

# **BeWhere Holdings Inc.**

**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the Periods Ended September 30, 2018 and 2017**

**(Expressed in Canadian Dollars)**

**BeWhere Holdings Inc.**

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For the Periods Ended September 30, 2018 and 2017

(Expressed in Canadian Dollars)

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**BeWhere Holdings Inc.**

## Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 1,371,310	\$ 3,205,914
Trade receivable (Notes 4 and 12)	737,146	519,739
HST and other receivables	96,627	151,099
Prepaid expenses (Note 5)	93,732	69,243
Inventory (Note 6)	892,749	112,160
Total current assets	3,191,564	4,058,155
Intangible assets (Note 7)	1,417,494	530,576
Property and equipment – net (Note 8)	17,039	19,594
<b>Total assets</b>	<b>\$ 4,626,097</b>	<b>\$ 4,608,325</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (Notes 9 and 12)	\$ 965,769	\$ 417,742
Deferred revenue (Note 12)	44,533	-
Total current liabilities	1,010,302	417,742
<b>Long-term Liabilities</b>		
Deferred revenue (Note 12)	27,189	-
Total liabilities	1,037,491	417,742
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 11)	8,392,663	7,970,723
Share-based payment reserve (Note 11)	862,606	793,971
Deficit	(5,666,663)	(4,574,111)
Total shareholders' equity	3,588,606	4,190,583
<b>Total liabilities and shareholders' equity</b>	<b>\$ 4,626,097</b>	<b>\$ 4,608,325</b>

Nature of operations (Note 1)

These financial statements are authorized for issue by the Board of Directors on November 29, 2018.

They are signed on the Company's behalf by:

"Rajiv Khanna"  
Rajiv Khanna, CFO

"Owen Moore"  
Owen Moore, CEO

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

**BeWhere Holdings Inc.**

## Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue (Note 12)	\$ 1,052,087	706,956	\$ 2,197,399	1,243,837
Cost of sales	845,210	488,840	1,514,281	839,001
Gross profit	206,877	218,116	683,118	404,836
Expenses				
Amortization and depreciation (Notes 7 and 8)	52,969	33,876	159,251	77,304
Consulting fees	90,697	95,738	379,258	174,117
General and office expenses	40,854	43,253	138,340	103,328
Insurance	2,929	5,517	10,868	12,213
Bad debts	11,553	12,000	34,442	47,000
Marketing	33,896	120,126	194,495	185,852
Professional fees	22,906	38,773	63,380	106,576
Rent	11,900	8,981	35,700	35,875
Salaries and wages	189,309	123,056	514,805	591,577
Share-based payments (Note 11)	56,436	-	212,620	84,215
Travel	3,727	50,257	31,375	65,990
	517,176	531,577	1,774,534	1,484,047
Loss before income taxes	(310,299)	(313,461)	(1,091,416)	(1,079,211)
Other items:				
Foreign exchange gain (loss)	1,449	5,080	(1,136)	900
<b>Total comprehensive loss for the period</b>	<b>\$ (308,850)</b>	<b>(308,831)</b>	<b>\$ (1,092,552)</b>	<b>(1,078,311)</b>
<b>Basic loss per share</b>	<b>\$ (0.00)</b>	<b>(0.01)</b>	<b>\$ (0.02)</b>	<b>(0.02)</b>
<b>Weighted average shares outstanding</b>	<b>66,065,421</b>	<b>52,806,968</b>	<b>62,491,166</b>	<b>51,493,064</b>
<b>Fully diluted loss per share</b>	<b>\$ (0.00)</b>	<b>(0.00)</b>	<b>\$ (0.01)</b>	<b>(0.02)</b>
<b>Fully diluted shares outstanding</b>	<b>74,413,523</b>	<b>65,202,689</b>	<b>74,413,523</b>	<b>65,202,689</b>

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

**BeWhere Holdings Inc.**

## Interim Consolidated Statements of Cash Flow

(Expressed in Canadian Dollars)

	<b>For the Periods Ended</b>	
	<b>September 30, 2018</b>	September 30, 2017
	\$	\$
Operations		
Comprehensive loss for the period	(1,092,552)	(1,078,311)
Items not affecting cash:		
Amortization and depreciation	159,251	77,304
Share-based compensation expense	212,620	84,215
Consulting fees – share based compensation	-	46,875
Bad debt	34,442	47,000
Changes in non-cash working capital items:		
Trade receivables	(197,377)	(562,482)
Inventory	(780,589)	(4,355)
Prepaid expenses	(24,489)	(2,286)
Deferred revenue	71,722	-
Accounts payable and accrued liabilities	548,027	336,716
Net cash used in operating activities	(1,068,945)	(1,055,306)
Investing		
Purchase of property and equipment	(3,613)	(4,817)
Customer relations	(213,086)	-
Development costs	(826,915)	(228,108)
Net cash used in investing activities	(1,043,614)	(232,925)
Financing		
Warrants exercised	200,880	504,674
Options exercised	77,075	138,900
Shares to be issued	-	-
Net cash provided by financing activities	277,955	643,574
Decrease in cash and cash equivalents	(1,834,604)	(644,657)
Cash and cash equivalents, beginning of period	3,205,914	1,824,103
Cash and cash equivalents, ending of period	1,371,310	1,179,446

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

**BeWhere Holdings Inc.**

## Interim Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

	Share Capital		Shares to be Issued	Share-based payment reserve	Deficit	Total
	Shares	Amount				
<b>Balance, December 31, 2017</b>	<b>64,732,230</b>	<b>\$ 7,970,723</b>	<b>\$ -</b>	<b>\$ 793,971</b>	<b>\$ (4,574,111)</b>	<b>\$ 4,190,583</b>
Exercise of warrants and options (Note 11)	1,354,658	421,940	-	(143,984)	-	277,955
Share-based compensation expense (Note 11)	-	-	-	212,620	-	212,620
Comprehensive loss for the period	-	-	-	-	(1,092,552)	(1,092,552)
<b>Balance, September 30, 2018</b>	<b>66,086,888</b>	<b>\$ 8,392,663</b>	<b>\$ -</b>	<b>\$ 862,606</b>	<b>\$ (5,666,663)</b>	<b>\$ 3,588,606</b>
<b>Balance, December 31, 2016</b>	<b>50,197,171</b>	<b>\$ 3,571,860</b>	<b>\$ 3,747</b>	<b>\$ 1,175,145</b>	<b>\$ (2,765,717)</b>	<b>\$ 1,985,035</b>
Exercise of warrants and options (Note 11)	2,883,749	793,610	-	(146,289)	-	647,321
Share-based compensation expense (Note 11)	-	-	-	84,215	-	84,215
Shares issued (Note 11)	500,000	93,750	-	-	-	93,750
Shares to be issued	-	-	(3,747)	-	-	(3,747)
Comprehensive loss for the period	-	-	-	-	(1,078,311)	(1,078,311)
<b>Balance, September, 2017</b>	<b>53,580,920</b>	<b>\$ 4,459,220</b>	<b>\$ -</b>	<b>\$ 1,113,071</b>	<b>\$ (3,844,028)</b>	<b>\$ 1,728,263</b>

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

## **1. Nature of Business and Going Concern**

### **Nature of business**

BeWhere Holdings Inc. (the “Company” or “BeWhere Holdings”) was incorporated on October 28, 2003 under the Ontario Business Corporations Act. The Company’s shares are listed on the TSX Venture Exchange. The primary office of the Company is located at 3264 Lakeshore Blvd West Etobicoke, Ontario M8V 1M4.

The Company is an internet provider of real-time information on equipment, tools, and inventory in-transit and at facilities serving the emergency service, construction, utility, and transportation industries. BeWhere Holdings designs and sells beacons and develops mobile applications, middle-ware, and cloud-based solutions enabling a level of operational visibility that was previously unavailable and/or cost prohibitive.

### **Going concern assumption**

The Company is in an early development stage and is subject to risks and challenges like other companies in comparable operations. These risks include, but are not limited to, dependence on key individuals, and the ability to secure adequate financing to meet the minimum capital required to successfully and continue as a going concern. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or available under terms favorable to the Company.

Operating losses to date, together with the challenges of securing requisite funding beyond the next twelve months, may lend significant doubt as to the Company’s ability to continue as a going concern and accordingly use of accounting principles applicable to a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and presentation that would be necessary should the going concern assumption be inappropriate, and those adjustments could be material.

## **2. Basis of Presentation and Statement of Compliance**

The unaudited interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting. The accounting policies applied in these financial statements are consistent with those used in the Company’s audited consolidated financial statements for the year ended December 31, 2017. The preparation of interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the related amounts of assets and liabilities, revenues and expenses. In management’s opinion, all adjustments considered necessary for fair presentation have been included in these financial statements. Interim results are not necessarily indicative of the results expected for the financial year. Annual results may differ from interim estimates. The significant judgments made by management applied in the preparation of these financial statements are consistent with those applied and disclosed in the Company’s audited financial statements for the year ended December 31, 2017. For a description of the critical accounting estimates and assumptions, please refer to the Company’s audited consolidated financial statements for the year ended December 31, 2017.

The board of directors approved these interim consolidated financial statements for issue on November 29, 2018.

### **Statement of compliance**

The interim consolidated financial statements of the Company comply 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”).

## 2. Basis of Presentation and Statement of Compliance (continued)

### Basis of measurement

These interim consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value. In addition, these interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The functional and presentation currency of the Company is the Canadian dollar.

### Basis of consolidation

The interim consolidated financial statements incorporated to the financial statements of the Company and entities controlled by the Company and its subsidiaries, Control is archived when the Company:

- has power over the investee;
- is exposed or has right to variable returns from its involvements with the investee; and
- has the ability to use its power to affect its returns.

The Company reassess whether or not its controls and investee if facts and circumstances indicate that there are changes or more of the three elements of control listed above.

These interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries BeWhere Inc. All transactions and balances between the Company and its subsidiary are eliminated in the consolidation.

## 3. Significant Accounting Policies

The accounting policies applied by the Company in these interim consolidated financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended December 31, 2017 with the exception of the following:

### Changes in Accounting Policies – Financial Instruments

The Company adopted all of the requirements of IFRS 9 Financial Instruments (“IFRS 9”) as of January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company’s accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

The following is the Company’s new accounting policy for financial instruments under IFRS 9:

#### (i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the

### 3. Significant Accounting Policies (continued)

#### Changes in Accounting Policies – Financial Instruments (continued)

##### (i) Classification (continued)

Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

<b>Financial asset / liabilities</b>	<b>Original classification IAS 39</b>	<b>New classification IFRS 9</b>
Cash	Amortized cost	Amortized cost
Trade receivable	Amortized cost	Amortized cost
HST receivable	Amortized cost	Amortized cost
Account payable	Amortized cost	Amortized cost

The Company did not restate prior periods as it recognized the effects of retrospective application to shareholders' equity at the beginning of the 2018 annual reporting period, which also includes the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive income on January 1, 2018.

##### (ii) Measurement

Financial assets and liabilities at amortized cost. Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL. Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of net (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of net (loss) income in the period in which they arise.

Financial assets and liabilities at FVTOCI. Financial assets and liabilities carried at FVTOCI are initially recorded at fair value and transaction costs are capitalized in the consolidated statements of financial position. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTOCI are included in the accumulated other comprehensive income in the period in which they arise and will be transferred into the consolidated statements of net (loss) income in the period in which the instrument is sold.

##### (iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

### 3. Significant Accounting Policies (continued)

#### Changes in Accounting Policies – Financial Instruments (continued)

##### (iv) Derecognition

Financial assets. The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of net (loss) income.

Financial liabilities. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements and since the Company did not have any financial liabilities designated at fair value through profit or loss, the adoption of IFRS 9 did not impact our accounting policies for financial liabilities.

#### Changes in Accounting Policies – Revenue from contracts with customers

The Company adopted all of the requirements of IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) as of January 1, 2018. IFRS 15 utilizes a methodical framework for entities to follow in order to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The change did not impact the cumulated revenue recognized or the related assets and liabilities on the transition date.

The following is the Company’s new accounting policy for revenue from contracts with customers under IFRS 15:

The Company derives revenue from the sale of beacons and their associated software, as well as professional services associated with customizing its products. Software revenue includes subscription, license and maintenance revenue derived from location-based software and software services. The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company’s activities as described below.

Revenue from hardware and software license sales is recognized when the hardware is shipped, or the software is delivered and when all significant contractual obligations have been satisfied. Revenue from software license sales is recognized upon delivery where there is evidence of an arrangement, the selling price is fixed or determinable and there are no significant remaining performance obligations. The customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer’s acceptance of the products. Once products are delivered to the Company’s customers, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales order, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Maintenance and support service revenues are recognized proportionately over the term of the contract. Revenue from professional services is recognized as earned, based on performance obligation according to specific terms of the contract. Foreseeable losses, if any, are recognized in the year or period in which the loss is determined.

#### 4. Trade Receivables

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Trade receivables	\$ 786,146	\$ 536,089
Allowance for doubtful accounts	(49,000)	(16,350)
	<b>\$ 737,146</b>	<b>\$ 519,739</b>

The Company generally does not hold any collateral as security for trade receivables; however, it minimizes its credit risk associated with its trade receivables by requiring customer deposits or prepayments in some cases and performing credit evaluation, approval, and monitoring processes. As of September 30, 2018, the allowance for doubtful trade accounts was \$49,000 (December 31, 2017 - \$16,350).

The aging of trade receivables as at the reporting date, based on due dates is as follows:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Current	\$ 639,566	\$ 394,937
31 – 60 days	17,361	28,278
61 – 90 days	14,235	44,771
Greater than 90 days	114,984	68,103
	<b>\$ 786,146</b>	<b>\$ 536,089</b>

#### 5. Prepaid Expenses

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Insurance	\$ 8,790	\$ 1,728
Director fee	-	1,188
Trade shows and others	84,942	66,327
	<b>\$ 93,732</b>	<b>\$ 69,243</b>

#### 6. Inventory

At September 30, 2018, the Company had inventory totaling \$892,749 (December 31, 2017 - \$112,160), which consists primarily of equipment purchases to third parties for resale.

#### 7. Intangible Assets

	<b>Internally developed technology</b>	<b>Development costs</b>	<b>Customer Relations</b>	<b>Patents</b>	<b>Total</b>
<b>Cost:</b>					
As at December 31, 2017	\$ 474,013	\$ 208,642	\$ -	\$ 20,283	\$ 702,938
Additions	-	826,915	213,086	-	1,040,001
As at September 30, 2018	<b>\$ 474,013</b>	<b>\$ 1,035,557</b>	<b>\$ 213,086</b>	<b>\$ 20,283</b>	<b>\$ 1,742,939</b>
<b>Accumulated depreciation:</b>					
As at December 31, 2017	\$ (169,450)	\$ -	\$ -	\$ (2,912)	\$ (172,362)
Additions	(118,500)	-	(33,062)	(1,521)	(153,083)
As at September 30, 2018	<b>\$ (287,950)</b>	<b>\$ -</b>	<b>\$ (33,062)</b>	<b>\$ (4,433)</b>	<b>\$ (325,445)</b>
<b>Net carrying amounts:</b>					
As at December 31, 2017	\$ 304,563	\$ 208,642	\$ -	\$ 17,371	\$ 530,576
Additions	(118,500)	826,915	180,024	(1,521)	886,918
As at September 30, 2018	<b>\$ 186,063</b>	<b>\$ 1,035,557</b>	<b>\$ 180,024</b>	<b>15,850</b>	<b>\$ 1,417,494</b>

## 7. Intangible Assets (continued)

The development costs are related to the development and testing of prototypes and software. Internally developed technology consists of hardware design, sampling, firmware, certifications, software integration and quality assurance.

Customer relations is related to a customer database purchased by the Company January 3, 2018, from a Virginia based company involved in telematics business.

## 8. Property and Equipment

The following is a summary of the activity during the nine months ended September 30, 2018:

<b>Cost:</b>	<b>December 31, 2017</b>		<b>Additions</b>		<b>September 30, 2018</b>	
Office equipment	\$	3,670	\$	-	\$	3,670
Computer and phones		13,011		3,613		16,624
Leasehold improvements		4,595		-		4,595
Trade booth		11,710		-		11,710
	\$	<b>32,986</b>	\$	<b>3,613</b>	\$	<b>36,599</b>

<b>Accumulated Amortization:</b>	<b>December 31, 2017</b>		<b>Amortization</b>		<b>September 30, 2018</b>	
Office equipment	\$	(1,468)	\$	(549)	\$	(2,017)
Computer and phones		(6,803)		(3,174)		(9,977)
Leasehold improvements		(1,608)		(690)		(2,298)
Trade booth		(3,513)		(1,755)		(5,268)
	\$	<b>(13,392)</b>	\$	<b>(6,168)</b>	\$	<b>(19,560)</b>

<b>Net carrying amounts:</b>	<b>December 31, 2017</b>		<b>Additions</b>		<b>September 30, 2018</b>	
Office equipment	\$	2,202	\$	(549)	\$	1,653
Computer and phones		6,208		439		6,647
Leasehold improvements		2,987		(690)		2,297
Trade booth		8,197		(1,755)		6,442
	\$	<b>19,594</b>	\$	<b>(2,555)</b>	\$	<b>17,039</b>

## 9. Accounts Payable and Accrued Liabilities

	<b>September 30, 2018</b>		<b>December 31, 2017</b>	
Accounts payable	\$	<b>927,466</b>	\$	241,815
Due to related party (Note 10)		<b>13,500</b>		97,428
Accrued liabilities		<b>24,803</b>		78,499
	\$	<b>965,769</b>	\$	<b>417,742</b>

## 10. Related Party Balances and Transactions

The Company entered into the following transactions with related parties:

- 1) Paid salaries to the CEO of the Company during the nine months ending September 30, 2018 \$115,385 (2017 - \$82,615) recognized as salaries and wages in the consolidated statement of loss and comprehensive loss.
- 2) Paid previously accrued unpaid salary to the CEO of the Company during the nine months ending September 30, 2018 \$34,307 (2017 - \$6,000).
- 3) Paid salaries to the COO of the Company during the nine months ending September 30, 2018 \$115,385 (2017 - \$76,585) recognized as salaries and wages in the consolidated statement of loss and comprehensive loss.
- 4) Paid previously accrued unpaid salary to the COO of the Company during nine months ending September 30, 2018 \$34,307 (2017 - \$nil).
- 5) Paid professional fees to the CFO during the nine months ending September 30, 2018 \$70,000 (2017 - \$nil).
- 6) Paid salaries to the former CFO during the nine months ending September 30, 2018 \$Nil (2017 - \$43,754).
- 7) Paid professional fees to the former CFO of the Company for the nine months ending September 30, 2018 of \$22,383 (2017 - \$45,438).
- 8) Paid professional fees to the former Director of the Company for the nine months ending September 30, 2018 of \$30,000 (2017 - \$80,438).
- 9) Paid and accrued salaries to the Directors of the Company for the nine months ending September 30, 2018 of \$36,000 (2017 - \$42,000) recognized as accounts payable and accrued liabilities in the consolidated statement of financial position.
- 10) Granted 250,000 options each to a Director and to the CFO of the Company.

## 11. Shareholders' Equity

### a) Share capital

Authorized – Unlimited common shares, no par value.

During the period ended September 30, 2018, 969,658 warrants were exercised for a cash proceeds of \$200,880 and 385,000 options were exercised for a cash proceeds of \$77,075.

### b) Settled Share-based payment reserve

#### Share-based payment reserve

The Company has an employee stock option plan under which the Board of Directors, or a committee appointed for such purpose, may from time to time grant to employees, officers, directors of, or consultants to the Company, options to acquire common shares in such numbers, for such terms, and at such exercise prices, as may be determined by the Board of Directors or such committee. The options granted to employees are valid for a maximum of 10 years from the date of the issue.

**11. Shareholders' Equity (continued)**

**b) Settled Share-based payment reserve (continued)**

	Share purchase warrants		Stock options	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
<b>Outstanding, December 31, 2017</b>	<b>6,034,293</b>	<b>0.25</b>	<b>3,227,000</b>	<b>0.25</b>
Issued	-	-	1,170,000	0.30
Exercised	(969,658)	0.25	(385,000)	0.20
Expired	-	-	(750,000)	0.32
<b>Outstanding, September 30, 2018</b>	<b>5,064,635</b>	<b>0.25</b>	<b>3,262,000</b>	<b>0.26</b>

As at September 30, 2018, exercisable incentive stock options were outstanding as follows:

Exercisable options	Exercise price \$	Expiry date	Expected dividend yield %	Risk-free interest rate %	Expected volatility %
499,500	0.15	February 23, 2026	-	1.14	123.50
150,000	0.17	May 1, 2026	-	1.53	106.31
150,000	0.12	June 7, 2019	-	0.52	109.85
312,500	0.115	June 13, 2019	-	0.52	109.24
250,000	0.28	May 5, 2027	-	1.22	98.06
112,500	0.39	October 18, 2022	-	1.70	93.45
217,500	0.375	October 18, 2022	-	1.70	93.45
62,500	0.335	May 29, 2023	-	1.93	93.45
65,000	0.28	June 26, 2023	-	1.95	93.45
<b>1,819,500</b>					

As at September 30, 2018, share purchase warrants were outstanding as follows:

Exercisable warrants	Exercise price \$	Expiry date	Expected dividend yield %	Risk-free interest rate %	Expected volatility %
2,003,803	0.25	February 4, 2019	-	0.39	104.63
3,060,832	0.25	September 16, 2019	-	0.60	106.85
<b>5,064,635</b>					

During the nine months period ended September 30, 2018, the Company recognized share-based payments of \$212,620 (2017: \$84,215).

## 12. Revenues

Major components of revenues are as follows:

	<b>Three months ending</b>		<b>Nine months ending</b>	
	<b>September 30, 2018</b>	September 30, 2017	<b>September 30, 2018</b>	September 30, 2017
Product sales	\$ 702,450	\$ 293,342	\$ 1,220,288	\$ 672,095
Service fees	23,416	302,410	73,497	394,564
Recurring fees	326,221	111,204	903,614	177,178
	<b>\$ 1,052,087</b>	\$ 706,956	<b>\$ 2,197,399</b>	\$ 1,243,837

During the nine months ending September 30, 2018, the Company generated 42% (2017 - 73%) of its revenues from one customer. As at September 30, 2018, the Company had 63% (2017 - 66%) of its accounts receivable with one customer.

Deferred revenue consists of customer deposits received in advance for the recurring fees. The deferred revenue is amortized on straight line basis over the period covered by the advance (between one to three years). The total short-term portion of the deferred revenue as at September 30, 2018 is \$44,533 (2017: Nil) and the long-term portion is \$27,189 (2017: Nil).

## 13. Financial Instruments

The Company's consolidated financial instruments consist of cash, trade receivable, HST/GST receivable and accounts payable and accrued liabilities. The fair values of cash, accounts receivable, HST/GST receivable and accounts payable and accrued liabilities approximate their carrying values because of their current nature.

### Fair value

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

- Level 1: Unadjusted quoted prices 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 (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: Inputs that are not based on observable market data.

### Financial risk management

The Company's activities potentially expose it to a variety of financial risks, including credit risk, liquidity risk, and market risk.

### 13. Financial Instruments (continued)

#### Financial risk management (continued)

##### *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 carrying amounts of cash and account receivable on the consolidated financial position represent the Company's maximum credit exposure at September 30, 2018. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness. As at September 30, 2018, the Company's exposure is the carrying value of the financial instruments. The Company's credit risk is primarily attributable to its account receivables. The amounts disclosed in the consolidated financial statements are net of allowance for doubtful accounts. Estimated by management of the Company based on its assessment of the current economic environment.

##### *Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash balances to meet liabilities as they become due.

The Company maintained cash at September 30, 2018 in the amount of \$1,371,310 (December 31, 2017 - \$3,205,914), in order to meet short-term business requirements of \$965,769 (December 31, 2017 - \$417,742). All payables are current.

##### *Market risk*

Market risk consists of currency risk and interest rate risk. These are discussed further below.

##### *Foreign exchange risk*

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

The following is an analysis of Canadian dollar equivalent of financial assets and liabilities that are denominated in American dollars:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Financial assets		
Cash	\$ 130,391	\$ 225,869
Trade receivable	430,662	415,224
	<b>561,053</b>	<b>641,093</b>
Financial liabilities		
Accounts payable	869,076	184,407
	<b>\$ 869,076</b>	<b>\$ 184,407</b>

### 13. Financial Instruments (continued)

#### Financial risk management (continued)

##### *Interest rate risk*

Interest rate risk consists of two components:

- a. To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- b. To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

As at September 30, 2018 and December 31, 2017, the Company does not have any financial instruments subject to this risk.

### 14. Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of share capital and working capital.

There were no changes in the Company's approach to capital management during the period. The Company is not subject to any externally imposed capital requirements.

### 15. Commitments

The Company has entered into operating lease agreements for the corporate office expiring on April 14, 2020. Future lease payments amount to \$75,644.

2018	\$	<b>11,944</b>
2019		<b>47,775</b>
2020		<b>15,925</b>
	\$	<b>75,644</b>

### 16. Subsequent Events

On November 13, 2018 the Company filed Preliminary Short Form Prospectus Offering with Ontario Securities Commission for Offering of a minimum 9,259,259 Units and a maximum of 12,962,963 units at a price of \$0.27 per unit. Each Unit consists of one common share in the capital of the Company (a "Common Share") and one-half of one Common Share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder to purchase one Common Share (a "Warrant Share") at a price of \$0.50 (the "Exercise Price") for a period expiring 24 months from the Closing Date.

On November 19, 2018, the Company got approved for a Revolving demand facility of \$250,000 by major Canadian bank. The Company has not yet used this facility.