

ARMADA DATA CORPORATION  
CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2014

ARMADA DATA CORPORATION  
CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2014  
CANADIAN DOLLARS

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
**Armada Data Corporation**

I have audited the accompanying consolidated financial statements of **Armada Data Corporation and subsidiaries**, which comprise the consolidated statement of financial position as at May 31, 2014 and 2013 and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flow for the years ending May 31, 2014 and 2013, 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.

### **Auditors' Responsibility**

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 my 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, I consider 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the **Armada Data Corporation and subsidiaries** as at May 31, 2014 and 2013 and the results of their operations and their cash flow for the years ending May 31, 2014 and 2013 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

A handwritten signature in black ink, appearing to read "Philip Gigan", is written over a light gray rectangular background.

Toronto, Ontario  
September 15, 2014

CPA, CA  
Licensed Public Accountant

**ARMADA DATA CORPORATION**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AS AT MAY 31, 2014

CANADIAN DOLLARS

	<u>2014</u>	<u>2013</u> (note 2)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Accounts receivable (note 10)	\$ 244,777	\$ 398,540
Related parties receivable (notes 10)	5,255	3,277
Inventory and work in process (note 11)	103,994	96,066
Prepaid expenses and sundry assets	<u>58,307</u>	<u>65,471</u>
<b>TOTAL CURRENT ASSETS</b>	<u>412,333</u>	<u>563,354</u>
<b>PROPERTY AND EQUIPMENT – NET</b> (notes 2 and 3)	<u>663,953</u>	<u>835,865</u>
<b>OTHER ASSETS</b>		
Goodwill - net (notes 2 and 4)	<u>180,000</u>	<u>180,000</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,256,286</u>	<u>\$ 1,579,219</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Bank indebtedness (note 5)	\$ 200,946	\$ 200,008
Accounts payable and accrued liabilities (including government remittances payable of \$29,918; 2013 - \$22,286)	191,823	311,291
Related parties payable (note 6)	45,771	7,983
Corporation income taxes payable (note 8)	<u>106,601</u>	<u>108,650</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>545,141</u>	<u>627,932</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL</b> (note 7)	1,730,022	1,730,022
<b>(DEFICIT)</b>	(1,194,382)	(954,240)
<b>CONTRIBUTED SURPLUS</b>	<u>175,505</u>	<u>175,505</u>
	<u>711,145</u>	<u>951,287</u>
	<u>\$ 1,256,286</u>	<u>\$ 1,579,219</u>

APPROVED ON BEHALF OF THE BOARD:



\_\_\_\_\_  
R. James Matthews Director



\_\_\_\_\_  
Eli Oszlak Director

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

*Armada Data Corporation, 5710 Timberlea Boulevard, Suite 201, Mississauga, Ontario L4W 4W1*

**ARMADA DATA CORPORATION**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED MAY 31, 2014**

**CANADIAN DOLLARS**

	<u>May 31,</u> <u>2014</u>	<u>May 31,</u> <u>2013</u> (note 2)
<b>REVENUE</b> (notes 2 and 10)	<b>\$ 2,260,200</b>	<b>\$ 2,587,922</b>
<b>EXPENSES</b> (note 6)		
Office salaries	412,546	440,883
Computer consulting and supplies	323,499	347,383
Rent, common area costs and utilities (note 9 (b) and (c))	316,942	349,030
Advertising and business promotion	203,110	278,229
Management salaries	261,135	376,530
Selling fees	130,915	141,684
Selling salaries	127,991	126,193
Professional fees	97,379	116,083
Employee benefits	69,153	75,735
Automobile and travel	56,613	74,278
Outside data and consulting services	43,962	34,430
Bank charges, credit card charges and interest	41,137	34,374
Insurance	26,658	27,377
Commissions and fees	24,329	30,002
Telephone	23,952	30,320
Office and general	17,883	18,079
Operating leases (note 9 (a))	15,466	17,039
Transfer and exchange fees	11,288	8,864
Printing	8,374	7,409
Investor relations	5,644	5,708
Bad debts	4,157	-
	<u>2,222,133</u>	<u>2,539,630</u>
<b>INCOME FROM OPERATIONS BEFORE UNDERNOTED</b>	<b><u>38,067</u></b>	<b><u>48,292</u></b>
Amortization: Property, plant and equipment (notes 2 and 3)	(175,920)	(121,311)
Impairment of goodwill (note 4)	-	(372,490)
Gain on forgiveness of notes payable	-	32,270
Loss on disposal – property and equipment	-	(11,482)
	<u>(175,920)</u>	<u>(473,013)</u>
<b>(LOSS) BEFORE CORPORATION INCOME TAXES</b>	<b><u>(137,853)</u></b>	<b><u>(424,721)</u></b>
<b>LESS: PROVISION FOR CORPORATION INCOME TAXES – CURRENT</b> (note 8(a))	<b><u>(102,289)</u></b>	<b><u>(122,504)</u></b>
<b>COMPREHENSIVE (LOSS) (Basic and fully diluted (loss) per share (2014 – (\$.01); 2013 – (\$.03))</b>	<b><u>\$ (240,142)</u></b>	<b><u>\$ (547,225)</u></b>
<b>Attributable to equity holders of the company</b>	<b>\$ (185,858)</b>	<b>\$ (495,546)</b>
<b>Attributable to non-controlling interests</b>	<b><u>(54,284)</u></b>	<b><u>(51,679)</u></b>
	<b><u>\$ (240,142)</u></b>	<b><u>\$ (547,225)</u></b>

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

**ARMADA DATA CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED MAY 31, 2014**

**CANADIAN DOLLARS**

	Share Capital	(Deficit) Retained Earnings	Contributed Surplus	Total Equity
Balance as at May 31, 2012	1,630,022	(407,015)	175,505	1,398,512
Comprehensive (Loss)	-	(547,225)	-	(547,225)
Capital Shares issued to directors pursuant to a private placement	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
Balance as at May 31, 2013	1,730,022	(954,240)	175,505	951,287
Comprehensive (Loss)	<u>-</u>	<u>(240,142)</u>	<u>-</u>	<u>(240,142)</u>
Balance as at May 31, 2014	<u>\$ 1,730,022</u>	<u>\$ (1,194,382)</u>	<u>\$ 175,505</u>	<u>\$ 711,145</u>

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

**ARMADA DATA CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDING MAY 31, 2014**

**CANADIAN DOLLARS**

	<u>May 31,</u> <u>2014</u>	<u>May 31,</u> <u>2013</u> (note 2)
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		
Comprehensive (loss) for the year	\$ (240,142)	\$ (547,225)
Amortization	175,920	121,311
Impairment of goodwill	<u>-</u>	<u>372,490</u>
	(64,222)	(53,424)
Net changes in non-cash working capital balances related to operations	<u>67,292</u>	<u>266,216</u>
	<u>3,070</u>	<u>212,792</u>
<b>CASH FLOWS (USED IN) INVESTMENT ACTIVITIES</b>		
Purchase of property and equipment	(3,020)	(3,376)
Purchase of property and equipment – Mister Beer	<u>(988)</u>	<u>(740,187)</u>
	<u>(4,008)</u>	<u>(743,563)</u>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>		
Proceeds from bank overdraft (net)	938	200,008
Proceeds from issuance of share capital pursuant to a private placement	-	100,000
(Decrease) in notes payable – net	<u>-</u>	<u>(70,833)</u>
	<u>938</u>	<u>229,175</u>
<b>NET (DECREASE) IN CASH</b>	-	(301,596)
CASH, beginning of year	<u>-</u>	<u>301,596</u>
CASH, end of year	<u>\$ -</u>	<u>\$ -</u>
<b>NET CHANGES IN NON-CASH WORKING CAPITAL CONSISTS OF:</b>		
Accounts receivable	\$ 153,763	\$ (1,284)
Related parties receivable	(1,978)	11,398
Inventory and work in process	(7,928)	(33,222)
Prepaid expenses and sundry assets	7,164	19,433
Accounts payable and accrued liabilities	(119,468)	93,888
Related parties payable	37,788	(8,824)
Corporation income taxes payable	<u>(2,049)</u>	<u>184,827</u>
	<u>\$ 67,292</u>	<u>\$ 266,216</u>

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

## ARMADA DATA CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2014

CANADIAN DOLLARS

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**1. CORPORATE INFORMATION**

The Company was incorporated in Canada, and its principal place of business is located at 5710 Timberlea, Blvd, Suite #201, Mississauga, Ontario, Canada.

Armada Data Corporation (the "Company") is engaged in the accumulation and sale of data related to the purchase of new and used vehicles.

Mister Beer Inc. has invented and has a patent pending on a unique "microbrewery in a bottle", allowing consumers to produce premium beer at a lower cost than the price of comparable beer purchased at retail stores.

**2. SIGNIFICANT ACCOUNTING POLICIES****Statement of Compliance**

These consolidated financial statements include the accounts of Armada Data Corporation and its 90% owned subsidiary, The Big & Easy Bottle Brewing Company Inc. ("TBE"). TBE owns 100% of the shares of Mister Beer Inc.

These consolidated financial statements have been prepared in accordance with International Accounting Standards, using accounting policies consistent with International Financial Reporting Standards ("IFRS"). The May 31, 2012 annual consolidated financial statements were the first such statements reported under IFRS. Previously, the Company prepared consolidated financial statements in accordance with Canadian Generally Accepted Accounting Policies ("Canadian GAAP").

The adoption of IFRS resulted in changes to the accounting policies as compared with the annual May 31, 2011 consolidated financial statements prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented.

The prior years' comparative figures have been reclassified, where necessary to conform to the current year's presentation.

These consolidated financial statements for the year ended May 31, 2014 were authorized for issuance by the Board of Directors of the Company on September 15, 2014.

**Basis of Measurement**

These consolidated financial statements have been prepared on the historical cost basis, except financial instruments classified as at fair value through profit and loss, which are measured at fair value.

**Basis of Consolidation**

The financial statements are prepared on a consolidated basis and include the Company, its wholly owned subsidiary CCC Internet Solutions Inc., and its 90% interest in The Big & Easy Bottle Brewing Company Inc. All intercompany balances and transactions have been eliminated.

Earnings or losses and other comprehensive income of subsidiaries acquired or disposed of during the period are recognized from the effective date of acquisitions, or up to the effective date of disposal, as applicable.



## ARMADA DATA CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2014

CANADIAN DOLLARS

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Business Combinations**

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The acquiree's identifiable assets and liabilities are recognized at their fair values at the date of acquisition. The transaction costs associated with business combinations are expensed as incurred.

Goodwill represents the excess of the consideration transferred in a business acquisition over the fair value of identifiable net assets acquired in such acquisitions. Goodwill is determined as at the date of the business combination. Goodwill is not amortized but is tested for impairment annually or more frequently, if events or changes in circumstances indicate the asset might be impaired.

**Foreign Currency Translation**

The Company's presentation and functional currency is the Canadian dollar. The functional currency of the Company's subsidiaries is also the Canadian dollar. Items included in the consolidated financial statements of the Company and its subsidiary is measured using that functional currency.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rate and non-monetary items are translated at historical rates of exchange at the time of the acquisition of assets or obligations incurred. Revenue and expenses are translated at an average rate of exchange in effect during the year. Foreign exchange translation gains and losses are recorded into income in the year in which they occur.

**Revenue Recognition and Deferred Revenue**

Customer membership fees are generated as services are provided to the customer. The unearned portion, if any, is reflected as deferred revenue on the consolidated balance sheet. The Dealer, Retail, Insurance and IT services revenue are recognized as the service is performed. The service primarily consists of inquiry into the database regarding the value of a vehicle. The primary method of settlement for the Dealer, Retail and Membership fee is by credit card which is billed just before the service is performed. The other services are invoiced and billed with normal business terms of settlement. The Mister Beer division recognizes revenue when product is delivered, and the products are invoiced and billed with normal business terms of settlement.

The Company recognizes revenue when the services have been provided, the amount of revenue can be measured reliably and collectability is reasonably assured. Revenue is measured at the fair value of consideration received or receivable.

**Share-Based Payments**

The Company grants stock options to buy common shares of the Company to directors, officers, employees and others. The board of directors grants such options for periods of up to ten years, with vesting periods determined at its sole discretion and at prices equal to or greater than fair value of the shares on the day preceding the date the options were granted.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

**Share Issue Costs**

Costs directly identifiable with the raising of capital are recorded as a reduction of the proceeds received from common share issuances. Share issue costs consist primarily of corporate finance fees, legal fees and managing dealer commissions and marketing fees.

## ARMADA DATA CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2014

CANADIAN DOLLARS

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Income Tax Expense**

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**Financial Instruments**

The Company recognizes financial assets and financial liabilities when the Company becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets classified as at fair value through profit or loss, are measured at fair value plus transaction costs on initial recognition. Financial assets at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred.

Measurement in subsequent periods depends on the classification of the financial instrument:

*Financial assets at fair value through profit or loss (FVTPL)*

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management, or if they are derivative assets. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of income.

Cash is classified as FVTPL. The Company does not currently hold any derivative assets.

*Loans and Receivables*

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method.

*Other financial liabilities*

Other financial liabilities are financial liabilities that are not derivative liabilities or classified as FVTPL. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Company's other financial liabilities include accounts payable and accrued liabilities and related parties payable. The Company does not currently hold any derivative liabilities.

The effective interest method is a method of calculating the amortized cost of an instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount on initial recognition.

## ARMADA DATA CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2014

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Cash**

Cash consists of cash balances at a major Canadian based financial institution. Bank overdrafts are repayable on demand and are considered part of financing for purposes of the statement of cash flow.

**Accounts Receivable**

Accounts receivable are recorded net of an allowance for uncollectible or doubtful accounts. The Company reviews accounts receivable and provides a reserve for amounts estimated not to be collectible. During this review, historical experience, the age of the receivable balance, the credit-worthiness of the customer and the reason for the delinquency are considered.

**Inventories and Work In Process**

Inventories and work in process are valued at the lower of cost and net realizable value with cost being determined on a first in, first out basis. The cost of inventories, including raw materials and finished goods, are comprised of directly attributable costs and includes the purchase price plus other costs incurred in bringing the inventories to their present location and condition, such as freight. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage or permanent declines in selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down previously recorded is reversed. Costs that do not contribute to bringing inventories to their present location and condition, such as storage and administrative overheads, are specifically excluded from the cost of inventories and are expensed in the period incurred. Net realizable value is equal to selling costs less selling expenses.

**Property and Equipment**

Items of property and equipment are measured at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Property and equipment is amortized and charged to income over the estimated useful life of the assets on the following bases:

Leasehold improvements	- straight line over 5 years
Machinery & Equipment	- 20% declining balance
Furniture and fixtures	- 20% declining balance
Computer hardware	- 30% declining balance
Computer software	- 100% declining balance
Telephone equipment	- 20% declining balance

Property and equipment purchased during the year are amortized at one-half the above stated rates.

**Earnings Per Share**

Basic earnings per share are computed by dividing the net earnings available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares for the potential exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

**Impairment of Long-Lived Assets**

The carrying amounts of the Company's long-lived assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated in order to determine the extent of the impairment. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the income statement.

## ARMADA DATA CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2014

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Impairment of Long-Lived Assets (Continued)**

The recoverable amount of goodwill is estimated and compared to the carrying value on an annual basis whether or not there is an indication the goodwill is impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, with the exception of impairment losses on goodwill, which are not reversed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

**Leases**

Leases are classified as either finance or operating leases. Finance leases are those that substantially transfer the benefits and risks of ownership of an asset to the lessee. All leases other than finance leases are operating leases.

Assets held under finance leases are recognized as assets, and a corresponding liability is recognized as a finance lease obligation. Lease payments are apportioned between interest expense and reduction of the lease obligation to achieve a constant rate of interest on the remaining liability. Total payments under operating leases are expensed on a straight-line basis over the term of the relevant lease. Incentives received upon entry into an operating lease are recognized straight-line over the lease term.

**Critical Accounting Estimates and Judgments**

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates have a direct effect on the measurement of transactions and balances recognized in the consolidated financial statements. Actual results could differ from estimates. The Company has also made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the consolidated financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

*Impairment of assets*

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value.

*Useful life of property and equipment and intangible assets*

Property and equipment are amortized over the estimated useful life of the assets. Changes in the estimated useful lives could significantly increase or decrease the amount of amortization recorded during the year. Total amortization recorded for the year ended May 31, 2014 was \$175,920 (2013 - \$121,311).

*Share-based compensation*

Management is required to make certain estimates when determining the fair value of stock options awards and the number of awards that are expected to vest. The Company recognized stock-based compensation expense year ended May 31, 2014 of \$Nil (2013 - \$Nil). These estimates affect the amount recognized as stock-based compensation in the statement of comprehensive income.

## ARMADA DATA CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Critical Accounting Estimates and Judgments (Continued)***Income Tax*

Management is required to apply judgement in determining whether it is probable deferred income tax assets will be realized. At May 31, 2014 and 2013, management had determined that future realization of its deferred income tax assets did not meet the threshold of being probable, and as such, has not recognized any deferred income tax assets in the consolidated balance sheet. In addition, the measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the financial statements.

*Future Changes in Accounting Standards*

A number of new standards, amendments to standards and interpretations are not effective for the year ended May 31, 2014, and have not been applied in preparing these consolidated financial statements.

**IFRS 9 Financial Instruments: Classification and Measurement**

In November 2010, the IASB issued, and subsequently revised in October 2011, IFRS 9 Financial Instruments (IFRS 9) as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The IASB has proposed the effective date of IFRS 9 be changed to annual periods beginning on or after January 1, 2015.

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 standard also adds guidance on the classification and measurement of financial liabilities. The Company is currently assessing the impact of this standard on the financial statements.

*IFRS 13 Fair Value Measurement*

In May 2011, the IASB issued IFRS 13 Fair Value Measurement (IFRS 13). IFRS 13, which is to be applied prospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 13 defines fair value, provides a framework for measuring fair value and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in most cases when another IFRS requires (or permits) fair value measurement. Management has not yet determined the potential impact that the adoption of IFRS 13 will have on the Company's consolidated financial statements.

*Other*

In June 2011, the IASB amended IAS 19 Employee Benefits (IAS 19). The amendments to IAS 19 relate primarily to defined benefit pension plans. The Company does not believe the changes resulting from these amendments are relevant to its financial statements.

In June 2011, the IASB issued amendments to IFRS 7 *Financial Instruments: Disclosures*. The Company does not believe the changes resulting from these amendments are relevant to its financial statements.

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. The Company does not believe the changes resulting from these new standards are relevant to its financial statements.

In June 2011, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 19 *Employee Benefits*. The Company does not believe the changes resulting from these amendments are relevant to its financial statements.

## ARMADA DATA CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2014

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**3. PROPERTY AND EQUIPMENT**

	May 31, 2014			May 31, 2013
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Leasehold Improvements	\$ 172,978	\$ 54,708	\$ 118,270	\$ 152,865
Furniture and fixtures	26,533	19,776	6,757	8,829
Computer hardware	150,749	127,483	23,266	28,395
Machinery & equipment-plant	954,376	446,782	507,594	635,694
Computer software	39,238	39,238	-	-
Telephone equipment	21,742	13,676	8,066	10,082
	<u>\$ 1,365,616</u>	<u>\$ 701,663</u>	<u>\$ 663,953</u>	<u>\$ 835,865</u>

**4. ACQUISITIONS AND GOODWILL**

- i) On October 1, 2011, the Company acquired 90% of the issued and outstanding shares of The Big & Easy Bottle Brewing Company Inc. ("TBE"). TBE is the holder of all of the shares of Mister Beer Inc., a company which invented and has a pending patent on a unique 'microbrewery in a bottle', allowing consumers to produce premium beer at roughly half the cost of regular beer.

The aggregate purchase price for 90% of the shares of TBE acquired by Armada was \$500,000, paid as follows: (i) a convertible promissory note in the amount of \$100,000; and (ii) \$400,000 worth of Armada common shares issued at closing at an issue price of \$0.20, such that 2,000,000 shares of Armada were issued. The Note was payable in monthly non-interest bearing installments of \$4,167 over a 24 month term. The outstanding principal balance on the Note was convertible into shares of Armada at the conversion rate of \$0.25 per share of Armada at any time during the 24 month term of the Note, should no cash payments be made. The shares to be issued will be subject to all applicable securities and regulatory hold periods.

The purchase price assumed repayment by the Company and any subsidiary of all shareholder loans, loans from affiliated companies and bank indebtedness.

Aggregate purchase price for 90% of TBE shares	<u>\$ 500,000</u>
Implied cost of 100% of TBE shares	555,556
Add: Fair value of liabilities in excess of assets at acquisition date	<u>216,934</u>
Goodwill acquired	<u>\$ 772,490</u>

- ii) In July, 2010, the company purchased certain assets of Cybernet Finder Corporation, consisting of goodwill in the value of \$180,000, and equipment and computer hardware in the value of \$20,000. The purchase price for the acquisition was \$200,000, which was paid by \$20,000 cash on closing, an issuance of a promissory note (note payable) in the amount of \$90,000 and the issuance of 290,323 shares at \$0.31 per share, (which was the trading price at the time of the transaction), with an aggregate value of \$90,000. The promissory note was non-interest bearing, commencing August 1, 2010 and ending January 1, 2012, with monthly installments of \$5,000 on the first day of each month.

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**4. ACQUISITION AND GOODWILL (Continued)**

**Goodwill**

	<u>May 31, 2014</u>	<u>May 31, 2013</u>
Beginning balance	\$ 180,000	\$ 552,490
Impairment of Goodwill – The Big & Easy Bottle Brewing Company and Mister Beer Inc.	<u>-</u>	<u>(372,490)</u>
Ending balance	<u>\$ 180,000</u>	<u>\$ 180,000</u>

**5. BANK INDEBTEDNESS**

The company has a demand revolving operating loan with a limit of \$350,000. This loan bears interest at prime plus 1.0% and is secured by a general security agreement covering specific assets of the Company.

Bank indebtedness is represented by:

	<u>May 31, 2014</u>	<u>May 31, 2013</u>
Bank	\$ (53,315)	\$ (50,952)
Bank overdraft	<u>254,261</u>	<u>250,960</u>
	<u>\$ 200,946</u>	<u>\$ 200,008</u>

A director of the company has personally guaranteed this operating loan.

**6. RELATED PARTY TRANSACTIONS**

Included in expenses are the following paid to directors and parties related to directors of the Company:

- a) A director of the Company is also a director and 25% shareholder of Lease Busters Inc. Another director is a partner in a legal firm which provides services to the Company.
- b) A firm controlled by a director of the Company has been retained for sales consulting for the Company up to November 30, 2013.
- c) Management salaries were paid to certain directors of the Company.
- d) Included in IT revenue is \$35,973 (2013 - \$43,614) from related parties.
- e) \$6,896 (2013 - \$4,295) in related parties payables are due to directors or persons related to directors of Armada Data Corporation. \$3,875 (2013 – \$1,433) is due to a legal firm which provides services to the Company. \$Nil (2013 - \$2,255) is due to a member of the Audit Committee who is also a director of Armada Data Corporation. \$35,000 (2013 \$Nil) is due to a significant shareholder of Armada Data Corporation. The amount is included in office salaries.
- f) Related parties receivable are due from Lease Busters Inc.
- g) Included in expenses are the following paid to directors and parties related to directors of the Company.



## ARMADA DATA CORPORATION

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**6. RELATED PARTY TRANSACTIONS (Continued)**

	<u>2014</u>	<u>2013</u>
Management salaries	\$ 177,135	\$ 292,531
Office salaries	119,000	133,910
Professional fees	51,585	76,278
Automobile	14,400	17,400
Printing	-	150
Computer consulting	16,633	13,717
Advertising	4,103	5,755
Sales commissions	<u>9,544</u>	<u>33,644</u>
	<u>\$ 392,400</u>	<u>\$ 573,385</u>

All of the above transactions have been in the normal course of operations and, in management's opinion, undertaken with the same terms and conditions as transactions with unrelated parties. The value of these transactions approximate fair value. All transactions with related parties are measured at their exchange amount.

**7. SHARE CAPITAL****a) Authorized**

Unlimited common shares without par value

**b) Issued**

	<u>2014</u>		<u>2013</u>	
	Number of shares	\$	Number of shares	\$
<b>CCC Internet Solutions Inc.</b>				
<b>Armada Data Corporation</b>				
Beginning balance	17,670,265	\$ 1,730,022	16,559,154	\$ 1,630,022
Capital shares issued pursuant to a private placement	<u>-</u>	<u>-</u>	<u>1,111,111</u>	<u>100,000</u>
Ending balance – Basic and fully diluted	<u>17,670,265</u>	<u>\$ 1,730,022</u>	<u>17,670,265</u>	<u>\$ 1,730,022</u>

**c) Stock Options**

Stock Options of the Company are granted to eligible persons (as defined in the Company's Stock Option Incentive Plan) and include any director, employee or consultant of the Company. The exercise price of such options are determined by the Board of Directors, provided that such price is not lower than the closing price for the underlying shares as quoted on the TSX Venture Exchange for the market trading day immediately prior to the date of grant less any discount permitted by the TSX Venture Exchange. These options are not transferable and are presently exercisable for a period of up to 10 years from the date of grant.

**Stock Options Outstanding** – There are no stock options outstanding at May 31, 2014 or May 31, 2013.

**d) Shares Issuable Under the Plan**

Subject to the requirements of the Exchange:

- i. the aggregate number of Option Shares that may be issuable pursuant to Options granted under the Plan will not exceed 2,700,000 shares;
- ii. unless approval of this Plan is obtained by Disinterested Shareholder Approval,



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**7. SHARE CAPITAL (Continued)**

- a. the number of shares reserved for issuance under Options granted to Insiders of the Corporation under this Plan and all outstanding stock option plans or grants of options may not at any time exceed ten percent (10%) of the issued shares of the Corporation;
- b. no more than an aggregate of ten percent (10%) of the issued shares of the Corporation, calculated at the date the option(s) is(are) granted, may be granted to Insiders of the Corporation in any twelve (12) month year under this Plan and all outstanding stock option plans or grants of options;
- c. no more than an aggregate of five percent (5%) of the issued shares of the Corporation, calculated at the date the Option is granted, may be granted to any one Optionee in any twelve (12) month year under this Plan and all outstanding stock option plans or grants of options;
- however, upon obtaining the requisite Disinterested Shareholder Approval, these provisions shall no longer apply;
- iii) no more than two percent (2%) of the issued shares of the Corporation, calculated at the date the Option is granted, may be granted to any one Consultant in any twelve (12) month year;
- iv) no more than an aggregate of two percent (2%) of the issued shares of the Corporation, calculated at the date the Option is granted, may be granted to persons providing Investor Relations Activities in any twelve (12) month year.

**8. INCOME TAXES**

The Company follows the liability method of accounting for income taxes. Under this method, future tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax liabilities and assets are measured using enacted tax rates. The effect on the future tax liabilities and assets of a change in tax rates is recognized in the year that the change occurs.

- a) A reconciliation between Income for accounting and income taxes is as follows:

	<u>2014</u>	<u>2013</u>
Comprehensive (loss) before corporation income taxes	\$ (137,853)	\$ (424,721)
Add: Non-deductible interest	4,190	432
Add: Non-deductible portion of promotion	1,162	4,922
Add: Impairment of goodwill	-	372,490
Less: Capital cost allowance claimed in excess of amortization	(58,418)	(35,400)
Less: Forgiveness of note payable	-	(41,667)
Less: Non-utilized losses of The Big & Easy Bottle Brewing Company Inc. and Mister Beer Inc.	<u>593,362</u>	<u>544,557</u>
Taxable income	<u>\$ 402,443</u>	<u>\$ 420,613</u>
Effective tax rate	<u>26.5%</u>	<u>26.5%</u>
Income tax provision, before adjustments, if any	\$ 106,647	\$ 111,462
Prior year's (over) under provision	<u>(4,358)</u>	<u>11,042</u>
Income tax provision	<u>\$ 102,289</u>	<u>\$ 122,504</u>

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**8. INCOME TAXES (Continued)**

- b) At May 31, 2014, The Big and Easy Bottle Brewing Company Inc. and Mister Beer Inc. had combined non-capital losses for income tax purposes of \$1,691,435 available to offset future taxable income. The potential tax benefits have not been reflected in these financial statements. These losses will expire as follows:

May 31, 2015	\$	28,957
May 31, 2026		11,354
May 31, 2028		56,430
May 31, 2029		69,157
May 31, 2030		82,200
May 31, 2031		60,561
May 31, 2032		240,599
May 31, 2033		547,506
May 31, 2034		<u>594,671</u>
	\$	<u>1,691,435</u>

**9. COMMITMENTS**

- a) The Company has entered into various operating leases which continue until fiscal 2019. The minimum rental payments (net of H.S.T.) for the next five fiscal years is:

Fiscal 2015	\$	13,959
Fiscal 2016		10,818
Fiscal 2017		9,587
Fiscal 2018		9,299
Fiscal 2019		<u>9,195</u>
	\$	<u>52,858</u>

- b) In June 2010, the Company entered into a five year lease with respect to its premises. This lease is from September 2010 to August 2015. The minimum rental for the next two fiscal years including estimated operating costs are as follows:

Fiscal 2015	\$	113,400
Fiscal 2016		<u>28,350</u>
	\$	<u>141,750</u>

In addition, the Company is entitled to renew the lease for a further five years if six months notice (prior to the expiration of the current lease) is given to the landlord.

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**9. COMMITMENTS (Continued)**

- c) In March 2012, Armada Data Corporation (on behalf of Mister Beer Inc.) entered into a ten year lease with respect to Mister Beer's premises. This lease is from May 2012 to April 2022. The minimum rental for the next five fiscal years including estimated operating costs are as follows:

Fiscal 2015	\$	146,056
Fiscal 2016		146,442
Fiscal 2017		150,678
Fiscal 2018		151,063
Fiscal 2019		<u>155,299</u>
	<u>\$</u>	<u>749,538</u>

In addition, the Company is entitled to renew the lease for a further five years if six months notice (prior to the expiration of the current lease) is given to the landlord.

**10. SEGMENTED INFORMATION**

The Company's operations consist of six main segments; Insurance Services, Retail Services, Dealer Services, Internet Technology (IT) Advertising/Marketing Services and Mister Beer Inc. The Insurance Service division derives its revenue from the sale of total loss replacement vehicle reports to major Canadian insurance companies. The Retail Services division consists of the sale of new car pricing data to consumers primarily through the Company's website as well as the reselling of this new car pricing data to qualified third party vendors. The Dealer Services division generates revenue through the sale of new vehicle leads derived from membership sales from Car-Cost-Canada. The IT division comprises web and email hosting, website development and design, and desktop support. The Advertising/Marketing Services division is made up of the sale of online third party website advertising, consulting fees and other new car or car business related marketing activities. Mister Beer Inc. derives its revenue from the retail and wholesale sales of bottle brewed beer.

Revenue earned by divisions are as follows:

	<u>2014</u>	%	<u>2013</u>	%
Insurance services	\$ 983,405	(44)	\$ 833,529	(32)
Retail services	437,734	(19)	467,197	(18)
Dealer services	676,995	(30)	828,228	(32)
IT	104,654	(5)	235,168	(9)
Advertising/Marketing Services	<u>8,336</u>	-	<u>67,004</u>	(3)
Total revenue – Armada Data Corporation	<u>2,211,124</u>	<u>(98)</u>	<u>2,431,126</u>	<u>(94)</u>
Revenue – Mister Beer Inc.	344,496	-	515,093	-
Less: Direct product cost and wages – Mister Beer Inc.	<u>(295,420)</u>	-	<u>(358,297)</u>	-
Total revenue – Mister Beer Inc.	<u>49,076</u>	<u>(2)</u>	<u>156,796</u>	<u>(6)</u>
Total consolidated revenue	<u>\$2,260,200</u>	<u>(100)</u>	<u>\$ 2,587,922</u>	<u>(100)</u>

Cash, prepaids, property and equipment are used commonly by the six divisions. The Company does not record or measure the usage of these assets that relate to their underlying value by segment.

## ARMADA DATA CORPORATION

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**10. SEGMENTED INFORMATION (Continued)**

The Accounts Receivable can be broken down by segment and is indicated below:

	<u>May 31, 2014</u>	<u>May 31, 2013</u>
Insurance	\$ 117,586	\$ 124,099
Dealer	87,914	141,772
IT	27,430	75,468
Not reportable by segment	<u>577</u>	<u>15,998</u>
Total Armada Data Corporation	<u>233,507</u>	<u>357,337</u>
Total Mister Beer Inc.	<u>16,525</u>	<u>44,480</u>
Total Accounts Receivable	<u>\$ 250,032</u>	<u>\$ 401,817</u>
Broken down as follows:		
Related parties	\$ 5,255	\$ 3,277
Accounts receivable	<u>244,777</u>	<u>398,540</u>
	<u>\$ 250,032</u>	<u>\$ 401,817</u>

**11. INVENTORY**

Finished goods - Mister Beer Inc.	\$ 30,259	\$ 27,772
Raw materials - Mister Beer Inc.	72,835	67,014
Work in process - Mister Beer Inc.	<u>900</u>	<u>1,280</u>
	<u>\$ 103,994</u>	<u>\$ 96,066</u>

**12. FINANCIAL INSTRUMENTS****Fair Value**

The fair value of cash, accounts receivable, related parties receivable, accounts payable and accrued liabilities and related parties payable approximate carrying value due to the relatively short term maturities of these instruments.

Estimated fair value amounts are designed to approximate amounts at which financial instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value of financial instruments. The classifications are as follows: the use of quoted market prices for identical assets or liabilities (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3).

The Company classifies cash as FVTPL and is measured at fair value on the consolidated balance sheet. Cash is reported at Level 1 of the fair value hierarchy. The Company has no financial assets and liabilities measured at fair value at Level 2 or Level 3.

**Risk Management**

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed to are described below.

**Capital Risk**

The Company manages its capital with the objective of providing adequate capital resources for the Company to maintain and develop its websites and other business activities. The capital structure of the Company consists of shareholder's equity and depends on the ability of the Company to raise ongoing capital and on the future profitability of the Company's operations.

## ARMADA DATA CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**12. FINANCIAL INSTRUMENTS (Continued)****Credit Risk**

The company is exposed to credit risk of their accounts receivable, \$244,777 (May 31, 2013-\$398,540) representing the maximum exposure to credit risk of those financial assets. Credit risk is the risk that a customer will be unable to pay any amounts owed to the Company. The company does not have any customers that had a balance of more than 10% of total revenues, or 10% of total accounts receivables at any time during the periods that are reported in these financial statements. The company has a large volume of relatively small transactions with many customers. Management reduces this risk by carefully monitoring the amounts owed to them by their customers on a regular basis, performing regular credit reviews of any customer that approaches their credit limit or does not keep to their normal payment pattern. It also provides an allowance for doubtful accounts once it has exhausted all other means of collection. While the Company has credit controls and processes for the purpose of mitigating credit risk, these controls cannot eliminate credit risk and there can be no assurance that these controls will continue to be effective, or that the Company's low credit loss experience will continue. Most of the company's sales are by credit card or with large insurance casualty companies. In the opinion of management the credit risk is low and the company is not exposed to a material amount of credit risk. This risk is unchanged from the prior year.

**Liquidity Risk**

The company is exposed to Liquidity risk of their accounts payable, \$191,823 (May 31, 2013 - \$311,291) and bank overdraft \$200,946 (2013 - \$200,008). Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests. In the opinion of management the liquidity risk is low and the company is not exposed to a material amount of liquidity risk. This risk is unchanged from the prior year.

**Market Risk**

The Company is exposed to Market Risk. Market risk incorporates a range of risks. Movements in risk factors, such as market price risk and currency risk, affect the fair values of financial assets and liabilities. The ability of the Company to develop or market its services and the future profitability of the Company is related to these market risks. In the opinion of management the market risk is low and the company is not exposed to a material amount of market risk. This risk is unchanged from the prior year.

**Foreign Currency Risk**

The company is exposed to Foreign Currency risk. The Company's functional currency is the Canadian dollar and major purchases, which consist primarily of expenses are transacted in Canadian dollars. The Company operations are in Canada, and it does not engage in hedging activities. The number and dollar amount of foreign currency transactions, both individually and in aggregate are very low. In the opinion of management the foreign currency risk is low and the company is not exposed to a material amount of foreign currency risk. This risk is unchanged from the prior year.

**Interest Rate Risk**

The Company has a bank overdraft at May 31, 2014 of \$254,261 (2013 - \$250,960). The overdraft bears interest at market rates of prime plus 1%. In the opinion of management, interest rate risk for the company is low.

**Price Risk**

The Company is not exposed to price risk.

**Sensitivity Analysis**

The Company's cash and bank overdraft is measured at fair value. Financial instruments included in amounts receivable are classified as accounts receivable, which are measured at cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at cost. As at May 31, 2014, the carrying and fair value amounts of the Company's financial instruments are the same.

Based on management's knowledge and experience of the financial markets, the Company believes that the movements in interest rates that are reasonably possible over the next twelve month year will not have a significant impact on the Company.

The Company does not hold material reserves of foreign currencies to give rise to exposure to foreign exchange risk. Therefore a percentage change in certain foreign exchange rates will not have a significant impact on the Company.

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**12. FINANCIAL INSTRUMENTS (Continued)****Capital Management**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, and development of additional business opportunities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company will continue to assess new business opportunities and seek to acquire an interest in additional interests if it feels there is sufficient economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended May 31, 2014.