



Management's Discussion and Analysis

For the three and nine months ended September 30, 2018

PRESIDENT'S UPDATE

The Company is pleased to provide an update to its shareholders on its financial results and recent activities related to its operations.

For the nine months ended September 30, 2018, total revenue earned, which consists primarily of sales of the Company's High Angle Reciprocating Pump ("HARP"), increased 144% to \$289,418 and gross margin on these sales increased 332% to \$75,353 compared to the same period in the prior year. The Company continues to gain traction in this market and it anticipates additional revenue growth and increased gross margins over the remainder of the year and into 2019 as manufacturing costs are reduced due to increased sales volumes.

The Company has three systems that can be used independently or in combination in horizontal wellbores:

- 1) the High Angle Reciprocating Pump ("HARP");
- 2) the Raise Efficient Artificial Lift ("REAL") formerly known as the High Angle Lift Solution ("HALS"); and
- 3) the Horizontal Artificial Recovery Technology ("HART").

HARP (High Angle Reciprocating Pump)

Canada

The Company now has enough historical production data to announce that it has increased oil production rates across a variety of formations by an average of approximately 28%. The data also indicates reduced decline rates. The combination of increased oil rates and flatter decline curves is delivering incremental reserves.

The Company has identified numerous high potential customers that will benefit from this product line and is executing its strategic sales approach.

USA

The Company, in conjunction with its USA partner, Endurance Lift Solutions, has successfully installed its first HARP in an Eagle Ford well. Initial production results have been higher than anticipated and the HARP is performing as expected with the newly improved components. Several additional installs are being evaluated, including the Powder River Basin, San Andreas and additional Eagle Ford wellbores.

International

The Company expects its first installation in Romania to be completed by year end. The Oman operation is in the final stages of company registration and legal approval.

REAL (Raise Efficient Artificial Lift), formerly known as the HALS (High Angle Lift Solution)

The REAL install, referred to in the Company's press release dated August 21, 2018, has been rescheduled to the end of 2018 or early 2019. Discussions for additional installations in the Montney region in 2019 are also underway.

HART (Horizontal Artificial Recovery Technology)

It is becoming increasingly evident that there is a need for the HART system due to steep decline curves over most horizontal wellbores. The Company is actively pursuing a potential partner to assist in bringing this product to market.

In conclusion, Eric Laing, President and CEO, said:

“I am very excited to report that the Company is accomplishing its goal. We set out to improve the type curve and the results indicate that this has occurred”.



Eric Laing
President and Chief Executive Officer

MANAGEMENT’S DISCUSSION AND ANALYSIS

This Management’s Discussion and Analysis (“MD&A”) should be read in conjunction with the unaudited condensed interim financial statements of Raise Production Inc. (“Raise Production” or the “Company”) as at and for the three and nine months ended September 30, 2018 as well as the audited financial statements and MD&A for the year ended December 31, 2017.

Information in this MD&A and the financial statements has been presented in Canadian dollars. The unaudited condensed interim financial statements for the three and nine months ended September 30, 2018 have been prepared in accordance with IAS 34 – Interim Financial Reporting.

This MD&A contains forward-looking information. Readers are referred to the advisories concerning such matters under the heading “Forward-Looking Information Disclaimer” below.

This MD&A is dated November 21, 2018. Additional information concerning Raise Production can be found on the SEDAR website at www.sedar.com.

ABOUT RAISE PRODUCTION

Raise Production is an independent Canadian public company, the principal business of which is utilizing its proprietary products to enhance and increase ultimate production in both conventional and unconventional horizontal oil and gas wells.

The Company is considered to be a development stage enterprise, as it has recently begun the commercialization process of its Raise Efficient Artificial Lift (“REAL”) system, previously referred to as the High Angle Lift Solution (“HALS”), and has not yet generated revenue from its initially planned principal business, the sale and distribution of its proprietary Horizontal Artificial Recovery Technology (“HART” or the “System”), which was previously referred to as the Horizontal Wellbore Production System by the Company. Similar to other development stage enterprises, the recoverability of amounts shown for product development and commercialization are dependent on many factors, including the ability of the Company to obtain necessary financing for its planned activities. Failure to obtain the necessary financing would impact the Company’s ability to realize its assets and discharge its liabilities in the normal course of business. See “Operational and Business Risks” below.

FORWARD-LOOKING INFORMATION DISCLAIMER

Certain information included in this MD&A constitutes forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain or can be identified by statements that include words such as "anticipate", "assume", "based", "believe", "can", "continue", "depend", "estimate", "expect", "forecast", "if", "intend", "may", "plan", "project", "propose", "result", "upon", "will", "within" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this document include but are not limited to: estimates and source of funds of future product development and capital and operating expenditures, capital raising, the availability of credit, the Company's credit risk, business strategy and short and long term strategic objectives, continued usage of service providers and contractors, estimates regarding current cash resources and cash flow, anticipated sales, commercialization plans and the timing thereof, the results and timing of product testing, operating and other costs, the effect of oil and natural gas market conditions on the Company, financial results and the impacts of International Financial Reporting Standards on these statements.

Such forward-looking statements or information are based on a number of assumptions that may prove to be incorrect. Assumptions have been made regarding, among other things: the ability of Raise Production to obtain required capital to finance its product development, commercialization of products and operations, the successful completion of product testing and timing thereof, the ability to adequately protect proprietary information and technology from its competitors, the ability to obtain partnering opportunities, the ability to attract and retain key personnel and key collaborators, the availability of skilled labour, services and equipment, general economic and financial market conditions, the legislative and regulatory environment of the jurisdictions where the Company carries on business, and the ability to successfully compete in the targeted markets.

The forward-looking statements contained in this MD&A are made as of the date hereof and Raise Production does not undertake any obligation to publicly update or revise any of the included forward-looking statements, except as required by applicable Canadian securities law. Forward-looking statements are based upon the opinions and expectations of management of Raise Production as at the effective date of such statements and, in some cases, information supplied by third parties. Although Raise Production believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions and that information received from third parties is reliable, it can give no assurance that those expectations will prove to have been correct. Forward-looking statements are subject to certain risks and uncertainties that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements, including but not limited to those described under the headings "*Operational and Business Risks*" and "*Financial Instruments*". Accordingly, readers should not place undue reliance upon the forward-looking statements contained in this MD&A and such forward-looking statements should not be interpreted or regarded as guarantees of future outcomes.

RESULTS OF OPERATIONS

Statement of Operations

	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
Revenue from contracts with customers	\$ 80,840	\$ 25,946	\$ 289,418	\$ 118,466
Cost of sales	54,887	11,850	214,065	101,033
Gross margin	25,953	14,096	75,353	17,433
Other income	10,947	3,529	16,688	20,522
Expenses:				
General and administration	549,976	420,520	1,358,831	1,158,762
Stock-based compensation	88,220	37,320	277,138	61,292
Research expenses	41,494	46,496	119,730	46,496
Depreciation and amortization	20,062	22,625	60,185	77,024
Finance costs	823	1,586	2,235	6,586
	700,575	528,547	1,818,119	1,350,160
Net loss and comprehensive loss	\$ (663,675)	\$ (510,922)	\$(1,726,078)	\$(1,312,205)
Net loss per share – basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.01)

Segmented Information

The Company's segmented information disclosure is based on reportable operating segments according to the products and services each segment provides.

The patent pending Raise Efficient Artificial Lift ("REAL") system segment, previously referred to as the High Angle Lift Solution ("HALS"), provides an artificial lift solution for the build and vertical section of a horizontal wellbore. REAL addresses the production challenges and downtime associated with the currently available artificial lift technology, particularly in high gas to oil ratio wells. REAL includes the High Angle Reciprocating Pump ("HARP") with the addition of certain downhole tools, such as horizontal separation, sand control, velocity flow tubes and pack off assemblies for flow control. The initial sales to date for this segment have included the HARP only.

The patented Horizontal Artificial Recovery Technology ("HART") segment provides an artificial lift solution for the lateral section of a horizontal wellbore which consists of multiple pumps running in parallel along the horizontal wellbore to access trapped or stranded reserves and draw fluid from the toe area of the wellbore. This product is in the development stage and has not yet generated revenue from commercial sales to external customers. All costs incurred for this segment have been capitalized as HART development costs beginning April 1, 2013.

The Engineering Project Consulting segment provides engineering services to external customers for the design and development of new artificial lift products, such as a large bore pump the Company was developing during the year ended December 31, 2016 until the project was put on hold by the customer. During the nine months ended September 30, 2018, a cash payment of \$98,000 was received for Engineering Project Consulting, however no services have been completed as of September 30, 2018

thus it is classified as Deferred Revenue (see note 14 of the Company's condensed interim financial statements for the three and nine months ended September 30, 2018). Thus, no revenue was earned or expenses were incurred for Engineering Project Consulting during the nine months ended September 30, 2018 and September 30, 2017.

The Hydraulic Submersible Pump ("HSP") inventory segment consists of sales of the Company's legacy inventory at cost to an external customer. Additional sales of this legacy inventory are not anticipated at this point in time.

The Corporate and Other segment includes interest earned on cash balances and costs related to administrative activities that support all segments.

Revenue

	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
REAL revenue	\$ 80,840	\$ 25,700	\$ 288,368	\$ 45,400
Service and other revenue	–	246	1,050	3,664
HSP inventory sales	–	–	–	69,402
Total	\$ 80,840	\$ 25,946	\$ 289,418	\$ 118,466

The increase in REAL revenue of \$56,140 for the three months ended September 30, 2018 and \$242,968 for the nine months ended September 30, 2018 compared to the same periods in the prior year is due to the Company entering the commercialization phase of its HARP included as part of REAL during the fourth quarter of 2017 and continuing into 2018 both in the Canadian and the United States markets (via its distribution agreement with Endurance Lift Solutions, LLC. ("ELS")).

The HSP inventory sales during the nine months ended September 30, 2017 consisted of the recognition of prior year sales of HSP inventory that was previously reported as deferred revenue in the Company's statement of financial position until the inventory items were picked up by the customer in September 2017.

Cost of Sales

	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
REAL cost of inventory	\$ 54,887	\$ 11,850	\$ 213,238	\$ 30,952
Other cost of inventory	–	–	827	679
HSP cost of inventory	–	–	–	69,402
Total	\$ 54,887	\$ 11,850	\$ 214,065	\$ 101,033

The increase in REAL cost of inventory of \$43,037 for the three months ended September 30, 2018 and \$182,286 for the nine months ended September 30, 2018 compared to the same periods in the prior year is due to the Company entering the commercialization phase of HARP as discussed in the Revenue section above. In addition, the Company has recognized a provision of \$7,500 for the three months ended September 30, 2018 and \$22,500 for the nine months ended September 30, 2018 for potential maintenance warranty claims related to the commercialization of its HARP, included as part of REAL.

The HSP cost of inventory for the nine months ended September 30, 2017 consisted of the original cost of the HSP inventory picked up by the customer in September 2017.

Gross Margin

	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
Gross margin	\$ 25,953	\$ 14,096	\$ 75,353	\$ 17,433

The Company's gross margin as a percentage of total revenue was 32% during the three months ended September 30, 2018 compared to 54% in the prior year. The reduction is mainly due to the Company incurring additional commercialization costs in 2018 such as the maintenance warranty provision and field service costs which are included in cost of sales in 2018, but are not applicable or minimal in 2017.

The Company's gross margin as a percentage of total revenue was 26% during the nine months ended September 30, 2018 compared to 14% in the prior year. This increase is due to the Company sales of its HARP increasing in late 2017 and continuing into 2018 resulting in higher margins being earned on these sales, offset by the maintenance warranty provision and field service costs, compared to the 2017 REAL figures including the higher cost of manufacturing a prototype HARP with minimal margin being earned and no margin being earned on the sale of the HSP inventory. The Company anticipates the gross margin on HARP sales to continue to increase as vendor order quantities increase resulting in lower costs per manufactured part.

Other Income

	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
Interest income	\$ 10,947	\$ 3,529	\$ 16,688	\$ 10,522
Legal settlement proceeds	–	–	–	10,000
Total	\$ 10,947	\$ 3,529	\$ 16,688	\$ 20,522

The increase in interest income for the three and nine months ended September 30, 2018, compared to the same period in 2017, is the result of the higher cash balances in 2018 due to the private placement financing closing in the second quarter of 2018 as disclosed in note 7 of the Company's condensed interim financial statements for the three and nine months ended September 30, 2018 as well as the increase in interest rates paid on the Company's cash balance in 2018.

The Company received \$10,000 in the second quarter of 2017 as settlement for a legal claim it filed against a vendor for faulty equipment.

General and Administration

	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
Salaries and benefits	\$ 311,802	\$ 262,209	\$ 812,467	\$ 657,247
Facilities	51,593	51,217	150,913	162,850
Legal	54,377	14,756	86,389	35,246
Audit and accounting	17,112	18,992	66,551	58,732
Sub-contracted and consulting services	20,858	21,951	57,389	96,826
Travel and meal expenses	18,402	3,755	41,927	31,810
Insurance	12,422	10,081	33,150	27,334
Public company expenses	5,272	3,437	17,999	14,435
Other	58,138	34,122	92,046	74,282
Total	\$ 549,976	\$ 420,520	\$1,358,831	\$1,158,762

Overall general and administration expenses increased \$129,456 or 31% for the three month period ended September 30, 2018 compared to same period in 2017. Significant changes within the general and administration expenses consisted of:

- a \$49,594 increase in salaries and benefits mainly due to the addition of three new employees during the third quarter of 2018 to assist in the commercialization of REAL and an increase in the salaries of key employees in 2018 compared to the same period in the prior year;
- a \$39,621 increase in legal expenses mainly due to patent application legal fees related to the REAL system being expensed during the three months ended September 30, 2018 compared to patent application legal fees for the HART being capitalized as development costs in same period of the prior year; and
- a \$14,647 increase in travel and meals expenses due to the Company increasing its sales efforts to assist in the commercialization of the REAL both in Canada and the United States.

Overall general and administration expenses increased \$200,068 or 17% for the nine month period ended September 30, 2018 compared to same period in 2017. Significant changes within the general and administration expenses consisted of:

- a \$155,220 increase in salaries and benefits due to engineering, operations and sales employees being allocated to the commercialization of the REAL and expensed during the nine months ended September 30, 2018, rather than capitalized as HART development costs in the prior period, as well as the addition of four new employees in 2018 to assist in the commercialization of REAL and an increase in the salaries of and a bonus paid to two key employees in 2018;
- a \$51,142 increase in legal expenses mainly due to patent application legal fees related to the REAL system being expensed during the nine months ended September 30, 2018 compared to patent application legal fees for the HART being capitalized as development costs in the prior year;
- a \$10,117 increase in travel and meals expenses due to the Company increasing its sales efforts to assist in the commercialization of the HARP both in Canada and the United States; offset by
- a \$39,437 decrease in sub-contracted and consulting services due to the engagement of an advisor located in the southern United States to assist the Company with U.S opportunities, a

graphic designer to update the Company's marketing materials and an engineer consultant to assist with the Company's REAL system during the nine months ended September 30, 2017 that did not occur during the nine months ended September 30, 2018; and

- a \$11,937 decrease in facilities mainly due to the reduction in rental cost of the Company's premises during the nine months ended September 30, 2018 compared to the same period in the prior year due to renewal of its lease in August 2017.

Stock-based Compensation

	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
Stock-based compensation	\$ 88,220	\$ 37,320	\$ 277,138	\$ 61,292

Stock-based compensation expense relates to options granted to the Company's management, employees, consultants and directors that are not directly related to the HART development and is recognized over the time the options vest. Stock options granted to individuals directly related to the HART development are capitalized and included in the carrying value of the HART. The Company uses the Black-Scholes model to calculate the fair value of the options at the time of grant.

During the nine months ended September 30, 2018, no stock-based compensation was included in the carrying value of the HART compared to \$43,078 deducted from the carrying value of the HART for the nine months ended September 30, 2017 due to a reversal of stock option expense required for individuals that were no longer employed by the Company.

The 136% increase in the stock-based compensation expense for the three months ended September 30, 2018 and 352% increase for the nine months ended September 30, 2018 compared to the same periods in 2017 is mainly due to the timing of the stock option grants and the vesting period associated with each option grant.

The Company granted 700,000 stock options during the nine months ended September 30, 2018 and 2,223,750 stock options during the last quarter of 2017 compared to 1,170,000 stock options being issued during the nine months ended September 30, 2017 and no stock options issued during the year ended December 31, 2016.

The Company has 4,155,417 options exercisable at September 30, 2018 compared to 5,083,333 at September 30, 2017.

Research Expenses

	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
Research expenses	\$ 41,494	\$ 46,496	\$ 119,730	\$ 46,496

Research expenses for the three months and nine months ended September 30, 2018 consisted of expenditures incurred for the design and development of the Company's patent pending downhole tools that form part of the REAL system which began during the three months ended September 30, 2017. The expenditures mainly consist of an internal engineer's salary and benefits.

Depreciation and Amortization

	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
Depreciation of fixed assets	\$ 20,062	\$ 22,625	\$ 60,185	\$ 69,524
Amortization of intangible assets	–	–	–	7,500
Total	\$ 20,062	\$ 22,625	\$ 60,185	\$ 77,024

The 11% reduction in depreciation and amortization for the three months ended September 30, 2018 compared to the same period in the prior year is the result of the reduced net book value of the Company's fixed assets in 2018 compared to 2017.

The 22% reduction in depreciation and amortization for the nine months ended September 30, 2018 compared to the same period in the prior year is mainly the result of the full amortization of the Company's patents and rights occurring during the nine months ended September 30, 2017 as well as the reduced net book value of the Company's fixed assets in 2018 compared to 2017.

The Company has not yet recorded any amortization of the System as it is not yet ready for use in the manner intended by management as of the date of this report.

Finance Costs

	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
Finance lease interest	\$ –	\$ 1,173	\$ 175	\$ 4,986
Bank and other interest charges	823	418	2,060	1,600
Total	\$ 823	\$ 1,586	\$ 2,235	\$ 6,586

The reduction in total finance costs for the three and nine months ended September 30, 2018 compared to the same periods in the prior year is mainly the result of the decreasing interest charges as monthly payments were made on the two capital leases the Company committed to in early 2013, one of which ended in March 2017 and the other in February 2018.

Deferred Income Taxes

The Company has not recognized any deferred income tax asset given the uncertainty of profitability with its future operations. At September 30, 2018, the Company has a non-capital loss carry forward balance and deductible scientific research and development expenditures totaling approximately \$18.7 million

Net Loss and Net Loss per Share

The net loss for the three and nine months ended September 30, 2018 was \$663,675 and \$1,726,078 respectively, compared to a net loss of \$510,922 and \$1,312,205 during the same periods in 2017.

The \$152,753 increase in the net loss for the three months ended September 30, 2018 compared to the same period in the prior year is mainly the result of a \$129,456 increase in general and administrative expenses and a \$50,900 increase in stock-option expense.

The \$413,873 increase in the net loss for the nine months ended September 30, 2018 compared to the same period in the prior year is mainly the result of a \$215,846 increase in stock-option expense, a \$200,069 increase in general and administrative expenses and a \$73,234 in research expenses, offset by a \$57,920 increase in gross profit.

The net loss per share of \$0.01 for the three months ended September 30, 2018 and \$0.02 for the nine months ended September 30, 2018 is consistent with the net loss per share for the same periods in 2017.

Cash Used in Operating Activities

Cash flows used in operating activities for the nine months ended September 30, 2018 of \$1,552,339 is consistent with cash flows used in operating activities for the nine months ended September 30, 2017 of \$1,293,832.

SUMMARY OF QUARTERLY RESULTS

(selected financial information)

	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Revenue	\$ 91,787	\$ 68,080	\$ 146,239	\$ 217,218
Net loss	(663,675)	(553,831)	(508,572)	(705,439)
Per share	(0.01)	(0.01)	(0.01)	(0.01)

	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Revenue	\$ 29,475	\$ 99,253	\$ 10,259	\$ 3,914
Net loss	(510,922)	(469,466)	(331,817)	(447,973)
Per share	(0.00)	(0.00)	(0.00)	(0.01)

The net loss increase of \$109,844 or 20% in the third quarter of 2018 compared to the second quarter of 2018 is mainly the result of a \$132,325 increase in general and administration expenses due to the increase in employees and other expenses related to commercialization of the REAL system and an increase in legal fees related to patents as discussed above, offset by a \$12,327 decrease in stock option expense.

The net loss increase of \$45,259 or 9% in the second quarter of 2018 compared to the first quarter of 2018 is mainly the result of a \$32,403 increase in general and administration expenses, a \$12,178 increase in stock option expense and a \$13,862 decrease in gross margin, offset by a \$6,905 decrease in facilities expense and a \$5,741 increase in interest income.

The net loss decrease of \$196,867 or 28% in the first quarter of 2018 compared to the fourth quarter of 2017 is mainly the result of a \$181,125 decrease in stock-based compensation due to the issuance of 700,000 stock options in February 2018 compared to 2,223,750 stock options being issued in November 2017 and the expiry date extension of 2,251,250 stock options from August 23, 2017 to January 23, 2022 recorded in the fourth quarter of 2017.

The net loss increase of \$194,517 or 38% in the fourth quarter of 2017 compared to the third quarter of 2017 is mainly the result of a \$232,175 increase in stock-based compensation due to the issuance of 2,223,750 stock options in November 2017 and the expiry date extension of 2,251,250 stock options from August 23, 2017 to January 23, 2022 recorded in the fourth quarter of 2017; offset by a \$43,457 increase in gross margin during the fourth quarter of 2017 due to the Company focusing on commercialization of its REAL system.

The net loss increase of \$41,456 or 9% in the third quarter of 2017 compared to the second quarter of 2017 is mainly the result of a \$46,495 increase in research expenses related to the REAL system development, a \$34,127 increase in REAL commercialization expenses and a \$36,296 increase in stock-based compensation offset by a \$56,928 decrease in general and administration expenses mainly due to a reduction in sub-contracted services and one less administrative employee in the third quarter of 2017.

The net loss increase of \$137,649 or 41% in the second quarter of 2017 compared to the first quarter of 2017 is mainly the result of an increase in general and administration expenses due to three new employees added during the second quarter of 2017 and two existing employees being allocated to commercialization of the REAL system and expensed in the second quarter of 2017 compared to being capitalized as HART development costs in the first quarter of 2017.

The net loss decrease of \$116,156 or 26% in the first quarter of 2017 compared to the fourth quarter of 2016 is mainly the result of a \$84,852 decrease in loss on derecognition of assets due to a rework of the Company's prototype surface units used for field testing occurring in the fourth quarter of 2016, a \$13,703 decrease in research expenses, a \$12,120 decrease in general and administration mainly due to lower legal expenses offset by increased travel expenses and a \$9,347 decrease in depreciation and amortization due to the Company's patents and rights being fully amortized in 2017.

CONTRACTUAL OBLIGATIONS

The Company has the following contractual obligations as of the date of this report:

	2018	2019	2020	2021	2022
Premise lease	\$ 11,400	\$ 136,800	\$ 91,200	\$ –	\$ –
Office equipment leases	4,981	59,775	59,775	2,666	1,333
Vehicle leases	2,751	33,008	20,725	–	–
Finance lease	3,179	38,152	38,152	38,152	38,152
Total	\$ 22,311	\$ 267,735	\$ 209,852	\$ 40,818	\$ 39,485

Operating Lease Commitments:

Premise Lease:

The premise lease commitment is for the Calgary prototype manufacturing facility and office space located at 2620, 58th Avenue S.E. Monthly rent excluding operating costs and GST is \$11,400 per month until August 31, 2020.

Equipment Leases:

The Company has committed to two equipment operating leases for computer equipment which expires December 31, 2020 and a photocopier which expires June 30, 2022.

Vehicle Leases:

The Company has committed to two vehicle leases, one as of July 1, 2018, with a lease term of 24 months and expiring on June 30, 2020 and another as of October 16, 2018, with a lease term of 24 months and expiring on October 15, 2020.

Finance Lease Commitments:

Equipment Leases:

The Company committed to a sixty-month finance lease in October 2018 for a CNC Lathe machine which expires September 30, 2023.

OUTSTANDING SHARE DATA

The Company's outstanding shares, options and warrants of the date of this report consist of:

	Number
Common shares:	
Balance, December 31, 2017	98,616,335
Private placement issuance	14,583,333
Shares issued upon agent warrant exercise	383,005
Common shares, as of November 21, 2018	113,582,673
Stock options:	
Balance, December 31, 2017	6,865,000
Options granted	900,000
Options expired	(700,000)
Options forfeited	(218,333)
Stock options outstanding, as of November 21, 2018	6,846,667
Stock options exercisable, as of November 21, 2018	4,157,083
Share purchase warrants:	
Balance, December 31, 2017	4,466,072
Share purchase warrants outstanding and exercisable, as of November 21, 2018	4,466,072
Agent warrants:	
Balance, December 31, 2017	437,529
Agent warrants exercised	(383,005)
Agent warrants expired	(54,524)
Agent warrants outstanding and exercisable, as of November 21, 2018	–

The Company received approval from the TSX Venture Exchange on July 23, 2018 to extend the term of the share purchase warrants that originally expired on August 11, 2018 and August 21, 2018 by six months. The new expiry dates of the outstanding warrants are February 11, 2019 and February 21, 2019. The exercise price of \$0.40 per share remains unchanged.

On November 5, 2018, the Company received conditional approval from the TSX Venture Exchange to implement an Amended and Restated Stock Option Plan, subject to approval from the Company's shareholders at its Annual General Meeting on December 5, 2018. The proposed amendment will change the aggregate number of stock options authorized for issuance from not more than 10,600,000 as discussed in note 7(c) of the Company's condensed interim financial statements for the three and nine months ended September 30, 2018, to 10% of the Company's issued and outstanding common shares at any point in time.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2018, the Company had positive working capital of \$2.6 million. The Company's policy is to invest its cash only in an interest bearing commercial investment account with a major international bank.

On May 11, 2018, and September 4, 2018, the Company closed two tranches of a non-brokered private placement for 14,583,333 common shares of the Company at a price of \$0.24 per share for total gross proceeds of \$3,500,000 and net proceeds, after share issuance costs, of \$3,452,210.

This cash injection and projected revenues will fund the Company's capital and operating expenditures through 2019 based on current forecasts. The Company's ability to accomplish its future plans is dependent upon the creation of positive cash flow through the successful commercialization of its products and obtaining additional financing, if necessary, to complete the commercialization process; however, there is no assurance that the Company will achieve these objectives. Refer to the going concern discussion in note 2 of the Company's condensed interim financial statements for the three and nine months ended September 30, 2018.

The Company's credit facility with a Canadian bank consists of a maximum \$500,000 demand revolving loan bearing interest at the lender's prime rate plus 2% per annum available by account overdraft when the Company's EBITDA to total debt service exceeds 1.25:1.00. EBITDA is defined as the previous nine months earnings before interest, taxes and depreciation/amortization, adjusted for any non-cash charges, provisions or extraordinary items. Total debt service is defined as the sum of all interest and principal paid by the borrower on any third party indebtedness, if not postponed to the bank after the previous nine months, and interest payments on the demand revolving loan assuming full advance over the previous nine months.

The amount available under the facility at any point in time is subject to margin requirements being the aggregate of 75% of acceptable receivables plus the lesser of 50% of acceptable inventory and/or equipment and \$100,000 minus any priority claims.

The loan is collateralized by a first priority security interest in all present and future personal property of the Company and a floating charge over the Company's present and after acquired real property. The debt covenants applicable to the credit facility while any portion of the demand revolving loan remains outstanding consist of:

- a) The Company will not permit its current assets to current liabilities at any time to be less than 1.25:1.00;
- b) The Company will not permit its debt to tangible net worth to exceed 2.50:1.00; and
- c) The Company will not permit its EBITDA to total debt service to be less than 1.25:1.00, tested quarterly, whereby the EBITDA and total debt service will be calculated using the trailing nine months based on the first quarter after the EBITDA condition has been met, trailing nine months on the second quarter after the EBITDA condition has been met and trailing twelve months on the third quarter after the EBITDA condition has been met.

Current liabilities are defined as current liabilities less 50% of bonus payable, current portion of long-term debt and obligations under capital leases. Debt is defined as total liabilities less postponed/subordinated loans and 50% of bonus payable. Tangible net worth is defined as shareholder's equity less intangible assets plus postponed/subordinated loans plus 50% of bonus payable. As of the date of this report, no funds are available, none have been drawn on this facility and the Company is in compliance with all debt covenants.

RECENT PRONOUNCEMENTS ISSUED

The Company may be impacted by future changes in IFRS standards as follows:

The IASB issued IFRS 16, *Leases* ("IFRS 16"), in January 2016, which requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements and may continue to be treated as operating leases. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of adopting IFRS 16 on its financial statements.

FINANCIAL INSTRUMENTS

The Company's financial instruments are represented by cash, trade receivables, deposits, trade payables and finance lease obligations.

The Company is exposed to financial risks arising from normal course business operations and its financial assets and liabilities. The financial risks include liquidity risk, interest rate risk, credit risk and foreign currency exchange risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liability obligations. The Company manages its liquidity risk by investing excess cash in a fully liquid investment bank account. This allows the Company to have access to additional funds in a very short time frame. All financial liabilities are due within one year.

As disclosed above, the Company recently closed two tranches of a non-brokered private placement in May and June 2018 for gross proceeds of \$3,500,000 and net proceeds after share issuance costs of \$3,452,210. The Company believes this cash injection and projected revenues will be sufficient to complete its strategic objectives through 2019 based on current forecasts. However, the Company's ability to accomplish its plans beyond this is dependent upon the addition of positive cash flow through the successful commercialization of its products and obtaining additional financing, if necessary, to complete the commercialization process; however, there is no assurance that the Company will achieve these objectives. Refer to the going concern discussion in note 2 of the Company's condensed interim financial statements for the three and nine months ended September 30, 2018.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk if the cash flows generated from its cash fluctuate in response to changes in market interest rates.

At September 30, 2018, cash was comprised of \$2,694,286, of which \$2,666,127 was held on deposit in a HSBC commercial investment account which earns a fixed interest of 1.55% per annum for balances held over \$1,000,000, thus the Company has no exposure to fluctuating market interest rates.

Credit risk

The Company is exposed to credit risk where a financial loss would be experienced if a counterparty to a financial asset failed to meet its obligations. The Company's maximum credit risk exposure is limited to the carrying values of its cash, trade receivables and deposits as disclosed in the financial statements as at September 30, 2018.

The Company mitigates its exposure to credit risk with respect to cash by maintaining its bank accounts and cash investments with a major international bank, thus the Company's management believes the credit risk associated with cash is low.

The Company manages its credit risk with respect to trade receivables and deposits by performing credit evaluations of its customers and only grants credit based on a review of historical collection experience, current aging status, financial condition of the customer and anticipated industry conditions. The majority of the trade receivables balance at September 30, 2018 consists of amounts owing from four customers and the federal government for GST refunds. The majority of the balance owing was collected subsequent to quarter-end and there are no collectability concerns with amounts not yet received.

Foreign Currency Exchange Risk

Events in the global financial markets have been coupled with increased volatility in the currency markets. A substantial portion of the Company's incoming revenue may be earned in U.S. dollars, but a substantial portion of its operating expenses may be incurred in Canadian dollars. Fluctuations in the exchange rate between the U.S. dollar and other currencies, such as the Canadian dollar, may have a material adverse effect on the Company's business, financial condition and operating results.

OPERATIONAL AND BUSINESS RISKS

Information with respect to operational and business risks faced by the Company is included in the Company's MD&A for the year ended December 31, 2017.