

POOLS SAFE

YOUR PERSONAL POOLSIDE ATTENDANT

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE THREE MONTHS AND NINE
MONTHS ENDED
SEPTEMBER 30, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

Notice to Reader

The accompanying unaudited condensed interim financial statements of Pool Safe Inc. (the "Company") have been prepared by and are the responsibility of management. The unaudited condensed interim financial statements have not been reviewed by the Company's auditors.

POOL SAFE INC.

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

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Pool Safe Inc.
Consolidated Interim Condensed Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited)

AS AT	Note	September 30, 2019	December 31, 2018
ASSETS			
Current			
Cash and cash equivalents		\$ 24,904	\$ 146,838
Receivables	6	31,493	40,529
Prepays	7	-	89,146
Inventory	8	39,877	138,080
		96,274	414,593
Deposit on lease	7	-	44,754
Patent design and costs	10	209,730	222,994
Equipment	9	158,579	166,367
Revenue share assets	11	257,821	128,606
TOTAL ASSETS		\$ 722,404	\$ 977,314
LIABILITIES AND EQUITY			
Current			
Trade payables and other liabilities	12	\$ 167,683	\$ 154,115
Deferred revenue	13	-	10,797
Obligations under capital lease	14	-	30,636
Convertible debentures	15	439,563	-
Total current liabilities		607,246	195,548
Obligations under capital lease	14	-	36,074
Convertible debentures	15	-	377,050
Loans	16	194,568	-
Total liabilities		801,814	608,672
Going concern	2(a)		
Commitments and contingencies	19		
Shareholders' Equity			
Share capital		3,168,566	3,074,649
Warrants		107,446	147,751
Equity component of convertible debentures		30,300	30,300
Reserves		333,046	308,106
Accumulated deficit		(3,718,768)	(3,192,164)
Total equity		(79,410)	368,642
TOTAL LIABILITIES AND EQUITY		\$ 722,404	\$ 977,314

These financial statements are approved on behalf of the Board of Directors:

(Signed) "David Berger"
Director

(Signed) "Steven Glaser"
Director

The accompanying notes are an integral part of these consolidated financial statements

Pool Safe Inc.**Consolidated Interim Condensed Statements of Operations and Comprehensive Loss**

(Expressed in Canadian Dollars)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2019	2018	2019	2018	
	\$	\$	\$	\$	
Revenue	206,460	118,480	372,479	317,398	
Cost of Sales	78,683	41,102	216,537	214,689	
Gross Profit	127,777	77,378	155,942	102,709	
Expenses					
Selling, general and administrative	125,494	121,389	362,928	361,214	
Stock-based compensation	3,073	17,658	24,940	84,069	
Professional fees	8,832	12,324	58,566	81,998	
Litigation settlement	-	289,000	-	289,000	
Investor relations and Regulatory	3,476	1,713	23,309	16,642	
Advertising and promotion	43,939	219	90,649	18,260	
Depreciation	494	529	1,407	1,588	
Foreign exchange	29	2,859	(27)	823	
Gain on debt settlement	-	(4,336)	-	(4,336)	
Interest expense	29,200	20,343	120,773	46,356	
	214,537	461,695	682,546	895,614	
Net loss and comprehensive loss	(86,760)	(384,317)	(526,604)	(792,905)	
Weighted average shares outstanding, basic	17	65,251,239	55,231,771	65,251,239	54,620,476
Basic loss per share	17	(0.00)	(0.01)	(0.01)	(0.01)
Weighted average shares outstanding, diluted	17	65,251,239	55,231,771	65,251,239	54,620,476
Diluted loss per share	17	(0.00)	(0.01)	(0.01)	(0.01)

The accompanying notes are an integral part of these consolidated financial statements

Pool Safe Inc.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

		Number of shares	Share capital	Warrants	Equity portion of convertible debenture	Share- based payments reserve	Accumulated deficit	Total
Balance at December 31, 2017		54,309,763	\$ 2,310,674	\$ 93,917	\$ -	\$ 200,142	\$ (2,195,628)	\$ 409,105
Units issued via private placement	13	5,643,020	364,498	21,409	-	-	-	385,907
Shares issued to settle litigation	13	3,400,000	289,000	-	-	-	-	289,000
Shares issued to repay debt	13	173,456	14,744	-	-	-	-	14,744
Convertible debt warrant		-	-	-	32,752	-	-	32,752
Stock-based compensation		-	-	-	-	84,069	-	84,069
Net loss		-	-	-	-	-	(792,905)	(792,905)
Balance at September 30, 2018		63,526,239	2,978,916	115,326	32,752	284,211	(2,988,533)	422,672
Units issued via private placement		1,725,000	95,733	7,615	-	-	-	103,348
Convertible debenture issuance		-	-	24,810	(2,452)	-	-	22,358
Stock-based compensation		-	-	-	-	23,895	-	23,895
Net loss		-	-	-	-	-	(203,631)	(203,631)
Balance at December 31, 2018		65,251,239	3,074,649	147,751	30,300	308,106	(3,192,164)	368,642
Stock-based compensation		-	-	-	-	24,940	-	24,940
Warrant expiry		-	93,917	(93,917)	-	-	-	-
Loans		-	-	53,612	-	-	-	53,612
Net loss		-	-	-	-	-	(526,604)	(526,604)
Balance at September 30, 2019		65,251,239	\$ 3,168,566	\$ 107,446	\$ 30,300	\$ 333,046	\$ (3,718,768)	\$ (79,410)

The accompanying notes are an integral part of these consolidated financial statements

Pool Safe Inc.
Consolidated Interim Condensed Statement of Cash Flows
(Expressed in Canadian Dollars)
(Unaudited)

	Note	Nine months ended September 30,	
		2019	2018
Operating activities			
Net loss		\$ (526,604)	\$ (792,905)
Items not affecting cash:			
Disposal of revenue share assets		2,189	27,002
Stock-based compensation		24,940	84,069
Litigation settlement for shares		-	289,000
Accretion of convertible debentures		51,353	22,571
Gain on debt repayment for shares			(4,336)
Depreciation		47,391	35,185
		(400,731)	(339,414)
Net changes in non-cash working capital:			
Decrease (increase) in receivables		9,036	(150,063)
Decrease (increase) in prepaids		89,146	-
Decrease (increase) in inventory		98,203	34,107
Increase (decrease) in trade payables and other liabilities		13,568	110,240
Obligations under capital lease		(30,636)	-
Increase in customer deposits		(10,797)	-
Cash flows used in operating activities		(232,211)	(345,130)
Investing activities			
Revenue share assets		(156,211)	(120,475)
Deposit on lease		75,390	-
Purchase of equipment		(1,532)	(85,080)
Cash flows used in investing activities		(82,353)	(205,555)
Financing activities			
Repayment of long-term debt		(13,460)	(31,857)
Proceeds from capital lease		-	78,000
Repayment of capital lease		(66,710)	(5,568)
Proceeds from long-term debt		272,800	369,243
Proceeds from issuance of convertible warrants		-	32,752
Proceeds from issuance of equity units			385,907
Debt retired via share issuance			19,080
Cash flows provided by (used in) financing activities		192,630	848,025
Net change in cash		(121,934)	297,340
Cash - beginning of period		146,838	68,003
Cash - end of period		\$ 24,904	\$ 365,343

The accompanying notes are an integral part of these consolidated financial statements

Pool Safe Inc.
Notes to Consolidated Interim Condensed Financial Statements
Nine Months ended September 30, 2019 and 2018
(Expressed in Canadian Dollars)
(Unaudited)

1. Nature of business

Pool Safe Inc. ("Pool Safe" or the "Company"), was incorporated under the Business Corporations Act (Ontario) on October 27, 2011. The Company manufactures and sells a product known as the "PoolSafe", which functions as a multi-purpose safe, contains a solar-powered charger for USB compatible devices including phones, cameras and tablets as well as a server call-button and a beverage cooler and holders. Pool Safe's head office located at 401 Magnetic Drive, Unit 14, Toronto, Ontario, M3J 3H9.

2. Basis of presentation

(a) Going concern

These financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company's ability to continue in the normal course of operations is dependent on its ability to raise equity or debt financing or through the sale of its products at a profit. Since inception the Company has incurred losses which as of September 30, 2019 totaled \$3,718,768. In addition, the Company had negative working capital in the amount of \$510,972 at September 30, 2019. There are no assurances that the Company will be successful in achieving its goals. These circumstances cast significant doubt on the Company's ability to continue as going concern and ultimately on the appropriateness of the use of the accounting principles applicable to a going concern. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. These adjustments could be material.

(b) Statement of compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). These consolidated interim condensed financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the IASB. The same accounting policies and methods of computation are followed in these consolidated interim condensed financial statements as compared with the most recent annual consolidated financial statements as at and for the period ended December 31, 2018. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2019 could result in restatement of these consolidated interim condensed financial statements.

The policies applied in these unaudited consolidated interim condensed financial statements are based on IFRS issued and outstanding as of November 25, 2019, the date the Board of Directors approved the statements.

(c) Basis of consolidation

These consolidated financial statements include the accounts of the Company as well as its 100% owned subsidiary 1974134 Ontario Inc

(d) Basis of measurement

Apart from certain assets and liabilities measured at fair value as required under certain IFRS's, the financial statements have been presented and prepared on the basis of historical cost.

(e) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency of the Company.

(f) Estimates and critical judgments by management

The preparation of these financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the current period. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known. Items for which actual results may differ materially from these estimates are described in the following section.

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- (i) Useful lives of equipment, patent and design costs, and revenue share assets (collectively "Equipment")
Depreciation of equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the equipment.
- (ii) Income taxes
Income taxes and tax exposures recognized in the financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

3. Significant accounting policies

The principal accounting policies applied to the preparation of these consolidated financial statements are set out below:

(a) Financial instruments

The Company adopted IFRS 9 as of January 1, 2018.

Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI") or amortized cost. The Company determines the classification of financial assets at initial recognition.

Financial assets at Fair-value through profit or loss

Financial instruments classified as fair value through profit and loss are reported at fair value at each reporting date, and any change in fair value is recognized in the statement of operations in the period during which the change occurs. Realized and unrealized gains or losses from assets held at FVPTL are included in losses in the period in which they arise.

Financial assets at Fair-value through other comprehensive income

Financial assets carried at FVTOCI are initially recorded at fair value plus transaction costs with all subsequent changes in fair value recognized in other comprehensive income (loss). For investments in equity instruments that are not held for trading, the Company can make an irrevocable election (on an instrument-by-instrument bases) at initial recognition to classify them as FVTOCI. On the disposal of the investment, the cumulative change in fair value remains in other comprehensive income (loss) and is not recycled to profit or loss.

Financial assets at amortized cost

Financial assets are classified at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. The Company's accounts receivable are recorded at amortized cost as they meet the required criteria. A provision is recorded based on the expected credit losses for the financial asset and reflects changes in the expected credit losses at each reporting period.

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Financial liabilities

Financial liabilities are initially recorded at fair value and subsequently measured at amortized cost, unless they are required to be measured at FVTPL (such as derivatives) or the Company has elected to measure at FVTPL. The Company's financial liabilities include trade and other payables which are classified at amortized cost.

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

	<u>IAS 39</u>	<u>IFRS 9</u>
Cash and cash equivalents	FVTPL	FVTPL
Accounts receivable	Loans and receivable	Amortized cost
Trade and other payables	Amortized cost	Amortized cost
Loans and debentures	Other financial liabilities	Amortized cost

The adoption of this standard did not have a material impact on the Company's consolidated financial statements but resulted in certain additional disclosures. The carrying value and measurement of all financial instruments remains unchanged as at January 1, 2018 as a result of the adoption of the new standard.

Impairment

IFRS 9 requires an 'expected credit loss' model to be applied which requires a loss allowance to be recognized based on expected credit losses. This applies to financial assets measured at amortized cost. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in initial recognition.

(a) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns and discounts. The Company considers the terms of the sales contracts as well as industry practices, taking into consideration the type of customer, the nature of the transaction and the specific circumstances of each arrangement. The Company's revenue is comprised of sales of its PoolSafe product line units and revenue sharing from its PoolSafe product line installations at various locations.

The Company recognizes revenues on product sales at the time the product is delivered. At the time of delivery, the following criteria for revenue recognition exist: title has transferred to the customer according to the shipping terms, the Company no longer retains managerial involvement with the product associated with ownership, the amount of revenue and costs incurred with respect to the underlying transaction are measured reliably, and collection of the related receivable is probable. Anticipated product returns are provided for at the time of sale.

The Company recognizes revenues on revenue sharing units as it is earned.

(b) Trade receivables

Trade receivables are recognized initially at fair value less allowances made for doubtful receivables based on a review of year-end trade receivables, and do not carry any interest. An allowance for doubtful accounts receivables is generally made when there is objective evidence that the Company will not be able to collect the amounts due according to original payment terms or when there are indications of collection issues related to specific customers. As at September 30, 2019 and December 31, 2018 no provision for uncollectible accounts was recorded by the Company.

(c) Inventory

The Company's inventory is recorded at the lower of cost or net realizable value, with cost being determined on a first-in, first-out basis. Net realizable value is defined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs.

The value of obsolete or unmarketable inventory is based on the Company's assessment of market conditions for its

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product determined by historical usage, estimated future demand and in some cases, the specific risk of loss on specifically identified inventory.

(d) Equipment

Equipment is stated at cost less accumulated depreciation. They are depreciated on the basis of their useful lives using the following methods and rates:

	<u>Method</u>	<u>Rate</u>
Furniture and equipment	Declining balance	20%
Computer equipment	Declining balance	30%
Manufacturing equipment tooling and moulds	Straight-line	15 years
Leasehold improvements	Straight-line	5 years
Revenue share assets	Declining balance	20%

An asset's residual value, useful life and depreciation method are reviewed at each financial year end and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components).

(e) Provisions

In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, provision for risks and expenses are recognized for probable outflows of resources that can be estimated and that result from present obligations resulting from past events. In the case where a potential obligation resulting from past events exists, but where occurrence of the outflow of resources is not probable or the estimate is not reliable, these contingent liabilities are disclosed in off-balance sheet commitments and litigation. The provisions are measured based on management's best estimates of outcomes on the basis of facts known at the reporting date.

(f) Share capital

Share capital is presented at the value of the shares issued. Costs related to the issuance of shares are reported in equity, net of tax, as deduction of the issuance proceeds.

(g) Foreign exchange translation

The consolidated financial statements of the Company are presented in Canadian dollars, which is the functional currency. Transactions in foreign currencies are recorded at the exchange rate prevailing at the date of the transaction. At each reporting date, foreign currency denominated monetary assets and liabilities are translated at year-end exchange rates. Exchange differences arising from the transactions are recorded in profit or loss for the period. Exchange differences arising from operating transactions are recorded in operating profit for the period; exchange differences related to financing transactions are recognized in finance income or in equity.

(h) Research and development

Research costs are expensed as incurred. Patent and Design costs are expensed as incurred unless they can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use the asset.

Capitalized Patent and Design costs are amortized on a straight-line basis over 15 years. Management reviews amortization periods and methods annually, with any changes accounted for prospectively.

(i) Income taxes

The Company accounts for its income taxes using the deferred tax assets and liabilities method. Deferred income tax assets and liabilities are determined based on the difference between the carrying amount and the tax basis of the assets

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and liabilities. Any change in the net amount of deferred income tax assets and liabilities is included in profit or loss or equity. Deferred income tax assets and liabilities are determined based on enacted or substantively enacted tax rates and laws which are expected to apply to taxable profit for the years in which the assets and liabilities will be recovered or settled. Deferred income tax assets are recognized when it is probable they will be realized. Deferred tax assets and liabilities are not discounted.

(j) Share-based compensation

The Company has a stock option plan as noted below. Where equity-settled share options are awarded to employees, officers and directors, the fair value of the options at the date of grant is charged to the statement of operations over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of operations over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in comprehensive loss/income over the vesting period, described as the period during which all vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of operations. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

(k) Earnings per share

The Company presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all potentially dilutive common shares, which comprise convertible loans payable, warrants and share options.

4. New and revised standards and interpretations issued but not yet effective

(a) IFRS 16 LEASES

IFRS 16 was issued in January 2016 and replaces the previous guidance on leases. This standard provides a single recognition and measurement model to be applied to leases, with required recognition of assets and liabilities for most leases. This standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if the Company is also applying IFRS 15, Revenue from Contracts with Customers. The Company is currently evaluating

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the impact of the adoption of this new standard on its financial statements.

(b) IFRIC 23 – Uncertainty Over Income Tax Treatments

IFRIC 23 was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted.

5. Acquisition of Pounder Venture Capital Corp.

On April 19, 2017, the Company completed qualifying transaction (“QT”) with Pounder Venture Capital Corp. (“PVC”) as announced November 29, 2016. The transaction was completed via the merger of a wholly owned subsidiary of PVC (“PVC Subco”) and the Company, which constituted a reverse takeover of PVC by the shareholders of the Company. The resulting company will continue to operate as Pool Safe Inc. and trade publicly on the TSX Venture under the symbol “POOL”.

The completion consisted of a combination of the two companies, with the Company being the continuing entity, and a concurrent financing, as required by the TSX Venture Exchange.

The terms of the Transaction including the following:

- i) The Company assumed the outstanding liabilities of PVC which were estimated to be \$257,994. The Company issued 1,704,892 common shares to settle \$192,994 of these assumed debts;
- ii) All stock options of PVC were converted to 129,942 stock options of the Company at a deemed cost of \$365. These stock options had an exercise price of \$0.40 per share and an expiry date of April 18, 2018;
- iii) The Company issued 1,786,923 common shares for all common shares of PVC;
- iv) The Company incurred transaction costs of \$17,083 related to this portion of the transaction.

The table below summarizes the fair value of the assets acquired and the liabilities assumed at the acquisition date, as well as the consideration paid:

<u>Consideration:</u>	
Common shares	\$ 184,443
Stock options	365
Total Consideration	<u>184,808</u>
 <u>Liabilities Acquired:</u>	
Accounts Payable	257,994
Transaction costs	17,083
Total Liabilities Acquired	<u>275,077</u>
 Expense of public listing	 <u>\$ 459,885</u>

In conjunction with the RTO transaction, on April 19, 2017, the Company issued 11,052,040 units for cash proceeds of \$1,251,250 (proceeds net of broker cash fees of \$48,394, and legal and other costs of \$139,154, were \$1,063,702). Each unit was comprised of one common share and one half of one common share purchase warrant. Each whole share warrant can be converted into one common share at an exercise price of approximately \$0.18 for a period until April 18, 2019. The net proceeds were allocated as \$969,785 to common shares and \$93,917 to warrants, based on a Black-Scholes valuation of the warrants

The Company's consolidated statements of comprehensive income include the result of operations for Pounder from the date of acquisition.

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6. Receivables

Receivables are comprised of:

	September 30, 2019	Dec. 31, 2018
Trade receivables	\$ 22,863	\$ 23,395
Taxes receivable	8,630	17,134
	\$ 31,493	\$ 40,529

The following table shows the aging of the Company's trade receivables:

	September 30, 2019	Dec. 31, 2018
1 to 60 days	\$ 22,350	\$ 23,395
61 days and older	513	-
	22,863	23,395
Allowance for bad debts	-	-
Accounts receivable	\$ 22,863	\$ 23,395

The Company considers all trade receivables to be collectable and has not made any allowance for doubtful accounts as at September 30, 2019 nor December 31, 2018.

7. Prepaids

	September 30, 2019	Dec. 31, 2018
Equipment lease deposits	\$ -	\$ 31,836
Prepaids and deposits	-	57,310
Current portion	-	89,146
Deposit on lease	-	44,754
Total prepaids	\$ -	\$ 133,900

8. Inventory

The following comprises inventory:

	September 30, 2019	Dec. 31, 2018
Raw materials	\$ 39,877	\$ 107,981
Finished goods	-	-
	\$ 39,877	\$ 107,981

There was no write-down of inventory during the period ended September 30, 2019, nor the year ended December 31, 2018. During the period ended September 30, 2019, \$216,537 (September 30, 2018 - \$214,689) of inventory was expensed as cost of sales.

9. Equipment

September 30, 2019

Cost	As at December 31, 2018	Additions	As at Sept. 30, 2019
Furniture and equipment	\$ 4,206	\$ -	\$ 4,206
Computer equipment	1,367	-	1,367
Manufacturing equipment tooling and moulds	204,764	-	204,764
Leasehold improvement	14,145	1,532	15,677
Equipment	\$ 224,482	\$ 1,532	\$ 226,014

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Accumulated depreciation	As at December 31, 2018	Additions	As at Sept. 30, 2019
Furniture and equipment	\$ 2,238	\$ 296	\$ 2,534
Computer equipment	857	114	971
Manufacturing equipment tooling and moulds	46,500	7,914	54,414
Leasehold improvement	8,520	997	9,517
	\$ 58,115	\$ 9,321	\$ 67,436
Net book value	\$ 166,367		\$ 158,578

December 31, 2018

Cost	Balance at December 31, 2017	Additions	As at December 31, 2018
Furniture and equipment	\$ 4,206	\$ -	\$ 4,206
Computer equipment	1,367	-	1,367
Manufacturing equipment tooling and moulds	204,764	-	204,764
Leasehold improvement	14,145	-	14,145
Equipment	\$ 224,482	\$ -	\$ 224,482

Accumulated depreciation	Balance at December 31, 2017	Additions	As at December 31, 2018
Furniture and equipment	\$ 1,746	\$ 492	\$ 2,238
Computer equipment	638	219	857
Manufacturing equipment tooling and moulds	35,196	11,304	46,500
Leasehold improvement	7,114	1,406	8,520
	\$ 44,694	\$ 13,421	\$ 58,115
Net book value	\$ 179,788		\$ 166,367

10. Patent and design costs

	As at December 31, 2018	Additions, net	As at Sept. 30, 2019
Cost	\$ 265,283		\$ 265,283
Accumulated amortization	(42,289)	(13,263)	(55,552)
Carrying value	\$ 222,994	\$ (13,263)	\$ 209,731

	Balance at December 31, 2017	Additions, net	As at December 31, 2018
Cost	\$ 180,203	\$ 85,080	\$ 265,283
Accumulated amortization	(30,275)	(12,014)	(42,289)
Carrying value	\$ 149,928	\$ 73,066	\$ 222,994

The Company commenced amortization on June 1, 2015.

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11. Revenue share assets

	As at December 31, 2018	Disposals	Additions, net	As at Sept. 30, 2019
Cost	\$ 161,781	\$ (6,052)	\$ 156,211	\$ 311,940
Accumulated amortization	(33,175)	3,863	(24,807)	(54,119)
Carrying value	\$ 128,606	\$ (2,189)	\$ 131,404	\$ 257,821

	Balance at December 31, 2017	Disposals	Additions, net	As at December 31, 2018
Cost	\$ 102,856	\$ (61,550)	\$ 120,475	\$ 161,781
Accumulated amortization	(31,085)	25,918	(28,008)	(33,175)
Carrying value	\$ 71,771	\$ (35,632)	\$ 92,467	\$ 128,606

12. Trade payables and other liabilities

Trade payables and accrued liabilities are comprised as follows:

	September 30, 2019	December 31, 2018
Trade payables	\$ 38,609	\$ 51,220
Accrued liabilities	129,074	102,895
	\$ 167,683	\$ 154,115

The following table shows the aging of the Corporation's trade payables:

	September 30, 2019	December 31, 2018
Current	\$ 16,658	\$ 48,220
>60 days	21,951	3,000
	\$ 38,609	\$ 51,220

13. Deferred revenue

Deferred revenue is comprised as follows:

	September 30, 2019	December 31, 2018
	\$ -	\$ 10,797

14. Obligation under capital lease

During the 2018 year the Company entered into a capital lease agreement for the revenue share equipment. The lease bear effective interest rates of 10.98% per annum and is repayable in 36 monthly blended principal and interest payments of \$2,553 per month. The lease obligation and interest has been prepaid.

The agreement was terminated in 2019. Interest of \$9,880 was expensed in 2019. Lease obligations of \$66,710 were offset against prepaid balances and lease deposits.

15. Convertible debenture

Convertible debenture financing	\$ 439,563
Less: Current portion of long-term debt	439,563
	<u>\$ -</u>

During 2018, the Company issued a \$460,000 principal amount of unsecured convertible debentures (the "Debentures"). The Debentures bear interest at a rate of 10% per annum, calculated annually and matures on February 8, 2020 (\$300,000), May 11, 2020 (\$125,000) and June 21, 2020 (\$35,000).

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For Debentures with a face value of \$310,000, each \$0.11 of the principal amount of the Debentures is convertible into one Purchase Unit ("Unit"). Each Unit is exercisable to purchase one Common Share and one-half Common Share warrant at a price of \$0.11 per Common Share for a period of two years following issuance. Each full warrant can be exercised for one Common Share at a price of \$0.15 for a period of two years following the issuance of the Note. The securities issued in connection with the loan are subject to a statutory four month hold period from the date of issuance. The Company issued 196,364 broker warrants in connection with these Debentures. Each broker warrant is exercisable into one share and one-half common share purchase warrant at a price of \$0.11. Each full warrant can be exercised for one share at a price of \$0.15. The broker warrants expire February 8, 2020.

For the Debentures with a face value of \$150,000, each \$0.11 of the principal amount is convertible into one share. This series of debentures were issued with 681,750 warrants. Each of these warrants is exercisable into one Common Share at a price of \$0.15 for two years from the date of issuance of the debenture.

The warrants and brokers warrants issued with the debenture financing were valued at \$24,810 using a Black-Scholes valuation option model and are considered a cost of issuance.

The proceeds of the Financing will be used for general working capital purposes.

The debenture is classified as a liability, with the exception of the portion relating to the conversion feature, resulting in the carrying value of the debenture being less than face value. The equity portion of this debt was valued at \$30,300 using the residual method of valuation. The discount is being accreted over the term of the debenture utilizing the effective interest rate method at a 22.2% discount rate. An amount of \$51,353 was recorded as interest accretion expense on the consolidated statements of loss and comprehensive loss for the nine-month period ended September 30, 2019 (2018 year - \$30,195).

Principal repayments required in the next two years are as follows:

2018	\$ -
2019	-
2020	460,000
	<u>\$ 460,000</u>

16. Loans

The Company had a small business investment loan, bearing interest at the rate of prime plus 3.0% per annum, repayable in monthly principal repayments of \$4,673 plus interest, secured by a general security agreement over all assets of the Company and a personal guarantee from the majority shareholders, amounting to 25% of the original loan balance. The loan was repaid in full on July 15, 2018.

The Company entered a revolving credit facility for up to \$1 million. In April 2019 the Company drew \$159,500 against the facility. In May 2019, the Company drew \$113,300 against the facility. Total outstanding draws against the revolver facility at June 30, 2019 amount to \$272,800. The Company issued 3,000,000 warrants in conjunction with this facility. The warrants were valued at \$53,612 using a Black-Scholes valuation option model and are considered a cost of issuance. The facilities are due March 31, 2022 and bear interest at 10% per annum. Early repayment is permitted.

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Long term loans	\$ 223,656
Less: Current portion of loans	-
	<u>\$ 223,656</u>

17. Share capital

(a) **Authorized**

An unlimited number of common shares without par value.

An unlimited number of voting class "A" shares.

(b) **Issued common shares**

	Number	Amount
Balance at June 30, 2016	39,051,600	\$ 930,470
Issuance of shares for cash (i)	714,308	50,000
Balance at December 31, 2016	39,765,908	980,470
Issuance of shares for public company shell (ii)	1,786,923	184,443
Issuance of shares for debt (iii)	1,704,892	175,976
Issuance of units for cash (iv)	11,052,040	969,785
Balance at December 31, 2017	54,309,763	2,310,674
Issuance of units for cash (v)	5,643,020	352,084
Issuance of units for cash (v)	1,725,000	108,147
Issuance of shares for litigation settlement (vi)	3,400,000	289,000
Issuance of shares for debt (vii)	173,456	14,744
Balance at December 31, 2018	65,251,239	3,074,649
Warrant expiry (iv)	-	93,917
Balance September 30, 2019	65,251,239	\$ 3,168,566

- (i) During July 2016, the Company issued 714,308 common shares for net proceeds of \$50,000.
- (ii) During April 2017, the Company issued 1,786,923 common shares in exchange for all the shares of Pounder Venture Capital Corp., a publicly traded company (see Note 5). The share portion of units issued had a deemed value of \$0.1032 each for a deemed exchange value of \$184,443.
- (iii) During April 2017, the Company issued 1,704,892 common shares in exchange for \$192,994 of assumed liabilities of Pounder Venture Capital Corp., a publicly traded company (see Note 5). The Company recognized a gain on settlement of \$17,018 related to this settlement.
- (iv) During April 2017, the Company issued 11,052,040 units for cash proceeds of \$1,251,250 (proceeds net of broker cash fees of \$48,394, and legal and other costs of \$139,154, were \$1,063,702). Each unit was comprised of one common share and one half of one common share purchase warrant. Each whole share warrant could be converted into one common share at an exercise price of approximately \$0.18 for a period until April 18, 2019. The net proceeds were allocated as \$969,785 to common shares and \$93,917 to warrants (Note 17(c)), based on a Black-Scholes valuation of the warrants. The warrants expired unexercised and the \$93,917 balance was transferred to share capital. In addition, 427,476 broker units were issued. Each broker unit is exercisable into a unit of the Company at approximately \$0.11 per broker unit. Each broker unit is comprised of one share and one-half share warrant. Each whole share warrant could be converted into one common share at an exercise price of approximately \$0.18 for a period until April 18, 2019. The broker warrants expired unexercised.
- (v) During September 2018, the Company issued 5,643,020 units for cash proceeds of \$395,011 (proceeds net of broker cash fees and legal and other costs, were \$373,496). Each unit was comprised of one common share and one half of one common share purchase warrant. Each share warrant can be converted into one common share at an exercise price of \$0.12 until September 27, 2020, subject to certain acceleration rights in favour of the Company. The net proceeds were allocated as \$352,084 to common shares and \$21,412 to warrants (Note 16(c)), based on a Black-Scholes valuation of the warrants. In addition, 81,143 finder warrants were issued and valued at \$665. Each finder warrant is exercisable into a common share of the Company at a price of \$0.12 until September 27, 2020. During November 2018, the Company issued 1,725,000 units for cash proceeds of \$120,750 (proceeds net of broker

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cash fees, legal and other costs, were \$115,759). Each unit was comprised of one common share and one half of one common share purchase warrant. Each share warrant can be converted into one common share at an exercise price of \$0.12 until November 26, 2020, subject to certain acceleration rights in favour of the Company. The net proceeds were allocated as \$108,147 to common shares and \$7,612 to warrants (Note 15(c)), based on a Black-Scholes valuation of the warrants.

In addition, 80,800 finder warrants were issued and valued at \$597. Each finder warrant is exercisable into a common share of the Company at a price of \$0.12 until November 26, 2020.

- (vi) During September 2018, the Company issued 3,400,000 shares in settlement of litigation. The shares were valued at \$289,000 and were expensed in the September 2018 period.
- (vii) During September 2018, the Company issued 173,455 to settle \$19,080 of debt. The shares were valued at \$14,744 and the difference was recognized as a gain on settlement of debt in the September 2018 period.

(c) **Warrants**

At September 30, 2019, the following warrants were outstanding:

	Number of Warrants	Exercise Price	Expiry Date
<u>Broker Units</u>			
	196,364	\$0.11	February 8, 2020
	81,143	\$0.12	September 27, 2020
	80,800	\$0.12	November 26, 2020
<u>Warrants</u>			
	568,125	\$0.15	May 11, 2020
	113,625	\$0.15	June 21, 2020
	2,821,510	\$0.12	September 27, 2020
	862,500	\$0.12	November 26, 2020
	2,278,571	\$0.07	March 31, 2022
	721,429	\$0.08	March 31, 2022

Warrant transactions and the number of warrants outstanding are summarized as follows:

	September 30, 2019		December 31, 2018	
Balance, beginning of period	10,677,563	\$0.15	5,953,496	\$0.17
Issued	3,000,000	0.07	4,724,067	\$0.13
Exercised	—	—	—	—
Expired	(5,953,496)	0.17	—	—
Balance, end of period	7,724,067	\$0.10	10,677,563	\$0.15

The Company determined that the fair value of the warrant liability at April 18, 2017 related to the 5,526,020 warrants, using the Black-Scholes Options Pricing Model, was \$93,917. Warrants issued in the current year, related to the revolver facility loans, were determined to have a fair value of \$53,831, using the Black-Scholes Options Pricing Model. The Company determined the fair value using the following inputs; Dividend yield – Nil, interest rate of .62%, volatility of 85% and an expected life of 2 to 3 years.

As related to debenture financings, the Company determined that the fair value of the broker warrant liability at February 8, 2018 related to the 196,364 broker warrants, using the Black-Scholes Options Pricing Mode, was \$6,214. The Company determined that the fair value of the warrant liability at May 11, 2018 related to the 568,125 warrants, using the Black-Scholes Options Pricing Mode, was \$15,467. The Company determined that the fair value of the warrant liability at June 21, 2018 related to the 113,625 warrants, using the Black-Scholes Options Pricing Model, was \$3,129. The Black-Scholes Options Pricing Model used the following inputs; Dividend yield – Nil, interest rate of 0.62%, volatility of 85% and an expected life of 2 years.

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As related to equity financings, the Company determined that the fair value of the warrant liability at September 27, 2018 related to the 2,821,510 warrants, using the Black-Scholes Options Pricing Mode, was \$21,412. The Company determined that the fair value of the finders warrant liability at September 27, 2018 related to the 81,143 finders warrants, using the Black-Scholes Options Pricing Mode, was \$665. The Company determined that the fair value of the warrant liability at November 26, 2018 related to the 862,500 warrants, using the Black-Scholes Options Pricing Model, was \$6,350. The Company determined that the fair value of the finders warrant liability at November 18, 2018 related to the 80,800 finders warrants, using the Black-Scholes Options Pricing Mode, was \$597. The Black-Scholes Options Pricing Model used the following inputs; Dividend yield – Nil, interest rate of .62%, volatility of 85% and an expected life of 2 years.

In addition to the above the Company has reserved for issuance 5,590,909 common share for issuance should the convertible debentures and attached warrants be exercised.

(d) **Stock options**

On April 19, 2017, the Company approved the 10% rolling stock option plan (the “Plan”). Pursuant to the Plan, the Company is entitled to grant options and reserve for issuance up to 10% of the shares issued and outstanding at the time of grant. The terms and conditions of any options granted, including the number and type of options, the exercise period, the exercise price and vesting provisions, are determined by the Compensation Committee which makes recommendations to the board of directors for their approval. The maximum term of options granted cannot exceed 10 years.

The TSXV’s rules require the Plan to be approved annually by shareholders.

At September 30, 2019, the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
150,000	\$0.11	December 17, 2020
4,100,000	\$0.11	June 22, 2022
500,000	\$0.11	April 11, 2023
500,000	\$0.11	December 17, 2023

Stock option transactions and the number of stock options outstanding are summarized as follows:

	September 30, 2019		December 31, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	5,350,000	\$ 0.11	4,429,942	\$ 0.12
Granted	-		1,300,000	0.11
Exercised	-		-	
Cancelled/Expired	(100,000)		(379,942)	0.24
Outstanding, end of period	5,250,000	\$ 0.11	5,350,000	\$ 0.11
Exercisable, end of period	4,750,000	\$ 0.11	3,204,167	\$ 0.11

The aggregate intrinsic value for options vested and for total options as of September 30, 2019 is \$nil (December 31, 2018- \$nil). The weighted average contractual term of stock options outstanding and exercisable as at September 30, 2019 is 2.9 years (December 31, 2018 – 3.6 years).

The weighted average fair value of stock options granted, vested, and modified during the period was \$nil (year

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ended December 31, 2018 - \$0.08).

The following assumptions were used for the Black-Scholes valuation of stock options granted during the periods:

	December 31, 2018
Risk-free interest rate	0.5%
Expected life	2.0 to 4.0 years
Annualized volatility	85%
Dividend rate	-

18. Related party transactions

The following is a summary of the Company's related party transactions during the year:

(a) Key management compensation

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive directors. Compensation provided to key management is as follows:

	September 30, 2019	September 30, 2018
Short-term employee benefits, including salaries and fees	\$ 185,769	\$ 192,308
Stock-based compensation	21,028	78,815
Sub-contractors	-	-
	\$ 206,797	\$ 271,123

On November 26, 2018, the Company issued 1,725,000 units for gross proceeds of \$120,750. Insiders purchased 1,525,000 of these units.

Of the total of \$460,000 of convertible debentures issued in the year \$150,000 was issued to executive officers and directors of the Company.

19. Commitments and contingencies

(a) The following is a summary of the Company's operating lease obligations due in future fiscal years:

2019	\$ 8,017
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20. Operating segment information

Management has determined that the Company's operations have similar economic characteristics and are similar in the nature of products and services, production processes, types and classes of customer, methods of distribution and regulatory environment and as such have aggregated its operating units into a single reportable segment. The Company undertakes its operations in the U.S. and has no significant assets located or revenues generated outside the U.S. Therefore, no segment reporting is included in these financial statements.

21. Earnings (loss) per share

Basic and diluted loss per share are calculated using the following numerators and denominators:

Numerators	Sept. 30, 2019	Sept. 30, 2018
Loss attributable to common shareholders	\$ (526,604)	\$ (792,905)
Loss used in the computation of basic and diluted earnings per share	\$ (526,604)	(792,905)

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Denominators	Sept. 30, 2019	Sept. 30, 2018
Weighted average number of common shares for computation of basic and diluted loss per share	65,251,239	54,620,476

Denominators did not include balances for stock options or warrants as these items were anti-dilutive.

22. Financial instruments

(a) Financial risks

(i) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to review liquidity resources and ensure that sufficient funds are available to meet financial obligations as they become due. Further, the Company's management is responsible for ensuring funds exist and are readily accessible to support business opportunities as they arise. The Company's funding is provided in the form of capital raised through the issuance of shares and long-term debt.

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The company's main credit risk relates to its accounts receivable. The accounts receivable are due from various government bodies; therefore, the company does not anticipate any significant loss for non-collection.

(iii) Market risk

(1) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The company is not exposed to price risk

(2) Concentration risk

Concentration risk is the risk that any single investment or group thereof, has the potential to materially affect the operating results of the Company. The Company is not exposed to this risk.

It is management's opinion that the Company is not subject to significant interest rate risk.

(b) Fair value hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - valuation techniques using the inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In these financial statements, classification of financial instruments measured at fair value is as follows:

Level 1 - cash;

Level 2 - none;

Level 3 - none.

During the year, there were no transfers of amounts between Level 1 and Level 2 and 3.

23. Capital management

The Company considers its capital to be its equity, and debt as disclosed in Notes 15 and 17. The Company's objectives when managing its capital are to maintain a sufficient capital base in order to meet its short-term obligations and at the

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same time preserve investors' confidence required to sustain future investments.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than that of the TSXV which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of September 30, 2019, management believes it is compliant with the policies of the TSXV.