Condensed Consolidated Interim Financial Statements

TRAKOPOLIS IOT CORP.

For the three and nine months ended September 30, 2018 and 2017
(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The Company's independent auditor has not performed a review of the accompanying unaudited condensed consolidated interim financial statements.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards.

(*signed*) "Cameron Olson"

Director
Trakopolis IoT Corp.

TRAKOPOLIS IOT CORP.
Condensed Consolidated Interim Statements of Financial Position
As at September 30, 2018 and December 31, 2017
Unaudited (Canadian $)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$566,389	$2,073,521
Accounts receivable	1,150,824	1,763,390
Inventory	388,285	570,821
Prepaid expenses	63,630	119,823
	2,169,128	4,527,555
Property and equipment	113,257	106,193
	$2,282,385	$4,633,748
Liabilities and Shareholders' equity (deficiency)		
Current liabilities:		
Accounts payable and accrued liabilities	$1,612,279	$2,375,337
Deferred revenue	55,000	26,219
Provision for onerous lease	-	35,962
Current shareholder loans (note 4)	88,481	223,461
Current portion of lease	31,256	24,260
Current portion of long term debt (note 5)	687,978	230,171
	2,474,994	2,915,410
Shareholder loans (note 4)	167,955	-
Long term portion of lease	16,342	20,974
Convertible debenture (note 6)	889,049	1,079,877
Long term debt (note 5)	808,690	-
	1,882,035	1,100,851
Shareholders' equity (deficiency)		
Share capital (note 7(a))	25,922,643	25,859,383
Warrants (note 7(b))	763,835	763,835
Contributed surplus	2,378,648	2,098,208
Equity component of convertible debt (note 6)	164,862	29,057
Accumulated other comprehensive income	7,620	(5,859)
Deficit	(31,312,253)	(28,127,137)
	(2,074,645)	617,487
Going concern (note 1)		
Subsequent events (notes 13)		
	$2,282,385	$4,633,748

See accompanying notes to condensed consolidated interim financial statements.

Approved by the Board:

B Olson Director

TRAKOPOLIS IOT CORP.
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
Unaudited (Canadian dollars except number of shares)

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Revenue:				
Subscription sales	$1,173,720	$987,784	$3,554,500	$2,785,788
Hardware sales	367,304	3,606,233	1,167,347	4,747,796
Software development	-	33,870	-	126,941
Other revenue	6,163	1,959	16,848	17,060
	1,547,187	4,629,846	4,738,695	7,677,585
Cost of sales	625,684	3,864,788	2,014,430	5,338,079
Gross profit	921,503	765,058	2,724,265	2,339,506
Expenses:				
General and administrative	747,772	681,967	2,155,571	2,274,104
Sales and marketing	296,269	408,669	1,076,602	1,257,559
Services and support	143,657	227,103	460,787	567,597
Technology	493,116	459,183	1,484,129	728,186
	1,680,814	1,776,922	5,177,089	4,827,446
Loss before undernoted	(759,311)	(1,011,864)	(2,452,824)	(2,487,940)
Finance and other expenses (note 12)	43,960	104,097	711,922	493,822
Amortization	6,848	75,147	20,370	220,015
Gain on insured property and equipment	-	909	-	(22,997)
Net loss	(810,119)	(1,192,017)	(3,185,116)	(3,178,780)
Other comprehensive loss				
Foreign currency translation gain (loss)	(1,738)	(1,357)	13,479	(1,447)
Net loss and comprehensive loss	$(811,857)	$(1,193,374)	$(3,171,637)	$(3,180,227)
Loss per share:				
Basic and diluted	$ (0.03)	$ (0.05)	$ (0.12)	$ (0.14)
Weighted average number of shares:				
Basic	26,094,929	23,477,688	26,082,225	23,373,599

See accompanying notes to condensed consolidated interim financial statements.

TRAKOPOLIS IOT CORP.
Condensed Consolidated Interim Statements of Changes in Equity
Unaudited (Canadian $)

	Share Capital	Warrants	Contributed surplus	Equity component of convertible debt	Accumulated other comprehensive income	Deficit	Total Equity (Deficiency)
Balance, December 31, 2016	$ 23,895,466	$ 221,480	$ 1,690,655	$ 29,057	$ -	$ (24,031,882)	$ 1,804,776
Common shares issued	2,311,378	-	(543,703)	-	-	-	1,767,675
Warrants issued	(355,230)	355,230	-	-	-	-	-
RSU liability	-	-	63,716	-	-	-	63,716
Share based compensation (note 8 (d))	-	-	578,234	-	-	-	578,234
Exercise of warrants	7,769	(2,270)	-	-	-	-	5,499
Foreign currency translation loss	-	-	-	-	(1,447)	-	(1,447)
Net loss for the period	-	-	-	-	-	(3,178,780)	(3,178,780)
Balance September 30, 2017	$ 25,859,383	$ 574,440	$ 1,788,902	$ 29,057	$ (1,447)	$ (27,210,662)	$ 1,039,673

	Share Capital	Warrants	Contributed surplus	Equity component of convertible debt	Accumulated other comprehensive income	Deficit	Total Equity (Deficiency)
Balance December 31, 2017	$ 25,859,383	$ 763,835	$ 2,098,208	$ 29,057	$ (5,859)	$ (28,127,137)	$ 617,487
Common shares issued (note 7(a))	13,148	-	(13,148)	-	-	-	-
Share based compensation (note 8(d))	-	-	264,531	-	-	-	264,531
Debt extinguishment (note 5)	-	-	29,057	(29,057)	-	-	-
Convertible debenture issuance (note 7(a) and 6)	50,112	-	-	164,862	-	-	214,974
Foreign currency translation gain	-	-	-	-	13,479	-	13,479
Net loss for the period	-	-	-	-	-	(3,185,116)	(3,185,116)
Balance September 30, 2018	$ 25,922,643	$ 763,835	$ 2,378,648	$ 164,862	$ 7,620	$ (31,312,253)	$ (2,074,645)

See accompanying notes to condensed consolidated interim financial statements.

TRAKOPOLIS IOT CORP.
Condensed Consolidated Interim Statements of Cash Flows
Nine months ended September 30,
(Unaudited)

	2018	2017
Cash flows (used in) from operating activities		
Net loss	$(3,185,116)	$(3,178,780)
Items not involving cash:		
Amortization	20,370	220,015
Amortization of debt issuance costs	205,562	91,304
Provision for onerous lease	(2,559)	5,291
Share based compensation (note 8 (d))	264,531	578,234
Fair value loss on RSUs	-	22,753
Fair value loss on warrants	-	99,749
Derivative liability fair value adjustment (note 4)	29,119	-
Unrealized loss on debt	43,700	-
Unrealized loss (gain) on foreign exchange	13,479	(1,447)
Accretion expense (note 12)	196,253	143,365
Gain on insured property and equipment	-	(22,997)
	(2,414,661)	(2,042,513)
Changes in non-cash working capital:		
Accounts receivable	612,563	(1,798,408)
Inventory	182,536	(43,824)
Prepaid expenses	56,193	11,273
Accounts payable and accrued liabilities	(763,058)	1,681,995
Deferred revenue	28,781	(2,328)
	(2,297,646)	(2,193,805)
Cash flows (used in) from investing activities		
Additions to property and equipment	(2,500)	(41,456)
Insurance proceeds	-	41,679
	(2,500)	223
Cash flows (used in) from financing activities		
Repayments of lease	(22,646)	(16,902)
Payment of onerous lease	(33,402)	(58,942)
Proceeds from debt	1,884,300	-
Proceeds from convertible debenture (note 6)	1,100,000	-
Debt issuance costs paid (note 5)	(81,726)	-
Repayment of debt	(2,053,513)	(460,920)
Proceeds from shareholder loans	-	2,543
Repayments of shareholder loans	-	(51,720)
Issuance of common shares	-	2,024,989
Share issuance costs	-	(257,314)
Common shares issued for warrants	-	5,499
Restricted share units redeemed for cash	-	(100,000)
	793,013	(1,087,233)
(Decrease) in cash and cash equivalents	(1,507,133)	(1,106,348)
Cash and cash equivalents, beginning of period	2,073,521	4,311,880
Cash and cash equivalents, end of period	$566,388	$3,205,531

See accompanying notes to condensed consolidated interim financial statements

1. Reporting Entity and Going Concern:

The registered address of Trakopolis IoT Corp. ("the Company") is #300, 1711-10th Avenue SW Calgary, Alberta T3C 0K1. The Company is listed on the TSX Venture Exchange under the symbol TRAK. The Company was incorporated under the Alberta Business Corporations Act in December 2002.

Trakopolis IoT Corp. is a technology company that specializes in developing, marketing and delivering business intelligence to organizations that requires the location, status and relevant data on corporate assets such as equipment, devices, vehicles and people through its proprietary platform "Trakopolis".

These condensed consolidated interim financial statements were authorized for issue by the Company's Board of Directors on November 28, 2018.

These condensed consolidated interim financial statements have been prepared using accounting policies applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. During the nine month period ended September 30, 2018, the Company incurred a loss of $3,185,116 and utilized funds amounting to $2,297,646 in its operations. In order to continue as a going concern, the Company must generate sufficient income and cash flows to repay its obligations, finance working capital and fund capital investments. The future of the Company is dependent on its ability to attain profitable operations, maintain compliance with covenants relating to its lending agreements, generate sufficient funds from operations, and continue receiving financial support from its shareholders and obtain new financing, if required. There is no certainty that the Company will raise these necessary funds from financing or operations. As a result of these factors, there is a material uncertainty that may result in significant doubt as to the ability of the Company to meet its obligations as they come due and continue as a going concern.

These condensed consolidated interim financial statements do not reflect adjustments that may be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these condensed consolidated interim financial statements, adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses and the statement of financial position classification used.

2. Basis of preparation:

These condensed consolidated interim financial statements are unaudited and have been prepared in accordance with IAS 34, Interim Financial Reporting. These condensed consolidated interim financial statements are presented in Canadian dollars which is the Company's functional currency. In preparing these condensed consolidated interim financial statements, the accounting policies, methods of computation and significant judgements made by management in applying the Company's accounting policies and key sources of estimation of uncertainty were the same as those that applied to the audited consolidated financial statements as at and for the year ended December 31, 2017.

2. Basis of preparation (continued):

Certain information and disclosures normally included in the notes to the annual financial statements have been condensed or have been disclosed on an annual basis only. The disclosures herein are incremental to those included with the audited annual consolidated financial statements as at and for the year ended December 31, 2017 and should be read in conjunction with the annual consolidated financial statements as at and for the year ended December 31, 2017.

3. Significant accounting policies:

There have been no significant accounting policy changes; refer to the audited annual consolidated financial statements as at and for the year ended December 31, 2017.

Adoption of new and amended standards

IFRS 9 Financial Instruments

The Company has adopted IFRS 9 Financial Instruments effective January 1, 2018. IFRS 9 relates to the accounting and presentation of financial instruments and applies a principal-based approach to the classification and measurement of financial assets and financial liabilities, including an expected credit loss model for calculating impairment, and includes new requirements for hedge accounting. The adoption of IFRS 9 has not had a significant impact on the Company's financial statements.

IFRS 15 Revenue from Contracts with Customers

The Company adopted IFRS 15 Revenue from Contracts with Customers effective January 1, 2018. IFRS 15 establishes a single comprehensive model to address how and when to recognize revenue as well as requiring entities to provide users of the financial statements with more informative, relevant disclosures in order to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The application of IFRS 15 has not had any significant impact on the recognition of revenue.

The Company enters into a variety of contracts and recognizes revenue when performance obligations have been fulfilled. The following describes the recognition of revenue for each of the Company's contracts.

Subscription Revenue

Subscription revenue is generated in the form of monthly service subscription access to the Company's proprietary software platform. The Company satisfies its performance obligations and recognizes subscription revenue over time based on the subscription service being provided. Revenue transactions do not contain significant financing components or variable considerations. Payment terms with customers are typically 30 days from invoice date; however, extended terms can be provided.

Hardware Revenue

Revenue is recognized when the customer obtains control of the equipment product. Revenue is not recognized before there are indicators that control has passed, including the customer having a present obligation to pay, physical possession or legal title and risks and rewards of ownership. Payment is due upon receipt of the invoice; however, extended terms can be provided.

3. Significant accounting policies (continued):

Software Development

Software development revenue is recognized upon completion of the development work. Payment terms with customers are typically 30 days from invoice date; however, extended terms can be provided.

Future Accounting Policy Changes

IFRS Leases IFRS 16

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The new standard is effective retrospectively for financials years beginning on or after January 1, 2019. The Company is currently assessing the impact of IFRS 16 on its consolidated financial statements.

4. Shareholder loans:

	September 30, 2018		December 31, 2017	
	Face value	Carrying value	Face value	Carrying value
Shareholder loans (current)	$50,000	$41,989	$225,000	$223,461
Shareholder loan (long term)	175,000	167,955	-	-
Conversion	-	46,491	-	-
	$225,000	$256,435	$225,000	$223,461

(i) During the period the Company restructured the shareholder loans extinguishing the previous loans and issuing new agreements with amended terms. Upon issuing the new agreements the equity component of debt related to the previous shareholder loan was reclassified to contributed surplus.

(ii) The shareholder loans are comprised of an unsecured convertible debenture due February 8, 2023, that has a 10% annual interest rate with a face value of $175,000 (December 31, 2017 – $nil) and an unsecured convertible debenture due on February 8, 2023, that has a 10% annual interest rate with a face value of $50,000 (December 31, 2017 - $nil).

(iii) The shareholder loans have a conversion right in which all or any of the principal amount outstanding at any point throughout the term of the loan can be converted into common shares equal to 80% of the volume weighted average price of the common shares for the 20 trading days immediately preceding the

4. Shareholder loans (continued):

notice date. The conversion feature is a liability-classified derivative and was valued on the date of issuance. The estimated value of the conversion feature was $17,373 at the date of issuance and has been presented within current portion of shareholder loans on the statement of financial position.

5. Long term debt:

	September 30, 2018		December 31, 2017	
	Face value	Carrying value	Face value	Carrying value
Long term debt	$1,755,733	$1,547,029	$1,634,634	$1,470,402
Unamortized issue costs	-	(50,362)	-	(160,354)
	$1,755,733	$1,496,668	$1,634,634	$1,310,048

On February 14, 2018, the Company entered into a new USD $3.5 million secured credit facility with California based Silicon Valley Bank. The credit facility consists of a 36-month term loan of USD $1.5 million (the "Loan Facility") and an accounts receivable line of credit of up to USD $2 million (the "Revolving Line"). The Loan Facility bears interest at a rate of US prime plus 1.5% and the Revolving Line bears interest at a rate ranging from US prime plus 1.75% to prime plus 2.25% based on certain operating metrics. The proceeds from the Loan Facility have been used to repay and retire the Company's previous outstanding indebtedness. The Loan Facility is secured against all of the assets of the Company and its subsidiaries.

As part of the Loan Facility arrangement, the Company paid debt issuance costs of $81,726. As at September 30, 2018, $50,362 remained unamortized against the carrying value of the facility. These costs will be amortized over the remaining term of the facility.

Of the $1,755,733 outstanding at September 30, 2018, $687,978 is due for payment within the next twelve months.

The Company’s Loan Facility is subject to the following covenants which were amended throughout the period. As at September 30, 2018 the Company’s Loan Facility is subject to the following covenants:

(i) Liquidity coverage ratio: A ratio of quick assets[1] to all obligations of co-borrowers to lender, in an amount equal to or greater than the amount set forth in the chart below for the corresponding measuring period:
(1) Quick assets is defined as cash, cash equivalents and accounts receivable

Measuring Periods Ending	Required Liquidity Coverage Ratio
Effective Date through August 31, 2018	1.00:1.00
September 30, 2018 and October 31, 2018	Not Tested
November 30, 2018 and December 31, 2018	1.50:1.00
January 31, 2019 and each month thereafter	1.75:1.00

(ii) Tangible Net Worth[(2)]: A tangible net worth of not less than the amounts set forth in the table below for the corresponding periods; which amounts shall (i) automatically increase by an amount equal to fifty percent (50%) of the net cash proceeds received by any co-borrower after the effective date from the sale of such co-borrower’s equity securities or the incurrence of subordinated debt upon the receipt of such

5. Long term debt (continued):

proceeds and (ii) increase quarterly by an amount equal to fifty percent (50%) of co-borrowers' quarterly net income, as of the last day of each quarter;

Measuring Period Ending	Minimum Tangible Net Worth
September 30 2018	Not Tested
October 31, 2018	Not Tested
November 30, 2018 through December 31, 2018	($1,250,000)
January 31, 2019 through March 31, 2019	($1,600,000)
April 30, 2019 through June 30, 2019	($1,950,000)
July 31, 2019 through September 30, 2019	($2,300,000)
October 31, 2019 through December 31, 2019	($2,650,000)

(2) Tangible net worth is defined as aggregate value of total assets of co-borrowers and their subsidiaries less intangible assets less aggregate value of obligations that should, under IFRS, be classified as liabilities on co-Borrowers' consolidated statement of financial position, including all Indebtedness and current portion of subordinated debt permitted by the Lender to be paid by co-borrowers, but excluding all other subordinated debt plus aggregate value of subordinated debt.

(iii) Maximum accounts payable: The Company's accounts payable shall not at any time exceed $2,000,000 and critical vendors shall not at any time, exceed 15% of all of the Company's accounts payable over 90 days from the invoice date on a vendor by vendor basis.

(iv) Maximum inventory: Inventory on hand shall at no time exceed $500,000 in the aggregate without prior written approval from the lender.

(v) Equity milestone: The Company shall achieve an equity milestone, which means receipt by bank prior to November 15th, 2018 evidence satisfactory to the bank confirming an equity investment of at least CAD $3,000,000 in net proceeds

(vi) Minimum liquidity: The Company at all times through to November 29, 2018 shall maintain at least $400,000 in unrestricted cash at bank plus unused availability under the Revolving Line

A summary of the covenants as at September 30, 2018 is below:

	Covenant	September 30, 2018
Liquidity coverage ratio(1)	Not Tested	1.11:1.00
Tangible Net Worth(2)	Not Tested	($1,009,518)
Maximum accounts payable	$2,000,000	$1,612,279
Maximum inventory	$500,000	$388,285
Minimum liquidity	$400,000	$566,389

As at September 30, 2018, the Company was in compliance with all covenants related to its Loan Facility.

5. Long term debt (continued):

Subsequent to September 30, 2018, the Company replaced the Loan Facility and Revolving Line on November 20, 2018 with a 12-month USD $3.0 million secured Term Loan. The Term Loan bears interest at an annual rate of prime (US) plus 4.5%. In accordance with the terms of the loan, the Company is not required to make any interest or principal repayments until maturity.

The Company has used the proceeds to pay out the Company's existing indebtedness and to fund certain Lender expenses in accordance with the terms of the Term Loan, with the remaining funds to be made available for general working capital purposes.

The Company is subject to the following covenants, whereby it shall not:

i) Permit its actual Liquidity, as of any date, to be less than $1,000,000: “Liquidity” means, with respect to the Borrower, the aggregate amount of cash and cash equivalents (excluding retirement accounts and personal and corporate lines of credit), each as reasonably determined by Lender, held in one or more deposit accounts or securities accounts subject to a Control Agreement and a first-priority perfected Lien in favor of Lender.

ii) Permit its In-Force Annual Contract Value to be less than the indicated amounts as at the last day of each of the following fiscal quarters of the Borrower:

1. 4th quarter of 2018 – USD $3,500,000;
2. 1st quarter of 2019 – USD $3,650,000;
3. 2nd quarter of 2019 – USD $3,850,000; and
4. 3rd quarter of 2019 – USD $4,000,000.

iii) Permit its Net Retention Rate to be less than 90% as of the last day of any fiscal quarter of the Borrower. “Net Retention Rate” means, as measured for any month (a “Testing Month”), the quotient, expressed as a percentage, of (i) the MRR for the Testing Month from customers that have been active for more than twelve (12) full months, divided by (ii) the MRR for the corresponding month occurring one year prior to the Testing Month.

6. Convertible Debenture:

	September 30, 2018		December 31, 2017	
	Face value	Carrying value	Face value	Carrying value
Long term debt	$1,100,000	$963,301	-	-
Unamortized issue costs	-	(74,253)	-	-
	$1,100,000	$889,048	-	-

On June 21, 2018 the Company completed a non-brokered private placement of units of the Company consisting of $1,000 principal amount of 8% unsecured subordinated convertible debentures and 55.556 common shares in the capital of the Company per unit, raising gross proceeds to the Company of $1,100,000. Upon closing, the Company issued 61,112 common shares.

6. Convertible Debenture (continued):

The convertible debentures mature on September 30, 2020 with interest payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, with the first interest payment on September 30, 2018.

As part of the convertible debenture arrangement, the Company paid debt issuance costs of $86,240. As at September 30, 2018, $74,253 remained unamortized against the carrying value of the debenture. These costs will be amortized over the remaining term of the loan.

The debentures are convertible into common shares at the option of the debenture holder at any time at the conversion price of $0.90 per common share. Additionally, the Company may force the conversion of the principal amount of the then outstanding debentures at the conversion price on not more than 60 days' and not less than 30 days' notice should the volume weighted average price of the Common Shares on the TSX Venture Exchange be greater than $1.15 for any period of 30 consecutive trading days preceding the date of the notice. The conversion feature was fair valued on the date of issuance at $164,862. This amount was allocated to the equity value of the convertible debenture.

The Company may prepay the debentures at any time, in whole or in part, by payment of any portion of the principal amount plus a premium of 5% plus accrued but unpaid interest on such portion of the principal amount being paid.

7. Share capital:

(a) Issued common shares:

	Shares	Amount
	(#)	($)
Balance, December 31, 2017	26,069,379	$25,859,383
Issued for wages (i)	21,914	$13,148
Convertible debenture issuance (ii)	61,112	$50,112
Balance, September 30, 2018	26,152,405	$25,922,643

(i) During the period ended September 30, 2018, the Company issued 21,914 common shares as equity-based retention compensation to management in accordance with vesting schedules set out in executive employment contracts. No retention-based shares were issued in the quarter ended September 30, 2018

(ii) During the period ended September 30, 2018, the Company issued 61,112 shares upon issuance of subordinated convertible debentures to the lenders as part of the terms of the convertible debentures (note 6).

7. Share Capital (continued):

(b) Warrants :

	Warrants	Weighted average exercise price	Amount
	(#)	($)	($)
Balance, December 31, 2017 and September 30, 2018	2,566,195	$1.15	$763,835

i) Subsequent to September 30, 2018 the Company issued 130,000 warrants at a price of 0.70 per common share expiring October 24, 2023.

8. Share based payments:

(a) Stock option plan:

The Company has a stock option plan to encourage ownership of the Company's common shares by its directors, officers, employees and other eligible service providers. The exercise price of each option equals the estimated fair value of the Company's stock on the date of the grant. Stock option terms and vesting periods are specified in the Option Plan. The Board has the full power to administer the issuance of options. Option activity is as follows:

	September 30, 2018		September 30, 2017	
	Stock options	Weighted average exercise price	Stock options	Weighted average exercise price
	(#)	($)	(#)	($)
Outstanding, beginning of period	2,453,475	1.34	1,731,475	1.34
Granted	-	-	-	-
Outstanding, end of period	2,453,475	1.34	1,731,475	1.34
Exercisable, end of period	1,600,387	1.29	850,185	1.39

(b) Restricted share unit ("RSU") plan:

The following table summarizes the movements in the Company's RSUs. The RSU plan was discontinued in 2017.

	September 30, 2018	September 30, 2017
Outstanding, beginning of period	-	498,335
Granted	-	-
Equity settled	-	(384,275)
Settled in cash	-	(101,698)
Forfeited		(12,362)
Outstanding, end of period	-	-

8. Share based payments (continued):

(c) Retention shares:

The following table summarizes retention share activity for the period:

	September 30, 2018	September 30, 2017
Outstanding, beginning of period	-	116,594
Vested	-	(94,680)
Outstanding, end of period	-	21,914

(d) Share based compensation expense:

The stock option plan, restricted share unit plan and retention share based compensation expenses can be summarized as follows:

	Three months ended September		Nine months ended September	
	2018	2017	2018	2017
Stock options	$84,254	$132,819	$263,123	$469,153
RSUs	-	27,427	-	77,509
Retention shares	-	6,232	1,408	31,572
Share based compensation	$84,254	$166,478	$264,531	$578,234

9. Financial risk management and financial instruments

(a) Credit risk:

Credit risk reflects the risk the Company may be unable to recover accounts receivable. To mitigate this, risk the Company reviews the creditworthiness of material new customers, monitors customer payment performance, where appropriate, reviews the financial conditions of existing customers. The Company establishes an allowance for doubtful accounts that corresponds to the specific credit risk of its customers and economic circumstances. The Company was engaged in contracts with one party, of whom individually represented 12% of the Company's sales during the period ended September 30, 2018, and 11% of accounts receivable at September 30, 2018. The Company employs established credit approval and monitoring practices to mitigate the risk.

(b) Currency risk:

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency exchange risk on cash, accounts receivable, and accounts payable held in U.S. dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial obligations (note 1). The Company manages liquidity risk through management of its capital structure, monitoring and reviewing actual and forecasted cash flows and the effect on bank covenants, and maintaining unused credit facilities where possible to ensure there are available cash resources to meet the Company's liquidity needs.

(d) Capital management:

The Company's objective when managing capital is to ensure it has the appropriate capital structure to execute its strategic business plan while not creating risk to its ability to operate as a going concern. The Company's liquidity needs in short term and long term can be sourced multiple ways including: funds from operations, available cash balances, new debt instruments, equity issuances and government funding. The Company monitors its financing requirements through regular forecasting of its cash position. Financing decisions are based on the timing and extent of expected operating and capital cash outlays.

(e) Fair value:

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments. The difference in fair value and carrying value of shareholder loans and long-term debt is due to the significant difference in interest rates that arises due to the attachment of equity features such as warrants and conversion optionality.

(g) Classification of financial instruments and fair value

(ii) Determination of Fair values

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate fair values.

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

Recurring Measurements	Level 1	Level 2	Level 3
Cash	$566,388	$ -	$ -
Conversion liability	46,492	$ -	$ -

10. Expenses by nature:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Wages and salaries	$768,504	$824,311	$2,243,883	$2,328,696
Share-based compensation expense	84,254	166,478	264,531	578,234

11. Executive compensation:

Key management personnel include directors and officers of the Company. In addition to their salaries, executive officers participate in the Company's stock option plan and retention share plan. Directors participate in the Company's stock option plan and participated in the RSU plan which was discontinued in 2017. The following table shows compensation paid to directors and officers:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Wages and salaries	$179,250	$201,750	$540,250	$536,250
Share-based compensation expense	58,244	140,914	178,031	521,743
Total	$237,494	$342,664	$718,281	$1,057,993

12. Finance and other expenses:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Derivative liability fair value adjustment	$(37,900)	$(7,943)	$29,119	$99,748
Interest on debt and loans	100,610	89,400	433,172	250,707
Accretion expense	24,860	22,640	196,253	143,365
Loss (gain) on foreign exchange	(43,610)	-	53,377	-
Total	$43,960	$104,097	$711,922	$493,822

13. Subsequent events:

Subsequent to September 30, 2018, the Company entered into a new Term Loan (see note 5) and issued warrants (see note 7 (b))