(iii) During the year ended December 31, 2016, the Company filed a claim against a former subcontractor for breach of contract requesting damages of approximately USD \$372,000 related to funds advanced to the subcontractor. As of the date of these financial statements, no amounts have been setup as receivable due to the uncertainty of collection.

24. Income taxes

The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 22.4% (2015 - 22.4%) to the income for the years as follows:

	Year Ended December 31, 2016	Year Ended December 31, 2015
Income (loss) before income taxes	\$ (8,133,552)	\$ 1,377,617
Expected income tax expense	\$ (1,809,707)	\$ 308,371
Tax effect of the following:		
Effect of items not deductible for tax purposes	1,027,452	49,383
Amortization in excess of capital cost allowance	6,077	3,469
Ontario R & D tax credit	-	(10,969)
Non-capital losses at year-end	428,038	-
Income tax expense	(348,140)	350,254

Imex Systems Inc.**Notes to Financial Statements****Years Ended December 31, 2016 and 2015****(Expressed in Canadian Dollars)**

24. Income taxes (continued)

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

	As at December 31, 2015	Change	As at December 31, 2016
Property and equipment	\$ 4,305	\$ 14,401	\$ 18,706
Loss carry forward	-	509,801	509,801
Unrecognized deferred income tax assets	\$ 4,305	\$ 524,202	\$ 528,507

	As at December 31, 2014	Change	As at December 31, 2015
Property and equipment	\$ 4,305	\$ -	\$ 4,305
Unrecognized deferred income tax assets	\$ 4,305	\$ -	\$ 4,305

As at December 31, 2016, the Company has approximately \$1,900,000 of non-capital losses for income tax purposes expiring in 2036.

25. Schedules to financial statements**General and Administrative**

	Year Ended December 31, 2016	Year Ended December 31, 2015
General office	\$ 163,993	\$ 166,378
Professional fees	699,150	612,402
Telephone and communication	71,974	74,563
Insurance	53,758	48,047
Amortization of property, plant and equipment	79,731	84,514
Equipment and vehicle leasing	32,684	35,619
Bank charges	57,072	23,030
Interest on long-term debt	34,561	26,401
	\$ 1,192,923	\$ 1,070,954

Remuneration

	Year Ended December 31, 2016	Year Ended December 31, 2015
Salaries and wages	\$ 1,833,205	\$ 1,650,102
Employee benefits	105,415	118,795
Recruitment	31,108	23,932
Directors fees and expenses	-	10,000
	\$ 1,969,728	\$ 1,802,829

Imex Systems Inc.**Notes to Financial Statements****Years Ended December 31, 2016 and 2015****(Expressed in Canadian Dollars)**

25. Schedules to financial statements (continued)**Selling**

	Year Ended December 31, 2016	Year Ended December 31, 2015
Travel and accommodation (recovery)	\$ 219,589	\$ 249,091
Marketing	75,696	153,560
	\$ 295,285	\$ 402,651

Occupancy

	Year Ended December 31, 2016	Year Ended December 31, 2015
Repairs and maintenance	\$ 13,312	\$ 10,355
Rent and occupancy (recovery)	171,983	65,071
	\$ 185,295	\$ 75,426

26. Subsequent event

Subsequent to December 31, 2016, the Company issued granted a total of 1,550,000 options to management, directors and consultants of the Company. The options are exercisable at a price of \$0.75 per share until December 29, 2019 and vested immediately.