

Wi2Wi Corporation

Consolidated Financial Statements
(Expressed in US Dollars)

Years Ended December 31, 2015 and 2014

Toronto, Ontario
April 29, 2015

Wi2Wi Corporation

Table of Contents

Independent Auditor's Report	2
Consolidated Financial Statements	
Consolidated Statements of Financial Position	4
Consolidated Statements of Income and Comprehensive Income	5
Consolidated Statements of Changes in Shareholders' Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-28



Tel: 608-831-8500
Fax: 608-831-8519
www.bdo.com

999 Fourier Drive, Suite 301
Madison, WI 53717

Independent Auditor's Report

To the Board of Directors and Shareholders
Wi2Wi Corporation
Montreal, Canada

We have audited the accompanying consolidated financial statements of Wi2Wi Corporation and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014 and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wi2Wi Corporation and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

BDO USA, LLP

April 29, 2016

Consolidated Financial Statements

Wi2Wi Corporation

Consolidated Statements of Financial Position (In thousands of U.S. dollars)

December 31	2015	2014
Assets		
Current Assets		
Cash	\$ 953	\$ 645
Trade accounts receivable (Note 7, 4)	1,879	3,448
Inventories (Note 8, 4)	3,011	3,581
Deferred inventory costs	75	205
Prepaid expenses and other current assets	270	375
Total current assets	6,188	8,254
Property and Equipment, Net (Note 9)	1,524	1,529
Total Assets	\$ 7,712	\$ 9,783
Liabilities		
Current Liabilities		
Accounts payable	\$ 936	\$ 2,294
Accrued liabilities (Note 12)	1,070	2,954
Deferred revenue	170	410
Provision for income tax	-	71
Secured subordinated convertible debenture (Note 10)	-	2,496
Note payable (Note 10)	-	430
Total current liabilities	2,176	8,655
Total liabilities	2,176	8,655
Shareholders' Equity		
Common shares – no par value (Note 15)	28,317	25,824
Contributed surplus	3,679	3,384
Accumulated deficit	(26,460)	(28,080)
Total shareholders' equity	5,536	1,128
Total Liabilities and Shareholders' Equity	\$ 7,712	\$ 9,783

See accompanying notes to consolidated financial statements.
See Subsequent Events Note 24

Approved on behalf of the Board of Directors:

/s/ Michael Pesner, Director

/s/ Zachariah Mathews, Director

Wi2Wi Corporation

Consolidated Statements of Income and Comprehensive Income (In thousands of U.S. dollars, except net income per share)

For the years ended December 31,	2015	2014
Revenues	\$ 14,306	\$ 8,047
Cost of revenues	9,773	4,687
Gross profit	4,533	3,360
Operating expenses (Note 18)		
Research and development	1,358	846
Selling, general and administrative	2,752	2,924
Income from transfer of technology (Note 20)	-	(2,250)
Total operating expenses	4,110	1,520
Income from operations	423	1,840
Gain on bargain purchase (Note 3)	-	(678)
(Gain)/loss on conversion of debt (Note 10, 15)	(1,335)	234
Interest expense	145	194
Income before income taxes	1,613	2,090
Provision for (benefit from) income tax (Note 19)	(7)	71
Net income and total comprehensive income	\$ 1,620	\$ 2,019
Net income per share, basic and diluted (Note 17)	\$ 0.02	\$ 0.02

See accompanying notes to consolidated financial statements.

See Subsequent Events Note 24

Wi2Wi Corporation

Consolidated Statements of Changes in Shareholders' Equity (In thousands of U.S. dollars, except share data)

	Common Shares		Preferred Shares	Contributed Surplus	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount				
Consolidated Balances, December 31, 2013	81,804,306	\$ 23,711	16,096,084	\$ 3,224	\$ (30,099)	\$ (3,164)
Issuance of common shares for cash (Note 15)	2,706,834	428	-	-	-	428
Issuance of common shares as purchase consideration (Note 3)	4,461,353	508	-	-	-	508
Conversion of notes to common shares (Note 15)	7,641,514	947	-	-	-	947
Conversion of Preferred shares to common shares (Note 15)	16	230	(16,096,084)	-	-	230
Share-based compensation expense	-	-	-	160	-	160
Net income and comprehensive income	-	-	-	-	2,019	2,019
Consolidated Balances, December 31, 2014	96,614,023	\$ 25,824	-	\$ 3,384	\$ (28,080)	\$ 1,128
Conversion of Secured subordinated debt to common shares (Note 10, 15)	30,570,082	2,093	-	-	-	2,093
Conversion of notes to common shares (Note 10, 15)	4,509,639	309	-	-	-	309
Issuance of common shares in settlement for claim (Note 13, 15)	1,000,000	68	-	-	-	68
Conversion of liabilities to common shares (Note 15)	334,000	23	-	-	-	23
Share-based compensation expense	-	-	-	295	-	295
Net income and comprehensive income	-	-	-	-	1,620	1,620
Consolidated Balances, December 31, 2015	133,027,744	\$ 28,317	-	\$ 3,679	\$ (26,460)	\$ 5,536

See accompanying notes to consolidated financial statements.

See Subsequent Events Note 24

Wi2Wi Corporation

Consolidated Statements of Cash Flows (In thousands of U.S. dollars)

For years ended December 31,	2015	2014
Operating activities		
Net income	\$ 1,620	\$ 2,019
Adjustments for non-cash items:		
Depreciation and amortization	239	28
(Gain)/loss on conversion of debt	(1,335)	234
Foreign exchange	(50)	(70)
Share-based compensation	295	160
Gain on bargain purchase price	-	(678)
Changes in assets and liabilities, (net of effect of acquisition):		
Trade accounts receivable	1,569	(1,501)
Inventories	570	(615)
Deferred inventory costs	130	(163)
Prepaid expenses and other current assets	106	95
Accounts payable	(1,269)	(191)
Accrued liabilities	(1,021)	488
Income taxes	(71)	71
Deferred revenue	(241)	343
Accounts payable to related parties	-	(125)
Funds held on sale of Legend Oil and Gas shares	-	147
Net cash provided by operating activities	542	242
Cash flows from investing activities		
Additions to property and equipment	(234)	(52)
Proceeds from sale of securities	-	16
Net cash used in investing activities	(234)	(36)
Cash flows from financing activities		
Proceeds from private placement of common shares	-	474
Proceeds from promissory notes	-	100
Repayment of promissory notes	-	(150)
Proceeds from escrow receivable	-	500
Repayment of note payable to related party	-	(500)
Net cash provided by financing activities	-	424
Net increase in cash	308	630
Cash, beginning of period	645	15
Cash, at end of period	\$ 953	\$ 645

See accompanying notes to consolidated financial statements.

See Subsequent Events Note 24

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

1. Nature and Description of the Company

Sargeant Bay Capital, Inc., a Canadian entity, was incorporated pursuant to the Canadian Business Corporations Act on July 9, 2004. On December 12, 2005, Sargeant Bay Capital, Inc. changed its name to Wi2Wi Corporation and became the legal parent of its wholly owned operating subsidiary, Wi2Wi Inc., a Delaware company, headquartered in San Jose, California, was incorporated on April 29, 2005 and was mainly inactive until it acquired the original equipment manufacturing (OEM) products division of Actiontec Electronics on October 1, 2005.

Wi2Wi Corporation, and Wi2Wi Inc., together constitute the Company. The Company designs, manufactures and markets system in package and modular products for wireless applications worldwide.

The Company on January 28, 2013 concluded a reverse takeover of International Sovereign Energy Corp. and acquired all of the issued and outstanding shares of the Company by way of a plan of arrangement under the Canada Business Corporations Act. The surviving entity changed its name to Wi2Wi Corporation.

On October 2, 2014, the Company entered into an asset purchase agreement with Precision Devices, Inc. ("Precision"). Precision designs, manufactures, distributes and sells radio frequency products that include crystals, oscillators, filters and a whole range of frequency controllers. The Company received TSXV approval on November 4, 2014, (Note 3).

On February 4, 2016 Wi2Wi LLC was incorporated in the State of Wisconsin, a wholly owned subsidiary of Wi2Wi Inc. to conduct all or a portion of the Company's business in the State of Wisconsin (Note 24).

2. Basis of Preparation

Statement of Compliance and Authorization

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 6.

These consolidated financial statements have been authorized for issue by the Board of Directors on April 29, 2016.

The consolidated financial statements include the financial statements of Wi2Wi Corporation and its wholly owned subsidiary, Wi2Wi Inc. All intercompany balances and transactions have been eliminated in consolidation.

Comparatives

Comparative figures for Investment in Legend Oil and Gas (\$42), and Note receivable from Precision Devices HK Ltd., (\$77) have been reclassified as part of prepaid expenses and other current assets, to conform to the financial statement presentation for the current year.

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

3. Acquisition of Precision assets

The Company on October 2, 2014 entered into an asset purchase agreement (the "Agreement") with Precision pursuant to which the Company agreed to acquire certain assets and trade liabilities of Precision used in connection with the design, manufacture, distribution, and sale of Precision's radio frequency products that include crystals, oscillators, filters and a whole range of frequency controllers ("Purchased Assets"). The acquisition complements the Company's existing line of products.

The Company had acquired the Purchased Assets at a price equal to

- (i) 4,461,353 common shares in the capital of the Company,
- (ii) \$2.5 million payable in the form of a secured subordinated convertible debenture (the "Debenture"). The Debenture matures twelve (12) months following the completion of the transaction with interest at the rate of 10.25% per annum payable on the maturity date of the Debenture. The holder of the Debenture may convert all or any part of the principal amount outstanding under the Debenture into common shares of the Company at a conversion price of CAD\$0.25 per Share, which could have resulted in the Company issuing up to additional 11,600,000 shares.
- (iii) Interim funding provided by the seller from the date of the Agreement to date of receiving approval amounted to \$524

The Company received Toronto Stock Venture Exchange approval on November 4, 2014.

The acquisition was accounted for under the acquisition method of accounting with the Company treated as the acquiring entity. Accordingly, the consideration paid by the Company to complete the acquisition has been recorded to the assets acquired and liabilities assumed based upon their estimated fair values as of the date of acquisition. The fair value of the plant and equipment was discerned by using a discounted cash flow approach. The fair value of intangibles was determined to have no value. The carrying values for current assets and liabilities were deemed to approximate their fair values due to the short-term nature of these assets and liabilities. The following table shows the amounts recorded as of the acquisition date.

Assets acquired		
Receivables	\$	1,868
Inventory		2,661
Other current assets		129
Plant and equipment		1,423
Note receivable from Precision Devices Limited		77
Total assets acquired		6,158
Less Current liabilities assumed		(1,952)
Net assets acquired		4,206
Purchase consideration		
4,461,353 Shares in Corporation		508
Secured Subordinated Convertible Debentures (Note 13)		2,496
Interim funding (Note 4)		524
Total consideration		3,528
Gain from bargain purchase	\$	678

The Company's results of operations for 2014 included revenue of \$1,590 and loss from operations before interest and taxes of \$306 from the Precision acquisition from the date of acquisition through December 31, 2014.

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

4. Significant Accounting Policies

Trade Accounts Receivable

Management estimates a provision for impairment for collectability related to its trade accounts receivable balances. This provision is based on the customer relationships, the aging and turns of trade accounts receivable, credit worthiness of customers, credit concentrations and payment history. Management's estimates include providing for 100% of specific customer balances when it is deemed probable that the balance is uncollectable. Credit terms to customers are vary between net 30 days and net 120 days. Although management monitors collections and credit worthiness, the inability of a particular customer to pay its debts could impact collectability of receivables and could have an impact on future revenues if the customer is unable to arrange other financing. Management does not believe these conditions are reasonably likely to have a material impact on the collectability of its receivables or future revenues. Recoveries of accounts receivables previously written off are recorded when received. Accounts receivable are stated net of the provision for impairment.

Inventories

Inventories are recorded at the lower of average cost (first in first out method) or net realizable value. As a supplier of system in package and modular products, inventory cost consists of amounts paid to the Company's contract manufacturers for product that is drop shipped to customers or shipped to the Company. Charges for excess and obsolete inventory are recorded based on inventory age, shipment history and forecasted demand. The markets that the Company serves can be volatile and actual results may vary from the Company's forecast or other assumptions, potentially impacting the Company's inventory valuation and resulting in material effects on its gross margin.

The Company sells product directly to end customers as well as through distributors. Inventory at certain distributor locations is reported as deferred inventory costs and is recognized as cost of goods sold once the distributors have sold the product to a third party and revenue had been recognized.

Property and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight line method over estimated useful lives of:

- Three years for computer equipment and software
- Five years for office furniture and fixtures
- Five to ten years for machinery and equipment
- Over the term of lease or estimated useful life of leasehold improvement, whichever is shorter

Useful lives and amortization methods are reviewed annually.

Impairment of Non-Financial Assets

In accordance with IAS 36, Impairment of Assets, non-financial assets to be held and used by the Company are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, the Company must estimate the difference between the carrying amount of the asset and the recoverable amount. That difference is the impairment loss. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Impairment charges can be subsequently reversed if they no longer exist but cannot exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized in the prior years. No impairment charges have been recorded for any of the periods presented.

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. All financial instruments are initially measured at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: fair value through profit and loss (FVTPL), held to maturity, loans and receivables, available for sale and other liabilities. The Company has designated its financial instruments into the following categories applying the indicated measurement methods:

Financial Instrument	Category	Measurement Method
Cash	Loans and receivables	Fair value
Trade accounts receivable	Loans and receivables	Amortized cost
Note receivable	Loans and receivables	Amortized cost
Investment in Legend shares	FVTPL	Fair value
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Notes payable	Other liabilities	Amortized cost
Secured Convertible Debenture	Other liabilities	Fair value
Warrant liability	FVTPL	Fair value

Loans and receivables are initially recognized at the fair value and subsequently carried at amortized cost using the effective interest rate method, less provision for impairment. The Company will assess at each reporting period whether a financial asset is impaired. An impairment loss, if any, is included in income or loss. Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable. The amount of such a provision is calculated as the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported on a net basis, such provisions are recorded in a separate allowance account with the loss being recognized within selling, general and administrative expenses in the Consolidated Statements of Income and Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated allowance.

Other liabilities are measured at fair value on initial recognition, net of transaction costs and subsequently at amortized cost using the effective interest rate method.

Financial instruments classified as FVTPL are measured at fair value on initial recognition and are subject to re-measurement at each balance sheet date with any changes in fair value being recognized in the Consolidated Statements of Income and Comprehensive Income.

The note receivable and investment in Legend shares are included in prepaid expenses and other assets in the consolidated statements of financial position, and the warrant liability is included in accrued liabilities.

Income Taxes

The Company accounts for income taxes under IAS 12, *Income Taxes*, which requires an asset and liability approach to recording deferred taxes. Deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognized to the extent that the realization of the related tax benefit through future taxable income is probable. The effect on deferred tax assets

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date.

Management periodically reviews the Company's provision for income taxes and deferred tax assets and liabilities to determine whether the overall tax estimates are reasonable. When management performs its assessments, it may be determined that an adjustment is required. These adjustments, if required, may have a material impact on the Company's consolidated financial position and results of operations.

Foreign Currency Translation

The Company's presentation and functional currency is the US dollar. The functional currency of the Company's self-sustaining foreign subsidiary, Wi2Wi Inc., is its local currency of US dollars.

There were no significant gains or losses arising from transactions denominated in currencies other than the functional currency for the years ended December 31, 2015 and 2014.

Revenue Recognition

The Company generates revenue through direct sales to its customers as well as through distributors. In accordance with IAS 18, *Revenue*, the Company recognizes revenue when the following fundamental criteria are met: (i) the significant risks and rewards of ownership of the goods have transferred to the buyer; (ii) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (iii) the amount of revenue can be measured reliably; (iv) it is probable that the economic benefits associated with the transaction will flow to the entity; and (v) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

For certain distributors the Company does not recognize revenues until the distributors have sold the product to a third party, and the right of return or price protection has lapsed.

Research and Development

Pursuant to IAS 38, *Intangible Assets*, research costs are expensed and development costs are capitalized as an asset if certain criteria are satisfied. The development costs incurred in the years ended December 31, 2015 and 2014, respectively, did not satisfy the criteria and therefore were expensed.

Share-Based Payments

The Company has a stock option plan and issues stock options to directors, employees and other service providers. This fair value of options granted is measured at the grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. All share-based remuneration is ultimately recognized as an expense in the consolidated statements of Income and Comprehensive Income with a corresponding credit to contributed surplus. Upon exercise of share options, the proceeds received net of any directly attributable transaction costs and the amount originally credited to contributed surplus are allocated to share capital. Where equity instruments are granted to persons other than employees, the consolidated statement of Income and Comprehensive Income is charged with the fair value of goods and services received.

Compensation costs attributable to stock options granted are measured at fair value at the date of grant and are expensed over the vesting period, using a graded vesting schedule, with a corresponding increase in contributed surplus.

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

Product Warranty

The Company offers a standard one-year product replacement warranty on its connectivity solutions. The Company assesses the level and materiality of return material authorizations and determines the estimated returns for defective products at the time revenue is recognized. On occasion, management may determine to accept product returns beyond the standard one-year warranty period. In those instances, the Company accrues for the estimated cost at the time the decision to accept the return is made. As a consequence of the Company's standardized manufacturing processes and product testing procedures, returns of defective product are infrequent and the quantities have not been significant. Accordingly, historical warranty costs have not been material. Actual claim costs may differ from management's estimates.

5. New Accounting Policies

None of the new standards, interpretations and amendments, effective for the first time from January 1, 2015, have had or expected to have a material effect on the consolidated financial statements. The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective.

New standards and interpretations not yet adopted:

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers." The new accounting standard requires an entity to apply a five step model to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, as well as, a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard becomes effective for reporting periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

In July 2014, the IASB issued IFRS 9 - Financial Instruments, which replaces the earlier versions of IFRS 9 (2009, 2010, and 2013) and completes the IASB's project to replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 includes a logical model for classification and measurement of financial assets; a single, forward-looking 'expected credit loss' impairment model and a substantially reformed approach to hedge accounting to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Earlier adoption is permitted. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

In December 2014, the IASB issued Amendments to IAS 1 - Presentation of Financial Statements. The objective of the amendments was to facilitate improved financial statement disclosures and should not require any significant change to current practices. The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material effect on the consolidated financial statements.

In January 2016, IASB issued IFRS 16, "Leases", which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard will be mandatory for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

6. Critical Accounting Estimates and Judgments

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

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

estimates and assumptions. 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.

Inventories

Inventories are recorded at the lower of average cost (first in first out method) or net realizable value. Charges for excess and obsolete inventory are recorded based on inventory age, shipment history and forecasted demand. The Company's business is subject to technology changes which may cause selling prices to change rapidly. Moreover, the markets that the Company serves can be volatile and actual results may vary from the Company's forecast or other assumptions, potentially impacting the Company's inventory valuation and resulting in material effects on its gross margin.

Useful Lives of Depreciable Assets

Management reviews the useful lives of depreciable assets including property, plant and equipment at each reporting date based on the expected utility of the assets to the Company. Actual results, however, may vary due to technical obsolescence. Details of the property and equipment useful lives are provided in Note 4.

Income Taxes

The Company is subject to income tax in several jurisdictions and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the company recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when, despite

the company's belief that its tax return positions are supportable, the company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

7. Trade Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest.

December 31,	2015	2014
Trade accounts receivable	\$ 2,009	\$ 3,556
Less provision for impairment of trade receivables	(130)	(118)
Trade receivables - net	\$ 1,879	\$ 3,448

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

8. Inventories

Inventories consist of:

December 31,	2015	2014
Raw materials and work in progress (gross)	\$ 2,124	\$ 1,974
Inventory write-down	(29)	(28)
Raw materials and work in progress (net)	2,095	1,946
Finished goods (gross)	1,228	1,663
Inventory write-down	(312)	(28)
Finished goods (net)	916	1,635
Total	\$ 3,011	\$ 3,581

9. Property and Equipment, Net

	Machinery and Equipment	Computer Equipment and Software	Furniture and Fixtures	Leaseholds	Total
Cost					
At December 31, 2014	\$ 1,748	\$ 127	\$ 88	\$ 41	\$ 2,004
Additions	185	40	-	9	234
At December 31, 2015	\$ 1,933	\$ 167	\$ 88	\$ 50	\$ 2,238
Accumulated depreciation					
Balance, December 31, 2014	\$ 311	\$ 87	\$ 75	\$ 2	\$ 475
Additions	201	26	3	9	239
At December 31 2015	\$ 512	\$ 113	\$ 78	\$ 11	\$ 714
Net book value					
At December 31, 2014	\$ 1,437	\$ 40	\$ 13	\$ 39	\$ 1,529
At December 31, 2015	\$ 1,421	\$ 54	\$ 10	\$ 39	\$ 1,524

10. Debt

Note Payable

As a condition of closing of the RTO transaction the Company converted CAD\$500 of the amount owing to Norton Rose Fulbright Canada LLP, a creditor of the Company into an unsecured promissory note with a 10% annual interest rate and December 31, 2015 maturity date. The note was \$430 at December 31, 2014. The Company on September 30, 2015 concluded a settlement agreement whereby the unsecured promissory note and accrued interest, along with certain other amounts owed to the creditor were exchanged for shares at a deemed price of CAD\$0.1275 per share. The total principal and interest converted to common shares was \$534.

4,509,639 shares were issued on October 28, 2015 in settlement of these liabilities (Note 15). The fair market value of the settlement as measured on the date the shares were issued was \$309, resulting in a gain on settlement of \$225.

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

The balance of the other amount owed to the creditor under the settlement agreement, with exception of CAD\$75 is to be paid in equal amounts over a period six months, commencing November 14, 2015. CAD\$75 will be waived when the final payment has been made. As of December 31, 2015 \$162 was payable, including the amount that could be waived.

Secured subordinated convertible debenture

As part of the purchase price for the acquisition of Precision assets (Note 3) the Company issued a secured subordinated convertible debenture for \$2.5 million. The Debenture had a maturity date of November 4, 2015 and interest rate of 10.25% per annum payable on the maturity date of the Debenture. The holder of the Debenture (the "Holder") may convert all or any part of the principal amount outstanding under the Debenture into common shares of the Company at a conversion price of CAD\$0.25 per share. The conversion option is considered to be a derivative because the conversion feature is in CAD\$, which is different than the Company's functional currency USD\$. Therefore, the derivative is bifurcated and recorded as its own derivative liability. A fair value measurement was completed at the time the convertible debt was issued, and fair value is updated at each reporting date.

The Debenture was recorded at fair value (excluding the conversion option derivative), and this difference from face value is being accreted over the life of the loan with a charge to interest expense. A discount rate of 15.4% was used to determine the fair value of the Debenture.

On June 19, 2015 the Company announced a shares for debt transaction with the Holder, to settle an aggregate amount of \$3,192 (the "Debt") owed to them consisting of:

- a) Principal amount of the secured subordinated convertible debenture of \$2,500;
- b) Unpaid but accrued interest related to the Debenture in the amount of \$168; and
- c) Interim funding provided to the Company in the amount of \$524.

Based on the Bank of Canada noon exchange rate on June 18, 2015 the Canadian dollar equivalent of the Debt was CAD\$3,898 (CAD exchange rate of 1.2209).

On July 31, 2015, the Company signed a Debt Settlement and Investor Rights Agreement reflecting the terms of the shares for debt conversion. This transaction received approval of the TSXV, on August 20, 2015 and shareholders' approval at a Special General Meeting held on September, 25, 2015.

30,570,082 common shares of the Company were issued to the Holder on October 28, 2015 (Note 15) as consideration for the Debt. The common shares issued in the settlement represent a deemed price of CAD\$0.1275 per common share representing the "Discounted Market Price", as defined under TSXV policies, based on the closing price of the Wi2Wi common shares on the TSXV on June 18, 2015. The fair market value of the settlement as measured on the date the shares were issued was \$2,093, resulting in a gain on settlement of \$1,100.

11. Related Parties

On May 7, 2014 subsequent to resignation of the director and Interim Chief Financial Officer another director of the Company was appointed as the Chief Financial Officer of the Company. He received remuneration of \$15 per month commencing October 1, 2014.

In December 2013, a former director of the Company advanced \$60 under a promissory note bearing an interest rate of 10%, which was converted to shares of the Company, on November 14, 2014.

The Company had issued 4,509,639 shares on October 28, 2015 in settlement of liabilities (Note 10, 15) to Norton Rose Fulbright Canada LLP. The Company incurred expenses for legal services of \$107 and \$170 in the years ended December 31, 2015 and 2014 respectively. At December 31, 2015 the Company had payables of \$158.

There were no amounts owing to related parties at December 31, 2015 and 2014.

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

12. Accrued Liabilities

Accrued liabilities consist of:

December 31	2015	2014
Accrual for legal proceedings and indemnifications (Note 13)	\$ 781	\$ 1,242
Accrued compensation	230	498
Accrual for legal and professional	26	226
Other accrued expenses	33	215
Interim funding provided by Holder (Note 3, 10)	-	524
Accrued interest	-	202
Accrual for conversion feature	-	30
Accrual for warrant liability	-	17
	\$ 1,070	\$ 2,954

13. Legal Proceedings

Accrual for Legal Proceedings

A former Company executive has asserted a claim of \$4,400 against certain directors of the Company for damages incurred as a result of the claimed lost value of Plaintiff's investment, including Class B Convertible Preferred Shares

The Quebec Superior Court of Justice rendered judgment on January 28, 2014 whereby two former directors were found liable and ordered to pay \$648 plus interest and additional indemnity as of July 6, 2010, totaling \$794. The claim against the other two former directors was dismissed. On August 19, 2015 the Quebec Court of Appeal dismissed an appeal to overturn the Quebec Superior Court order and dismiss the claim as a whole. A former director then sought leave to appeal to the Supreme Court of Canada with such leave granted on April 7, 2016. The Company is not aware as to when the Supreme Court of Canada will hear such appeal and render a final decision.

The Directors and Officers insurer ("D&O") has taken the position that this matter falls under an exclusion of the otherwise applicable D&O policy. The Company has also received legal advice to the effect that, in certain circumstances, it may not have an obligation to indemnify the former directors. The Company is in the process of evaluating its options and has reserved \$781 as at December 31, 2015 in connection with this matter.

The Company on October 30, 2014 received a complaint filed in the Superior Court for the State of California by a former executive of the Company, for breach of contract, labour code violation, termination in violation of public policy, breach of the covenant of good faith and fair dealing. On August 25, 2015 the Company settled the claim and agreed to pay \$325 and issued 1 million common shares of the Company. The shares were issued on October 28, 2015 (Note 15).

From time to time, third parties have asserted, and may in the future assert claims against the Company related to disputes in the normal course of business. At this time there are no such claims against the Company which are expected to be material to the Company's results of operations or financial condition.

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

14. Commitments and Contingencies

Leases

San Jose, CA

The Company leases its office in San Jose and is required to pay its pro-rata share of all executory costs such as building maintenance and insurance. In August 2015, the Company re-negotiated the lease terms for reduced space. The new monthly lease payments will be reduced from \$12 to \$4. The lease will expire on July 31, 2017.

Middleton, WI

The Company leases the 38,000 square foot Middleton facility from PDI Properties, LLC. The lease agreement expired in May 2015, with an automatic 5 year extension if there is no default, unless the Company gives a written notice on or before November 20, 2014. No notice was given by the Company. The lease requires the payment of property taxes, utilities, normal maintenance, and general liability insurance.

The future minimum lease payments as at December 31, 2015 under the non-cancellable operating leases and the extension thereof, expiring in November 2016, for San Jose location, and May 15, 2020 for Middleton location are as follows:

Year	Amount
2016	\$ 531
2017	535
2018	508
2019	523
2020`	539
Total	\$ 2,636

Operating Lease

On May 26, 2015 the Company entered into operating lease agreement for equipment. The lease has a 24 month term at the end of which the Company can purchase the equipment at fair market value to be determined at that time, return the equipment, or extend the lease for a further term based on the fair market value at the maturity date.

The future minimum lease payments as at December 31, 2015 under the non-cancellable operating leases, expiring in May 15 2017, are as follows:

Year	Amount
2016	\$ 22
2017	9
Total	\$ 31

Rental expense for operating leases during the years ended December 31, 2015 and December 31, 2014 were \$253 and \$212, respectively.

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

15. Share Capital

The Company considers the items included in the consolidated statements of changes in shareholders' equity as 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 may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements. There have been no changes in the Company's definition of capital or capital management objectives during the years ended December 31, 2015 and December 31, 2014.

Common Shares

The authorized capital stock of the Company consists of an unlimited number of common shares. Holders of common shares are entitled to one vote for each share held on all matters submitted to a vote of shareholders.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

Private placement

The Company announced on February 27, 2014 the closing of the first tranche of its non-brokered private placement offering, issuing 2,175,000 units at a price of CAD\$0.20 (approximately \$0.18) per Unit. A Unit consists of one common share of the Company and one half of one common share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company at a price of CAD\$0.25 per share. The warrants will expire on April 30, 2016.

On April 30, 2014, the Company received acceptance for filing documentation, the final number of shares issued amounted to 2,706,834, along with 1,480,726 warrants attached to those shares, for gross proceeds of \$474. The value of the warrants was \$46 (Note 16), and the remaining \$428 was allocated to the common stock.

Conversion of certain obligations to common shares

The Company on October 23, 2014 entered into agreements to issue shares to settle an amount of \$460 owed to holders of promissory notes, \$150 Senior Bridge loan, \$30 of accrued interest, and an amount of \$73 owed to a service provider. The Company issued 7,197,344 common shares at a deemed price of CAD\$0.10 per share in settlement of the above-noted amount owed to debt securities holders and 444,170 common shares at a deemed price of CAD\$0.18 per share in settlement of the above-noted amount owed to a service provider. The traded price of the Company's common stock on the day of conversion in November 2014 was CAD\$0.14 (approximately \$0.12). The Company recorded a loss on conversion of \$234 which is recorded as a loss on conversion of debt on the consolidated statement of income.

On October 28, 2015, the Company issued:

- I. 30,570,082 common shares to Holder (Note 10) as consideration for the Debt. The common shares issued at a deemed price of CAD\$0.1275 per common share representing the "Discounted Market Price", as defined under TSXV policies, based on the closing price of the Company's common shares on the TSXV on June 18, 2015. The fair market value of the settlement as measured on the date the shares were issued was \$2,093, resulting in a gain on settlement of \$1,100.
- II. 4,509,639 common shares issued for conversion of note payable and certain other trade obligations to a creditor of the Company, (Note 10), total amounting to \$534, at a deemed price of CAD\$0.1275 per share. The fair market value of the settlement as measured on the date the shares were issued was \$309, resulting in a gain on settlement of \$225.

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

- III. 334,000 common shares were issued to a trade creditor in settlement of the Company's obligation at a deemed price of CAD\$0.1275 per share. The fair market value of the settlement as measured on the date the shares were issued was \$23, resulting in a gain on settlement of \$10.
- IV. 1,000,000 common shares issued to a former executive of the Company as part of the settlement of his claim (Note 13). The fair market value of the settlement as measured on the date the shares were issued was \$68.

The traded price of the Company's common stock on the day of issue October 28, 2015 CAD\$0.09 (approximately \$0.07). The Common Shares issued by the Company pursuant to these shares for debt transactions are subject to resale restrictions, in accordance with applicable securities legislation and TSX Venture Exchange requirements, until February 29, 2016. The Company's outstanding Common Shares increased to a total of 133,027,744 at December 31, 2015, from 96,614,023 outstanding common shares at December 31, 2014.

Preferred Shares

16,096,084 Preferred Shares were issued to holders of common shares of ISE upon the closing of the RTO. Each Preferred share would have automatically converted into common shares on the date that is five years and one day after the date such preferred shares were issued, based on an exchange ratio of one-millionth (0.000001) of a common share for each Preferred Share converted, a total of 16 common shares.

The Preferred Shareholders on October 31, 2014 at the Company's Annual and special meeting of the shareholders, passed a special resolution authorizing an amendment to the Articles of the Company to amend the date of the conversion of the preferred shares to be November 28, 2014 and the conversion occurred on that date.

16. Share-Based Payments and Warrants

Stock Option Plan

At December 31, 2014 the Company had only one stock option plan, the Wi2Wi Corporation Stock Option Plan (the Plan).

Options are granted at an exercise price not less than the fair value of the Company's shares at the date of grant. Options granted to employees, directors, officers and certain consultants have an expiration date that is up to 10 years from the grant date, generally vest over periods of up to 48 months as determined by the Board of Directors.

The following table summarizes the stock option activity as of December 31, 2015:

	Options	Weighted Average Exercise Price
Options outstanding at December 31, 2013	17,896,702	\$ 0.27
Options forfeited or expired ¹	(11,694,115)	0.28
Options granted December 31, 2014	6,575,000	0.15
Options outstanding at December 31, 2014	12,777,587	\$ 0.20
Options forfeited or expired ²	(3,429,444)	0.22
Options granted ³	3,057,500	0.12
Options outstanding at December 31, 2015	12,405,643	\$ 0.14

1. Certain of these stock options, issued in Canadian dollars, were converted to US\$ at the December 31, 2014 exchange rate.

2. Certain of these stock options, issued in Canadian dollars, were converted to US\$ at the December 31, 2015 exchange rate.

3. These stock options were issued at CAD\$0.17 and converted to US\$ at the December 31, 2015 exchange rate for disclosure purposes.

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

The following table summarizes stock options outstanding and exercisable as of December 31, 2015:

Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Options Exercisable
\$			
0.12 ¹	8,782,500	6.31	2,039,560
0.141 ²	2,910,824	4.47	2,497,032
0.228	147,943	2.60	147,943
0.342	219,176	3.84	219,176
0.456	345,200	5.95	334,962
	12,405,643	5.78	5,238,673

1. These stock options have an exercise price of CAD\$0.17 and have been converted to US\$ at the December 31, 2015 exchange rate for disclosure purposes here.

2. These stock options have an exercise price of CAD\$0.195 and have been converted to US\$ at the December 31, 2015 exchange rate for disclosure purposes here.

The fair value of each employee option is estimated on the date of grant using the Black-Scholes option valuation model and expensed using a graded-method over the related service period. The Company estimates its expected stock price volatility using an average historical volatility of a group of similar publicly traded companies over a period equal to the expected term of options granted. The Company estimates the expected term of options granted as being the time from grant to vest plus the midpoint of the time from vest to option expiration. The risk-free interest rate for periods within the contractual life of the option is based on U.S Treasury zero-coupon rates for the estimated holding period.

The value of the Company's stock options granted under its stock option plan during the years ended December 31, 2015 and 2014 was estimated at the date of grant using the following weighted-average assumptions:

	2015	2014
Expected life range	4.5 years	2.87-7.42 years
Risk-free interest rate	0.50%	0.36-1.09%
Volatility range	75.0%	44% - 52%
Dividend yield	-	-

Share-based compensation expense is charged to research and development and selling, general and administrative, as follows:

December 31,	2015	2014
Research and development	\$ 20	\$ 154
Selling, general and administrative	275	6
	\$ 295	\$ 160

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

Warrants

The following table summarizes the warrants issued by the Company as of December 31, 2015:

	Warrants	Weighted Average Exercise Price
Warrants outstanding at December 31, 2013	3,194,228	\$ 0.56
Issuance of warrants on Share issue in connection with private placement ¹	1,480,725	0.22
Warrants expired	(739,719)	0.68
Warrants outstanding at December 31, 2014	3,935,234	0.37
Warrants expired ²	(1,000,000)	0.32
Warrants outstanding at December 31, 2015	2,935,234	\$ 0.34

1. The exercise price of these warrants is CAD\$0.25, which is converted to US\$ at the December 31, 2014 exchange rate for presentation in this table.

2. The exercise price of these warrants is CAD\$0.45, which is converted to US\$ at the December 31, 2015 exchange rate for presentation in this table.

At December 31, 2015 and 2014 the Company had 1,740,725 and 2,740,726 warrants respectively which are accounted for as liabilities. The exercise price of these warrants is denominated in Canadian currency and since that is different than the Company's functional currency of the United States, the warrants are liabilities. At December 31, 2015, the liability is not material as the warrants expire in March 2016.

In 2014, as part of the private placement, the Company issued 1,480,725 warrants to purchase common shares of the Company, at an exercise price of CAD\$0.25. The warrants vested immediately and expire two years from the date of issuance, February 2014. The fair value of warrants of \$46 was estimated on the grant date using the Black-Scholes valuation model and recorded as a reduction of the common stock proceeds. The warrant is a liability and the fair value of this warrant is nominal and \$17 at December 31, 2015 and 2014, respectively.

In 2013, the Company also issued 1,260,000 warrants in connection with the issuance of common stock, at an exercise price of CAD\$0.45 per share. The warrants vested immediately. 1,000,000 warrants expired in 2015 and the remaining 260,000 warrants expire in September 2016. The \$22 fair value of the warrants was estimated on the grant dates using the Black Scholes valuation model and recorded as a reduction of the common stock proceeds. The warrants are liabilities and the fair value of the warrant liability is nominal at December 31, 2015 and 2014.

The remaining outstanding warrants expire at various dates through 2018.

The value of the warrants issued during the period ended December 31, 2014 was estimated at the date of issuance using the following weighted-average assumptions:

	2014
Expected life	2 years
Risk-free interest rate	0.45 – 0.50%
Volatility	44-50%
Dividend yield	0%

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

Summarized information about warrants as of December 31, 2015 is as follows:

Exercise Prices	Warrants Outstanding	Weighted Average Remaining Contractual Life	Warrants Exercisable
\$			
0.18 ²	1,087,500	0.12	1,087,500
0.57	876,704	0.08	876,704
0.18 ²	393,226	0.20	393,226
0.32 ¹	260,000	0.74	260,000
0.46	164,382	2.10	164,382
0.34	87,670	1.23	87,670
0.46	65,752	1.23	65,752
	2,935,234	0.34	2,935,234

1. The exercise price of these warrants is CAD\$0.45, which is converted to US\$ at the December 31, 2015 exchange rate for presentation in this table.

2. The exercise price of these warrants is CAD\$0.25, which is converted to US\$ at the December 31, 2015 exchange rate for presentation in this table.

17. Per Share Calculation

The basic and diluted net income per share has been calculated based on 102,988,896 and 86,021,719 weighted average number of common shares outstanding for the years ending December 31, 2015 and 2014 respectively.

18. Expenses by Nature

For the years ended December 31,	2015	2014
Research and development		
Compensation research and development	\$ 1,248	\$ 826
Other costs	110	20
Total research and development	<u>1,358</u>	<u>846</u>
Selling, general and administrative		
Compensation	1,775	1,341
Depreciation and amortization	54	39
Facility related expenses	206	192
Professional and consulting services	499	904
Other costs	218	448
Total selling, general and administrative	<u>2,752</u>	<u>2,924</u>
	<u>\$ 4,110</u>	<u>\$ 3,770</u>

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

19. Income Taxes

There is a \$(7) tax benefit and \$71 tax provision recorded for the years ended December 31, 2015 and 2014, respectively. The total income tax expense differs from the amounts computed by applying the statutory federal income tax rate of 34% as follows:

For the years ended December 31,	2015	2014
Computed tax expense	\$ 548	\$ 711
Nondeductible items and other	25	(7)
State taxes, net of federal benefit	268	95
Foreign rate differential	(68)	6
Tax rate change	70	-
True-ups	(896)	(280)
Credits	336	(46)
Deferred taxes not recognized	(290)	(408)
	\$ (7)	\$ 71

The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and liabilities are as follows:

December 31,	2015	2014
Accruals and reserves	\$ 567	\$ 505
Capitalized costs	527	-
Loss carryforwards	5,368	5,624
Credits	512	279
Total deferred tax assets	6,974	6,679
Deferred taxes not recognized	(6,696)	(6,406)
Total deferred tax assets net of write-downs	278	274
Total deferred tax liabilities	(278)	(274)
Net deferred tax assets	\$ -	\$ -

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible or includible in taxable income. Expiration of loss carryforwards and credit carryforwards is detailed below. Other deferred tax assets have no expiry date.

Management considers projected future taxable income and tax planning opportunities in making this assessment. Based upon the level of historical losses and projections for future taxable income over the periods to which the deferred tax assets are applicable, management believes it is not more likely than not the Company will realize the benefits of these deductible differences, therefore a valuation allowance is established at 100%.

The Company had U.S. federal and state net operating loss (NOL) carryforwards and Canadian loss carryforward of approximately \$12,667, \$16,972, and \$272, respectively, available to offset future taxable income at December 31, 2015, and approximately \$18,303, \$21,151, and \$775, respectively, at December 31, 2014. The U.S. federal NOL carryforwards will expire beginning 2027, if not utilized. The state NOL carryforwards will expire beginning 2017, if not utilized. The Canadian loss carryforwards will expire beginning 2026, if not utilized.

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

In addition, the Company had federal and state research and experimental credit (R&D credit) carryforwards of approximately \$305 and \$251, respectively, available to offset future income tax liabilities at December 31, 2015, and approximately \$536 and \$427, respectively, at December 31, 2014. The federal R&D credit carryforwards expire beginning 2026 and the state R&D credit can be carried forward indefinitely.

Certain tax attributes are subject to an annual limitation as a result of ownership changes in 2009 and prior years as defined under Internal Revenue Code Section 382 – Limitation on net operating loss carryforward and certain built-in-losses following an ownership change. Of the U.S. NOL carryforwards, \$189, \$263, and \$2,232 have annual limitations of \$15, \$20 and \$572 respectively. In addition, U.S. NOL Carryforwards of \$9,983 have no annual limits. Of the state NOL carryforwards, \$174, \$243, and \$4,103 have annual limitations of \$15, \$20 and \$572 respectively. In addition, state NOL Carryforwards of \$11,672 have no annual limits. Federal and state research and experimental credits of \$305 and \$251, respectively, have no annual limits.

The Company's total gross unrecognized tax benefits were \$0 and \$289 at December 31, 2015 and 2014, respectively. If recognized, none of the gross unrecognized tax benefit would affect the effective tax rate.

20. Technology Transfer

On August 1, 2014 the Company reached an agreement with one of its customers ("Customer") to transfer technology and know-how for \$2.25 million. The technology and know-how transfer relates to manufacturing of a specific wireless connectivity module, which is exclusively used by the Customer. Wi2Wi has agreed to transfer certain know-how, manufacturing documentation, and provide certain services, to enable the Customer to transfer production of the specific module. The agreement is predicated on three milestones, all of which the Company has fulfilled by December 31, 2014 and the \$2.25 million is recorded as income from transfer of technology in the 2014 consolidated statement of income. The final installment of \$563 was included in accounts receivable at December 31, 2014 and was collected on January 8, 2015. The Company has no ongoing obligations to the customer related to this transfer of technology.

21. Business Risks and Concentrations

Liquidity Risk The main risks that could adversely affect the Company's financial assets, liabilities or future cash flows are liquidity risk and credit risk.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. For the year ended December 31, 2015, the Company had income from operations of \$423 (2014-\$1,840), cash flow from operating activities of \$542 (2014-\$242), and working capital of \$4,012 (2014- deficit of \$401). During 2015 the Company converted a significant amount of its liabilities to equity. Liabilities as of December 31, 2015 consists primarily of trade payables and accruals. These matters, among others, increases the ability of the Company to continue in existence as a going concern. On March 18, 2016 the Company secured a \$2 million revolving line of credit with its bank, subject to conditions outlined in Note 24, which will be available through maturity in March 2017. The line will be secured by all of the Company's assets.

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

Credit Risk

The Company had significant exposure to several customers as of December 31, 2015 and December 31, 2014 as follows:

Customer	December 31, 2015		December 31, 2014	
	Revenue %	AR %	Revenue %	AR %
A	16%	30%	14%	13%
B	10%	3%	27%	45%
C	6%	5%	24%	21%
D	5%	3%	2%	1%
E	-	-	17%	8%
F	-	-	15%	-

The Company has \$280 and \$217 in outstanding receivables over 90 days at December 31, 2015 and December 31, 2014, respectively.

Fair Value of Financial Assets and Liabilities

The Company's financial instruments as at December 31, 2015 include cash, accounts receivable and accounts payable. The carrying values of these financial instruments approximate their fair value due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

When applicable, the Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities,

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Included in Prepaid and other current assets are shares held in Legend Oil and Gas Limited. The fair value of these shares held by the Company, valued at market quoted prices at December 31, 2015, \$63 and at December 31, 2014, \$42.

During 2014, the Company had two financial instruments that require a recurring level 3 fair value measurement. The warrants issued in connection with the 2014 private placement transaction are liabilities (see Note 16). The fair value at the grant date was \$46 and the fair value at December 31, 2014 is \$17. The fair value calculation was performed using a Black Scholes model, with the assumptions discussed in Note 16 and has a nominal value at December 31, 2015.

Also in 2014, the conversion feature associated with the Debenture was determined to be a derivative (see Note 10). The fair value at the grant date and at December 31, 2014 was \$30. The fair value calculation was performed using a Black Scholes model, with the assumptions discussed in Note 16, as well as a foreign currency conversion factor. The Debenture was converted to common shares in 2015.

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

22. Key Management Personnel Compensation

For years ended December 31,	2015	2014
Officer compensation	\$ 357	\$ 568
Benefits and other personnel costs	13	-
Share based payments-directors and officers	264	5
	\$ 934	\$ 573

23. Significant Non-cash Transactions

For the years ended December 31,	2015	2014
Interest paid (through issuance of shares)	\$ -	\$ 30
Non cash investing and financing activities:		
Common shares issued to settle certain liabilities	\$ 2,493	\$ 947
Conversion of preferred shares to common shares	\$ -	\$ 230
Fair value of common shares - consideration for Precision acquisition	\$ -	\$ 508
Fair value of net assets acquired from Precision	\$ -	\$ 4,206
Secured subordinated convertible debenture – consideration for Precision acquisition	\$ -	\$ 2,496
Fair value of interim funding – consideration for Precision acquisition	\$ -	\$ 524
Warrants issued in connection with private placement of common shares	\$ -	\$ 46

24. Subsequent Events

Wi2Wi LLC.

On February 4, 2016 the Company filed Articles of Organization with the Wisconsin Department of Financial Institutions to establish Wi2Wi, LLC, ("LLC") a wholly-owned subsidiary of Wi2Wi Inc., ("Inc.") and Inc., entered into an operating agreement with LLC to conduct all or a portion of the Company's business in the State of Wisconsin.

Credit Facility

On March 18, 2016 the Company entered into a new \$ 2 million revolving credit facility ("Facility") with Wells Fargo Bank, National Association ("Wells Fargo"), which will become available when the following conditions are met:

- Wells Fargo shall have received the Borrower's unqualified audited financial statements for the fiscal year ending December 31, 2015.
- Wells Fargo shall have conducted a field exam of the Borrower and determined, in its sole discretion, that the results thereof are satisfactory.
- No default or event of default has occurred and is continuing.
- The Company has complied with the financial covenants for the fiscal quarters ending December 31, 2015 and March 31, 2016.

The interest on the Facility will be LIBOR plus 3%, and has an annual standby charge of 0.25%, charged quarterly. The Company has granted a security interest to Wells Fargo in all the property of the Company. Interest only payments are due monthly with the principal due at maturity, which will be May 31, 2017.

Wi2Wi Corporation

Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

Facility covenants:

- a) Balance sheet leverage of less than or equal to 3, defined as total liabilities divided by tangible net worth tested on a quarterly basis.
- b) Minimum net income greater than one dollar, tested on a quarterly basis on a rolling twelve month basis.

While the above conditions are being complied with, the Company has arranged as part of the Facility a line of credit of \$500 which will be fully collateralized by cash which will be deposited in a restricted account with the bank to repay any borrowings under the Facility. The cash collateral will be returned to Company once the conditions are met for the \$2 million revolving facility.