

POOLS SAFE

YOUR PERSONAL POOLSIDE ATTENDANT

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE THREE MONTHS AND NINE
MONTHS ENDED
SEPTEMBER 30, 2018 AND 2017

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

Notice to Reader

The accompanying unaudited condensed interim financial statements of Pool Safe Inc. (the "Company") have been prepared by and are the responsibility of management. The unaudited condensed interim financial statements have not been reviewed by the Company's auditors.

POOL SAFE INC.

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(EXPRESSED IN CANADIAN DOLLARS)

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Pool Safe Inc.
Consolidated Interim Condensed Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited)

AS AT	Note	September 30, 2018 (unaudited)	December 31, 2017
ASSETS			
Current			
Cash and cash equivalents		\$ 365,343	\$ 68,003
Prepays and other receivables	5	213,640	63,577
Inventory	6	73,874	107,981
		652,857	239,561
Patent design and costs	8	225,998	149,928
Equipment	7	169,722	179,788
Revenue share assets	9	149,135	71,771
TOTAL ASSETS		\$ 1,197,712	\$ 641,048
LIABILITIES AND EQUITY			
Current			
Trade payables and other liabilities	10	\$ 310,326	\$ 200,086
Current portion of long-term debt	12	-	31,857
Total current liabilities		310,326	231,943
Obligations under capital lease	11	72,432	-
Long-term debt	12	392,282	-
Total liabilities		775,040	231,943
Going concern	2(a)		
Guarantee	12		
Commitments and contingencies	15		
Shareholders' Equity			
Share capital		2,978,916	2,310,674
Warrants		115,326	93,917
Convertible debt warrants		32,752	-
Reserves		284,211	200,142
Accumulated deficit		(2,988,533)	(2,195,628)
Total equity		422,672	409,105
TOTAL LIABILITIES AND EQUITY		\$ 1,197,712	\$ 641,048

These financial statements are approved on behalf of the Board of Directors:

(Signed) "David Berger"
Director

(Signed) "Steven Glaser"
Director

The accompanying notes are an integral part of these financial statements

Pool Safe Inc.
Consolidated Interim Condensed Statements of Operations and Comprehensive Loss
(Expressed in Canadian Dollars)
(Unaudited)

	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		2018 \$	2017 \$	2018 \$	2017 \$
Revenue		118,480	182,206	317,398	309,022
Cost of Sales		41,102	77,759	214,689	180,926
Gross Profit		77,378	104,447	102,709	128,096
Expenses					
Selling, general and administrative		121,389	152,186	361,214	459,801
Stock-based compensation		17,658	44,868	84,069	177,402
Public listing fee		-	3,357	-	463,242
Professional fees		12,324	7,706	81,998	12,856
Litigation settlement		289,000	-	289,000	-
Investor relations and regulatory		1,713	3,170	16,642	13,130
Advertising and promotion		219	31,532	18,260	31,891
Depreciation		529	477	1,588	1,431
Foreign exchange		2,859	442	823	1,789
Gain on debt repayment		(4,336)	-	(4,336)	(17,018)
Interest expense		20,343	837	46,356	9,299
		461,695	244,575	895,614	1,153,823
Net loss and comprehensive loss		(384,317)	(140,128)	(792,905)	(1,025,727)
Weighted average shares outstanding, basic	17	55,231,771	54,309,763	54,620,476	48,556,150
Basic loss per share	17	(0.01)	(0.00)	(0.01)	(0.02)
Weighted average shares outstanding, diluted	17	55,231,771	54,309,763	54,620,476	48,556,150
Diluted loss per share	17	(0.01)	(0.00)	(0.01)	(0.02)

The accompanying notes are an integral part of these financial statements

Pool Safe Inc.**Consolidated Interim Condensed Statements of Changes in Shareholders' Equity**

(Expressed in Canadian Dollars)

(Unaudited)

	Notes	Number of shares	Share capital	Warrants	Convertible Debt Warrant	Share-based payments reserve	Accumulated deficit	Total
Balance at December 31, 2016		39,765,908	\$ 980,470	\$ -	\$ -	\$ -	\$ (923,360)	\$ 57,110
Units issued via private placement	13	11,052,040	969,785	93,917	-	-	-	1,063,702
Shares issued to acquire public listing	13	1,786,923	184,443	-	-	-	-	184,443
Shares issued to repay debt	13	1,704,892	175,976	-	-	-	-	175,976
Stock-based compensation		-	-	-	-	177,767	-	177,767
Net loss		-	-	-	-	-	(1,025,727)	(1,025,727)
Balance at September 30, 2017		54,309,763	2,310,674	93,917	-	177,767	(1,949,087)	633,271
Stock-based compensation		-	-	-	-	22,375	-	22,375
Net loss		-	-	-	-	-	(246,541)	(246,541)
Balance at December 31, 2017		54,309,763	2,310,674	93,917	-	200,142	(2,195,628)	409,105
Units issued via private placement	13	5,643,020	364,498	21,409	-	-	-	385,907
Shares issued to settle litigation	13	3,400,000	289,000	-	-	-	-	289,000
Shares issued to repay debt	13	173,456	14,744	-	-	-	-	14,744
Convertible debt warrant	12	-	-	-	32,752	-	-	32,752
Stock-based compensation		-	-	-	-	84,069	-	84,069
Net loss		-	-	-	-	-	(792,905)	(792,905)
Balance at September 30, 2018		63,526,239	\$ 2,978,916	\$ 115,326	\$ 32,752	\$ 284,211	\$ (2,988,533)	\$ 422,672

The accompanying notes are an integral part of these financial statements

Pool Safe Inc.
Consolidated Interim Condensed Statement of Cash Flows
(Expressed in Canadian Dollars)
(Unaudited)

	Note	Nine months ended September 30, 2018	2017
Operating activities			
Net loss		\$ (792,905)	\$ (1,025,727)
Items not affecting cash:			
Disposal of revenue share assets		27,002	-
Stock-based compensation		84,069	177,402
Litigation settlement for shares		289,000	-
Foreign exchange		-	365
Accretion of convertible debt in interest		22,571	-
Gain on debt repayment for shares		(4,336)	(17,018)
Depreciation		35,185	45,349
		(339,414)	(819,629)
Net changes in non-cash working capital:			
Decrease (increase) in prepaids and other receivables		(150,063)	(93,514)
Decrease (increase) in inventory		34,107	(92,504)
Increase (decrease) in trade payables and other liabilities		110,240	(85,240)
Cash flows used in operating activities		(345,130)	(1,056,851)
Investing activities			
Revenue share assets		(120,475)	(42,296)
Purchase of patent and design costs, net of tax credits	7	(85,080)	-
Cash flows used in investing activities		(205,555)	(42,296)
Financing activities			
Repayment of long-term debt		(31,857)	(182,057)
Proceeds from capital lease		78,000	-
Repayment of capital lease		(5,568)	-
Proceeds from long-term debt		369,243	-
Proceeds from issuance of convertible warrants		32,752	-
Proceeds from issuance of equity units		385,907	1,441,139
Debt retired via share issuance		19,080	-
Cash flows provided by (used in) financing activities		848,025	1,225,046
Net change in cash		297,340	125,899
Cash - beginning of period		68,003	10,751
Cash - end of period		\$ 365,343	\$ 136,650

The accompanying notes are an integral part of these financial statements

1. Nature of business

Pool Safe Inc. ("Pool Safe" or the "Company"), was incorporated under the Business Corporations Act (Ontario) on October 27, 2011. The Company manufactures and sells a product known as the "PoolSafe", which functions as a multi-purpose safe, contains a solar-powered charger for USB compatible devices including phones, cameras and tablets as well as a server call-button and a beverage cooler and holders. Pool Safe's head office located at 401 Magnetic Drive, Unit 14, Toronto, Ontario, M3J 3H9.

Effective December 31, 2016, the financial year end of the Company changed from June 30 of each year to December 31.

2. Basis of presentation

(a) Going concern

These financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company's ability to continue in the normal course of operations is dependent on its ability to raise equity or debt financing or through the sale of its products at a profit. Since inception the Company has incurred losses which as of September 30, 2018 totaled \$2,988,533 (December 31, 2017 - \$2,195,628). In addition, the Company had working capital in the amount of \$342,531 at September 30, 2018. There are no assurances that the Company will be successful in achieving these goals. These circumstances cast significant doubt on the Company's ability to continue as going concern and ultimately on the appropriateness of the use of the accounting principles applicable to a going concern. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. These adjustments could be material.

(b) Statement of compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). These consolidated interim condensed financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the IASB. The same accounting policies and methods of computation are followed in these consolidated interim condensed financial statements as compared with the most recent annual consolidated financial statements as at and for the period ended December 31, 2017. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2018 could result in restatement of these consolidated interim condensed financial statements.

The policies applied in these unaudited consolidated interim condensed financial statements are based on IFRS issued and outstanding as of November 28, 2018, the date the Board of Directors approved the statements.

(c) Basis of measurement

Apart from certain assets and liabilities measured at fair value as required under certain IFRS's, the financial statements have been presented and prepared on the basis of historical cost.

(d) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency of the Company.

(e) Estimates and critical judgments by management

The preparation of these financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the current period. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known. Items for which actual results may differ materially from these estimates are described in the following section.

(i) Useful lives of equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and

the useful lives of the assets.

- (ii) Fair value of financial assets available for sale
Financial assets available for sale consist of privately held investments. Determination of the fair values of privately held investments requires the Company to make various assumptions about the future prospects of the investees, the economic, legal, and political environment in which the investees operate, and the ability of the investees to obtain financing to support their operations. As a result, any value estimated may not be realized or realizable, and the values may differ from values that would be realized if a ready market existed.
- (iii) Income taxes
Income taxes and tax exposures recognized in the financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.
- (iv) Date of commencement of commercial production
The date noted as the date of the beginning of commercial production (June 1, 2015) reflects management's best estimate based on facts available.

3. New and revised standards and interpretations issued but not yet effective

(a) IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income. The effective date of this standard is January 1, 2018. The Company will adopt this new standard as of its effective date. The Company is currently analyzing the possible impact of this Standard on its financial statements.

(b) IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 was issued by IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company will adopt this new standard as of its effective date. The Company is currently analyzing the possible impact of this Standard on its financial statements.

(c) AMENDMENTS TO IAS 7

IAS 7 amendments include additional disclosures to enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. These amendments become effective for annual periods beginning on or after January 1, 2017. The Company will adopt the amendments as of the effective date. The Company is currently analyzing the possible impact of the amendments on its financial statements.

(d) IFRS 16 LEASES

IFRS 16 was issued in January 2016 and replaces the previous guidance on leases. This standard provides a single recognition and measurement model to be applied to leases, with required recognition of assets and liabilities for most leases. This standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if the Company is also applying IFRS 15, Revenue from Contracts with Customers. The Company is currently evaluating the impact of the adoption of this new standard on its financial statements.

4. Acquisition of Pounder Venture Capital Corp.

On April 19, 2017, the Company completed qualifying transaction (“QT”) with Pounder Venture Capital Corp. (“PVC”) as announced November 29, 2016. The transaction was completed via the merger of a wholly-owned subsidiary of PVC (“PVC Subco”) and the Company, which constituted a reverse takeover of PVC by the shareholders of the Company. The resulting company will continue to operate as Pool Safe Inc. and trade publicly on the TSX Venture under the symbol “POOL”.

The completion consisted of a combination of the two companies, with the Company being the continuing entity, and a concurrent financing, as required by the TSX Venture Exchange.

The terms of the Transaction including the following:

- i) The Company assumed the outstanding liabilities of PVC which were estimated to be \$257,994. The Company issued 1,704,892 common shares to settle \$192,994 of these assumed debts;
- ii) All stock options of PVC were converted to 129,942 stock options of the Company at a deemed cost of \$365. These stock options had an exercise price of \$0.40 per share and an expiry date of April 18, 2018;
- iii) The Company issued 1,786,923 common shares for all common shares of PVC;
- iv) The Company incurred transaction costs of \$17,083 related to this portion of the transaction.

The table below summarizes the fair value of the assets acquired and the liabilities assumed at the acquisition date, as well as the consideration paid:

<u>Consideration:</u>	
Common shares	\$ 184,443
Stock options	365
Total Consideration	<u>184,808</u>
<u>Liabilities Acquired:</u>	
Accounts Payable	257,994
Transaction costs	17,083
Total Liabilities Acquired	<u>275,077</u>
Expense of public listing	<u>\$ 459,885</u>

In conjunction with the RTO transaction, on April 19, 2017, the Company issued 11,052,040 units for cash proceeds of \$1,251,250 (proceeds net of broker cash fees of \$48,394, and legal and other costs of \$139,154, were \$1,063,702). Each unit was comprised of one common share and one half of one common share purchase warrant. Each whole share warrant can be converted into one common share at an exercise price of approximately \$0.18 for a period until April 18, 2019. The net proceeds were allocated as \$969,785 to common shares and \$93,917 to warrants, based on a Black-Scholes valuation of the warrants

The Company's consolidated statements of comprehensive income include the result of operations for Pounder from its respective dates of acquisition.

5. Prepaids and other receivables

Prepaids and other receivable is comprised of:

	Sept. 30, 2018	Dec. 31, 2017
Trade receivables	\$ 24,792	\$ 23,352
Taxes receivable	28,539	39,165
Security deposits	85,309	-
Prepaids and deposits	76,060	1,060
	<u>\$ 138,640</u>	<u>\$ 63,577</u>

Pool Safe Inc.
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The following table shows the aging of the Company's trade receivables:

	Sept. 30, 2018	Dec. 31, 2017
1 to 60 days	\$ 24,792	\$ 20,447
61 days and older	-	2,905
	24,792	23,352
Allowance for bad debts	-	-
Accounts receivable	\$ 24,792	\$ 23,352

The Company considers all trade receivables to be collectable and has not made any allowance for doubtful accounts as at September 30, 2018 nor December 31, 2017.

6. Inventory

The following comprises inventory:

	September 30, 2018	Dec. 31, 2017
Raw materials	\$ 73,874	\$ 107,981
Finished goods	-	-
	\$ 73,874	\$ 107,981

There was no write-down of inventory during the periods ended September 30, 2018 nor December 31, 2017. During the period ended September 30, 2018, \$236,539 (September 30, 2017 - \$180,926) of inventory was expensed as cost of sales.

7. Equipment

September 30, 2018

Cost	Balance at Dec. 31, 2017	Additions	As at September 30, 2018
Furniture and equipment	\$ 4,206	\$ -	\$ 4,206
Computer equipment	1,367	-	1,367
Manufacturing equipment tooling and moulds	204,764	-	204,764
Leasehold improvement	14,145	-	14,145
Equipment	\$ 224,482	\$ -	\$ 224,482

Accumulated depreciation	Balance at Dec. 31, 2017	Additions	As at September 30, 2018
Furniture and equipment	\$ 1,746	\$ 369	\$ 2,115
Computer equipment	638	164	802
Manufacturing equipment tooling and moulds	35,196	8,478	43,674
Leasehold improvement	7,114	1,055	8,168
	\$ 44,694	\$ 10,066	\$ 54,760

Net book value	\$ 179,788		\$ 169,722
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September 30, 2017

Cost	Balance at Dec. 31, 2016	Additions	As at September 30, 2017
Furniture and equipment	\$ 3,096	\$ 1,110	\$ 4,206
Computer equipment	1,367	-	1,367
Manufacturing equipment tooling and moulds	203,788	975	204,763
Leasehold improvement	5,730	8,415	14,145
Equipment	\$ 213,981	\$ 10,500	\$ 224,481

Pool Safe Inc.
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Accumulated depreciation	Balance at Dec. 31, 2016	Additions	As at September 30, 2017
Furniture and equipment	\$ 853	\$ 669	\$ 1,522
Computer equipment	325	234	559
Manufacturing equipment tooling and moulds	21,512	10,263	31,776
Leasehold improvement	3,442	2,753	6,195
	\$ 26,132	\$ 13,919	\$ 40,052
Net book value	\$ 187,847		\$ 184,429

8. Patent and design costs

	Balance at Dec. 31, 2017	Additions, net	As at September 30, 2018
Cost	\$ 180,203	\$ 85,080	\$ 265,283
Accumulated amortization	(30,275)	(9,010)	(39,285)
Carrying value	\$ 149,928	\$ 76,070	\$ 225,998

	Balance at Dec. 31, 2016	Additions, net	As at September 30, 2017
Cost	\$ 180,203	\$ -	\$ 180,203
Accumulated amortization	(18,261)	(9,009)	(27,270)
Carrying value	\$ 161,942	\$ (9,009)	\$ 152,933

The Company commenced amortization on June 1, 2015.

9. Revenue share assets

	Balance at Dec. 31, 2017	Disposals	Additions, net	As at September 30, 2018
Cost	\$ 102,856	\$ (38,976)	\$ 120,475	\$162,505
Accumulated amortization	(31,085)	11,974	(16,109)	(35,220)
Carrying value	\$ 71,771	\$ (27,002)	\$ 104,366	\$ 149,135

	Balance at Dec. 31, 2016	Disposals	Additions, net	As at September 30, 2017
Cost	\$ 156,958	\$ -	\$ 31,795	\$ 188,753
Accumulated amortization	(23,379)	-	(22,421)	(45,800)
Carrying value	\$ 133,579	\$ -	\$ 9,374	\$ 142,953

10. Trade payables and other liabilities

Trade payables and accrued liabilities are comprised as follows:

	September 30, 2018	Dec. 31, 2017
Trade payables	\$ 209,072	\$ 182,336
Accrued liabilities	101,254	17,750
	\$ 310,326	\$ 200,086

The following table shows the aging of the Corporation's trade payables:

	September 30, 2018	Dec. 31, 2017
Current	\$ 193,314	\$ 85,897
>60 days	15,758	96,439
	\$ 209,072	\$ 182,336

11. Obligation under capital lease

During the current year the Company entered into a capital lease agreement for the revenue share equipment. The lease bear effective interest rates of 10.98% per annum and is repayable in 36 monthly blended principal and interest payments of \$2,553 per month. The lease obligation and interest has been prepaid.

The future minimum payments under the lease are as follows:

2018	\$ 7,659
2019	30,636
2020	30,636
2021	15,318
	<hr/>
	84,249
Less Amount representing interest	11,817
Balance September 30, 2018	<hr/> <u>\$ 72,432</u>

Total interest expense for the year related to the Company's obligations under capital lease was \$2,091 (2017 - \$nil).

12. Long-term debt

Convertible debenture financing	\$ 392,282
Less: Current portion of long-term debt	-
	<hr/>
	<u>\$ 392,282</u>

During 2018, the Company issued a \$460,000 principal amount of unsecured convertible promissory note (the "Notes"). The Notes will bear interest at a rate of 10% per annum, calculated annually and matures on February 8, 2020 (\$300,000), May 11, 2018 (\$125,000) and June 21, 2018 (\$35,000).

For the Notes maturing February 8, 2020, each \$0.11 of the principal amount of the Notes is convertible into one Purchase Unit ("Unit"). Each Unit is exercisable to purchase one Common Share and one half Common Share warrant at a price of \$0.11 per Common Share for a period of two years following the issuance of the Note. Each full warrant can be exercised for one Common Share at a price of \$0.15 for a period of two years following the issuance of the Note. The securities issued in connection with the loan are subject to a statutory four month hold period from the date of issuance. The Company issued 160,000 broker warrants in connection with these Notes. Each broker warrant is exercisable into one share and one-half common share purchase warrant at a price of \$0.11. Each full warrant can be exercised for one share at a price of \$0.15. The broker warrants mature February 8, 2020.

For the Notes maturing May 11 and June 21, each \$0.11 of the principal amount of the Notes is convertible into one share. In addition, 568,125 warrants were issued related to the May 11 Notes and 159,075 warrants were issued related to the June 21 Notes. Each of these warrants is exercisable into one Common Share at a price of \$0.15 for two years from the close of the Note.

The proceeds of the Financing will be used for general working capital purposes.

The debenture is classified as a liability, with the exception of the portion relating to the conversion feature, resulting in the carrying value of the debenture being less than face value. The equity portion of this debt totals \$32,752. The discount is being accreted over the term of the debenture utilizing the effective interest rate method at a 22.2% discount rate. An amount of \$22,571 was recorded as accretion expense on the consolidated statements of loss and comprehensive loss for the 2018 year.

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Bank loan bearing interest at the rate of prime plus 3.0% per annum, repayable in monthly principal repayments of \$4,673 plus interest, secured by a general security agreement over all assets of the Company and a personal guarantee from the majority shareholders, amounting to 25% of the original loan balance. The loan was repaid on July 15, 2018.	-
Less: Current portion of long-term debt	-
	<u>-</u>

Principal repayments required in the next two years are as follows:

2018	\$ -
2019	-
2020	460,000
	<u>\$ 460,000</u>

13. Share capital

(a) **Authorized**

An unlimited number of common shares without par value.

An unlimited number of voting class "A" shares.

(b) **Issued common shares**

	Number	Amount
Balance at June 30, 2016	39,051,600	\$ 930,470
Issuance of shares for cash (i)	714,308	50,000
Balance at December 31, 2016	39,765,908	980,470
Issuance of shares for public company shell (ii)	1,786,923	184,443
Issuance of shares for debt (iii)	1,704,892	175,976
Issuance of units for cash (iv)	11,052,040	969,785
Balance at December 31, 2017	54,309,763	2,310,674
Issuance of units for cash (v)	5,643,020	364,498
Issuance of shares for litigation settlement (vi)	3,400,000	289,000
Issuance of shares for debt (vii)	173,456	14,744
Balance at September 30, 2018 and December 31, 2017	63,526,239	\$ 2,978,916

- (i) During July 2016, the Company issued 714,308 common shares for net proceeds of \$50,000.
- (ii) During April 2017, the Company issued 1,786,923 common shares in exchange for all the shares of Pounder Venture Capital Corp., a publicly traded company (see Note 4). The share portion of units issued had a deemed value of \$0.1032 each for a deemed exchange value of \$184,443.
- (iii) During April 2017, the Company issued 1,704,892 common shares in exchange for \$192,994 of assumed liabilities of Pounder Venture Capital Corp., a publicly traded company (see Note 4). The Company recognized a gain on settlement of \$17,018 related to this settlement.
- (iv) During April 2017, the Company issued 11,052,040 units for cash proceeds of \$1,251,250 (proceeds net of broker cash fees of \$48,394, and legal and other costs of \$139,154, were \$1,063,702). Each unit was comprised of one common share and one half of one common share purchase warrant. Each whole share warrant can be converted into one common share at an exercise price of approximately \$0.18 for a period until April 18, 2019. The net proceeds were allocated as \$969,785 to common shares and \$93,917 to warrants (Note 12(c)), based on a Black-Scholes valuation of the warrants.

In addition, 427,476 broker units were issued. Each broker unit is exercisable into a unit of the Company at approximately \$0.11 per broker unit. Each broker unit is comprised of one share and one-half share warrant. Each whole share warrant can be converted into one common share at an exercise price of approximately \$0.18 for a period until April 18, 2019.

- (v) During September 2018, the Company issued 5,643,020 units for cash proceeds of \$395,011 (proceeds net of broker cash fees of \$5,680, and legal and other costs of \$3,425, were \$385,906). Each unit was comprised of one common share and one common share purchase warrant. Each share warrant can be converted into one common share at an exercise price of \$0.12 until September 27, 2020, subject to certain acceleration rights in favour of the Company. The net proceeds were allocated as \$364,498 to common shares and \$21,409 to warrants (Note 12(c)), based on a Black-

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Scholes valuation of the warrants.

In addition, 81,143 finder warrants were issued. Each finder warrant is exercisable into a common share of the Company at a price of \$0.12 until September 27, 2020.

- (vi) During September 2018, the Company issued 3,400,000 shares in settlement of litigation. The shares were valued at \$289,000 and were expensed in the September 2018 period.
- (vii) During September 2018, the Company issued 173,455 to settle \$19,080 of debt. The shares were valued at \$14,744 and the difference was recognized as a gain on settlement of debt in the September 2018 period.

(b) **Warrants**

At September 30, 2018, the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
<u>Broker Units</u>		
427,476	\$0.11	April 18, 2019
160,000	\$0.11	February 8, 2020
81,143	\$0.12	September 27, 2020
<u>Warrants</u>		
5,526,020	\$0.18	April 18, 2019
568,125	\$0.15	May 11, 2020
159,075	\$0.15	June 21, 2020
2,821,510	\$0.12	September 27, 2020
<u>Warrants for Convertible Debt</u>		
2,727,273	\$0.11	February 8, 2020
1,136,364	\$0.11	May 11, 2020
318,182	\$0.11	June 21, 2020

Warrant transactions and the number of warrants outstanding are summarized as follows:

	September 30, 2018		December 31, 2017	
Balance, beginning of period	5,953,496	\$0.17	—	
Issued	7,971,672	\$0.12	5,953,496	\$0.17
Exercised	—		—	
Expired	—		—	
Balance, end of period	13,925,168	\$0.14	5,953,496	\$0.17

The Company determined that the fair value of the warrant liability at April 18, 2017 related to the 5,526,020 warrants, using the Black-Scholes Options Pricing Mode, was \$93,917. The Company determined that the fair value of the broker warrant liability at April 18, 2017 related to the 427,476 warrants, using the Black-Scholes Options Pricing Mode, was \$13,806 using the following inputs; Dividend yield – Nil, interest rate of .62%, volatility of 85% and an expected life of 2 years.

(c) **Stock options**

On April 19, 2017, the Company approved the 10% rolling stock option plan (the "Plan"). Pursuant to the Plan, the Company is entitled to grant options and reserve for issuance up to 10% of the shares issued and outstanding at the time of grant. The terms and conditions of any options granted, including the number and type of options, the exercise period, the exercise price and vesting provisions, are determined by the Compensation Committee which makes recommendations to the board of directors for their approval. The maximum term of options granted cannot exceed 10 years.

The TSXV's rules require the Plan to be approved annually by shareholders.

At September 30, 2018, the following stock options were outstanding:

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Number of Options	Exercise Price	Expiry Date
100,000	\$0.11	June 2, 2019
100,000	\$0.11	July 27, 2019
4,100,000	\$0.11	June 22, 2022
500,000	\$0.11	April 11, 2023

Stock option transactions and the number of stock options outstanding are summarized as follows:

	September 30, 2018		December 31, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	4,429,942	\$ 0.12	-	-
Granted	650,000	0.11	4,429,942	\$ 0.12
Exercised	-	-	-	-
Cancelled/Expired	(279,942)	0.24	-	-
Outstanding, end of period	4,800,000	\$ 0.11	4,429,942	\$ 0.12
Exercisable, end of period	3,100,000	\$ 0.11	1,646,609	\$ 0.13

The aggregate intrinsic value for options vested and for total options as of September 30, 2018 is \$nil (December 31, 2017- \$nil). The weighted average contractual term of stock options outstanding and exercisable as at September 30, 2018 is 3.7 years (December 31, 2017 – 4.4 years).

The weighted average fair value of stock options granted, vested, and modified during the period was \$84,069 (year ended December 31, 2017 - \$200,142 of which \$177,767 was incurred in the nine-month period ended September 30, 2017) which has been included in general and administrative expense or Listing expense (\$365 in 2017).

The following assumptions were used for the Black-Scholes valuation of stock options granted during the periods:

	September 30, 2018	Dec. 31, 2017
Risk-free interest rate	0.5%	0.5%
Expected life	2.0 to 4.0 years	0.8 to 4.0 years
Annualized volatility	85%	85%
Dividend rate	-	-

14. Related party transactions

The following is a summary of the Company's related party transactions during the year:

(a) Key management compensation

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive directors. Compensation provided to key management is as follows:

	September 30, 2018	September 30, 2017
Short-term employee benefits, including salaries and fees	\$ 192,308	\$ 139,096
Stock-based compensation	78,815	156,251
Sub-contractors	-	3,150
	\$ 271,123	\$ 298,497

Loans of \$140,000 and interest of \$6,292 were repaid to related parties in 2017.

15. Commitments and contingencies

(a) The following is a summary of the Company's operating lease obligations due in future fiscal years:

2018	\$ 19,240
2019	16,033
	<u>\$ 35,273</u>

16. Operating segment information

Management has determined that the Company's operations have similar economic characteristics and are similar in the nature of products and services, production processes, types and classes of customer, methods of distribution and regulatory environment and as such have aggregated its operating units into a single reportable segment. The Company undertakes its operations in the U.S. and has no significant assets located or revenues generated outside the U.S. Therefore, no segment reporting is included in these financial statements.

17. Earnings (loss) per share

Basic and diluted loss per share are calculated using the following numerators and denominators:

Numerators	September 30, 2018	September 30, 2017
Loss attributable to common shareholders	\$ (792,905)	\$ (1,025,727)
Loss used in the computation of basic and diluted earnings per share	(792,905)	(1,025,727)

Denominators	September 30, 2018	September 30, 2017
Weighted average number of common shares for computation of basic and diluted loss per share	54,620,476	48,556,150

Denominators did not include balances for stock options or warrants as these items were anti-dilutive.

18. Financial instruments

(a) Financial risks

(i) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to review liquidity resources and ensure that sufficient funds are available to meet financial obligations as they become due. Further, the Company's management is responsible for ensuring funds exist and are readily accessible to support business opportunities as they arise. The Company's funding is provided in the form of capital raised through the issuance of shares and long-term debt.

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The company's main credit risk relates to its accounts receivable. The accounts receivable are due from various government bodies; therefore, the company does not anticipate any significant loss for non-collection.

(iii) Market risk

(1) Price risk

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

(2) Concentration risk

Concentration risk is the risk that any single investment or group thereof, has the potential to materially affect the operating results of the Company. The Company is not exposed to this risk.

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It is management's opinion that the Company is not subject to significant interest rate risk.

(a) Fair value hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - valuation techniques using the inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In these financial statements, classification of financial instruments measured at fair value is as follows:

Level 1 - cash;

Level 2 - none;

Level 3 - none.

During the year, there were no transfers of amounts between Level 1 and Level 2 and 3.

19. Capital management

The Company considers its capital to be its equity, and debt as disclosed in Note 11. The Company's objectives when managing its capital are to maintain a sufficient capital base in order to meet its short-term obligations and at the same time preserve investors' confidence required to sustain future investments.

20. Subsequent event

Subsequent to September 30, 2018, the Company closed the final tranche of \$120,750 of its previously announced non-brokered private placement through the issuance of 1,725,000 units. Each unit consists of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of 12 cents for a period of 24 months following the closing date of the offering, subject to an acceleration right in favour of the company. In connection with the closing of this tranche, the company paid certain eligible persons cash commissions totaling \$5,656 and granted 80,800 finder's warrants to acquire common shares. Insiders of the Company subscribed to 1,525,000 units of this financing.