

mobio technologies

Mobio Technologies Inc.

Consolidated Financial Statements

(EXPRESSED IN CANADIAN DOLLARS)

For the Years Ended July 31, 2018 and 2017

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DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Mobio Technologies Inc.

We have audited the accompanying consolidated financial statements of Mobio Technologies Inc., which comprise the consolidated statements of financial position as at July 31, 2018 and 2017, and the consolidated statements of comprehensive loss, changes in shareholders equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mobio Technologies Inc. as at July 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

A handwritten signature in black ink, appearing to read 'DMCL'.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
October 25, 2018

MOBIO TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

As at July 31,

		2018	2017
ASSETS			
<u>Current Assets</u>			
Cash		\$ 76,883	\$ 118,305
Restricted cash	9	25,235	25,235
Accounts receivable	5	14,074	18,803
Deposits and prepaid expenses		<u>20,251</u>	<u>14,507</u>
		136,443	176,850
<u>Non-Current Assets</u>			
Fixed assets		1,825	3,947
Investments	7	<u>952,014</u>	<u>698,545</u>
TOTAL ASSETS		\$ 1,090,282	\$ 879,342
LIABILITIES			
<u>Current Liabilities</u>			
Trade payables and accruals	10	\$ 563,927	\$ 472,860
Short-term loans payable	11	528,223	150,378
Deferred revenue and customer deposits		<u>631</u>	<u>1,203</u>
TOTAL LIABILITIES		<u>1,092,781</u>	<u>624,441</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	13	24,531,666	23,954,926
Warrant reserve	13	565,664	554,297
Equity portion of debt	11	35,366	-
Share-based payments reserve	13	387,056	489,572
Deficit		<u>(25,522,251)</u>	<u>(24,743,894)</u>
TOTAL EQUITY (DEFICIENCY)		<u>(2,499)</u>	<u>254,901</u>
TOTAL LIABILITIES AND EQUITY (DEFICIENCY)		\$ 1,090,282	\$ 879,342
Nature of operations and going concern uncertainty	1		
Subsequent events	19		

Approved on behalf of the board

"Derek Lew"

Derek Lew, Director

"Laurie Baggio"

Laurie Baggio, Chief Executive Officer

See accompanying notes to the consolidated financial statements.

MOBIO TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian dollars)

Years ended July 31		2018	2017
REVENUE			
Sales		\$ 71,200	\$ 295,584
EXPENSES			
Depreciation		1,830	2,146
Amortization of intangible assets	6	-	927,821
Hosting and computing services		140,763	213,927
Personnel	15	499,393	822,110
Professional fees		34,731	81,889
Office and administration		50,760	63,309
Regulatory and filing costs		25,673	35,289
Marketing		573	23,996
Communications		900	52,150
Website and IT		13,217	42,075
Bank charges and foreign exchange		12,392	5,794
Share-based payments	13,15	70,920	-
		851,152	2,270,506
Finance income	7	(57,117)	(17,146)
Finance costs	11,15	73,608	(2,121)
Loss (gain) on debt repayment	12,13	4,363	(2,974)
Impairment of investment	7	150,000	-
Loss on disposition of assets		987	-
		171,841	(22,241)
Net loss and comprehensive loss for the year		\$ (951,793)	\$ (1,952,681)
Basic and diluted loss per share	14	\$ (0.06)	\$ (0.14)
Weighted average number of common shares outstanding for the year, basic and diluted	14	15,886,228	14,032,505

See accompanying notes to the consolidated financial statements.

MOBIO TECHNOLOGIES INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY(DEFICIENCY)

(Expressed in Canadian dollars)

		Share capital		Reserves					
	Notes	Number of shares	Amount	Warrant reserve	Equity portion of debt	Share-based payments reserve	Deficit	Total	
Balance at August 01, 2016		6,407,787	\$ 22,797,300	\$ 110,703	\$ 2,974	\$ 489,572	\$ (22,791,213)	\$ 609,336	
Shares issued in private placements	13	8,137,500	1,190,487	437,014	-	-	-	1,627,501	
Share issuance costs	13	-	(32,861)	6,580	-	-	-	(26,281)	
Repayment of convertible debenture	12	-	-	-	(2,974)	-	-	(2,974)	
Share consolidation adjustment	13	(9)	-	-	-	-	-	-	
Loss for the year		-	-	-	-	-	(1,952,681)	(1,952,681)	
Balance at July 31, 2017		14,545,278	\$ 23,954,926	\$ 554,297	\$ -	\$ 489,572	\$ (24,743,894)	\$ 254,901	
Shares issued in private placements	13	3,333,340	383,246	116,755	-	-	-	500,001	
Share issuance costs	13	-	(11,292)	(2,215)	-	-	-	(13,507)	
Finders' warrants	13	-	(3,167)	3,167	-	-	-	-	
Shares issued for debt settlement	13	433,335	65,000	-	-	-	-	65,000	
Warrants issued for debt settlement	13	-	-	4,363	-	-	-	4,363	
Exercise of warrants	13	107,500	39,823	(7,573)	-	-	-	32,250	
Expiry of warrants	13	-	103,130	(103,130)	-	-	-	-	
Expiry of options	13	-	-	-	-	(173,436)	173,436	-	
Share-based payments	13	-	-	-	-	70,920	-	70,920	
Equity portion of debt	11	-	-	-	35,366	-	-	35,366	
Loss for the year		-	-	-	-	-	(951,793)	(951,793)	
Balance at July 31, 2018		18,419,453	\$ 24,531,666	\$ 565,664	\$ 35,366	\$ 387,056	\$ (25,522,251)	\$ (2,499)	

See accompanying notes to the consolidated financial statements.

MOBIO TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

Years ended July 31,	2018	2017
OPERATING ACTIVITIES		
Net loss for the year	\$ (951,793)	\$ (1,952,681)
<u>Items not affecting cash</u>		
Depreciation	1,830	2,146
Foreign exchange loss (gain) on investments	(6,844)	5,118
Amortization of intangible assets	-	927,821
Accrued interest income	(46,624)	(17,146)
Accrued interest expense	73,211	378
Impairment of investment	150,000	-
Loss on asset dispositions	987	-
Loss (gain) on debt repayment	4,363	(2,974)
Consulting fees settled in shares	15,000	-
Share-based payments	70,920	-
<u>Net changes in non-cash working capital</u>		
Accounts receivable	4,729	63,090
Deposits and prepaid expenses	(5,744)	(3,982)
Trade payables and accruals	91,066	(204,064)
Deferred revenue and deposits	(572)	(116,285)
Net cash used in operating activities	(599,471)	(1,298,579)
INVESTING ACTIVITIES		
Equipment purchases	(695)	(2,888)
Changes to restricted cash	-	(6)
Cash investments made	(350,000)	(563,722)
Net cash used in investing activities	(350,695)	(566,616)
FINANCING ACTIVITIES		
Proceeds from short-term loans	440,000	150,000
Repayment of short-term loans	(50,000)	(75,000)
Exercise of warrants	32,250	-
Issuance of common shares	500,001	1,627,501
Share issuance costs	(13,507)	(26,281)
Repayment of convertible debenture	-	(134,687)
Net cash provided by financing activities	908,744	1,541,533
NET CASH FLOW FROM OPERATING, INVESTING, AND FINANCING ACTIVITIES		
	(41,422)	(323,662)
CASH, BEGINNING OF THE YEAR	118,305	441,967
CASH, END OF THE YEAR	\$ 76,883	\$ 118,305
NON-CASH INVESTING AND FINANCING INFORMATION:		
Shares issued in settlement of services	\$ 15,000	\$ -
Shares issued in settlement of short-term loans	\$ 50,000	\$ -

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Mobio Technologies Inc. (“Mobio” or the “Company”) was incorporated pursuant to the provisions of the Business Corporations Act (Alberta) on November 19, 1998. On December 6, 2012, the Company was continued into British Columbia and changed its name from Intensity Company Inc. to LX Ventures Inc. On July 7, 2014, the Company changed its name to Mobio Technologies Inc. Mobio is a public company whose shares are listed on the TSX Venture Exchange under the symbol “MBO”. The Company’s primary line of business is Strutta.com Media Inc. (“Strutta”), a social promotions platform that allows brands to run contests and sweepstakes across multiple social web channels. In addition, the Company invested in start-up technology companies.

These consolidated financial statements have been prepared using the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. During the year ended July 31, 2018, the Company had a net and comprehensive loss of \$951,793 and negative cash flow from operations of \$599,471. These conditions raise significant doubt about the Company’s ability to continue as a going concern.

The continuing operations of the Company are dependent upon its ability to develop profitable operations in the future and to raise adequate financing, if necessary. The Company has generated operating losses since inception. The application of the going concern concept is dependent on the Company’s ability to achieve viable operations and access financing. Management is of the opinion that additional working capital can be obtained from internal and external sources to meet the Company’s liabilities and commitments. (See Note 19 – Subsequent Events)

There can be no assurance that the Company will be successful in achieving profitability or raising additional cash to finance operations. The consolidated financial statements do not include any adjustments relating to the recoverability of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

These consolidated financial statements were authorized for issue on October 25, 2018, by the Board of Directors of the Company.

Statement of Compliance

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

Functional and Presentation Currency

The consolidated financial statements are presented in Canadian dollars, which is the Company’s and its subsidiaries’ functional currency.

2. BASIS OF PRESENTATION (CONT'D)

Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit or loss, which are stated at their fair values. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. An area subject to significant estimates is the impairment of financial and non-financial assets. Actual results could differ from those estimates.

The most significant judgement applied in the preparation of these consolidated financial statements relate to the carrying value of the Company's investments (Note 7). The Company invests in start-up technology companies whose products and services are under development. The successful development and commercialization of these products and services is subject to a high degree of risk. Judgement is applied in the consideration of impairment indicators of investments.

Management has applied judgments in the assessment of the Company's ability to continue as a going concern when preparing its financial statements for the year ended July 31, 2018. Management prepares the consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considered a wide range of factors relating to current and expected profitability, current working capital levels, and potential sources of replacement financing.

As a result of the assessment and as described in Note 1 – Nature of Operations and Going Concern Uncertainty, management concluded the going concern basis of accounting is appropriate based on its profit and cash flow forecast and expectations with respect to access to financing for the next twelve months.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. NEW ACCOUNTING STANDARDS AND POLICIES

Accounting Standards Issued But Not Yet Applied

At the date of authorization of these consolidated financial statements, the following standards, amendments and interpretations have not been adopted:

3. NEW ACCOUNTING STANDARDS AND POLICIES (CONT'D)

Financial Instruments

In November 2013, the IASB issued IFRS 9, Financial Instruments, (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39). IFRS 9 (2009) establishes the measurement and classification of financial assets. Financial assets are measured either at fair value through earnings or at amortized cost if certain conditions are met. IFRS 9 (2010) includes guidance on the classification and measurement of financial liabilities.

The most recent amendment, IFRS 9 (2013) includes a new general hedge accounting model, which will align hedge accounting more closely with risk management. Additionally, the new standard removes the January 1, 2015 effective date. The new mandatory effective date of this standard is fiscal years beginning on or after January 1, 2018. The Company is currently assessing the impact that the adoption of the new standard will have on its financial statements.

Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. The new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for fiscal years beginning on or after January 1, 2018. The Company has determined that adoption of the new standard will not have a material impact on its financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accompanying financial information reflects the same accounting policies and methods of application as the Company's consolidated financial statements for the prior year ended July 31, 2017.

Principles of Consolidation

These consolidated financial statements consist of Mobio Technologies Inc. and its wholly owned subsidiaries.

(a) Basis of Consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to, directly or indirectly, govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account in the assessment of whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. Subsidiaries are deconsolidated on the date that control ceases.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of Consolidation (cont'd)

The consolidated financial statements at July 31, 2018 and 2017 include the assets, liabilities, revenues and expenses of the Company's 100% controlled and wholly owned subsidiaries. All inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

(b) Business Combinations

The acquisitions which meet the definition of a "business", as defined in IFRS 3 – *Business Combinations*, are accounted for as a business combination using the acquisition method, and require the purchase price to be allocated to the fair values of the net assets acquired, including any intangible assets that may have arisen as a result of the acquisition, with the remainder of the purchase price allocated to goodwill. Those acquisitions which did not meet the definition of a business are accounted for as a purchase of assets. The judgments applied to making this determination includes assessing whether the acquisition contains inputs, processes, and outputs as described in IFRS 3.

(c) Functional Currency and Presentation

The Company's functional currency is the Canadian dollar and transactions in foreign currencies are translated into Canadian dollars at rates of exchange at the time of such transactions. Monetary assets and liabilities are translated at reporting period rate of exchange. Non-monetary assets and liabilities are translated at historical exchange rates.

Revenue and expenses denominated in a foreign currency are translated at the monthly average exchange rate (except for depreciation and amortization which is translated at historical exchange rates). Gains and losses resulting from the translation adjustments are included in net loss.

(d) Intangible Assets and Goodwill

Intangible assets with finite lives consist of acquired technologies and software. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives and are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization commences once the underlying asset is complete and put into use. Cost for intangible assets acquired in a business combination represents the fair value of the asset at the time of the acquisition. Intangible assets with finite lives are currently amortized over the following periods:

<u>Estimated useful life</u>	
Software	3 years

Goodwill is not amortized and is reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to the CGU to which it relates.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Revenue Recognition

Revenue is recognized when a contractual arrangement is in place, the fee is fixed and determinable, the products and services have been delivered to the customer, and collectability is reasonably assured. The Company's principal source of revenue and recognition of these revenues are as follows:

- (i) On-line subscription fees; and
- (ii) Advertising and sponsorship fees.

Payments received in advance are recorded as deferred revenue and recognized into revenue as services are delivered or subscription time elapses.

(f) Financial Instruments

All financial instruments are initially measured at fair value and categorized as either held-to-maturity, fair value through profit or loss ("FVTPL"), loans and receivables, available-for-sale or other financial liabilities.

Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method. Impairment losses are charged to net loss in the period in which they arise.

FVTPL financial instruments are measured at fair value with changes in fair value charged or credited to net loss in the period in which they arise.

Loans and receivables are subsequently measured at amortized cost using the effective interest method. Impairment losses are charged to net loss in the period in which they arise.

Available-for-sale financial instruments are measured at fair value with changes in fair value charged or credited to other comprehensive income. Impairment losses are reclassified from other comprehensive income and charged to net earnings in the period in which they arise.

The Company has classified its financial instruments as follows:

Cash and restricted cash	Loans and receivables
Investments	FVTPL
Accounts receivable	Loans and receivables
Trade payables	Other financial liabilities
Short-term loans	Other financial liabilities

The carrying amounts for cash and restricted cash, accounts receivable, accounts payable and short-term loans on the statement of financial position approximate their fair value due to the current nature of these instruments.

Other financial liabilities are initially measured at fair value less directly attributable transaction costs and subsequently measured at amortized cost using the effective interest method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Investments

Investments consist of common shares, preferred shares, warrants, limited partnership units and convertible promissory notes. Investments are initially recorded at cost, being the fair value at the time of acquisition. Subsequent to initial recognition investments continue to be measured at cost less impairment as the fair value of investments cannot be reasonably estimated due to the absence of reliable fair value information. Cost less impairment is therefore the Company's best estimate of fair value.

At the end of each financial reporting period, the Company's management evaluates potential fair value indicators of investments based on the criteria below and records such adjustment or impairment in the financial statements directly in net loss:

- There has been a significant new equity financing with arms-length investors at a valuation above or below the current fair value of the investee company, in which case the fair value of the investment is adjusted to the value at which the financing took place; or
- Based on financial information received from the investee company it is apparent to the Company that the investee company is unlikely to be able to continue as a going concern, in which case the fair value of the investment is adjusted downward; or
- There have been significant corporate, operating, technological or economic events affecting the investee company that, in the Company's opinion, have a positive or negative impact on the investee company's prospects and, therefore, its fair value; or
- The investee company is placed into receivership or bankruptcy.

In addition to the circumstances described above, the Company will take into account general market conditions when determining if an adjustment to the fair value of an investment is warranted at the end of each reporting period. Absent the occurrence of any of these events, or any significant change in general market conditions, the fair value of the investment is left unchanged.

Application of the valuation techniques described above may involve uncertainties and determinations based on the Company's judgment, and any value estimated from these techniques may not be realized (Note 2).

The amount at which an investment could be disposed of may differ from its carrying value due to the availability and/or reliability of information available to the Company.

Transaction costs incurred in the purchase and sale of investments are recorded as an expense in the Consolidated Statements of Comprehensive Loss.

(h) Share-Based Payments

Stock options issued are accounted for in accordance with fair value accounting for share-based payments. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model. The associated expense is charged to profit or loss with a corresponding increase to share-based payment reserves over the vesting period of the option on a straight-line basis. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Compensation expense for stock options granted to non-employees is recorded as an expense in the period at the earlier of the completion of performance and the date the options are vested using the fair value method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Share-Based Payments (cont'd)

As the options are exercised, the consideration paid, along with the amount previously recognized in share-based payment reserves, is recorded as an increase to share capital. For stock options which have expired or been forfeited, the amount previously recognized in share-based payments reserve is reclassified to deficit.

(i) Warrants

The proceeds from private placements that include warrants are allocated on a relative fair value basis between the common shares and warrants. The fair value attributed to warrants is recorded in warrant reserves within equity. If the warrants are converted, the consideration paid, along with the amount previously recognized in warrant reserves, is recorded as an increase to share capital. Upon expiry of warrants, any fair value attributed is reclassified to share capital.

(j) Impairment of Non-Financial Assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

Impairment is determined by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell or the value in use. The Company identifies CGUs as identifiable groups of assets that are largely independent of the cash inflows from other assets or groups of assets. Value in use calculations require estimations of discount rates and future cash flows derived from revenue growth, gross margin and operating costs. Fair value less costs to sell calculations require the Company to estimate fair value of an asset or a CGU using market values of similar assets as well as estimations of the related costs to sell.

Impairment losses are recognized in profit or loss in the period in which the impairment is identified. Impairment losses recognized in respect of a CGU are allocated first to reduce the carrying value of goodwill allocated to the CGU and any excess is allocated to the carrying amount of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not subsequently reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Contingent Liabilities

A contingent liability is defined as a possible obligation arising from past events or a present obligation where it is not probable that an outflow of resources will occur or the amount of obligation cannot be measured. On determining the probability of occurrence and estimate of exposure, the Company relies upon their understanding of the past event, including activities undertaken by other parties. Contingent liabilities are disclosed unless the probability of occurrence is remote. There are no contingent liabilities disclosed for the Company.

(l) Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net loss. Comprehensive loss is equal to net loss for the years ended July 31, 2018 and 2017.

(m) Non-Monetary Transactions

All non-monetary transactions are measured at the fair value of the asset surrendered or the asset received, whichever is more reliable, unless the transaction lacks commercial substance or the fair value cannot be reliably established. The commercial substance requirement is met when the future cash flows are expected to change significantly as a result of the transaction. When the fair value of a non-monetary transaction cannot be accurately measured it is recorded at the carrying amount of the asset given up adjusted by the fair value of any monetary consideration received or given.

(n) Loss per Share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted-average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. The method requires computation as if the proceeds from the exercisable options and warrants would be used to purchase common shares at the average market price during the period. For the periods presented, diluted loss per share is equal to basic loss per share since the effects of stock options and warrants were anti-dilutive.

(o) Income Taxes

Income tax expense consists of current and deferred tax expenses. Income tax expense is recognized in net loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized directly in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(o) Income Taxes (cont'd)

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognized for temporary differences related to the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or investments in subsidiaries and equity investments to the extent it is probable that they will not be reversed in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that asset.

(p) Convertible Debentures and Short-Term Loans

Convertible debentures and short-term loans are separated into their liability and equity components on the Consolidated Statements of Financial Position. The liability component is initially recognized at fair value, determined as the net present value of future payments of interest and principal, discounted at the market rate for similar non-convertible liabilities at the time of issue. The liability component is subsequently measured at amortized cost, using the effective interest method, until extinguished upon conversion or maturity.

The fair value of the equity component of debt is estimated using the residual method in which the difference between the face value of the instrument and the fair value of the liability component is allocated as the fair value of the equity component. The issuance costs have been allocated on a pro-rata basis between the debt and equity components. See Note 11 – Short-Term Loans and Note 12 – Convertible Debentures for additional information.

5. ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of amounts due from customers and excise taxes refundable. Amounts due from customers relate to the operations of Strutta.

		July 31		July 31,
		2018		2017
Trade receivables	\$	11,326	\$	16,452
GST recoverable		2,748		2,351
Total accounts receivable	\$	14,074	\$	18,803

6. INTANGIBLE ASSETS

The Company's intangible assets consisted entirely of software-related intangible assets.

Cost	
Balance, July 31, 2018 and 2017	\$ 7,539,896
Amortization	
Balance, July 31, 2016	6,612,075
Amortization for the year	927,821
Balance, July 31, 2018 and 2017	\$ 7,539,896
Carrying amount, July 31, 2018 and 2017	\$ -

7. INVESTMENTS

The Company's investee companies are startup companies in the online gaming, travel information, media content distribution, healthcare, and business services sectors. Investments consist of common shares, preferred shares, warrants, convertible notes and limited partnership units. The Company does not presently have any positions that result in significant influence.

Convertible notes are unsecured and bear interest annually at rates from 8 to 10% and mature in two years or less. The notes are convertible upon certain future events transpiring, and such events are uncertain as to both their occurrence and their magnitude. See Note 2 – Basis of Presentation for judgement applied in the assessment of impairment of investments.

During the year ended July 31, 2018, the Company made four investments for a total of \$350,000 (2017 - \$563,722). During the year ended July 31, 2017, the Company entered into an investment agreement with a limited partnership for a total commitment of \$1,000,000 and advanced the initial commitment of \$150,000. During the year ended July 31, 2018, the Company decided not to invest further in the limited partnership and has recorded an impairment of \$150,000 on this investment in the consolidated statement of comprehensive loss for the year ended July 31, 2018.

The following tables set forth the changes to the Company's investments during the years ended July 31, 2018 and 2017:

Year ended July 31, 2018

	Investments				Foreign Exchange	
	Opening Balance	Additions	Interest Accrued	Impairment	Gain	Fair Value
Investments	\$ 698,545	\$ 350,000	\$ 46,624	\$ (150,000)	\$ 6,845	\$ 952,014

7. INVESTMENTS (CONT'D)

Year ended July 31, 2017

	Opening Balance	Additions	Interest Accrued	Impairment	Foreign Exchange (Loss)	Fair Value
Investments	\$ 122,795	\$ 563,722	\$ 17,146	\$ -	\$ (5,118)	\$ 698,545

8. COMMITMENTS

In May 2017, the Company entered into an office lease agreement for three years. Minimum lease commitments under the agreement are:

To July 2019	\$ 16,601
To July 2020	12,852
	<u>\$ 29,453</u>

9. RESTRICTED CASH

The Company has pledged \$25,235 (2017 - \$25,235) in cash as collateral against the credit limits of credit cards issued to the Company. Cash pledged is held in short-term GICs maturing in 30 days or less.

10. TRADE PAYABLES AND ACCRUALS

As of July 31, 2018, the Company's trade payables and accrued expenses were as follows:

	July 31, 2018	July 31, 2017
Trade payables	\$ 275,895	\$ 299,778
Accrued liabilities	288,032	173,082
Total trade payables and accruals	<u>\$ 563,927</u>	<u>\$ 472,860</u>

Included in accrued liabilities at July 31, 2018 is \$240,000 (July 31, 2017 - \$120,000) owing to an officer of the Company and included in trade payables is \$3,938 (July 31, 2017 - \$Nil) owing to an officer of the Company. (see Note 15 – Related Party Transactions)

11. SHORT-TERM LOANS PAYABLE

On July 12, 2017, the Company received a loan in the amount of \$50,000 from a company with a common director and officer. The loan is unsecured, bears interest at 10% per annum and matures on July 12, 2018. During the year ended July 31, 2018, the Company recorded \$7,839 (year ended July

11. SHORT-TERM LOANS PAYABLE (CONT'D)

31, 2017 – \$241) in interest and accretion on the loan and made a payment of \$25,000 in cash and \$25,000 in common shares of the Company. The balance of the loan at July 31, 2018 is \$4,147 consisting of unpaid interest (2017 - \$50,241). (See Note 15 – Related Party Transactions).

On July 27, 2017, the Company received a loan in the amount of \$100,000 from a company with a common director and a common officer. The loan is unsecured, bears interest at 10% per annum and matured on July 27, 2018. Currently the loan is repayable on demand and continues to bear interest at 10%. During the year ended July 31, 2018, the Company recorded \$18,327 (year ended July 31, 2017 - \$137) in interest and accretion on the loan. The balance of the loan at July 31, 2018 is \$110,624 (2017 - \$100,137). (See Note 15 – Related Party Transactions).

On September 12, 2017, the Company received a loan in the amount of \$20,000 from a company with a common director and officer. The loan is unsecured and bears interest at 10%. During the year ended July 31, 2018, the Company accrued \$1,843 (year ended July 31, 2017 - \$Nil) in interest on the loan. Principal and any unpaid interest are due on September 12, 2018. The balance of the loan at July 31, 2018 is \$21,843. (See Note 15 – Related Party Transactions).

On October 3, 2017, the Company received a loan in the amount of \$50,000 from a company with a common director and a common officer. The loan is unsecured, bears interest at 10% per annum and matures on October 3, 2018. During the year ended July 31, 2018, the Company recorded \$7,436 (year ended July 31, 2017 - \$Nil) in interest and accretion on the loan. The balance of the loan at July 31, 2018 is \$53,504. (See Note 15 – Related Party Transactions).

On November 6, 2017, the Company received a loan in the amount of \$50,000 from a company with a common director and a common officer. The loan is unsecured, bears interest at 10% per annum and matures on November 6, 2018. During the year ended July 31, 2018, the Company recorded \$6,599 (year ended July 31, 2017 - \$Nil) in interest and accretion on the loan. The balance of the loan at July 31, 2018 is \$52,667. (See Note 15 – Related Party Transactions).

On November 7, 2017, the Company received a loan in the amount of \$150,000 from a company with a common director and a common officer. The loan is unsecured, bears interest at 10% per annum and matures on November 7, 2018. During the year ended July 31, 2018, the Company recorded \$19,722 (year ended July 31, 2017 - \$Nil) in interest and accretion on the loan. The balance of the loan at July 31, 2018 is \$157,925. (See Note 15 – Related Party Transactions).

On December 12, 2017, the Company received a loan in the amount of \$50,000 from a company with a common director and a common officer. The loan is unsecured, bears interest at 10% per annum and matures on December 12, 2018. During the year ended July 31, 2018, the Company recorded \$5,690 (year ended July 31, 2017 - \$Nil) in interest and accretion on the loan. The balance of the loan at July 31, 2018 is \$51,758. (See Note 15 – Related Party Transactions).

On February 27, 2018, the Company received a loan in the amount of \$20,000 from a company with a common director and officer. The loan is unsecured and bears interest at 10%. Principal and any unpaid interest are due on February 27, 2019. During the year ended July 31, 2018, the Company accrued \$864 (year ended July 31, 2017 - \$Nil) in interest on the loan. The balance of the loan at July 31, 2018 is \$20,864. (See Note 15 – Related Party Transactions).

11. SHORT-TERM LOANS PAYABLE (CONT'D)

The above loans were initially recognized at their face value less the value of the equity component of \$35,366, as determined by discounting the loans at an appropriate market rate.

On December 21, 2017, the Company received a loan in the amount of \$100,000. The loan is unsecured, bears interest at 10% per annum and matures on December 21, 2018. Current value includes accrued interest of \$1,126. During the year ended July 31, 2018, the Company accrued \$4,891 (year ended July 31, 2017 - \$Nil) in interest on the loan and made a payment of \$25,000 in cash and \$25,000 in common shares of the Company. The loan balance at July 31, 2018 is \$54,891.

The short-term loans are made up as follows:

	Liability component	Equity component
Balance, July 31, 2016	\$ 209,687	\$ 2,974
Issuance	150,000	-
Interest accrued	1,421	-
Repayments	(210,730)	(2,974)
Balance, July 31, 2017	150,378	-
Issuance	404,634	35,366
Interest accrued and accretion	73,211	-
Repayments	(100,000)	-
Balance, July 31, 2018	\$ 528,223	\$ 35,366

12. CONVERTIBLE DEBENTURES

On December 15, 2015, the Company issued an unsecured convertible debenture (the "Debenture") in the principal amount of \$375,000 (the "Principal Amount") to Lanebury Growth Capital Ltd., (the "Lender"). The Debenture had an original maturity date of June 1, 2016 (the "Maturity Date"), with interest accruing at a rate of 12% per annum and payable upon maturity ("Interest"). At the option of the Lender, on or prior to the Maturity Date, the Principal Amount and all accrued Interest may have been converted into common shares of the Company (the "Conversion Right") at a price per common share of \$0.30, subject to such minimum conversion price as may be prescribed by the policies of the TSX Venture Exchange (the "Conversion"). The Lender could only elect to convert the Principal Amount and Interest in whole and not in part.

The Debenture was a compound financial instrument which consisted of the debt instrument and the equity conversion feature. At initial recognition, the Company allocated the proceeds between debt and equity. The allocation was performed by first estimating the fair value of the debt instrument by discounting expected future cash flows at a market rate of interest applicable to a similar liability without an equity component. The Company then used the residual method to determine the value of the equity component represented by the conversion feature.

12. CONVERTIBLE DEBENTURES (CONT'D)

On January 15, 2016, the Company entered into a transaction with Twenty Year Media Corp. ("TYM") and the Lender whereby \$250,000 of the Principal Amount and \$2,500 in Interest was assumed by TYM, and the Company agreed to transfer cash in the amount of \$250,000 to TYM, in aggregate, from the date of the Debenture's issuance. Upon completion of this transaction, the Debenture issued by the Company had a Principal Amount of \$125,000. The Maturity Date and rate of interest remained unchanged. The Conversion Right then only applied to the resulting \$125,000 Principal Amount and Interest accrued up to and including the Maturity Date.

During the year ended July 31, 2017, the Company repaid the Debenture and interest in full, by way of a cash payment of \$135,730, as the Lender did not exercise the Conversion Right. Upon repayment of the Debenture, the Company de-recognized the equity component of the Debenture, realizing a gain of \$2,974, which is included under "gain on debt repayment" on the Company's Consolidated Statements of Comprehensive Loss.

13. SHARE CAPITAL

Authorized:

- Unlimited number of common shares without par value.
- Unlimited number of preferred shares without par value, non-voting and entitled to such dividends as may be set by the Board of Directors of the Company.

Issued and outstanding shares

During the year ended July 31, 2018, the Company consolidated its common shares on the basis of 1 new share for every 2 old shares (the "Consolidation"). Prior to the Consolidation, the Company had 36,838,907 common shares issued and outstanding. No fractional shares were issued pursuant to the Consolidation, and subsequent to the Consolidation, the Company had 18,419,453 common shares issued and outstanding.

During the year ended July 31, 2017, the Company consolidated its common shares on the basis of 1 new share for every 2 old shares then outstanding. No fractional shares were issued pursuant to this consolidation.

All comparative references herein to the number of shares, options, warrants, weighted average number of common shares and loss per share have been restated for both consolidations, including all such numbers presented for the prior year.

On March 26, 2018, the Company completed a private placement financing, issuing 3,333,340 units at a price of \$0.15 per unit for gross proceeds of \$500,001. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one additional common share at \$0.30 for a period of two years from the date of issuance. Share issuance costs of \$9,634, including finders' fees in the amount of \$6,072, and 40,475 finders' warrants with a fair value of \$3,167 were paid in connection with the private placement. The finders' warrants are exercisable at \$0.15 per share for a period of one year from the date of issuance. The fair value of the finders' warrants was determined using the Black-Scholes pricing model with a risk-free rate of 1.79%, a volatility factor of 124.74%, dividends of nil, and an expected life of the warrants of one year. The fair value of warrants issued in connection with the private placement was \$116,755.

13. SHARE CAPITAL (CONT'D)

On April 23, 2018, the Company issued 433,335 common shares and 50,000 share purchase warrants to settle debt of \$65,000, of which \$25,000 was owing to a related party. The share purchase warrants are exercisable at \$0.30 per share for a period of two years from the date of issuance. The Company recorded a loss on debt settlement of \$4,363.

On August 24, 2016, the Company closed a non-brokered private placement for gross proceeds of \$1,627,501. The Company issued 8,137,500 units to investors at a price of \$0.20 per unit, with each unit consisting of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$0.30 for a period of 24 months. In connection with the private placement, the Company incurred share issuance costs of \$32,861 including cash finders' fees of \$12,300 and 122,500 finders' warrants valued at \$6,580. The finders warrants have the same exercise price and terms as the warrants forming part of the units. The fair value of warrants issued in connection with the private placement was \$437,014.

Warrants

In connection with the private placement financing completed on March 26, 2018, the Company issued 1,666,670 share purchase warrants, the fair value of which was \$196,955, calculated using the Black-Scholes option pricing model, and this value is included under "warrant reserves" on the Company's Consolidated Interim Statements of Financial Position. The warrants are exercisable at a price of \$0.30 per share for a period of two years from the date of issuance.

In connection with the debt settlement completed on April 23, 2018, the Company issued 50,000 share purchase warrants, the fair value of which was \$4,363, calculated using the Black-Scholes option pricing model, and this value is included under "warrant reserves" on the Company's Consolidated Interim Statements of Financial Position. The warrants are exercisable at a price of \$0.30 per share for a period of two years from the date of issuance.

During the year ended July 31, 2018, 107,500 warrants were exercised for proceeds of \$32,250 and 1,463,928 warrants exercisable at \$0.30 expired. The fair value of the expired warrants of \$103,130 was reclassified from warrant reserve to share capital.

In connection with the private placement financing completed on August 24, 2016, the Company issued 4,130,000 share purchase warrants, the fair value of which was \$437,014 calculated using the Black-Scholes option pricing model, and this value is stated under "warrant reserves" on the Company's Consolidated Interim Statements of Financial Position. The warrants have a life of 24 months.

13. SHARE CAPITAL (CONT'D)

Warrants (cont'd)

Share purchase warrant transactions during the years ended July 31, 2018 and 2017, were as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, July 31, 2016	1,571,428	\$ 0.30
Warrants issued	4,130,000	0.30
Balance, July 31, 2017	5,701,428	0.30
Warrants issued	1,757,145	0.30
Warrants exercised	(107,500)	0.30
Warrants expired	(1,463,928)	0.30
Balance, July 31, 2018	5,887,145	\$ 0.30

The weighted average life of the warrants is 0.53 years.

The following assumptions were used for the valuation of share purchase warrants issued during the years ended July 31, 2018 and 2017:

	July 31, 2018	July 31 2017
Risk-free interest rate	1.80%	0.61%
Expected life	24 months	20 months
Estimated volatility	147%	175%
Dividend rate	0.00%	0.00%

As at July 31, 2018, the following warrants were issued and exercisable:

Number of Warrants	Exercise Price	Expiry Date
4,130,000	\$ 0.30	August 24, 2018
40,475	\$ 0.15	March 26, 2019
1,666,670	\$ 0.30	March 26, 2020
50,000	\$ 0.30	April 23, 2020
5,887,145		

Stock Options

Under the Company's Stock Option Plan, options may be granted to directors, officers, employees and consultants of the Company. Options expire between two and five years after being issued or thirty days after an optionee ceases to be engaged in a bona fide manner with the Company. The Board of Directors has the discretion to extend the expiration period on cessation of engagement. The maximum number of common shares authorized for issuance by the Board of Directors under the plan is limited to 10% of the total issued and outstanding common shares of the Company and the

13. SHARE CAPITAL (CONT'D)

Stock Options (cont'd)

aggregate number of common shares to be delivered upon exercise of the options to any one individual granted under the plan may not exceed 5% of the common shares issued and outstanding.

On January 19, 2018, the Company issued 400,000 incentive stock options to key members of the Company at an exercise price of \$0.22 per share and exercisable for ten years. Options issued to directors and 50% of the balance of the options vested immediately with the remainder of the options vesting in one year. The fair value of the options granted was \$79,968 determined using the Black Scholes option pricing model with the following assumptions: risk free rate of 2.23%, volatility of 222.78%, and expected life of 10 years. Share-based payments of \$70,920 (2017 - \$Nil) were recorded in the year ended July 31, 2018 in connection with the options.

During the year ended July 31, 2018, 33,750 options expired. The fair value of the expired options of \$173,436 was reclassified from share-based payments reserve to deficit.

No options were issued during the year ended July 31, 2017.

A summary of the changes in the Company's outstanding stock options is as follows:

	Number of Options	Weighted Average Exercise Price
Balance July 31, 2017 and 2016	188,875	\$ 4.60
Issued	400,000	\$ 0.22
Expired	(33,750)	\$ 7.75
Balance, July 31, 2018	555,125	\$ 1.25

The weighted average life of the options is 7.13 years.

As at July 31, 2018, the following stock options were issued and exercisable:

Outstanding (#)	Exercisable (#)	Exercise Price (\$)	Expiry Date
18,000	18,000	6.00	Oct. 11, 2018
9,625	9,625	20.00	Dec. 24, 2018
6,250	6,250	10.00	Apr. 2, 2019
96,250	96,250	2.00	Oct. 31, 2019
25,000	25,000	2.00	Dec. 3, 2019
400,000	325,000	0.22	Jan. 19, 2028
555,125	480,125		

14. LOSS PER SHARE

The basic loss per common share is calculated using the weighted average number of common shares outstanding during the period. Any warrants and stock options outstanding as at July 31, 2018 and 2017 have not been included in the calculation of diluted loss per common share as the effect of their inclusion would be anti-dilutive.

Loss per share is calculated as follows:

Loss Per Share Calculation	Weighted Average Shares Outstanding	Net Loss	Loss Per Share
Year ended July 31, 2018	15,886,228	\$ (951,793)	\$ (0.06)
Year ended July 31, 2017	14,032,505	\$ (1,952,681)	\$ (0.14)

15. RELATED PARTY TRANSACTIONS

Payments to key management and directors during the years ended July 31, 2018 and 2017 were as follows:

	2018	2017
Management fees paid to current and former directors and/or officers, or to companies controlled by directors and/or officers	\$ 165,000	\$ 198,000
Share-based payments to directors and officers	46,727	-
Total compensation	\$ 211,727	\$ 198,000

Fees paid to directors and officers are included in the line item "Personnel" in the Company's Consolidated Statements of Comprehensive Loss.

For other related party loans see Note 11 – Short-Term Loans Payable.

Interest and accretion recorded on related party loans is as follows:

	2018	2017
Interest and accretion accrued on loans payable to companies with a common director and officer or to companies controlled by directors and/officers	\$ 68,320	\$ 378

Included in accrued liabilities at July 31, 2018 is \$240,000 (2017 - \$120,000) owing to an officer of the Company and included in trade payables is \$3,938 (2017 - \$Nil) owing to an officer of the Company.

16. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, restricted cash, accounts receivable, investments, trade payables and short-term loans payable. As at July 31, 2018 and 2017, there were no significant differences between the carrying amounts of these items and their estimated fair values. The carrying value of these items approximates their fair values.

16. FINANCIAL INSTRUMENTS (CONT'D)

Fair Value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy based on the degree to which the inputs used to determine the fair value are observable.

The three levels of the fair value hierarchy are:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of July 31, 2018, all of the Company's investments are classified as Level 3, other than cash which is classified as Level 1.

The Board of Directors approves and monitors the risk management processes. The Company has exposure to the following risks from its use of financial instruments:

- Interest rate risk
- Credit risk
- Liquidity risk
- Market risk
- Currency risk

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company manages its financial instruments with the objective of minimizing potential interest rate risk, which generally means avoiding interest-bearing obligations other than in unusual circumstances. The Company is not exposed to significant interest rate risk as the Company's investments and liabilities have fixed interest rates.

Credit Risk

Credit risk is the risk of potential loss to the Company if the counter party to a financial instrument fails to meet its contractual obligations. The credit risk of the Company is associated with cash, restricted cash, and accounts receivable. Management believes that the credit risk with respect to cash and restricted cash is minimal as balances are held with a high-credit quality financial institution. Accounts receivable have historically been subject to very few bad debts.

Liquidity Risk

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable, purchasing commitments and obligations or raising funds to sustain operations. The Company controls liquidity risk by management of working capital and cash flows. The Company's ability to meet its future obligations may depend in significant part on the extent to which the Company can raise sufficient funds or implement successfully its business growth and cost reduction strategies. The Company cannot provide any assurance that it will be able to implement its strategy fully or that the anticipated results of its strategy will be realized.

16. FINANCIAL INSTRUMENTS (CONT'D)

Market Risk

The Company's exposure to financial market risk is limited, as it presently does not have any investments where value fluctuates as a result of changes in prices quoted in open markets.

Currency risk

The Company is headquartered in Canada and its functional reporting currency is the Canadian dollar. The Company's cash assets, investments, and liabilities are denominated in Canadian and US dollars. Additionally, a portion of Strutta's revenues are denominated in US dollars. As such, the Company's results of operations are subject to foreign currency fluctuation risks and these fluctuations may adversely affect the financial position and operating results of the Company. As of July 31, 2018, the Company does not use derivative instruments to reduce its exposure to currency risk.

17. CAPITAL MANAGEMENT

The Company defines capital as an aggregate of cash, common shares, warrants and stock options. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company targets to meet this objective by managing working capital to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements in the near term. The Board of Directors does not establish quantitative return on capital criteria for management. In recent years, the Company has relied on funds generated through the issuance of common shares and short-term loans to supplement funds generated from operations.

18. INCOME TAXES

A reconciliation of the calculated income taxes for the fiscal years ended July 31, 2018 and 2017 are as follows:

	July 31, 2018	July 31, 2017
Combined federal and provincial statutory income tax rate	27.00%	26.00%
Accounting loss before income taxes	\$ (951,793)	\$ (1,952,681)
Expected income tax recovery at statutory rates	(256,984)	(507,697)
Non-deductible expenditures	19,148	628
Other	83,208	79,994
Effect of changes in tax rate	(257,160)	-
Change in valuation	411,788	427,075
Income tax recovery	\$ -	\$ -

18. INCOME TAXES (CONT'D)

The Company did not recognize the following deferred tax assets for the following deductible temporary differences:

	July 31, 2018	July 31, 2017
Non-capital losses	\$ 14,871,907	\$ 14,029,797
Capital losses	6,403,418	6,454,402
Other deductible temporary differences	1,137,476	1,048,105
	22,412,801	21,532,304
Tax benefits not recognized	(22,412,801)	(21,532,304)
Balance	\$ -	\$ -

The Company's tax loss carry-forwards that it can apply against income in future years are as follows:

Tax Non-capital loss carry-forward schedule		
Year of expiry		Amount
2026	\$	113,597
2027		112,640
2028		168,755
2029		243,923
2030		136,128
2031		266,894
2032		650,632
2033		1,790,667
2034		6,752,599
2035		1,340,198
2036		1,337,922
2037		1,116,791
2038		841,161
	\$	14,871,907

19. SUBSEQUENT EVENTS

Subsequent to the year-end:

- 1) The Company extended the original expiry date of August 24, 2018, of 4,068,750 common share purchase warrants by twelve months. The new expiry date has been extended to August 24, 2019.
- 2) The Company received a loan in the amount of \$200,000 from a third party. The loan is unsecured and bears interest at 10%. Principal and any unpaid interest are due on August 17, 2020.

19. SUBSEQUENT EVENTS (CONT'D)

- 3) The Company received a loan in the amount of \$50,000 from a company with a common director and officer. The loan is unsecured and bears interest at 10%. Principal and any unpaid interest are due on August 20, 2020.
- 4) The Company received a loan in the amount of \$379,828 (US\$300,000) from a company with a common director and officer. The loan is unsecured and bears interest at 10%. Principal and any unpaid interest are due on August 30, 2020.
- 5) The Company purchased 945,945 units of ThinkCX Technologies, Inc. ("ThinkCX") for \$350,000. Each unit consisted of one Series 1 Class A Preferred share of ThinkCX and one Series 1 Class A Preferred share purchase warrant of ThinkCX. Each purchase warrant entitles the Company to purchase one Series 1 Class A Preferred share of ThinkCX at an exercise price of \$0.37 per share for a period ending on August 23, 2019.