TRAKOPOLIS®
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CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF

TRAKOPOLIS IOT CORP.

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

August 22, 2019

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.

Director
Trakopolis IoT Corp.

TRAKOPOLIS IOT CORP.
Condensed Consolidated Interim Statements of Financial Position
As at June 30, 2019 and December 31, 2018
Unaudited

	June 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$1,078,536	$1,965,833
Accounts receivable (note 14)	1,042,819	1,152,270
Inventory	263,910	454,871
Prepaid expenses	61,135	59,374
	2,446,400	3,632,348
Property and equipment	70,043	66,472
Right of use assets (note 3)	24,670	41,407
	$2,541,113	$3,740,227
Liabilities and Shareholders' equity (deficiency)		
Current liabilities:		
Accounts payable and accrued liabilities	$1,473,289	$1,704,250
Contract obligations	84,771	67,639
Current shareholder loans (note 4)	-	45,263
Current portion of lease obligation	17,916	27,979
Current portion of term debt (note 5)	3,611,815	3,545,960
	5,187,791	5,391,091
Shareholder loans (note 4)	202,133	210,812
Long term portion of lease obligation	6,719	13,428
Convertible debenture (note 6)	970,250	917,037
	1,179,102	1,141,277
Shareholders' equity (deficiency)		
Share capital (note 7(a))	25,922,643	25,922,643
Warrants (note 7(b))	1,056,081	1,056,081
Contributed surplus	2,465,571	2,429,754
Equity component of convertible debt (note 6)	163,702	163,702
Accumulated other comprehensive income	1,720	6,211
Deficit	(33,435,497)	(32,370,532)
	(3,825,780)	(2,792,141)
Going concern (note 1)		
	$2,541,113	$3,740,227

See accompanying notes to condensed consolidated financial statements.

Approved by the Board:

Signature

Director

TRAKOPOLIS IOT CORP.
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
Unaudited

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Revenue:				
Subscription sales	$1,209,163	$1,167,893	$2,388,439	$2,380,781
Hardware sales	242,155	428,437	559,098	800,043
Other revenue	8,905	4,070	12,083	10,685
	1,460,223	1,600,400	2,959,620	3,191,509
Cost of sales	548,577	740,258	1,184,027	1,388,746
Gross profit	911,646	860.142	1,775,593	1,802,763
Expenses:				
General and administrative	383,613	770,163	928,268	1,407,797
Sales and marketing	172,393	385,025	397,986	780,333
Services and support	92,917	155,049	216,644	317,130
Technology	378,722	487,870	830,428	991,013
	1,027,645	1,798,107	2,373,326	3,496,273
Loss before undernoted	(115,999)	(937,965)	(597,733)	(1,693,510)
Finance expense:				
Derivative liability fair value (gain)/loss	(39,782)	37,810	(45,264)	67,019
Interest on debt and loans	222,192	75,134	446,955	332,565
Other expense	15,985	-	29,710	-
Accretion expense	75,186	5,041	146,905	171,393
Loss (gain) on foreign exchange	(85,090)	37,574	(124,238)	96,988
	188,491	155,559	454,068	667,965
Amortization and depreciation expense	6,581	6,848	13,163	13,522
Net loss	(311,071)	(1,100,372)	(1,064,965)	(2,374,997)
Other comprehensive loss				
Foreign currency translation gain (loss)	(6,499)	5,852	(4,491)	15,217
Net loss and comprehensive loss	$(317,570)	$(1,094,520)	$(1,069,456)	$(2,359,780)
Loss per share:				
Basic and diluted (note 13)	$(0.01)	$(0.04)	$(0.04)	$(0.09)
Weighted average number of shares:				
Basic	26,152,405	26,094,929	26,152,405	26,082,225

See accompanying notes to consolidated financial statements.

TRAKOPOLIS IOT CORP.
Condensed Consolidated Interim Statements of Changes in Equity
For the six months ended June 30, 2019 and 2018
Unaudited

	Share capital	Warrants	Contributed surplus	Equity component of 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	13,148	-	(13,148)	-	-	-	-
Share-based compensation (note 8(c))	-	-	180,613	-	-	-	180,613
Debt extinguishment	-	-	29,057	(29,057)	-	-	-
Convertible debenture (note 6)	50,112	-	-	164,862	-	-	214,974
Foreign currency translation gain (loss)	-	-	-	-	15,217	-	15,217
Net loss for the year	-	-	-	-	-	(2,374,997	(2,374,997)
Balance, June 30, 2018	$ 25,922,643	$ 763,835	$ 2,294,730	$164,862	$ 9,358	$(30,502,134)	$ (1,346,706)
Balance, December 31, 2018	$ 25,922,643	$ 1,056,081	$ 2,429,754	$ 163,702	$ 6,211	$(32,370,532)	$ (2,792,141)
Share based compensation (note 8(c))	-	-	35,817	-	-	-	35,817
Foreign currency translation gain (loss)	-	-	-	-	(4,491)	-	(4,491)
Net loss for the year	-	-	-	-	-	(1,064,965)	(1,064,965)
Balance, June 30, 2019	$ 25,922,643	$ 1,056,081	$ 2,465,571	$ 163,702	$ 1,720	$(33,435,497)	$(3,825,780)

See accompanying notes to consolidated financial statements.

TRAKOPOLIS IOT CORP.
Condensed Consolidated Interim Statements of Cash Flows
For the six months ended June 30, 2019 and 2018
Unaudited

	June 30, 2019	June 30, 2018
Cash flows (used in) from operating activities		
Net loss	$(1,064,965)	$(2,374,997)
Items not involving cash:		
Amortization and depreciation	13,163	13,522
Amortization of debt issuance costs	205,976	181,787
Share based compensation (note 8(c))	35,817	180,613
Derivative liability fair value (gain)/loss	(45,264)	67,019
Provision for onerous lease	-	(2,559)
Accrued interest on loan	194,513	-
Accretion expense	146,905	171,393
Unrealized foreign exchange loss (gain)	(82,167)	86,392
	(596,022)	(1,676,830)
Changes in non-cash working capital:		
Accounts receivable	79,116	604,710
Inventory	190,961	226,896
Prepaid expenses	(1,761)	52,305
Accounts payable and accrued liabilities	(293,112)	(740,873)
Contract obligation	17,132	31,378
	(603,686)	(1,502,414)
Cash flows used in investing activities		
Additions to property and equipment	-	(2,500)
	-	(2,500)
Cash flows (used in) from financing activities		
Repayments of lease	(16,771)	(14,616)
Payment of onerous lease	-	(33,402)
Proceeds from convertible debenture (note 6)	-	1,100,000
Proceeds from debt	-	1,884,300
Debt issuance costs paid	-	(81,726)
Repayment of debt (note 5)	(266,840)	(1,849,592)
	(283,611)	1,004,964
Decrease in cash and cash equivalents	(887,297)	(499,950)
Cash and cash equivalents, beginning of period	1,965,833	2,073,521
Cash and cash equivalents, end of period	$1,078,536	$1,573,571

See accompanying notes to consolidated financial statements

1. Reporting Entity and Going Concern

Trakopolis IoT Corp.'s ("the Company") head office address is #810, 940 -6th Avenue SW Calgary, Alberta T2P 3T1. The Company's registered office address is 1600, 144 – 4th Avenue SW, Calgary, Alberta T2P 3N4. The Company is listed on the TSX Venture Exchange under the symbol TRAK.

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

These consolidated financial statements were authorized for issue by the Company's Board of Directors on August 22, 2019.

These consolidated financial statements have been prepared based on 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 six-month period ending June 30, 2019, the Company incurred a loss of $1,064,456 utilized funds amounting to $603,686 in its operations and had net current liabilities of $2,741,391. 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 and maintain compliance with covenants relating to the lending agreement, generate sufficient funds from operations, continue receiving financial support from its shareholders and lenders, and obtain new financing. 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.

On August 2nd, 2019 the Company and the Lender ("Lender') agreed to amend the Term Loan ("Amending Agreement"). The Amending Agreement required the Company, by not later than August 7, 2019, to provide the Lender with a financing plan that contemplated full repayment of the senior secured credit facility by not later than September 30, 2019 which date is subject to extension by the Lender. That financing plan has been provided by the Company to the Lender. It was also a milestone to the Amending Agreement that the Company pursue an equity raise in the aggregate amount of not less than CAD$3.0 million (the "Financing") and make a public announcement with respect to such Financing by no later than August 7, 2019. This milestone was met by the Company. See note 15. – Subsequent events.

These consolidated financial statements do not reflect adjustments that may be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these consolidated 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 and significant accounting policies:

These condensed consolidated interim financial statement for the three and six months ended June 30, 2019 and 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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, 2018 except adoption of the new lease standard disclosed in Note 3.

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, 2018 and should be read in conjunction with the annual consolidated financial statements as at and for the year ended December 31, 2018.

3. Significant accounting policies:

There have been no significant accounting policy changes except as disclosed below; refer to the audited annual consolidated financial statements as at and for the year ended December 31, 2018.

Adoption of new and amended standards

IFRS Leases IFRS 16.

Effective January 1, 2019, the Company adopted IFRS 16, "*Leases*" ("IFRS 16"). The Company has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Therefore, the comparative information in the Company's Consolidated Statement of Financial Position, Consolidated Statement of Operations and Comprehensive Income, Changes in Equity and cash flows have not been restated.

On adoption, Management elected to use the following practical expedients permitted under the standard:

- Apply a discount rate to the lease portfolio based on the implicit rate applied to each lease agreement.
- Account for leases with a remaining term of less than twelve months as at January 1, 2019 as short-term leases;
- Account for lease payments as an expense and not recognize a Right of use ("ROU") asset if the underlying asset is of a low dollar value (less than CAD$5 thousand);
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease;
- This standard substantially carries forward the lessor accounting requirements of IAS 17.

The impacts of the adoption of IFRS 16 as at January 1, 2019 are as follows:

	As reported at December 31, 2018	Adjustments	Balance on adoption as at January 1, 2019
Assets			
Property and equipment	107,879	(41,407)	66,472
Right of use assets	-	41,407	41,407

i) Lease Liabilities

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as finance leases under the principles of IAS 17, "*Leases*" ("IAS 17"). Under the principles of the new standard these leases have been measured at the present value of the remaining lease payments, discounted using the implicit rate applied to each lease agreement. Total lease liabilities of $41 thousand were recorded as at January 1, 2019, of which $28 thousand is the current portion.

ii) Right of use assets

The associated ROU assets were measured at the amount equal to the lease liability on January 1, 2019.

4. Shareholder loans:

	June 30, 2019		December 31, 2018	
	Face value	Carrying value	Face value	Carrying value
Derivative liability	-	-	-	$45,263
Shareholder loans	225,000	202,133	225,000	210,812
	$225,000	$202,133	$225,000	$256,075

As at June 30, 2019, the shareholder loans are comprised of a $50,000 convertible term loan due on February 8th, 2023 that has a 10% annual interest rate and a $175,000 convertible term loan due on February 8th, 2023 that has a 10% annual interest rate. Both shareholder loans include a conversion feature that provide the lender the right to convert a full or partial amount of the principal outstanding at any point throughout the term of the loan at a 20% discount to the last 20 days weighted average price of the common shares. The conversion feature is classified as a derivative liability due to the variable number of common shares that could be realized at the time of conversion. As at June 30, 2019 the derivative liability was estimated at $0 and is included in the current shareholder loan balance.

5. Term debt:

	June 30, 2019		December 31, 2018	
	Face value	Carrying value	Face value	Carrying value
Term Debt (a)	$3,891,757	$3,891,757	$4,092,600	$4,130,639
Unamortized issue costs	-	(279,942)	-	(584,679)
	$3,891,757	$3,611,815	$4,092,600	$3,545,960

On November 15th, 2018 the Company terminated a credit facility with the Silicon Valley Bank ("SVB Facility") and replaced it with a 12-month USD $3.0 million secured term loan (the "Term Loan"). The Term Loan bears interest at an annual rate of prime (US) plus 4.5%. In accordance with the terms of the Term Loan, the Company is not required to make any interest or principal repayments until maturity. The Company used the proceeds to pay out the SVB Facility and to fund certain lender ("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 Term Loan is secured against all the assets of the Company and its subsidiaries and is due November 15th, 2019.

As part of the Term Loan arrangement, the Company paid debt issuance costs of $641,436 of which $373,695 were cash expenses and the remainder were in the form of warrants valued at $267,741 as explained below. These costs will be amortized over the remaining term of the facility with the cash portion recognized as interest expense and the costs attributable to the warrants recognized as accretion expense. As at June 30, 2019, $279,942 of the debt issuance costs remained unamortized and are netted against the carrying value of the facility. The provisions of the Term Loan provided for the issuance of 1,307,620 purchase warrants that allow for the Lender to purchase one common share at an exercise price of $0.34 per common share and which expire on November 15, 2023. The fair value of each warrant was estimated on the date of grant using the Black- Scholes option pricing model. The estimated value of the warrants was calculated to be $267,741 using the following assumptions:

- Risk free interest rate: 2.21%
- Expected volatility: 72%
- Expected life in years: 5
- Expected dividend yield: nil

At the time of issuance of the Term Loan, the Company was subject to the following covenants, whereby it shall not:

i) Permit its Liquidity, as of any date, to be less than $1,000,000: "Liquidity" means, with respect to the Company, 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 following amounts as at the last day of each of the following fiscal quarters of the Company:

- 4th quarter of 2018 – USD $3,500,000;
- 1st quarter of 2019 – USD $3,650,000;
- 2nd quarter of 2019 – USD $3,850,000; and
- 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 Company. “Net Retention Rate” means, as measured for any month (a “Testing Month”), the quotient, expressed as a percentage, of (i) the monthly recurring revenue (“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.

On March 15th, 2019, the Company and the Lender agreed to amend the Term Loan. The Company made a principal repayment of USD$200,000 of which $102,240 was applied against accrued interest and the remainder applied as a permanent reduction of the principal amount. The amendment to the loan agreement revised the covenants to as follows:

i) Permit its Liquidity, as of any date, to be less than $800,000: “Liquidity” means, with respect to the Company, 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 following amounts as at the last day of each of the following fiscal quarters of the Company:

- 4th quarter of 2018 – USD $3,500,000;
- 1st quarter of 2019 – USD $3,575,000;
- 2nd quarter of 2019 – USD $3,775,000; and
- 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.

On June 27th, 2019 the Company and Lender began discussions to restructure and amend the Term Loan (“Amendment Discussions”). One of the topics being considered as part of the Amendment Discussions is modification of certain of the covenants set forth in the Loan Agreement. In order to allow the parties to complete the Amendment Discussions, the Lender agreed by way of a letter agreement that during the period commencing on June 27th, 2019, the amount of the Company's minimum permitted liquidity would be $700,000. Subsequent to the end of June 30, 2019 the Company and the Lender entered into an agreement to amend the Term Loan. See note 15, Subsequent events. As at June 30, 2019 the Company was compliant with all financial covenants.

6. Convertible Debenture:

	June 30, 2019		December 31, 2018	
	Face value	Carrying value	Face value	Carrying value
Long term debt	$1,100,000	$1,016,065	$1,100,000	$981,810
Unamortized issue costs	-	(45,815)	-	(64,773)
	$1,100,000	$970,250	$1,100,000	$917,037

On June 21, 2018 the Company completed a non-brokered private placement of 1,100 units ("Units") comprised of $1,000 unsecured subordinated convertible debentures bearing an interest rate of 8% and 55.556 common shares in the capital of the Company, raising gross proceeds of $1,100,000. The common shares component of the Units were recognized as a financing fee and upon closing the Company issued 61,112 common shares. 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. The first interest payment was on September 30, 2018.

As part of the convertible debenture arrangement, the Company paid debt issuance costs of $85,312 inclusive of the value of the common shares issued. As at June 30, 2019, $45,815 remained unamortized and is netted 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 over the term of the debentures at a 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 $163,702. 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.

Subsequent to June 30, 2019, The Company, as per the terms of the convertible debenture has notified the debenture holders that future interest payments will be paid in the form of common shares at a price equal to the volume weighted average trading price for the 20 days ending on the fifth day prior to the date on which the interest payments are due. See note 15, Subsequent events.

7. Share capital

(a) Issued common shares:

	Shares (#)	Amount ($)
Balance, December 31, 2018 and June 30, 2019	26,152,405	$25,922,643

(b) Warrants:

	Warrants (#)	Weighted average exercise price	Amount ($)
Balance, December 31, 2018 and June 30, 2019	4,003,815	$0.87	$1,056,081

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 Company's stock price on the date of the grant. Stock option terms and vesting periods are specified in a stock option plan approved by the Board of Directors. The Board has the full power to administer the issuance of options. Option activity is as follows:

	Number of share options	Weighted Average Exercise Price
Balance, December 31 2018	2,453,475	$1.21
Exercisable at December 31, 2018	1,862,750	$1.24
Issued	-	-
Balance, June 30 2019	2,453,475	$1.21
Exercisable at June 30, 2019	2,431,779	$1.20

(b) Retention shares:

The Company utilizes a retention share plan to aid in retaining and motivating executives and employees. Retention shares are valued based on the fair market value of common shares at the date of grant. The following table summarizes retention share activity for the period:

	Three months ended June 30, 2019	Three months ended June 30, 2018
Outstanding, beginning of period	-	21,914
Vested	-	(21,914)
Outstanding, end of period	-	-

(c) Share-based compensation expense:

The stock option plan and retention share based compensation expenses are summarized as follows:

	Three months ended June		Six months ended June	
	2019	2018	2019	2018
Stock options	$17,611	$87,073	$35,817	$179,205
Retention shares	-	-	-	1,408
	$17,611	$87,073	$35,817	$180,613

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 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 (see note 1 – Reporting Entity and Going Concern). 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 (see note 1 – Reporting Entity and 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.

(f) Classification of financial instruments and fair value:

(i) Determination of Fair values

Under IFRS, fair values recorded on the consolidated statement of financial position are classified under a fair value hierarchy that reflects the significant inputs used in making the measurements.

- 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	$ 1,078,536	$ –	$ –
Derivative liability	$ -	$ –	$ –

10. Related party transactions:

The shareholder loans as described in note 4 are held by a director of the Company and a relative of the director. During the period the Company paid $1,250 in interest expense to the director for interest owed on one of the shareholder loans and interest expense of $4,375 to the relative of the director.

11. Expenses by nature:

	Three months ended June		Six months ended June	
	2019	2018	2019	2018
Wages and salaries	$575,972	$747,487	$1,307,624	$1,524,791
Share-based compensation	17,611	87,073	35,817	180,613

12. Executive compensation:

Key management personnel include directors and officers of the Company. In addition to their salaries, key management personnel participate in the Company's stock option plan and retention share plan. The following table shows compensation paid to directors and officers:

	Three months ended June		Six months ended June	
	2019	2018	2019	2018
Wages and salaries	$147,000	$183,750	$339,750	$367,500
Share-based compensation	11,274	63,947	23,146	135,814
	$158,274	$247,697	$362,896	$503,314

13. Loss per common share

The effects of potentially dilutive instruments such as stock options and warrants on loss per common share are anti-dilutive and therefore have been excluded from the calculation of diluted loss per share.

	Three months ended June		Six months ended June	
	2019	2018	2019	2018
Weighted average common shares outstanding (basic and diluted)	26,152,405	26,094,929	26,152,405	26,082,225
Loss of the period	(311,071)	(1,100,372)	(1,064,965)	(2,374,997)
Basic and diluted loss per common share	$(0.01)	$(0.04)	$(0.04)	$(0.09)

14. Trade Receivables:

	As at June 30, 2019	As at December 31, 2018
Trade receivables, net of allowances for doubtful accounts	$1,029,224	$1,076,227
Other receivables	13,595	76,043
	$1,042,819	$1,152,270

15. Subsequent events:

a) On August 2nd, 2019 the Company and the Lender ("Lender') agreed to amend the Term Loan ("Amending Agreement"). The Amending Agreement required the Company, by not later than August 7, 2019, to provide the Lender with a financing plan that contemplated full repayment of the senior secured credit facility by not later than September 30, 2019 which date is subject to extension by the Lender. That financing plan has been provided by the Company to the Lender. It was also a milestone to the Amending Agreement that the Company pursue an equity raise in the aggregate amount of not less than CAD$3.0 million (the "Financing") and make a public announcement with respect to such Financing by no later than August 7, 2019. This milestone was met by the Company.

The Amending Agreement revised the liquidity covenant as follows:

The Company shall not:

Permit its Liquidity, as of the dates below, not to be less than the minimum amount: "Liquidity" means, with respect to the Company, 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.

a) For the period beginning August 2nd, 2019 and ending August 31st, 2019 the minimum liquidity shall be $700,000
b) For the period beginning September 1, 2019 and ending September 15, 2019 the minimum liquidity shall be $675,000
c) For the period beginning September 16, 2019 and ending September 30, 2019 the minimum liquidity shall be $650,000

A milestone requirement of the Term Loan Amending Agreement was for the Company liquidity to be at, or above $800,000 on or before August 12, 2019. The Company raised $74,000 $CAD in the form of promissory notes prior to August 12, 2019 and achieved the liquidity milestone. The promissory notes bear a 10% annual interest payable, with the interest accruing until maturity. The promissory notes mature on November 15th, 2019 and can be extended 90 days by the Company upon written notice to the note holder.

b) Subsequent to June 30, 2019, The Company, as per the terms of the convertible debenture has notified the debenture holders that future interest payments will be paid in the form of common shares at a price equal to the volume weighted average trading price for the 20 days ending on the fifth day prior to the date on which the interest payments are due.