

Data Deposit Box Inc.

Management's Discussion and Analysis

For the year ended December 31, 2016

(in Canadian dollars unless otherwise noted)

Management's discussion and analysis ("MD&A") is current to April 27, 2017 and is management's assessment of the operations and the financial results together with future prospects of Data Deposit Box Inc. ("Data Deposit Box" or the "Company"). This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2016 and 2015 and related notes thereto, prepared in accordance with International Financial Reporting Standards ("IFRS"). All figures are in Canadian dollars unless stated otherwise. Additional information relevant to Data Deposit Box's activities, including Data Deposit Box's press releases can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements, which are based on certain assumptions and analyses made by the Company derived from its experience and perceptions. The forward-looking statements in this MD&A are subject to important risks, uncertainties, and assumptions, which are difficult to predict and which may affect the Company's operations. The critical risks, uncertainties, and assumptions include, without limitation: the impact of economic conditions including; interest rates and foreign exchange rates; industry conditions including supply and demand fundamentals, and the related infrastructure and services; the ability to continue to build and improve on proven manufacturing capabilities and innovate new product lines and markets; increased competition; insufficient funds to support capital investments required to grow the business; the lack of availability of qualified personnel or management; and political unrest. As such, actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds or dividends the Company and its shareholders, will derive therefrom. The forward-looking statements included in this MD&A are made as of the date of this MD&A and other than as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

BUSINESS OVERVIEW AND STRATEGY

The Company is engaged in the development and operation of off-site computer data storage facilities and other business computer applications for commercial business customers. The Company employs twelve full-time equivalent employees and four contract employees, had approximately \$3.4 million in recurring and predictive revenue based on credit card subscriptions (\$4.4 million in 2015 and approximately \$4.5 million revenue per year over the last 5 years). Revenue is generated from three principal products designed for the following clients: (i) personal computer clients (PC/MAC); (ii) server client (Windows/Linux SQL, Exchange, VMARE, Hyper-V, SharePoint, QuickBooks, and NAS devices); and (iii) mobile device clients (iOS and Android). While there has been a decline in the recurring revenue in the last two years, this is expected to be offset by sales of the NAS devices and related products in fiscal year 2016.

The Company has approximately over 5,000 business users and partners of its products globally and currently has over 1 petabyte of data under management.

The Company offers the market a distinct consumer "client" product, mobile client and a small and medium-sized businesses ("SMB") server product that empowers the Company to identify, engage with, and grow significantly in SMB markets globally. The Company's products are designed to scale rapidly with a low fixed cost.



Data Deposit Box Inc.

The Company offers a smart storage NAS device to give clients a local recovery point. As data sizes continue to grow, cloud backup as the only source of recovery can be time consuming depending on the speed of the clients internet connection. A local recovery point solves this problem. The smart storage products are designed to be very simple to use and very easy for resellers and partners to remotely manage and support.

Production and Services

The Company's cloud backup and recovery products are delivered through the "Software as a Service" ("SaaS") model, and consist of data backup and recovery services for each of the following: (i) personal computer clients (PC and MAC); (ii) mobile device clients (iOS and Android); and (iii) server clients (Windows/Linux SQL, Exchange, VMARE, Hyper-V, SharePoint, QuickBooks, and NAS devices). The Company's products have open file backup capability using proprietary open file driver, offer support for multi-tiered distribution channels, and provide 100% white-label solution for managed services providers, and internet service providers.

Personal Computers (PCs) and Personal Computing Devices (Mobile)

The Company has developed a patented continuous data protection service that pauses and resumes backups while the computers are in use or travelling. The service also backs up files while they are open using a proprietary open file driver. After the initial backup of data, only changes are backed up which saves time and bandwidth. The service allows access to edit, restore and share your files anywhere with a powerful web portal system. The service ensures that backed up data is secure as it is encrypted with a 448 bit bank grade encryption ("Blowfish Encryption") before the files leave the computer. The service also allows the user to choose which folders or external drives are to be backed up and which file extensions are to be excluded from back up. The service also allows for access to up to 64 versions of the backup data and provides the user with notifications about the status of backups so the user is not required to keep track of backups or versions thereof.

For mobile devices, users can benefit from the Company's patented continuous data protection service that pauses and resumes data backups while the computers are in use or travelling. Users can backup and restore mobile device's contacts and media and allows access to data and remote into other machines.

The product is marketed via Google, Facebook and other social media outlets as well as through resellers and original equipment manufacturers (each, an "OEM") selling the Company's product base. A direct client purchase (from the Company's website) will allow the client to download the software for installation. The reseller and OEM channel will provide end user support with respect to distribution and installation. To date, this product offers approximately 50% of the revenue for the Company.



Data Deposit Box Inc.

Servers

For customers running Windows Servers, the Company has developed a product that offers robust enterprise cloud backup capabilities at a fraction of the price of other solutions. The user can set up a schedule that will back up incrementally forever based on generations, and users can customize retention policies that adhere to a company's internal policies. Users can also utilize a hybrid backup, backing up only what is needed on the cloud and backing up the rest of the data locally. The service also backs up files while they are open using a proprietary open file driver. The service allows for access to an unlimited number of versions of the backup data and provides the user with notifications about the status of backups so the user is not required to keep track of backups or versions thereof. Other technical features of the server product is that users can back up VMware and HyperV machines on file level or take a hot snapshot, protecting live databases is easy, users can backup their entire Sharepoint 2010 or 2013 Farm with ease using native Sharepoint backup capabilities, and users can backup MS Exchange 2003, 2007 and 2010 databases while running, avoiding any business downtime.

Network Attached Storage devices ("Smart Storage")

The Smart Storage is basically business continuity in a "box" for the SMB. The big difference between DDB and our competitors' products is the DDB solution and services we are now able to provide backup and recovery "end to end" for the SMB. This would include end points like Laptops, tablets, mobile devices (android and iOS), larger applications like MS SQL, Exchange, VMWARE, HyperV and SharePoint. Unlimited Bare metal Recovery was developed and implemented in the last year.

The Smart Storage device is unique to our Company in the way that we have developed every facet of the technology from the ground up. The other competitors in the space that offer a comparable product have to license most of the components out which makes it difficult to update the technology for client needs and provide a product at a reasonable price. Our Smart Storage line offers more robust functionality at (for some models) approximately half the price as our competitors. The product will add one time revenue (per sale of each system) and monthly recurring revenue per sale of cloud storage.

The product is marketed via small to medium sized business focused events, syndicates and channels such as Google, Facebook and other social media outlets, as well as through resellers and OEMs selling the Company's product base. A direct client purchase (from the Company's website) will allow the client to download the software for installation. The reseller and OEM channels will provide end user support with respect to distribution and installation. To date, this product offers approximately 50% of the revenue for the Company.

All of the Company's products are developed, managed, administered and supported by the Company itself. The entire organization includes 11 full time equivalents and 4 contract and the operating subsidiary of the Company is structured as follows:

Toronto, Ontario Office

The senior management of the Company are located in the Toronto office, which is responsible for: PC and Mobile client product; E-commerce and database (backend) development; system administration; technical support; and financial services.



Data Deposit Box Inc.

Dnepropetrovsk, Ukraine Office

The Dnepropetrovsk office is responsible for: server client development; Open File Driver development; and DEV, SIT, user acceptance testing (“UAT”) and quality control.

All developer, quality assurance, fixes and enhancements are tracked in the Company’s custom Information Technology Infrastructure Library (“ITIL”)-based task tracking system that is web based with a Microsoft SQL server backend (proprietary software). This system provides the Company with a clear overview of requests, improvements and tasks that require its team’s prioritization efforts. This also allow the Company to track against its roadmaps providing detailed reports and progress information for management. Product release notes give the Company an overall picture of the development process and have defined the Company’s own standard for quality assurance program based on industry operating standards.

The Company currently has recurring\ revenue based on credit card subscriptions with approximately 5000 users globally. Revenue generated from three products: (i) Patented Continuous Data Protection client (PC/MAC); (ii) small to medium sized business server client (Windows/Linux SQL, Exchange, VMARE, Hyper-V, SharePoint, QuickBooks, and NAS devices); and (iii) mobile clients (iOS and Android). All of the Company’s current revenue is generated from monthly, reoccurring accounts. Billing occurs 30 days in arrears with average account life spans of over three years.

Specialized Skill and Knowledge

There is a specialized skill required for the development, maintenance, sales and marketing of all of the Company’s products. The Company’s current staff possess the necessary skill and knowledge required for the Company’s business, however additional employees may be located as needed by the Company.

Competitive Conditions

The markets for the Company’s products and services are competitive and rapidly changing, and a number of companies offer products and services similar to the Company’s products and services and target similar customers. The Company believes its ability to compete depends upon many factors within and outside its control, including the timely development and introduction of new products and services and product enhancements; product functionality, performance, price and reliability; customer service and support; sales and marketing efforts; and the introduction of new products and services by competitors.

Key Market Highlights (information derived from: <http://mspmentor.net/blog/state-data-backup-and-disaster-recovery-market>):

- The size and opportunity of the backup and disaster recovery (“BDR”) market is growing annually;
- Less than 10% of small businesses prefer a cloud only solution;
- The current U.S. market for BDR, based on businesses with 5 to 200 full-time employees, is estimated to be approximately \$1.5 billion;
- The total market opportunity for BDR is estimated to be approximately \$5.8 billion, should businesses update from older technologies; and
- The BDR market is anticipated to grow 15-20% per annum over the next five years.



Data Deposit Box Inc.

A SMB is categorized as a business with 1 to 250 employees. Within Canada there are over 2,400,000 small businesses (according to Industry Canada as of July, 2012) and within the United States the number is approximately 28,000,000 (according to <http://www.businessinsider.com/infographic-the-state-of-us-small-businesses-2013-9>). This sector is largely unserved and depends upon dated technology to provide BDR for businesses. Many large enterprise organizations cannot adequately service the small business nor can a SMB utilize an enterprise product based on price. Every SMB will have to address its disaster recovery needs.

The demand for cloud-based solutions by SMBs is expected to increase, and the Company estimates approximately 20% growth in spending by SMBs on the cloud in the next five years. The Company expects that approximately 30% of midsize firms will adopt public cloud solutions within the next five years.

The Company has engineered and designed its products and services to the SMB space providing enterprise backup and recovery features (to the cloud) at a small business price. There are several cloud backup and restore products on the market but to the Company's knowledge there are none that match the features, price and "white label" capabilities of the Company's products.

Some of the Company's competitors and potential competitors are substantially larger than the Company and may have greater name recognition, larger customer bases and greater financial, technical, marketing, public relations, sales, distribution and other resources than the Company. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or devote greater resources to the development, promotion and sale of their products than the Company.

Intangible Properties

Intangibles such as patents, software, specific technology know-how, and applications expertise all have a significant effect on the Company's business. The Company currently holds patents in the United States and Canada for its data backup and system method. It also has pending patent applications in the United States and Canada for its system and method of performing continuous backup of data files on computing devices, and for its system and method for creating a transparent data tunnel.

Economic Dependence

The Company's business is not substantially dependent on any one contract or on any particular third parties.



Data Deposit Box Inc.

Amalgamation:

On March 18, 2015 Data Deposit Box completed an amalgamation with Acpana Business Systems Inc. ("Acpana") and 2441043 Ontario Inc. ("2441043") whereby each shareholder of Acpana received a common share of Data Deposit Box Inc (the "Amalgamation"). Immediately prior to the Amalgamation each common share of Acpana was subdivided on a six for one basis. The Transaction resulted in Acpana and 2441043 becoming wholly-owned subsidiaries of Data Deposit Box.

In conjunction with the Amalgamation a newly formed subsidiary of Acpana ("Subco") completed a series of private placements (collectively, the "Private Placements") for gross proceeds of \$2,880,869, issuing an aggregate of 11,002,898 common shares, 1,500,000 warrants exercisable for one common share at a price of \$0.30 per share until September 18, 2017, and 9,502,898 warrants exercisable for one common share at a price of \$0.50 per share until September 18, 2017. In addition, in connection with the completion of the Private Placements, Subco paid cash commissions to eligible persons in the aggregate amount of \$148,644, and issued an aggregate of 495,480 broker warrants.

LEADERSHIP TEAM

Tim Jewell – CEO and Director
Troy Cheeseman – President, COO and Director
Marco Guidi – CFO
Chris Irwin – Corporate Secretary and Director
Rober Smuk – Director
Scott Allen – Director

Experience profiles for the board and management are available at www.datadepositbox.com.

RECENT DEVELOPMENTS AND OUTLOOK

The Company is continuing to build and grow the Managed Service Provider and partner business. Success in this area is evidenced by the OEM partnership and agreement with Caringo Inc. which was announced by press release on May 5, 2015.

On May 27, 2015, the Company refinanced its debt with the Bank of Nova Scotia with financing from the Bank of Montreal and all of the debt to the Bank of Nova Scotia was retired and the cash held on deposit was released to the Company.

The Bank of Montreal debt includes a demand loan for \$1.2 million to be amortized over 36 months with interest at prime + 3.0%. In addition, there is an operating demand loan which bears interest at prime + 2.5%. Both of these loan facilities are 50% secured under the EDC Export Guarantee Program and also by a General Security Agreement.

On August 24, 2015, the Company announced a new partnership with UK-based cloud backup solutions company Backup Everything Ltd. The Company has expanded its international presence by partnering with Backup Everything Ltd. to provide cloud backup and recovery services in the UK. The Company will continue to execute upon its plan to open a regional site to directly service the UK, Europe, the Middle East and Africa. Backup Everything Ltd. will use Data Deposit Box products and services to provide secure and reliable cloud based backup and recovery services for its UK client base. Based out of the UK, Backup Everything Ltd. is the region's newest cloud recovery provider and is aggressively growing its client base. Backup Everything Ltd. and the Company intends to work on a co-marketing site and launch the new integrated service by the end of August.



Data Deposit Box Inc.

The Company continued development of its NAS (Network Attached Storage) solution and announced the product was available to partners. In addition, the Company continued negotiations with distributors for its NAS solution and with other potential partners for the sale of its storage products. The Company continued to make initial shipments of the NAS product on a test basis to certain customers and distributors.

The Company announced an engagement with Claranet Limited in the whereby Claranet becomes DDB's dedicated EMEA-based MSP.

The Company also announced a partnership with Brigantia Partners to provide Smart Storage devices to Brigantia's current and future customers.

In addition, the Company announced a strategic partnership with Berlin based O & D Software GmbH to bring new storage solutions to the market

The Company is continuing to take steps to improve its financial position although it is still not currently in compliance with the bank covenants and discussions with the bank regarding a remedy to these deficiencies are ongoing.

In March 2016, management successfully negotiated the termination of its business arrangement with Softthinks, a European development partner. This will allow the Company to reduce its ongoing overhead costs effective June 30, 2016 when the arrangement ends. Management had concluded that the business generated from the Softthinks' contract was not profitable.

In May and June of 2016 the company embarked upon its expense management plan to reduce operating expenses which included:

1. Closing the Windsor office
2. Reducing the company's headcount by three FTE (Windsor office employees)
3. Reducing salary expenses via management salary reductions
4. Successfully negotiating a reduction and exit of the Dallas datacenter contract
5. Reducing the Toronto datacenter operating expense by ~\$10,000 monthly

Management will continue to look for expense opportunities to reduce the company's overall operating budget.

Data Deposit Box Inc.

SELECTED FINANCIAL INFORMATION

FINANCIAL INFORMATION – ANNUAL INFORMATION

The information below should be read in conjunction with the MD&A, the audited financial statements for the year ended December 31, 2016 and 2015 and related notes and other financial information. The following is for the years ended:

| Statement of Operations Data | Year ended December 31, 2016 \$(audited) | Year ended December 31, 2015 \$(audited) | Year ended December 31, 2014 \$(audited) | Year ended December 31, 2013 \$(audited) |
|---|---|---|---|---|
| Revenue | 3,377,805 | 4,428,564 | 5,009,764 | 5,279,454 |
| Cost of sales | 1,933,503 | 2,540,525 | 2,485,320 | 2,927,442 |
| Gross margin | 1,444,302 | 1,888,039 | 2,524,444 | 2,352,012 |
| Total Expenses | 3,713,211 | 4,690,777 | 3,696,127 | 5,188,432 |
| Listing costs | - | 1,827,348 | - | - |
| Interest Income (expense) | (61,996) | (107,038) | (86,205) | (40,781) |
| Net Income / (Loss) | (2,375,644) | (4,694,235) | (1,260,540) | (2,908,858) |
| Net Income / (Loss) per Share – Basic and diluted | (0.07) | (0.18) | (0.08) | (1.06) |

| Balance Sheet Data | | | | |
|---------------------------|-----------|-----------|-----------|-----------|
| Total Assets | 3,758,694 | 4,446,772 | 4,675,136 | 5,624,370 |
| Total Liabilities | 1,452,716 | 2,452,873 | 2,705,939 | 3,327,133 |
| Shareholders' Equity | 2,305,978 | 1,993,899 | 1,969,197 | 2,297,237 |



Data Deposit Box Inc.

SUMMARY OF QUARTERLY RESULTS

The following tables set forth selected financial information for each of the Company's eight most recently completed quarters:

| Quarter Ended | Total Revenues | Net Income/(Loss) | Basic and diluted loss per share |
|------------------|----------------|-------------------|----------------------------------|
| December 31 -16 | 759,490 | (466,309) | (0.01) |
| September 30 -16 | 790,759 | (463,947) | (0.01) |
| June 30 -16 | 831,472 | (759,847) | (0.02) |
| March 31-16 | 996,084 | (685,541) | (0.02) |
| December 31-15 | 1,042,774 | (572,306) | (0.01) |
| September 30-15 | 1,100,772 | (796,002) | (0.03) |
| June 30-15 | 1,120,984 | (887,012) | (0.03) |
| March 31-15 | 1,164,034 | (2,438,915) | (0.13) |

RESULTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2016

Revenue and cost of sales

| | Three months ended | |
|----------------------|--------------------|---------------------|
| | 31-Dec-16 | 31-Dec-15 |
| Revenue | \$ 759,490 | \$ 1,042,774 |
| Cost of sales | | |
| Data center | 366,990 | 376,843 |
| Amortization | 22,920 | 96,519 |
| Wages and benefits | 20,996 | 20,852 |
| Commissions | 67,618 | 86,602 |
| Merchant fees | 26,017 | 57,891 |
| Gross margin | \$ 254,949 | \$ 404,067 |

Revenues for the three month period ended December 31, 2016 were \$759,490, a decrease of \$283,284 as compared to revenues for the three month period ended December 31, 2015 of \$1,042,774. The decrease is primarily due to a decrease in direct sales due to pricing pressure on some accounts as well a decrease of NERDS accounts. Gross margin for the three month period ended December 31, 2016 was 34% compared to 39% for the comparable three month period in 2015. Gross margin decreased between the two periods due to the decrease in sales discussed above offset by a decrease in costs of sales which decreased in all areas, with decreases in data center costs, wages and benefits, commissions and merchant fees which decreased based on the decreased level of sales. There was also a decrease in amortization of equipment which is a non-cash cost that the Company does not have any control over and is driven by equipment in use by the Company, see note 10 of the audited consolidated financial statements for the years ended December 31, 2016 and 2015 for details.

Data Deposit Box Inc.

Operating Expenses and other expenses

| | Three months ended | |
|---------------------------------|--------------------|-------------------|
| | 31-Dec-16 | 31-Dec-15 |
| Wages and benefits | \$ 376,994 | \$ 374,865 |
| Professional fees | 48,083 | 92,127 |
| Sales and marketing | (89,143) | 85,780 |
| General and administrative | 68,126 | 106,322 |
| Shareholder information | 143,946 | 35,000 |
| Depreciation | 136,396 | 183,921 |
| Share based payments | 16,000 | 91,000 |
| Interest expense | 13,232 | 22,391 |
| (Gain) loss on foreign exchange | 7,624 | (15,033) |
| | \$ 721,258 | \$ 976,373 |

The Company incurred expenditures of \$721,258 for the three month period ended December 31, 2016 compared with expenditures of \$976,373 for the three month period ended December 31, 2015. The variance is mainly attributed to the following:

- a decrease in professional fees of \$44,044. Professional fees were higher in the prior period due to costs associated with the Company going public, as well as new business developments as the Company worked to expand and advances its business as a newly publicly listed Company.
- a decrease in sales and marketing resulting in a negative expense of \$89,143 during the current period compared to \$85,780 in the comparative period. The negative expense during the period is due to reclassifications of shareholder information costs which were previously grouped under the expense.
- an increase in shareholder information costs due to the same reclassifications discussed for shareholder information above.
- an decrease in share based payments of \$75,000. Share based payments vary based on the number of options granted and the related Black Scholes valuation. See note 15 of the audited consolidated financial statements for the years ended December 31, 2016 and 2015 for details.



Data Deposit Box Inc.

RESULTS FOR THE YEAR ENDED DECEMBER 31, 2016

Revenue and cost of sales

| | Year ended | |
|----------------------|---------------------|---------------------|
| | 31-Dec-16 | 31-Dec-15 |
| Revenue | \$ 3,377,805 | \$ 4,428,564 |
| Cost of sales | | |
| Data center | 1,265,446 | 1,401,663 |
| Amortization | 178,996 | 433,033 |
| Wages and benefits | 87,258 | 90,344 |
| Commissions | 272,606 | 418,611 |
| Merchant fees | 129,197 | 196,874 |
| Gross margin | \$ 1,444,302 | \$ 1,888,039 |

Revenues for the year ended December 31, 2016 were \$3,377,805, a decrease of \$1,050,759 as compared to revenues for the year ended December 31, 2015 of \$4,428,564. The decrease is primarily due to a decrease in direct sales due to pricing pressure on some accounts as well a decrease of NERDS accounts. Gross margin for the year ended December 31, 2016 was 43% compared to 43% for the comparable period in 2015. Gross margin remained consistent between the two periods as the decrease in sales discussed above resulted in an increased cost control effort and a resulting decrease in costs of sales which decreased in all areas, with decreases in data center costs, wages and benefits, commissions and merchant fees which decreased based on the decreased level of sales. There was also a decrease in amortization of equipment which is a non-cash cost that the Company does not have any control over and is driven by equipment in use by the Company, see note 10 of the audited consolidated financial statements for the year ended December 31, 2016 and 2015 for details.

Data Deposit Box Inc.

Operating Expenses and other expenses

| | Years ended | |
|---------------------------------|---------------------|---------------------|
| | 31-Dec-16 | 31-Dec-15 |
| Wages and benefits | \$ 1,482,710 | \$ 1,500,580 |
| Professional fees | 382,184 | 658,924 |
| Sales and marketing | 306,858 | 437,327 |
| General and administrative | 364,790 | 424,347 |
| Shareholder information | 333,083 | 318,567 |
| Depreciation | 545,586 | 650,032 |
| Share based payments | 298,000 | 701,000 |
| Listing costs | - | 1,827,348 |
| Interest expense | 61,996 | 107,038 |
| (Gain) loss on foreign exchange | 44,739 | (42,889) |
| | \$ 3,819,946 | \$ 6,582,274 |

The Company incurred expenditures of \$3,825,584 for the year ended December 31, 2016 compared with expenditures of \$6,582,274 for the year ended December 31, 2015. The variance is mainly attributed to the following:

- a decrease in professional fees of \$276,740. Professional fees were higher in the prior period due to costs associated with the Company going public, as well as new business developments as the Company worked to expand and advances its business as a newly publicly listed Company.
- a decrease in sales and marketing expenses of \$130,469 in correlation with the decrease in sales as well as cost control measures across all areas of the Company.
- a decrease in share based payments of \$403,000. Share based payments vary based on the number of options granted and the related Black Scholes valuation. See note 15 of the audited consolidated financial statements for the year ended December 31, 2016 and 2015 for details.
- During the year ended December 31, 2015 the Company incurred listing costs of \$1,827,348 in connection with the amalgamation between Data Deposit Box, Acpana and 2441043 which are a one time cost associated with the amalgamation. The costs are comprised of various professional fees and other charges in connection with listing as well as non-cash costs in the form of shares issued in connection with the amalgamation. See note 13 of the audited consolidated financial statements for the year ended December 31, 2016 and 2015 for details.



Data Deposit Box Inc.

Disclosure of Outstanding Share Data as of April 27, 2017

| | Authorized | Outstanding |
|--|-------------------------|---|
| Voting or equity securities issued and outstanding | Unlimited Common Shares | 72,062,165 Common Shares |
| Securities convertible or exercisable into voting or equity shares | | a) Options to acquire up to 4,650,000 common shares b) 41,167,846 Warrants exercisable to acquire common shares of the Company |

See note 14, 15, 16 and 17 to the audited consolidated financial statements for the years ended December 31, 2016 and 2015 for more detailed disclosure of outstanding shares data.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, taxes receivable, investment tax credits receivable, trade and other payables, and leases payable. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments and that the fair values of these financial instruments approximate their carrying values.

Dividends

No dividends on the Common Shares have been paid to date. The Issuer anticipates that for the foreseeable future it will retain future earnings and other cash resources for the operation and development of its business. Payment of any future dividends will be at the discretion of the Board after taking into account many factors, including the Issuer's operating results, financial condition, and current and anticipated cash needs.

Assessment of Recoverability of Deferred Income Tax Assets

In preparing the consolidated financial statements, the Company is required to estimate its income tax obligations. This process involves estimating the actual tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. The Company assesses, based on all available evidence, the likelihood that the deferred income tax assets will be recovered from future taxable income and, to the extent that recovery cannot be considered "more likely than not," a valuation allowance is established. If the valuation allowance is changed in a period, an expense or benefit must be included within the tax provision on the consolidated income statement.

Estimate of Stock Based Compensation and Associated Assumptions

The Company recorded stock-based compensation based on an estimate of the fair value on the grant date of stock options issued. This valuation required estimates of interest rate, life of options, stock price volatility and the application of the Black-Scholes option pricing model. See note 15 to the audited consolidated financial statements for the years ended December 31, 2016 and 2015 for full disclosure.

Data Deposit Box Inc.

Assessment of Recoverability of Receivables

The carrying amount of amounts receivable, are considered representative of their respective values. The Company assesses the likelihood that these receivables will be recovered and, to the extent that recovery is considered doubtful a provision for doubtful accounts is recorded.

CARRYING VALUE OF BALANCE SHEET ITEMS

Property and equipment of \$2,036,929 as at December 31, 2016 (December 31, 2015 - \$2,582,515) represent servers and equipment technology development costs that have been deferred and are being amortized over their useful lives, see note 10 of the audited consolidated financial statements for the years ended December 31, 2016 and 2015 for details.

Intangible assets of \$191,809 as at December 31, 2016 (December 31, 2015 - \$370,805) represent trademarks and patents and acquired software are being amortized over their estimated useful, see note 11 of the audited consolidated financial statements for the years ended December 31, 2016 and 2015 for details.

Total accounts payable, accrued liabilities, and lease obligations amounted to \$1,452,716 as at December 31, 2016 (December 31, 2015 - \$2,452,873).

The Company leases certain computer hardware under finance leases. The future minimum lease payments under finance leases as at December 31, 2016 and December 31, 2015 are as follows:

| | December 31, 2016 | December 31, 2015 |
|------------------------------------|----------------------|----------------------|
| Total minimum lease payments | \$ 148,199 | \$ 385,310 |
| Less: amount representing interest | (4,434) | (18,192) |
| Finance lease obligation | 143,765 | 367,118 |
| Less: current portion | (137,948) | (223,459) |
| | <u>\$ 5,817</u> | <u>\$ 143,659</u> |

As at December 31, 2016, future minimum lease payments by year, and in the aggregate, are as follows:

| | |
|--------|-------------------|
| 2017 | 142,328 |
| 2018 | 5,871 |
| Totals | <u>\$ 148,199</u> |

The finance leases are for computer hardware and are issued at a rate of interest of between 2.25% and 5.50% and mature between 2016 and 2018. During the year ended December 31, 2016, \$61,996 (2015 - \$107,038) of interest from finance leases was charged to operations.

Data Deposit Box Inc.

Demand Loan

The Bank of Montreal debt includes a demand loan for \$1.2 million to be amortized over 36 months with interest at prime + 3.0%. In addition, there is an operating demand loan which bears interest at prime + 2.5%, from which \$nil has been drawn down as at December 31, 2016 (December 31, 2015 - \$nil). Both of these loan facilities are 50% secured under the EDC Export Guarantee Program and also by a General Security Agreement. As at December 31, 2016, the outstanding balance on the demand loan amounts to \$566,667 (December 31, 2015 - \$966,667).

The demand loan is secured by a general security agreement, assigning security interest in all or any property of the Company owned or subsequently acquired.

Under the terms of the facility letter (the "facility letter") governing the loans from the Lender, the Company's EBITDA is required to be more than 2.50 times the senior funded debt or 3 times the total funded debt. The Company must also maintain a *current ratio* (current assets (excluding future income tax, amounts due from shareholders / directors / officers / connected or related companies and intangibles, all as determined by the Lender) divided by current assets) of at least 1.25:1 and a *fixed charge coverage ratio* ("cash flow available for debt servicing" (as defined below) divided by the aggregate of fixed principal repayments and cash interest expenses payable in respect of the total funded debt) of at least 1.06:1 as at the interim financial periods ended June 30 and September 30 2015, and at least 1.25:1 as at the financial year ended December 31, 2015. "Cash flow available for debt financing" is defined in the facility letter as EBITDA less cash taxes paid or payable in that period, less unfunded capex, less unfunded share repurchase and less dividends paid less capitalized research and development, plus any non-cash share based payments.

The definition of EBITDA in facility letter carves out any extraordinary or unusual non-recurring items (to be agreed upon by the Lender for the applicable period).

As at December 31, 2016 and 2015, the Company was not in compliance with the ratios and is in discussions with the Lender on how the shortfalls will be rectified.

Data Deposit Box Inc.

LIQUIDITY AND CAPITAL RESOURCES

The Company has been successful in accessing the equity market in the past and while there is no guarantee that this will be continue to be available, management has no reason to expect that this capability will diminish in the near term.

The Company's continuance as a going concern is dependent upon its ability to maintain profitable levels of operation. It is not possible to predict if the Company will maintain profitable levels of operations as the Company has posted net losses for several annual financial periods. Management of the Company expects that the Company's revenue from operations, together with its existing cash and other current assets, will be adequate to meet its short-term working capital requirements during the next 12 months,

On March 18, 2015 Data Deposit Box completed an amalgamation with Acpana Business Systems Inc. ("Acpana") and 2441043 Ontario Inc. ("2441043") whereby each shareholder of Acpana received a common share of Data Deposit Box Inc (the "Amalgamation"). Immediately prior to the Amalgamation each common share of Acpana was subdivided on a six for one basis. The Transaction resulted in Acpana and 2441043 becoming wholly-owned subsidiaries of Data Deposit Box.

In conjunction with the Amalgamation a newly formed subsidiary of Acpana ("Subco") completed a series of private placements (collectively, the "Private Placements") for gross proceeds of \$2,880,869, issuing an aggregate of 11,002,898 common shares, 1,500,000 warrants exercisable for one common share at a price of \$0.30 per share until September 18, 2017, and 9,502,898 warrants exercisable for one common share at a price of \$0.50 per share until September 18, 2017. In addition, in connection with the completion of the Private Placements, Subco paid cash commissions to eligible persons in the aggregate amount of \$148,644, and issued an aggregate of 495,480 broker warrants.

On December 31, 2015, the Company closed a non-brokered private placement of an aggregate of 1,875,000 units at \$0.20 per unit for gross proceeds of \$375,000. Each unit consists of one common share in the capital of the Company and one share purchase warrant, with each warrant exercisable into one common share at an exercise price of \$0.30 per share until December 31, 2016. Should the closing price at which the Common Shares trade on the Canadian Securities Exchange (or any such other stock exchange in Canada as the Common Shares may trade at the applicable time) exceed \$0.35 for 10 consecutive trading days at any time following the date that is four months and one day after the date of issuance, the Company may accelerate the Warrant Term ("Reduced Warrant Term") such that the Warrants shall expire on the date which is 30 calendar days following the date a press release is issued by the Company announcing the Reduced Warrant Term. In connection with the financing, the Company incurred legal fees of \$10,000.

On February 5, 2016, the Company completed the second and final tranche of the Offering raising additional gross proceeds of \$201,000 through the issuance of 1,005,000 units. Each unit consists of one common share in the capital of the Company and one common share purchase warrant. Each Warrant entitles the holder thereof to purchase one common share at a price of CDN\$0.30 per Common Share for a period of twelve (12) months from the date of issuance, provided, however, that should the closing price at which the Common Shares trade on the Canadian Securities Exchange (or any such other stock exchange in Canada as the Common Shares may trade at the applicable time) exceed \$0.35 for 10 consecutive trading days at any time following the date that is four months and one day after the date of issuance, the Company may accelerate the warrant term such that the warrants shall expire on the date which is 30 calendar days following the date a press release is issued by the Company announcing the reduced warrant term.



Data Deposit Box Inc.

The Company paid a cash commission equal to 8% of the proceeds raised from subscribers introduced to the Company by finders and also issued an aggregate of 40,000 broker warrants to the finders with each broker warrant entitling the holder to acquire one common share at a price of \$0.20 for a period of one year from the date of issuance and subject to the reduced warrant term described above.

On May 20, 2016, the Company completed the first tranche of a non-brokered private placement financing by issuing 1,709,999 units at a price of \$0.20 per unit for gross proceeds of up to \$342,000. Each unit consists of one common share in the capital of the Company and one common share purchase warrant, entitling the holder thereof to purchase one common share at a price of \$0.25 per common share for a period of twelve months from the date of issuance.

Pursuant to the closing of the first tranche, certain eligible persons were paid a cash commission equal to 8% of the proceeds raised from subscribers introduced to the Company by such finder and also issued an aggregate of 116,799 warrants, entitling the holder to acquire one common share at a price of \$0.20 for a period of twelve months from the date of issuance.

On June 22, 2016, the Company completed the second tranche of a non-brokered private placement financing by issuing 1,725,000 Units raising gross proceeds of \$345,000. Each Unit consists of one common share in the capital of the Company and one common share purchase warrant, entitling the holder thereof to purchase one common share at a price of \$0.25 per common share for a period of twelve months from the date of issuance.

Pursuant to the closing of the second tranche, certain eligible persons were paid a cash commission equal to 8% of the proceeds raised from subscribers introduced to the Company and also issued an aggregate of 90,000 warrants to finders, each finder warrant entitling the holder to acquire one common share at a price of \$0.20 for a period of twelve months from the date of issuance.

On November 11, 2016, the Company completed the first tranche of a non-brokered private placement financing by issuing 12,723,636 Units raising gross proceeds of \$699,800 subscribed for entirely by two directors of the Company. Each Unit consists of one common share in the capital of the Company and one common share purchase warrant, entitling the holder thereof to purchase one common share at a price of \$0.07 per common share for a period of twelve months from the date of issuance provided, however, that should the closing price at which the common shares trade on the Canadian Securities Exchange (or any such other stock exchange in Canada as the common shares may trade at the applicable time) exceed 15 cents for 20 consecutive trading days at any time following the date that is four months and one day after the date of issuance, the company may accelerate the warrant term such that the warrants shall expire on the date which is 30 calendar days following the date a press release is issued by the company announcing the reduced warrant term.

On December 28, 2016, the Company completed the second tranche of a non-brokered private placement financing by issuing 14,469,498 Units raising gross proceeds of \$795,822. Each Unit consists of one common share in the capital of the Company and one common share purchase warrant, entitling the holder thereof to purchase one common share at a price of \$0.07 per common share for a period of twelve months from the date of issuance provided, however, that should the closing price at which the common shares trade on the Canadian Securities Exchange (or any such other stock exchange in Canada as the common shares may trade at the applicable time) exceed 15 cents for 20 consecutive trading days at any time following the date that is four months and one day after the date of issuance, the company may accelerate the warrant term such that the warrants shall expire on the date which is 30 calendar days following the date a press release is issued by the company announcing the reduced warrant term.



Data Deposit Box Inc.

Pursuant to the closing of the second tranche, certain eligible persons were paid a cash commission equal to 6% of the proceeds raised from subscribers introduced to the Company and also issued an aggregate of 255,188 warrants to finders, each finder warrant entitling the holder to acquire one common share at a price of \$0.055 for a period of twenty four months from the date of issuance, subject to the reduced warrant term.

On March 15, 2017, the Company closed a non-brokered private placement financing of 9,072,726 units at a price of 5.5 cents per unit for gross proceeds of \$499,000.

Each unit consists of one common share in the capital of the company and one common share purchase warrant, entitling the holder thereof to purchase one common share at a price of 7 cents per common share for a period of 24 months from the date of issuance, provided, however, that, should the closing price at which the common shares trade on the Canadian Securities Exchange (or any such other stock exchange in Canada as the common shares may trade at the applicable time) exceeds 15 cents for 20 consecutive trading days at any time following the date that is four months and one day after the date of issuance, the company may accelerate the warrant term such that the warrants shall expire on the date which is 30 calendar days following the date a press release is issued by the company announcing the reduced warrant term.

The Company also made a loan of \$100,000 to an arm's-length shareholder of the Company. The term of the loan is two years, at an interest rate of prime plus 0.5 per cent payable annually, and the loan is secured against 1,818,181 common shares and 1,818,181 warrants held by such shareholder.

CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016

As at December 31, 2016 there was cash of \$1,265,769 compared to cash of \$1,150,068 as at December 31, 2015. The Company's December 31, 2016 short-term obligations consist of accounts payable of \$740,745 (December 31, 2015 - \$958,640) as well as the current portion of the finance lease payable of \$137,948 (December 31, 2015 - \$223,459), and the demand note payable of \$566,667 (December 31, 2015 - \$966,667).

The Company's working capital at December 31, 2016 was \$83,057 compared to a working capital deficiency of \$815,762 at December 31, 2015.

Cash used in operating activities was \$1,650,669 during the year ended December 31, 2016 compared to cash used of \$564,641 during the comparable year ended December 31, 2015. Changes to cash flows from operating activities primarily relate to the decrease in sales as previously discussed as well as a decrease in cash from changes in working capital items, in particular, during the comparative period the Company received repayment of the promissory note receivable of \$244,842 as well as the larger paydown of payables of \$217,895 during the current year.

Cash used in investing activities was \$nil during the year ended December 31, 2016 compared to cash provided of \$1,714,651 during the comparable year ended December 31, 2015. Investing activities mainly relate to equipment and intangible asset acquisitions and disposals. During 2015, a one-time cash inflow of \$2,037,794 was realized in connection with the amalgamation of Data Deposit Box, Acpana and 2441043. See note 13 of the audited consolidated financial statements for the years ended December 31, 2016 and 2015 for details.

Cash provided by financing activities was \$1,766,370 during the year ended December 31, 2016 compared to cash used in financing activities of \$427,342 during the comparable year ended December 31, 2015. Financing activities mainly relate to the repayment of the capital lease obligations as well as financings.

Data Deposit Box Inc.

The difference is primarily due to a private placement for net proceeds of \$2,275,723 (2015 - \$365,000) completed during the year ended December 31, 2016 as well as proceeds from exercise of options of \$114,000 (2015 - \$102,900 from exercise of warrants) and higher repayments of outstanding capital leases in 2015 of \$895,242 as compared to \$223,353 in 2016.

TRANSACTIONS WITH RELATED PARTIES

Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly. Compensation awarded to key management includes the following:

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|---|---------------------------------|---------------------------------|
| Balances: | | |
| Short-term employee benefits | \$ 720,000 | \$ 821,000 |
| Share-based payments - options | - | 332,000 |
| Total compensation to key management | \$ 720,000 | \$ 1,153,000 |

At December 31, 2016, included in trade and other payables is \$19,000 (December 31, 2015 - \$132,000) due to key management personnel with no specific terms of repayment.

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and key executives is determined by the compensation committee.

ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- **Assets' carrying values and impairment charges** - In the determination of carrying values and impairment charges, management looks at the higher of the recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.
- **Impairment of intangible assets** - While assessing whether any indications of impairment exist for intangible assets, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, the economic and legal environment in which the Company operates that are not within its control and which may affect the recoverability of such assets. Internal sources of information include the manner in which technology rights and deferred development assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the

Data Deposit Box Inc.

discounted future after-tax cash flows expected to be derived from the Company's intangible assets, costs to sell the assets and the appropriate discount rate.

- **Share-Based Payments** – The Company determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based non-vested share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.
- **Income taxes** - The Company must make significant estimates in respect of the provision for income taxes and the composition of its deferred income tax assets and deferred income tax liabilities. The Company's operations are, in part, subject to foreign tax laws where interpretations, regulations and legislation are complex and continually changing. As a result, there are usually some tax matters in question which may, on resolution in the future, result in adjustments to the amount of deferred income tax assets and deferred income tax liabilities, and those adjustments may be material to the Company's financial position and results of operations.
- **Functional currency determination** - The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency is conducted through an analysis of the consideration factors identified in IAS 21 The Effects of Changes in Foreign Exchange Rates and may involve certain judgments to determine the primary economic environment. The Corporation reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment. Significant changes to those underlying factors could cause a change to the functional currency.

RISKS AND UNCERTAINTIES

The Company's Board of Directors has overall responsibility for the oversight of the Company's risk management policies. In carrying on its business, the Company is exposed to a variety of risks, including the risks described elsewhere in this MD&A. The Company can neither predict nor identify all such risks nor can it accurately predict the impact, if any, of such risks on its business, operations or the extent to which one or more risks or events may materially change future results of financial position from those reported or projected in any forward looking statements. Accordingly, the Company cautions the reader not to rely on reported financial information and forward-looking statements to predict actual future results. This MD&A and the accompanying financial information should be read in conjunction with this statement concerning risks and uncertainties. Some of the risks, uncertainties and events that may affect the Company, its business, operations, and results, are given in this section. However, the factors and uncertainties are not limited to those stated. The Company has policies and practices mandated by the Board of Directors to manage the Company's risks which include the risks described elsewhere in this MD&A and below.

The Company's ability to continue to generate revenue and achieve positive cash flow in the future is dependent upon various factors, including the level of market acceptance of its products, the degree of competition encountered by the Company, technology risks, general economic conditions, and the stability of foreign governments and regulatory requirements. Moreover, it is also possible that new competitors will enter the marketplace. The Company's future performance depends in part upon attracting and retaining key technical, sales and management personnel. There can be no assurance that the Company can retain these personnel. As such, these new competitors and the loss of the services of the Company's key



Data Deposit Box Inc.

employees could potentially have a material adverse effect on the Company's business, operating results and financial condition.

Market Risk for Securities

The market price for our Common Shares could be subject to wide fluctuations. Factors such as commodity prices, government regulation, interest rates, share price movements of peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of our securities. The stock market has from time to time experienced extreme price and volume fluctuations, particularly in the technology sector, which have often been unrelated to the operating performance of particular companies.

Technology Risk

Our business is dependent upon advanced technologies which are susceptible to rapid technological change. There can be no assurance that our services will not be seriously affected by, or become obsolete as a result of, such technological changes.

There is a risk that technologies similar to ours could reach the market before ours, that similar products may be developed that are more appealing to clients, or that they use advanced technology not incorporated in our business. There is also a risk that clients will not accept or adopt our services. The occurrence of any of these events could decrease the amount of interest generated in our business and prevent us from generating revenues or reduce our revenue generating potential.

Competitive and Pricing Risk

Our potential competitors may have significantly greater financial, technical, marketing and other resources, may be able to devote greater resources to the development, promotion, sale and support of their products and services, may have more extensive customer bases and broader customer relationships and may have longer operating histories and more brand recognition. In some cases, these companies may choose to offer their technology at lower prices or rates in response to new competitors entering the market. If we are unable to compete with such companies, we may be unable to establish demand for our technology, which could adversely affect the establishment of our operations and our ability to begin generating revenues.

Intellectual Property Risk

The success of our business depends in part on our ability to protect the intellectual property rights associated with our service.

Advertising and Promotional Risk

Our future growth and profitability will depend on the effectiveness and efficiency of advertising and promotional costs, including our ability to (i) create brand recognition; (ii) determine appropriate advertising strategies, messages and media; and (iii) maintain acceptable operating margins on such costs. There can be no assurance that advertising and promotional costs will result in revenues for our business in the future, or will generate awareness of our technologies or services. In addition, no assurance can be given that we will be able to manage our advertising and promotional costs on a cost-effective basis.

Data Deposit Box Inc.

Uninsured or Uninsurable Risk

We may become subject to liability for risks against which we cannot insure or against which we may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for our usual business activities. Payment of liabilities for which we do not carry insurance may have a material adverse effect on our financial position and operations.

Conflicts of Interest Risk

Certain of our directors and officers are, and may continue to be, involved in other business ventures in the technology industry through their direct and indirect participation in corporations, partnerships, joint ventures, etc. that may become potential competitors of the Products we intend to provide. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors and officers conflict with or diverge from our interests. In accordance with the BCBCA, directors who have a material interest in any person who is a party to a material contract or a proposed material contract are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors and the officers are required to act honestly and in good faith with a view to our best interests. However, in conflict of interest situations, our directors and officers may owe the same duty to another company and will need to balance their competing interests with their duties to us. Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavourable to us.

Key Personnel Risk

Our success will depend on our directors and officers to develop our business and manage our operations, and on our ability to attract and retain key technical, sales and marketing staff or consultants once operations begin. The loss of any key person or the inability to find and retain new key persons could have a material adverse effect on our business. Competition for qualified technical, sales and marketing staff, as well as officers and directors can be intense and no assurance can be provided that we will be able to attract or retain key personnel in the future, which may adversely impact our operations.

Global Economy Risk

The ongoing economic slowdown and downturn of global capital markets has generally made the raising of capital by equity or debt financing more difficult. We will be dependent upon the capital markets to raise additional financing in the future, while we establish a customer base for the business. Access to financing has been negatively impacted by the ongoing global economic downturn. As such, we are subject to liquidity risks in meeting our development and future operating cost requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact our ability to raise equity or obtain loans and other credit facilities in the future and on terms favourable to us and our management. If uncertain market conditions persist, our ability to raise capital could be jeopardized, which could have an adverse impact on our operations and on the trading price of our Common Shares, if any market on our Common Shares develops.

Data Deposit Box Inc.

Share Price Volatility Risk

It is anticipated that a market in our Common Shares will develop. As such, external factors outside of our control such as announcements of quarterly variations in operating results, revenues and costs, and sentiments toward technology sector stocks may have a significant impact on the market price of our Common Shares. Global stock markets, including the Exchange, have from time to time experienced extreme price and volume fluctuations that have often been unrelated to the operations of particular companies. The same applies to companies in the technology sector. There can be no assurance that an active or liquid market will develop or be sustained for the Common Shares.

Increased Costs of Being a Publicly Traded Company

As we will have publicly-traded securities, we will incur significant legal, accounting and filing fees not presently incurred. Securities legislation require listed companies to, among other things, adopt corporate governance and related practices, and to continuously prepare and disclose material information, all of which will significantly increase our legal and financial compliance costs.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company has designated its cash and cash equivalents as FVTPL which are measured at fair value. Fair value of cash and cash equivalents is determined based on transaction value and is categorized as a Level one measurement.

- Level One includes quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level Two includes inputs that are observable other than quoted prices included in Level One.
- Level Three includes inputs that are not based on observable market data.

As at December 31, 2016, and 2015, both the carrying and fair value amounts of the Company's cash and cash equivalents, receivables, and trade and other payables are approximately equivalent. The fair value of the Company's promissory note approximates its carrying value as the interest rate of prime plus 2% is commensurate with estimated borrowing rates for loans with similar terms and conditions.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, accounts receivable and promissory note receivable. Cash and cash equivalents consist of cash on hand deposited with reputable financial institutions which is closely monitored by management. Management believes credit risk with respect to financial instruments included in cash and cash equivalents, accounts receivable and promissory note receivable is minimal. The Company's maximum exposure to credit risk as at December 31, 2016 and 2015 is the carrying value of receivables and the promissory note receivables.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2016, the Company had current assets of \$1,529,956 (December 31, 2015 - \$1,493,452) to settle current liabilities of \$1,446,899 (December 31, 2015 - \$2,309,214) resulting in a working capital of \$83,057 (December 31, 2015 - \$815,762 working capital deficiency). The Company manages liquidity risk through regular monitoring of forecasted and actual cash flows.

Data Deposit Box Inc.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and the prices of commodities and equities.

Interest rate risk

The Company has cash and cash equivalents balances and interest-bearing debt. The Company's current policy is to invest excess cash in short-term guaranteed investment certificates issued by banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its investments. As at December 31, 2016, the Company had cash and cash equivalents of \$1,265,769 (December 31, 2015 - \$1,150,068). Interest rate risk on the promissory notes is not considered significant as at December 31, 2016 and 2015.

Foreign currency risk

The Company's activities are conducted in Canada and the USA. Major purchases are transacted in Canadian and US dollars. Administrative expenditures and cash and cash equivalents balances are primarily transacted in Canadian dollars. The Company has exposure to foreign currency risk. The Company mitigates the risk of foreign currency fluctuations by converting Canadian currency to US dollars when required to fund expenditures.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over the next 12-month period:

- (i) Interest rate risk is limited to cash and cash equivalents balances, primarily held in Canadian and US dollars in Canada.
- (ii) The Company's holds financial assets and liabilities in US dollars that give rise to foreign exchange risk. If the US dollar rose or fell in relation to the Canadian dollar by 5% with all other variables held constant, net loss for the year ended December 31, 2016 would have been less than \$3,000 higher/lower.

Data Deposit Box Inc.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Adoption of New Standards

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2016. These changes were made in accordance with the applicable transitional provisions.

- IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016. The adoption of the amendment did not have an impact on the Company’s financial statements.
- IAS 38 - Intangible Assets (“IAS 38”) and IAS 16 – Property, Plant and Equipment (“IAS 16”), were amended in May 2014 to introduce a rebuttable presumption that the use of revenue-based amortization methods is inappropriate. The amendments are effective for annual periods beginning on or after January 1, 2016. The adoption of the amendment did not have an impact on the Company’s financial statements.

New standards and interpretations to be adopted in future periods

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2017 or later periods. The standards impacted that are applicable to the Company are as follows:

- IFRS 9 – *Financial Instruments* (“IFRS 9”) was issued by the IASB in July 2014 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* (“IAS 39”). Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristic of their cash flows. In addition, under IFRS 9 for financial liabilities measured at fair value, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income, with the remainder of the changes recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.
- IFRS 15 *Revenue from Contracts with Customers* - In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied in an entity’s first annual IFRS financial statements for periods beginning on or after January 1, 2018. Application of the standard is mandatory and early adoption is permitted. The Company intends to adopt the standard on its effective date and has not yet determined the impact on its financial statements.

Data Deposit Box Inc.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's financial statements are the responsibility of the Company's management, and have been approved by the Board of Directors. The financial statements were prepared by the Company's management in accordance with IFRS. The financial statements include certain amounts based on the use of estimates and assumptions. Management has established these amounts in a reasonable manner, in order to ensure that the financial statements are presented fairly in all material respects.

The Company has designed appropriate internal controls over financial reporting ("ICFR") for the nature and size of the Company's business, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's ICFR are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable IFRS. ICFR should include those policies and procedures that establish the following inter-related, non-discrete results:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of the Company's assets;
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS;
- receipts and expenditures are only being made in accordance with authorizations of management and the Board of Directors; and
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

There have been no changes in ICFR during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

The Corporation's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for the design and effectiveness of disclosure controls and procedures ("DC&P") and the design of ICFR to provide reasonable assurance that material information related to the Corporation is made known to the Corporation's certifying officers. The Corporation's controls are based on the Committee of Sponsoring Organizations 2013 framework. The Corporation's CEO and the CFO have evaluated the design and effectiveness of the Corporation's DC&P as of December 31, 2016 and have concluded that these controls and procedures are effective in providing reasonable assurance that material information relating to the Corporation is made known to them by others within the Corporation. The CEO and CFO have also evaluated the design and effectiveness of the Corporation's ICFR as of December 31, 2016 and concluded that these controls and procedures are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

During the current period there have been no changes in the Corporation's DC&P or ICFR that materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.



Data Deposit Box Inc.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for all information contained in this report. The audited consolidated financial statements have been prepared in accordance with IFRS and include amounts based on management's informed judgments and estimates. The financial and operating information included in this report is consistent with that contained in the audited consolidated financial statements in all material aspects.

Management maintains internal controls to provide reasonable assurance that financial information is reliable and accurate and assets are safeguarded.

The Audit Committee has reviewed the audited consolidated financial statements with management. The Board of Directors has approved the audited consolidated financial statements on the recommendation of the Audit Committee.

April 27, 2017

Troy Cheeseman
Chairman, President and COO