



TINKERINE STUDIOS LTD.

Consolidated Financial Statements

December 31, 2016

(Expressed in Canadian dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Tinkerine Studios Ltd.

We have audited the accompanying consolidated financial statements of Tinkerine Studios Ltd., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive loss, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describe certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about Tinkerine Studios Ltd.'s ability to continue as a going concern.

A handwritten signature in black ink that reads "DMCL".

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
April 26, 2017

TINKERINE STUDIOS LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2016
(Expressed in Canadian Dollars)

	Notes	December 31, 2016	December 31, 2015
ASSETS			
Current			
Cash		\$ 41,601	\$ 200,748
Receivables	4	134,915	20,715
Inventory	5	443,927	557,115
Prepays and deposits	9	57,159	40,023
Total current assets		677,602	818,601
Property and equipment	6	32,267	59,745
Intangible asset	7	73,208	122,009
TOTAL ASSETS		\$ 783,077	\$ 1,000,355
LIABILITIES			
Current			
Trade payables and accrued liabilities	8, 9	\$ 262,256	\$ 100,442
Customer deposits and deferred revenue		4,430	-
		266,686	100,442
EQUITY			
Share capital	10	4,329,369	4,014,412
Reserve	10	380,088	366,580
Deficit		(4,193,066)	(3,481,079)
		516,391	899,913
TOTAL LIABILITIES AND EQUITY		\$ 783,077	\$ 1,000,355

Nature and continuance of operations (Note 1)

Commitment and contingency (Note 13)

Approved on behalf of the Directors:

"Eugene Suyu"

"Desmond Liew"

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

TINKERINE STUDIOS LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
December 31, 2016
(Expressed in Canadian Dollars)

	Notes	For the year ended December 31,	
		2016	2015
REVENUE	11	\$ 847,188	\$ 1,268,074
COST OF SALES			
Cost of goods sold		476,519	596,560
Production training and start-up		-	76,284
		<u>476,519</u>	<u>672,844</u>
GROSS PROFIT		<u>370,669</u>	<u>595,230</u>
EXPENSES			
Amortization	6, 7	75,683	51,699
Bad debts		-	2,579
Bank and credit card charges		8,987	13,360
Foreign exchange gain		(3,396)	(17,094)
Insurance		30,436	35,258
Office and general		18,660	33,058
Product promotion, trade shows and travel		28,077	169,900
Professional and consulting fees		181,327	270,350
Rent and utilities	9	122,755	116,502
Research and development		116,722	133,808
Remuneration and benefits	9	395,289	657,446
Stock-based compensation	9, 10	134,654	110,268
Shareholder communications, filing and transfer agency		71,363	189,087
		<u>1,180,557</u>	<u>1,766,221</u>
OTHER ITEMS			
Interest income		-	5,008
Government grant		-	50,000
Write-off of trade payables		-	46,536
Write-off of inventory		(19,000)	-
Loss on disposal of assets	6	(4,245)	-
NET AND COMPREHENSIVE LOSS		<u>\$ (833,133)</u>	<u>\$ (1,069,447)</u>
NET LOSS PER COMMON SHARE - BASIC AND DILUTED		<u>\$ (0.02)</u>	<u>\$ (0.03)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED		48,738,349	42,422,634

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

TINKERINE STUDIOS LTD.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
December 31, 2016
(Expressed in Canadian Dollars)

	Notes	Share capital		Reserve	Deficit	Total
		Number of shares	Amount			
Balance at December 31, 2014		41,985,349	\$ 3,949,362	\$ 600,278	\$ (2,755,598)	\$ 1,794,042
Transactions with owners, in their capacity as owners and other transfers:						
Shares issued for cash - exercise of warrants	10	603,000	60,300	-	-	60,300
Shares for services	10	50,000	4,750	-	-	4,750
Stock-based compensation	10	-	-	110,268	-	110,268
Cancellation of stock options	10	-	-	(281,585)	281,585	-
Cancellation of warrants	10	-	-	(62,381)	62,381	-
Net and comprehensive loss		-	-	-	(1,069,447)	(1,069,447)
Balance at December 31, 2015		42,638,349	4,014,412	366,580	(3,481,079)	899,913
Transactions with owners, in their capacity as owners and other transfers:						
Shares issued for cash - private placement	10	6,600,000	330,000	-	-	330,000
Share issuance costs	10	-	(15,043)	-	-	(15,043)
Stock-based compensation	10	-	-	134,654	-	134,654
Cancellation of stock options	10	-	-	(121,146)	121,146	-
Net and comprehensive loss		-	-	-	(833,133)	(833,133)
Balance at December 31, 2016		49,238,349	\$ 4,329,369	\$ 380,088	\$ (4,193,066)	\$ 516,391

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

TINKERINE STUDIOS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2016
(Expressed in Canadian Dollars)

	For the year ended December 31,	
	2016	2015
Cash Flow from Operating Activities		
Net loss for the year	\$ (833,133)	\$ (1,069,447)
Items not involving cash		
Amortization	75,683	51,699
Stock-based compensation	134,654	110,268
Shares issued for services		4,750
Write-off of trade payables	-	(46,536)
Write-off of inventory	19,000	-
Loss on disposal of assets	4,245	-
Changes in non-cash working capital items		
Receivables	(114,200)	2,595
Inventory	94,188	(321,116)
Prepays and deposits	(17,136)	(3,166)
Trade payables and accrued liabilities	161,814	(32,488)
Customer deposits and deferred revenue	4,430	(9,113)
Net cash used in operating activities	<u>(470,455)</u>	<u>(1,312,554)</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(3,649)	(9,434)
Intangible asset	-	(8,636)
Net cash used in investing activities	<u>(3,649)</u>	<u>(18,070)</u>
Cash Flow from Financing Activities		
Net proceeds from share issuances	314,957	60,300
Net cash provided by financing activities	<u>314,957</u>	<u>60,300</u>
DECREASE IN CASH	(159,147)	(1,270,324)
CASH - BEGINNING	<u>200,748</u>	<u>1,471,072</u>
CASH - ENDING	<u>\$ 41,601</u>	<u>\$ 200,748</u>

Supplemental cash flow information:

December 31, 2015

The Company recorded a fair value of \$4,750 for shares issued for services.

The Company reallocated \$281,585 from reserve to deficit upon the cancellation of stock options.

The Company reallocated \$62,381 from reserve to deficit upon the expiry of warrants.

December 31, 2016

The Company reallocated \$121,146 from reserve to deficit upon the cancellation of stock options.

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

TINKERINE STUDIOS LTD.

Notes to the Consolidated Financial Statements

December 31, 2016

(Expressed in Canadian dollars)

1. Nature and Continuance of Operations

Tinkerine Studios Ltd. (the "Company") was incorporated on May 25, 2006 under the laws of the province of British Columbia, Canada. The Company is listed on the TSX Venture Exchange ("TSX-V") under the trading symbol TTD. The Company's primary business is the design and manufacture, distribution of 3D printers, software and related online educational content.

The Company's registered and records office at 1500-1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7 and its head office is located at 211-8725 92nd Street Delta, British Columbia, Canada, V4G 0A4.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The continuing operations of the Company are dependent upon its ability to generate profitable operations in the future, and to continue to secure additional financing. There can be no assurance that the Company will be successful in its efforts to raise additional financing or if financing is available, that it will be on terms that are acceptable to the Company. These events cast significant doubt about the Company's ability to continue as a going concern.

Based on the Company's operating history, and its relationship with its stakeholders, Management expects that the Company will require additional equity to have sufficient capital to fund operations for the upcoming fiscal year. Further discussion of liquidity risk has been disclosed in Note 15. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue operations as a going concern.

2. Basis of Presentation and Significant Accounting Policies

The financial statements were authorized for issue on April 26, 2017 by the directors of the Company.

Statement of compliance with International Financial Reporting Standards

The consolidated financial statements of the Company, including comparatives, comply with International Accounting Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

TINKERINE STUDIOS LTD.

Notes to the Consolidated Financial Statements

December 31, 2016

(Expressed in Canadian dollars)

2. Basis of Presentation and Significant Accounting Policies (cont'd)

Basis of preparation

The financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The financial statements are presented in Canadian dollars unless otherwise noted, which is the Company's functional currency.

Certain figures for the prior year have been reclassified to conform to the current presentation.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its 100% controlled entity, Tinkerine 3D Print Systems Ltd.

Significant estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The preparation of the financial statements also requires management to exercise judgment in the process of applying the accounting policies. On an on-going basis, management evaluates its estimates and assumptions in relation to assets, liabilities and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances, as the basis for its estimates and assumptions. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. Actual outcomes may differ from those estimates under different assumptions and conditions.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the impairment and useful lives of equipment and leasehold improvements and intangible assets, fair value measurements for financial instruments and stock-based transactions and the recoverability and measurement of deferred tax assets.

Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- Allowance for doubtful accounts;
- The classification of financial instruments; and
- The determination of the functional currency of the Company and its subsidiary.

TINKERINE STUDIOS LTD.

Notes to the Consolidated Financial Statements

December 31, 2016

(Expressed in Canadian dollars)

2. Basis of Presentation and Significant Accounting Policies (cont'd)***Foreign currency translation***

The functional currency of each of the Company's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is the functional currency of the Company and its subsidiary.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive loss in the statement of comprehensive loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive loss. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Trade and other receivables

Receivables are amounts due from customers for goods sold in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Inventory

The Company records inventory at the lower of cost and estimated net realizable value. Costs include raw materials, freight, duty, brokerage and non-recoverable taxes, and are assigned to inventories on a first-in first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

TINKERINE STUDIOS LTD.

Notes to the Consolidated Financial Statements

December 31, 2016

(Expressed in Canadian dollars)

2. Basis of Presentation and Significant Accounting Policies (cont'd)

Property and equipment

Property and equipment stated at historical cost less accumulated depreciation and accumulated impairment losses. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Depreciation and amortization are calculated on a straight-line method to write off the cost of the assets to their residual values over their estimated useful lives, as follows:

Asset	Basis
Equipment	Straight-line over 5 years
Computers	Straight-line over 3 years
Leasehold improvements	Straight-line over 3 years

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets - Research and development expenditures

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;

TINKERINE STUDIOS LTD.

Notes to the Consolidated Financial Statements

December 31, 2016

(Expressed in Canadian dollars)

2. Basis of Presentation and Significant Accounting Policies (cont'd)

Intangible assets (cont'd)

- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

At December 31, 2016, the Company has recorded intangible assets relating to certain expenditures on development which met the criteria for recognition.

Impairment of long-lived assets

The carrying amount of the Company's long-lived assets (which includes equipment and intangible assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

TINKERINE STUDIOS LTD.

Notes to the Consolidated Financial Statements

December 31, 2016

(Expressed in Canadian dollars)

2. Basis of Presentation and Significant Accounting Policies (cont'd)

Trade payables and accrued liabilities

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Revenue recognition

Revenue is recognized, net of discounts and customer rebates, when title and risk are transferred, and payments are received or rights to receive consideration are obtained, and collection of consideration is reasonably assured. Revenue received in advance of these criteria is deferred until future periods.

Government grants

The Company is entitled to government assistance in the form of grants. These are applied against related expenses of the cost of the asset acquired. Grants are subject to compliance with terms and conditions of the related agreements.

Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

TINKERINE STUDIOS LTD.

Notes to the Consolidated Financial Statements

December 31, 2016

(Expressed in Canadian dollars)

2. Basis of Presentation and Significant Accounting Policies (cont'd)***Financial instruments (cont'd)***

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive loss, except for impairment losses and foreign exchange gains and losses.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost. Derivative financial liabilities are classified at fair value through profit and loss and are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

Income taxes**Current income tax**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive loss or equity is recognized in other comprehensive loss or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

TINKERINE STUDIOS LTD.

Notes to the Consolidated Financial Statements

December 31, 2016

(Expressed in Canadian dollars)

2. Basis of Presentation and Significant Accounting Policies (cont'd)

Income taxes (cont'd)

Deferred income tax

Deferred income tax is provided using the asset and liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Stock-based compensation

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve. The fair value of options is determined using the Black–Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

3. Accounting Standards Issued but Not Yet Effective

IFRS 9 “Financial Instruments”

This new standard is a partial replacement of IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The proposed effective date of IFRS 9 is for annual periods beginning on or after January 31, 2018.

TINKERINE STUDIOS LTD.

Notes to the Consolidated Financial Statements

December 31, 2016

(Expressed in Canadian dollars)

3. Accounting Standards Issued but Not Yet Effective (cont'd)***IFRS 15 "Revenue from Contracts with Customers"***

This new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2017 with early adoption permitted.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

4. Receivables

	December 31, 2016	December 31, 2015
Trade receivables	\$ 98,800	\$ 10,441
GST receivable	36,115	10,274
	\$ 134,915	\$ 20,715

5. Inventory

	December 31, 2016	December 31, 2015
Raw materials	\$ 175,442	\$ 299,775
Finished goods	268,485	257,340
	\$ 443,927	\$ 557,115

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Notes to the Consolidated Financial Statements

December 31, 2016

(Expressed in Canadian dollars)

6. Property and Equipment

	Equipment	Computers	Leasehold improvements	Total
Cost:				
December 31, 2014	\$ 52,089	\$ 11,861	\$ 31,969	\$ 95,919
Additions	6,584	-	2,850	9,434
December 31, 2015	58,673	11,861	34,819	105,353
Additions	-	713	2,936	3,649
Disposal	-	-	(34,819)	(34,819)
December 31, 2016	58,673	12,574	2,936	74,183
Amortization:				
December 31, 2014	\$ 7,514	\$ 2,968	\$ 7,827	18,309
Additions	11,736	3,952	11,611	27,299
December 31, 2015	19,250	6,920	19,438	45,608
Additions	11,736	4,010	11,136	26,882
Disposal	-	-	(30,574)	(30,574)
December 31, 2016	30,986	10,930	-	41,916
Net book value:				
December 31, 2015	\$ 39,423	\$ 4,941	\$ 15,382	\$ 59,745
December 31, 2016	\$ 27,687	\$ 1,644	\$ 2,936	\$ 32,267

7. Intangible Asset

	Total
Cost:	
December 31, 2014	\$ 137,773
Additions	22,656
Recoveries	(14,020)
December 31 2015 and 2016	146,409
Amortization:	
December 31, 2015	24,400
Additions	48,801
December 31, 2016	73,201
Net book value:	
December 31, 2015	\$ 122,009
December 31, 2016	\$ 73,208

TINKERINE STUDIOS LTD.

Notes to the Consolidated Financial Statements

December 31, 2016

(Expressed in Canadian dollars)

7. Intangible Asset (cont'd)

During 2015, the intangible asset was put into use and therefore commenced to be amortized on a straight line basis over its estimated useful life of three years.

8. Trade Payables and Accrued Liabilities

	December 31, 2016	December 31, 2015
Trade payables – Note 9	\$ 55,039	\$ 28,180
Accrued liabilities	207,217	72,262
	\$ 262,256	\$ 100,442

9. Related Party Transactions

As at December 31, 2015, included in prepaids and deposits is \$2,435 (2015 - \$Nil), which has been paid to a director of the Company.

As at December 31, 2016, included in trade payables is \$8,430 (2015 - \$11,546), which is due to a director of the Company.

The compensation of key management personnel and related parties were as follows:

	December 31, 2016	December 31, 2015
Rent and utilities	\$ 4,876	\$ -
Remuneration, fees and short-term benefits	86,700	206,200
Stock-based compensation	38,076	25,358
	\$ 129,652	\$ 231,558

During the year ended December 31, 2016 the Company entered into a lease agreement with a director of the Company (Note 13).

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Notes to the Consolidated Financial Statements

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10. Share Capital***Authorized share capital***

Unlimited number of common shares without par value.

Escrow

At December 31, 2016, 2,038,124 (December 31, 2015 – 6,114,376) common shares are held in escrow.

Changes in issued share capital

On March 24, 2016, the company completed a private placement of 6,600,000 units at \$0.05 per unit for proceeds of \$330,000. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable into an additional common share at an exercise price of \$0.10 until March 24, 2018. In connection with the private placement, the Company paid share issuance costs of \$15,043.

During 2015, 603,000 common shares were issued from the exercise of warrants for gross proceeds of \$60,300.

Also during 2015, 50,000 common shares, at a fair value of \$4,750, were issued for services.

Warrants

A continuity schedule of warrants is as follows:

	Number of warrants
Balance, December 31, 2014	13,659,675
Exercised	(603,000)
Expired/cancelled	(13,056,675)
Balance, December 31, 2015	-
Issued	6,600,000
Balance, December 31, 2016	6,600,000

Stock options

During the year ended December 31, 2016, the Company repriced 411,000 previously granted stock options. Accordingly, the Company recognized an incremental \$48,007 in stock-based compensation expense. The Company also granted 2,225,000 stock options. The fair value of the stock option issuances of \$83,170, which was recognized as stock-based compensation expense, was calculated using the Black-Scholes Option Pricing Model using the following assumptions: risk free rate of 0.50%, expected life of 5 years, volatility of 94% and no expected dividends. The Company also recognized a further \$3,477 in stock-based compensation expense for previously issued stock options which vested during the year ended December 31, 2016.

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10. Share Capital (cont'd)**Stock options (cont'd)**

During the year ended December 31, 2015, the Company granted 411,000 stock options. The fair value of the stock option issuances of \$28,118, which was recognized as stock-based compensation expense, was calculated using the Black-Scholes Option Pricing Model using the following assumptions: risk free rate of 1.75%, expected life of 5 years, volatility of 90% and no expected dividends. The Company also recognized a further \$82,150 in stock-based compensation expense for previously issued stock options which vested during the year ended December 31, 2015.

A continuity schedule of stock options is as follows:

	Number of stock options
Balance, December 31, 2014	4,198,000
Issued	411,000
Expired/cancelled	(2,184,000)
Balance, December 31, 2015	2,425,000
Issued	2,255,000
Expired/cancelled	(725,000)
Balance, December 31, 2016	3,955,000
Exercisable, December 31, 2016	3,287,000

As at December 31, 2016, the following stock options were outstanding and exercisable:

Number of options	Exercise price	Expiry date
1,350,000	\$0.075	April 4, 2019
20,000	\$0.075	December 2, 2019
79,000	\$0.075	March 5, 2020
141,000	\$0.075	May 23, 2020
132,000	\$0.075	June 24, 2020
848,000	\$0.075	January 27, 2021
717,000	\$0.075	June 24, 2021

As at December 31, 2016, the weighted average exercise price of stock options is \$0.08 with an average remaining term of 3.51 years.

Reserve

The reserve records items recognized as stock based compensation expense and the fair value of warrants issued based on the residual method. At the time that the stock options or warrants are exercised, the corresponding amount is reallocated to share capital, or if they are cancelled the corresponding amount is reallocated to deficit.

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11. Segmented Information

The Company operates in one reportable operating segment, being the sale of 3D printers and provision of related services. The summarized financial information for the revenue derived by geographic segment is as follows:

	December 31, 2016	December 31 2015
Total revenues:		
Canada	\$ 479,989	\$ 485,672
United States	336,457	696,173
Other	30,742	86,229
	\$ 847,188	\$ 1,268,074

During 2016, 2 customers each made up in excess of 10% of total revenue, comprised of 20.21% and 11.42% each, respectively. During 2015, 2 customers each made up in excess of 10% of total revenue, comprising of 37.70% and 18.84% each, respectively.

12. Income Taxes

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	December 31, 2016	December 31, 2015
Net loss	\$ (833,133)	\$ (1,069,447)
Tax rate	26%	26%
Expected income tax recovery	(216,615)	(278,056)
Non deductible items and other	(654)	1,017
Stock-based compensation	18,554	28,670
Temporary differences not recorded	198,715	248,369
	\$ -	\$ -

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	December 31, 2016	December 31, 2015
Non-capital losses	\$ 1,365,000	\$ 1,168,000
Equipment and other	23,000	15,000
Share issuance costs	13,000	20,000
	\$ 1,401,000	\$ 1,203,000

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Notes to the Consolidated Financial Statements

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12. Income Taxes (cont'd)

The tax pools relating to the significant deductible temporary differences expire as follows:

	Non-capital losses
2025	\$ 14,000
2026	10,000
2027	214,000
2028	171,000
2029	-
2030	386,000
2031	485,000
2032	615,000
2033	533,000
2034	1,116,000
2035	948,000
2036	759,000
	<u>\$ 5,251,000</u>

As future taxable profits of the Company are uncertain, no deferred tax asset has been recognized. As at December 31, 2016, the Company has approximately \$5,251,000 in non-capital losses that can be offset against taxable income in future years, which begin expiring at various dates commencing in 2025. The potential deferred tax benefit of these losses has not been recorded as a deferred tax allowance has been provided due to the uncertainty regarding the realization of these losses.

13. Commitment and Contingency***Commitment***

On December 1st, 2016, the Company entered into a three-year lease agreement with a director of the Company for its premises, commencing January 1st, 2017. The annual basic lease payments was \$52,735 in the first year and \$58,286 in the second and third years. In addition, the Company pays operating costs and a management fees equal to 5% of the annual basic rent.

Contingency

The Company may be subject to a variety of claims and suits that arise from time to time in the ordinary course of business. These matters are subject to inherent uncertainties.

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14. Capital Management

The Company's policy is to maintain a sufficiently strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, net of cash.

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to any externally imposed capital requirements.

15. Financial Instruments and Financial Risk Management

The fair value of the Company's financial assets and liabilities approximates its carrying amount.

The Company's financial assets and liabilities are classified and measured as follows:

<i>Asset/Liability</i>	<i>Category</i>	<i>Measurement</i>
Cash	Fair value through profit or loss	Fair value
Trade receivables	Loans and receivables	Amortized cost
Trade payables	Other financial liability	Amortized cost

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

As at December 31, 2016 and 2015, the Company measures its cash based on Level 1 inputs.

Financial instrument risk exposure and management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash from operations.

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15. Financial Instruments and Financial Risk Management (cont'd)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company may from time to time extend unsecured credit to its customers and therefore, the collection of trade receivables may be affected by changes in economic or other conditions. The Company has not experienced any significant credit loss in the collection of trade receivable to date. The Company's other exposure to credit risk is on its cash held in bank accounts. The Company manages this risk by maintaining bank accounts with reputable financial institutions.

Foreign exchange risk

Foreign exchange risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk.