IDENTILLECT TECHNOLOGIES CORP.

Condensed Consolidated Interim Financial Statements
(Unaudited – Prepared by Management)
(Expressed in US Dollars)

As at and for the three and six months ended June 30, 2018 and 2017

IDENTILLECT TECHNOLOGIES CORP.

(the “Company” or “Identillect”)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
As at and for the three and six months ended June 30, 2018 and 2017

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Management of the Company is responsible for the preparation of the accompanying unaudited condensed consolidated interim financial statements. The unaudited condensed consolidated interim financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards (“IFRS”) for the preparation of condensed consolidated interim financial statements and are in accordance with IAS 34 – Interim Financial Reporting.

The Company’s auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity’s auditor.

Identillect Technologies Corp.
Condensed Consolidated Interim Statements of Financial Position
(Unaudited – Prepared by Management)
(Expressed in US dollars)
As at

		June 30, 2018		December 31, 2017
Assets				
Current Assets				
Cash and cash equivalents	**$**	**230,292**	$	861,025
Receivables		**342,190**		393,236
Prepaid expenses		**5,135**		10,843
		577,617		1,265,104
Furniture and equipment (Note 5)		**11,536**		14,170
Total Assets	**$**	**589,153**	$	1,279,274
Liabilities and Shareholders' Equity (Deficiency)				
Current Liabilities				
Accounts payable and accrued liabilities	**$**	**159,689**	$	194,108
Deferred revenue		**181,970**		161,631
Loans payable (Note 7)		**148,471**		182,927
Convertible debenture (Note 8)		**220,179**		228,281
		710,309		766,947
Shareholders' Equity (Deficiency)				
Share capital (Note 10)		**8,172,371**		8,155,655
Obligation to issue shares (Note 10)		**-**		6,024
Share-based payment reserve (Note 10)		**588,020**		511,332
Warrants reserve (Note 10)		**681,365**		681,365
Equity component of convertible debt (Note 8)		**9,324**		9,324
Accumulated other comprehensive loss		**(44,976)**		(35,659)
Deficit		**(9,527,260)**		(8,815,714)
		(121,156)		512,327
Total Liabilities and Shareholders' Equity (Deficiency)	**$**	**589,153**	$	1,279,274

Nature and Continuance of Operations – Note 1

Approved on behalf of the Board:

"Jeff Durno"
Director

"Todd Sexton"
Director

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

Identillect Technologies Corp.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Unaudited – Prepared by Management)
(Expressed in US dollars)

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	**2018**	2017
Revenues	**$ 262,159**	$ 223,309	**$ 542,730**	$ 406,026
Cost of Sales	**52,858**	44,796	**119,827**	94,634
	209,301	178,513	**422,903**	311,392
Expenses				
Filing fees	**-**	-	**8,817**	13,916
Amortization (Note 5)	**1,501**	710	**3,003**	3,002
Consulting fees	**6,915**	15,738	**14,017**	31,601
Finance costs (Notes 7, 8)	**7,220**	14,209	**15,375**	30,045
General and administrative	**20,672**	17,638	**44,352**	38,993
Operating costs	**29,022**	43,363	**61,985**	85,184
Professional fees	**45,702**	78,454	**76,202**	128,734
Rent	**20,159**	18,697	**42,920**	37,394
Salaries and wages	**280,765**	230,204	**516,976**	560,676
Sales and marketing	**53,816**	239,931	**72,046**	367,478
Share-based payments (Note 10)	**11,025**	30,478	**81,397**	74,815
Bad debt expense	**141,349**	2,011	**201,476**	2,011
	(618,146)	(691,433)	**(1,138,566)**	(1,373,849)
Loss before other items	**(408,845)**	(512,920)	**(715,663)**	(1,062,457)
Other items				
Foreign exchange gain (loss)	**23,488**	(141,960)	**4,117**	(35,916)
	23,488	(141,960)	**4,117**	(35,916)
Loss for the period	**(385,357)**	(654,880)	**(711,546)**	(1,098,373)
Translation adjustment	**(2,537)**	(26,139)	**(9,317)**	(31,613)
Comprehensive loss for the period	**$ (387,894)**	$ (681,019)	**$ (720,863)**	$ (1,129,986)
Weighted average number of shares outstanding	**97,215,961**	72,367,988	**97,212,370**	66,915,763
Basic and diluted loss per share	**$ (0.00)**	$ (0.01)	**$ (0.01)**	$ (0.02)

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

Identillect Technologies Corp.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)
(Unaudited – Prepared by Management)
(Expressed in US dollars)

	Number of Common Shares	Number of Preferred Shares	Share Capital Amount	Obligation to issue shares	Warrant reserve	Share-based payment reserve	Equity portion of convertible debt	Accumulated other comprehensive loss	Deficit	Shareholders' Equity (Deficiency)
Balance, December 31, 2016	46,134,651	5,000,000	$ 4,482,798	-	$ 771,772	$ 368,026	$ 18,648	$ (9,661)	$ (6,837,124)	**$ (1,205,541)**
Expiry of preferred shares	-	(5,000,000)	-	-	-	-	-	-	-	-
Private placements	26,233,334	-	1,292,424	-	-	-	-	-	-	1,292,424
Obligation to issue shares	-	-	-	380,793	-	-	-	-	-	380,793
Broker warrants	-	-	(16,295)	-	16,295	-	-	-	-	-
Share issuance costs	-	-	(36,826)	-	-	-	-	-	-	(36,826)
Share based payments	-	-	-	-	-	74,815	-	-	-	74,815
Currency translation adjustment	-	-	-	-	-	-	-	(31,613)	-	(31,613)
Net comprehensive loss for the period	-	-	-	-	-	-	-	-	(1,098,373)	(1,098,373)
Balance, June 30, 2017	**72,367,985**	-	**$ 5,722,101**	**$ 380,793**	**$ 788,067**	**$ 442,841**	**$ 18,648**	**$ (41,274)**	**$ (7,935,497)**	**$ (624,321)**
Balance, December 31, 2017	97,115,961	-	$ 8,155,655	$ 6,024	$ 681,365	$ 511,332	$ 9,324	$ (35,659)	$ (8,815,714)	$ 512,327
Options exercised	50,000	-	10,733	(6,024)	-	(4,709)	-	-	-	-
Warrants exercised	50,000	-	5,983	-	-	-	-	-	-	5,983
Share based payments	-	-	-	-	-	81,397	-	-	-	81,397
Currency translation adjustment	-	-	-	-	-	-	-	(9,317)	-	(9,317)
Net comprehensive loss for the period	-	-	-	-	-	-	-	-	(711,546)	(711,546)
Balance, June 30, 2018	**97,215,961**	-	**$ 8,172,371**	**$ -**	**$ 681,365**	**$ 588,020**	**$ 9,324**	**$ (44,976)**	**$ (9,527,260)**	**$ (121,156)**

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

Identillect Technologies Corp.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited – Prepared by Management)
(Expressed in US dollars)

	For the six months ended June 30, 2018	2017
Cash provided by (used for):		
Operating Activities:		
Loss for the period	**$ (711,546)**	$ (1,098,373)
Items not affecting cash:		
Amortization	**3,003**	3,002
Bad debts	**201,476**	2,011
Interest accrued	**15,681**	30,055
Share-based payments	**81,397**	74,815
Foreign exchange	**(12,673)**	40,501
Changes in non-cash working capital items:		
Account receivable	**(153,675)**	(94,656)
Prepaid expenses	**5,453**	18,563
Accounts payable and accrued liabilities	**(31,689)**	(116,921)
Deferred revenue	**20,339**	15,947
	(582,234)	(1,125,056)
Investing Activities:		
Additions to furniture, fixtures and equipment	**(369)**	(287)
	(369)	(287)
Financing Activities:		
Proceeds from share issuance	**5,983**	1,292,424
Obligation to issue shares	**-**	370,341
Share issuance costs	**-**	(36,826)
Proceeds from notes payable	**6,000**	17,000
Repayment of loan	**(42,121)**	(221,573)
Interest on loans	**(2,436)**	(47,868)
Interest paid on debentures	**(7,008)**	(15,089)
	(39,582)	1,358,409
Impact of foreign exchange on cash	**(8,548)**	(12,219)
Change in cash for the period	**(630,733)**	220,847
Cash, beginning of the period	**861,025**	21,700
Cash, end of the period	**$ 230,292**	$ 242,547

Significant non-cash transactions (Note 9)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Identillect Technologies Corp. ("Identillect" or the "Company") is a Canadian public company that is listed on the TSX Venture Exchange ("Exchange") under the symbol ID. The Company was incorporated under the Canada Corporations Business Act on December 27, 1985, registered extra-provincially under the British Columbia Company Act on July 9, 1987, and effective June 18, 2014 the Company was continued into British Columbia. The Company's principle address is 1600 – 609 Granville Street, Vancouver, BC V7Y 1C3 and its registered and records office is 2200 – 885 West Georgia Street, Vancouver, BC, V6C 3E8.

Identillect Technologies Inc. is a wholly-owned subsidiary of the Company, which was incorporated under the Nevada Business Corporation Act on August 24, 2010. Identillect Technologies Inc. is a software company that has developed an email encryption software solution. The head office of Identillect Technologies Inc. is located at 23686 Birtcher Dr., Lake Forest, CA 92630.

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company was not expected to continue operations for the foreseeable future. At June 30, 2018, the Company has not achieved profitable operations and has accumulated losses of $9,527,260 (December 31, 2017 – $8,815,714) since inception and expects to incur further losses in the development of its business. This material uncertainty may cast significant doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent on its ability to attain profitable operations to generate funds and/or its ability to raise equity capital or borrowings sufficient to meet its current and future obligations. Although the Company has been successful in the past in raising funds to continue operations, there is no assurance it will be able to do so in the future.

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). These condensed consolidated interim financial statements are prepared using accounting policies consistent with the Company's annual audited consolidated financial statements issued under International Financial Reporting Standards ("IFRS") for the year ended December 31, 2017 except as disclosed in Note 3.

These condensed consolidated interim financial statements do not include all of the information required for the full annual financial statements and should be read in conjunction with the Company's most recent audited annual consolidated financial statements for the year ended December 31, 2017.

2. BASIS OF PREPARATION (continued)

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in US dollars, which is the Company's functional and presentation currency. The functional currency of Identillect Technologies (Canada) Inc. is the Canadian dollar.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries:

Name of Subsidiary	Ownership	Place of Incorporation
Identillect Technologies Inc.	100%	Nevada, USA
Identillect Technologies (Canada) Inc.	100%	British Columbia, Canada

The financial statements of the Company were authorized for issue by the Board of Directors on August 29, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

Except for the adoption of IFRS 9 and IFRS 15, the accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the most recent audited annual consolidated financial statements as at and for the year ended December 31, 2017 and reflect all the adjustments necessary for fair presentation in accordance with IAS 34.

New standards and interpretations adopted

IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39").

The Company has adopted IFRS 9 retrospectively as of January 1, 2018. Changes in accounting policies resulting from the adoption of IFRS 9 does not have a material impact on the Company's consolidated financial statements.

Classification and measurement of financial assets and financial liabilities

IFRS 9 replaces the guidance in IAS 39, on the classification and measurement of financial assets. IFRS 9 eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards and interpretations adopted (continued)

IFRS 9 *Financial Instruments* (continued)

Financial assets will be classified into one of two categories on initial recognition:

- Financial assets measured at amortized cost; or
- Financial assets measured at fair value.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed on its contractual cash flow characteristics. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition. For financial assets measured at amortized cost, these assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

The Company's financial assets previously carried as loans and receivables are now classified as amortized cost without material impact to carrying values.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss ("ECL") model. The Company will measure loss allowances for trade and other receivables at an amount equal to lifetime ECLs. ECLs are a probability-weighted estimate of credit losses.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. Impairment losses on trade and other receivables are presented as bad debts expense in the statement of loss and comprehensive loss, similar to the presentation under IAS 39.

The Company has determined that the application of IFRS 9's impairment requirements as at January 1, 2018 does not result in any additional impairment allowances.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued with the intent of significantly enhancing consistency and comparability of revenue recognition practices across entities and industries. IFRS 15 replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts,* and related interpretations. The new standard establishes a single, principles-based five-step model to be applied to all contracts with customers and introduces new and enhanced disclosure requirements.

The Company has adopted the modified retrospective approach which allows the cumulative impact of the adoption to be recognized in retained earnings as of January 1, 2018 and that the comparative figures will not be restated. Changes in accounting policies resulting from the adoption of IFRS 15 does not have a material impact on the Company's consolidated financial statements.

Revenue recognition

The Company sells its technology on a software-as-a-service ("SaaS") basis. Subscription revenue is recognized over time when the right to access the Company's technology is transferred to the customer over the term of the subscription period. Purchase agreements are typically for a monthly or annual period and related fee. Contracts for subscriptions are sold to personal and corporate users and if billed upfront and prior to revenue recognition, results in deferred revenue. Customers may also be billed subsequent to revenue recognition which results in trade receivables.

New accounting pronouncements

The following standard, made mandatory by the IASB, has not yet been adopted by the Company and is being evaluated to determine its impact:

- IFRS 16 *Leases*: A new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 *Leases* and instead introduces a single lease accounting model. The standard is effective for annual periods beginning on or after January 1, 2019.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make estimates, judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

a. Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

a) Expected credit losses
Expected credit losses ("ECLs") on trade receivables are calculated based on the expected credit loss for clients with an accounts receivable balance greater than 90 days past due. When determining ECLs, the Company considers the historic credit losses observed by the Company, customer-specific payment history and economic conditions.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience, informed credit assessment and forward-looking information.

b) Share-based payments
The fair value of stock options issued with Canadian dollar exercise prices are subject to the limitation of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in the subjective input assumptions can materially affect the fair value estimate.

c) Valuation of financial instruments
The Company is required to determine the valuation of convertible debentures at inception. The convertible notes valuation required discounted cash flow analysis that involved various estimates and assumptions (Note 8).

(Expressed in US dollars)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

b. Critical accounting judgements

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the statements are, but are not limited to, the following:

i. Determination of functional currency
The functional and reporting currency of the Company is the US dollar. The functional currency determination was conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates. The determination of functional currency involves certain judgments to determine the primary economic environment and the Company reconsiders the functional currency if there are changes in events and conditions of the factors used in the determination of the primary economic environment.

ii. Going Concern
The preparation of these financial statements requires management to make judgments regarding the going concern of the Company. As at June 30, 2018, the Company had a working capital deficit of $132,692 (December 31, 2017 – positive $498,157). The Company likely has insufficient funds from which to finance its operating activities for the next 12 months; consequently, the Company remains dependent on external sources of financing until such time as it can internally generate sufficient income from software sales to service its on-going operating cost requirements.

5. FURNITURE AND EQUIPMENT

	Furniture and Equipment	Computer Equipment	Total
Net book value, December 31, 2016	**$ 8,842**	**$ 4,360**	**$ 13,202**
Additions	-	7,547	7,547
Amortization	(2,911)	(3,668)	(6,579)
Net book value, December 31, 2017	**$ 5,931**	**$ 8,239**	**$ 14,170**
Additions	-	369	369
Amortization	(1,456)	(1,547)	(3,003)
Net book value, June 30, 2018	**$ 4,476**	**$ 7,060**	**$ 11,536**

(Expressed in US dollars)

6. RELATED PARTY TRANSACTIONS

The Company defines key management personnel as directors and officers. The following table summarizes the Company's activities with key management personnel:

Type of Service	Nature of Relationship	For the six months ended June 30, 2018	2017
Consulting fees	Emprise Capital Corp, a company related to a director of the Company	**$60,962**	$33,725
Salaries and wages	Todd Sexton CEO, and Einar Mykletun, CTO	**101,481**	144,397
Legal	Cassels Brock & Blackwell LLP, a law firm in which a director of the Company is a partner	**4,292**	25,474
Share-based payments expense	Officers/Directors	**38,376**	82,004
		$ 205,111	$285,600

The following table represents amounts due to related parties included in accounts payable and accruals:

Type of Service	Nature of Relationship	June 30, 2018	December 31 2017
Other payables	Emprise Capital Corp, a company related to a director of the Company	**$ -**	$ 18,982
Legal Fees payable	Cassels Brock & Blackwell LLP, a law firm in which a director of the Company is a partner	**-**	36,158
Salaries and wages	Todd Sexton, CEO	**91,228**	41,395
		$ 91,228	$ 96,535

Unless otherwise specified, amounts payable to related parties referred to are non-interest bearing, unsecured, payable on demand, and have arisen from the provision of services and expense reimbursements.

(Expressed in US dollars)

7. LOANS PAYABLE

Loans payable	Principal	Accumulated Interest	Total Debt
December 31, 2016	**$ 370,885**	**$ 67,986**	**$ 438,871**
Proceeds	28,300	-	28,300
Repayments	(242,482)	(75,242)	(317,724)
Interest accrued	-	18,673	18,673
Translation adjustment	13,496	1,311	14,807
December 31, 2017	**$ 170,199**	**$ 12,728**	**$ 182,927**
Proceeds	6,000	-	6,000
Repayments	(42,121)	(2,436)	(44,557)
Interest accrued	-	7,640	7,640
Translation adjustment	(3,114)	(425)	(3,539)
June 30, 2018	**$ 130,964**	**$ 17,507**	**$ 148,471**

The loans payable of the Company are unsecured, bear interest at 10% per annum, and are due on demand. A loan repaid in the year ended December 31, 2017 bore interest at 12% per annum.

8. CONVERTIBLE DEBENTURES

Convertible Debenture	Total Debt
December 31, 2016	$ 409,387
Finance expense	38,857
Interest paid	(30,423)
Conversion to shares	(226,225)
Translation adjustment	36,685
December 31, 2017	**$ 228,281**
Finance expense	8,040
Interest paid	(7,008)
Translation adjustment	(9,134)
Net convertible debentures payable, June 30, 2018	**$ 220,179**
Equity component of convertible debentures	**$ 9,324**

The convertible debentures are payable on November 17, 2018, bearing interest at 7% per annum and are convertible into common shares, at the option of the holders, at Cdn$0.30 per share. The conversion feature was valued at the date of issuance as the residual value of the present value of the principal on the convertible debentures (Cdn$580,000) at a discount rate of 10% which is the borrowing rate the Company has achieved for non-convertible instruments.

On December 6, 2017, the Company converted Cdn$290,000 to 966,666 common shares at the conversion price of Cdn$0.30 per common share.

9. SIGNIFICANT NON-CASH TRANSACTIONS

There were no significant non-cash transactions for the period ended June 30, 2018.

During the period ended June 30, 2017, the Company issued 804,000 broker warrants in connection with a private placement at a value of $16,295 (Note 10(e)).

10. SHARE CAPITAL AND RESERVES

a. Authorized
Unlimited number of common shares without par value
Unlimited number of preferred shares without par value

b. Issued and outstanding

For the period ended June 30, 2018:

During the period ended June 30, 2018, 50,000 common shares were issued for exercised stock options for which $6,024 had been received as at December 31, 2017. Upon exercise of the options $4,709 share-based payment reserve was reclassified as share capital. During the period ended June 30, 2018, 50,000 warrants were exercised into common shares for proceeds of $5,983.

For the year ended December 31, 2017:

On January 26, 2017, the Company completed a non-brokered private placement, raising aggregate proceeds of $1,055,123 (Cdn$1,382,000) by issuing 23,033,334 units at a price of Cdn$0.06 per unit, with each unit consisting of one common share and one half of one common share purchase warrant. Each full warrant entitled the holder to acquire one additional common share at a price of Cdn$0.15 per share for a period of 12 months from the date of closing.

In connection with the January 26, 2017 private placement, the Company paid a cash commission totaling $36,830 and issued 804,000 broker warrants valued at $16,295. Each broker warrant entitled the holder to acquire one common share, at a price of Cdn$0.15 until January 26, 2018 (Note 10(e)). The Company incurred other cash share issuance costs of $9,514 in relation to the private placement.

On March 14, 2017, the Company completed a non-brokered private placement, raising aggregate proceeds of $237,301 (Cdn$320,000) by issuing 3,200,000 common shares at a price of Cdn$0.10 per share.

On November 21, 2017, the Company completed a non-brokered private placement of $782,595 (Cdn$1,000,000) through the issuance of 8,333,333 common shares at a price of Cdn$0.12 per common share.

(Expressed in US dollars)

10. SHARE CAPITAL AND RESERVES (continued)

b. Issued and outstanding

For the year ended December 31, 2017 (continued):

In connection with the November 21, 2017 private placement, the Company paid finders' fees totaling $27,328 and issued 291,000 finder warrants valued at $24,761. Each finder warrant entitles the holder to acquire one common share at a price of Cdn$0.12 until November 20, 2018 (Note 10(e)). The Company incurred other cash share issuance costs of $13,703 in relation to the private placement.

During the year ended December 31, 2017, 734,375 options were exercised into common shares for proceeds of $98,547. Upon exercise of the options $51,121 share-based payment reserve was reclassified as share capital. During the year ended December 31, 2017, 17,713,602 warrants were exercised into common shares for proceeds of $1,209,589. Upon exercise of the warrants 131,463 warrant reserve was reclassified to share capital.

c. Stock Options

A summary of the Company's stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price (Cdn$)
Balance, December 31, 2016	**3,742,000**	**$ 0.20**
Issued	3,925,000	0.15
Exercised	(734,375)	0.17
Cancelled / expired	(685,750)	0.16
Balance, December 31, 2017	**6,246,875**	**$ 0.17**
Issued	150,000	0.27
Exercised	(50,000)	0.16
Balance, June 30, 2018	**6,346,875**	**$ 0.18**

At June 30, 2018, a summary of stock options outstanding and exercisable is as follows:

Grant Date	Number of Options Outstanding	Number of Options Exercisable	Exercise Price (Cdn$)	Expiry date	Remaining contractual life (years)
May 24, 2016	3,000,625	3,000,629	$0.20	May 24, 2021	2.90
November 23, 2016	286,250	214,688	$0.13	November 23, 2021	3.40
March 1, 2017	250,000	125,000	$0.11	March 1, 2022	3.67
November 3, 2017	2,550,000	1,212,500	$0.16	November 3, 2022	4.35
November 22, 2017	100,000	25,000	$0.22	November 22, 2022	4.40

(Expressed in US dollars)

November 22, 2017	10,000	2,500	$0.20	November 22, 2022	4.40
January 12, 2018	150,000	-	$0.27	January 12, 2023	4.54

10. SHARE CAPITAL AND RESERVES (continued)

c. Stock Options (continued)

Share-based payments

During the period ended June 30, 2018, the Company granted 150,000 (2017 – 1,140,000) stock options. Total share-based payments expensed for options granted and vesting during the period was $81,397 (2017 - $74,815). The following weighted average assumptions were used for the Black-Scholes option-pricing model valuation of stock options granted and vesting during the period:

	2018	2017
Risk-free interest rate	2.03%	0.77%
Expected life of options	5 years	5 years
Expected annualized volatility	100%	100%
Dividend yield	- %	- %

d. Share purchase warrants

A summary of the Company's share purchase warrant activity is as follows:

	Number of warrants	Weighted average exercise price (Cdn$)
Balance, December 31, 2016	**15,592,500**	**$ 0.33**
Issued with subscriptions – January 2017	11,516,667	0.15
Exercised	(13,909,602)	0.10
Expired	(13,149,565)	0.32
Balance, December 31, 2017	50,000	$0.15
Exercised	(50,000)	0.15
Balance, June 30, 2018	**-**	**$ -**

For a period of 20 days starting June 28, 2017, under a warrant incentive program, a total of 2,442,935 warrants, which were granted at an exercise price of $0.40, and 10,683,333 warrants, which were granted at an exercise price of Cdn$0.15, were exercised at a reduced price of Cdn$0.10 for proceeds of $1,023,468 (Cdn$1,312,627). At the end of the incentive program, the unexercised warrants returned to their original exercise prices.

(Expressed in US dollars)

10. SHARE CAPITAL AND RESERVES (continued)

e. Broker warrants

A summary of the Company's broker warrant activity is as follows:

	Number of warrants	Weighted average exercise price (Cdn$)
Balance, December 31, 2016	794,250	$ 0.24
Granted	1,095,000	0.14
Exercised	(804,000)	0.15
Expired	(794,250)	0.24
Balance, December 31, 2017 and June 30, 2018	**291,000**	**$ 0.12**

A summary of broker warrants outstanding at June 30, 2018 is as follows:

Number of Warrants Outstanding	Weighted Average Exercise Price (Cdn$)	Expiry date	Remaining contractual life (years)
291,000	$ 0.12	November 20, 2018	0.39

The following weighted average assumptions were used for the Black-Scholes option-pricing model valuation of stock options granted and vesting during the period:

	2018	2017
Risk-free interest rate	-	0.63%
Expected life of options	-	1 year
Expected annualized volatility	-	100%
Dividend yield	-	- %

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a. Fair value of financial instruments

As at June 30, 2018 and December 31, 2017, the Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, loans, and convertible debenture. Cash and receivables are classified as amortized cost. Accounts payable and accrued liabilities, loans, and convertible debentures are classified as amortized cost. The fair values of these financial instruments approximate their carrying values because of their short-term nature and/or the existence of market related interest rates on the instruments.

(Expressed in US dollars)

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

b. Financial Instrument risk

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

i. Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company places its cash with institutions of high-credit worthiness. Management has assessed there to be a low level of credit risk associated with its cash balances. As at June 30, 2018, accounts receivables of $342,190 (December 31, 2017 - $393,236) are from subscribers of the Company's Delivery Trust sales. The subscribers represent a well-diversified group of individuals and small to mid-sized companies. There is moderate risk that some of these subscribers may fail to make payments, however each subscriber amount taken individually is not material and the Company actively monitors its monthly collections so as to mitigate the amount of a potential financial impact.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables are assessed primarily based on days past due. The loss allowance provision as at June 30, 2018 is determined to be 50% on amounts outstanding longer than 90 days. The total provision as at June 30, 2018 was $93,111.

For the six months ended June 30, 2018, no significant changes were noted for the expected loss rates.

The loss allowance provision for trade receivables as at June 30, 2018 reconciles to the opening loss allowance provision as follows:

Loss allowance provision	**June 30, 2018**
December 31, 2017	**$ 46,144**
Changes in the period	201,476
Written off as not recoverable	(154,509)
June 30, 2018	**$ 93,111**

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

ii. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has not yet achieved profitable operations and expects to incur further losses in the development of its business. The Company's objective in managing liquidity risk is to minimize operational costs and to maintain sufficient liquidity in order to meet its operational requirements at any point in time. The Company manages liquidity risk through the management of its capital structure as outlined in Note 12 of these unaudited condensed consolidated interim financial statements.

Until such time as the Company's operations are profitable and can internally generate sufficient funds to finance its operating costs, the Company remains dependent upon the financial support of its shareholders. If the Company is unable to finance itself through these means, it is possible that the Company will be unable to continue as a going concern.

At June 30, 2018, the Company has negative working capital of $132,692 (December 31, 2017 – positive $498,157) and the Company has insufficient working capital to fund its operating requirements for the next 12 months. The Company's continued operations will remain dependent on external sources of financing until such time as it can internally generate sufficient income from software sales to service its on-going operating cost requirements. Future funding may be obtained by means of issuing share capital, the exercise of warrants, the exercise of stock options or debt financing. Based on these facts, the Company is significantly exposed to liquidity risk.

iii. Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a. Interest rate risk

As of June 30, 2018, the Company did not have any investments in investment-grade short-term deposit certificates, and interest exposure with respect to its cash balances is minimal.

As at June 30, 2018, the Company had loans bearing interest at a fixed rate of 10% and convertible debentures bearing interest at a fixed rate of 7% per annum and as such is not significantly exposed to interest rate fluctuations.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

iii. Market risk (continued)

b. Foreign currency risk

At June 30, 2018, $320,127 of the Company's liabilities and $292,190 of its current assets are denominated in Canadian funds. A 1% change in the Canadian/US dollar exchange rate would result in a $368 net impact on the Company's foreign exchange gain or loss. As at June 30, 2018, the Company is moderately exposed to foreign exchange fluctuations.

12. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to fund existing operations and thereby provide returns to its shareholders. The Company does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the business. The Company defines capital that it manages as the aggregate of its issued common shares, share-based payments reverses, warrants, and stock options and its cash balances.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and investments. The Company requires capital to maintain its operating businesses, sustain corporate operations and repay existing obligations. The Company currently is not able to internally finance on-going operating costs of its businesses and therefore will require additional financing by means of issuing share capital, the sale of assets or debt financing.

There can be no certainty of the Company's ability to raise any additional financing from any of these sources.

Management reviews its capital management approach on an ongoing basis and believes that this approach given the relative size of the Company is reasonable. The Company is not subject to any externally imposed capital requirements or debt covenants. There was no change to the Company's approach to capital management during the period ended June 30, 2018.

13. SUBSEQUENT EVENTS

Subsequent to the period ended June 30, 2018, the Company:

a) Issued a promissory note with a principal amount of $260,000 to a private company with common directors. The promissory note accrues interest at a simple rate of 10% per annum, payable quarterly, and matures on August 13, 2019. The promissory note is unsecured.

b) Granted 250,000 stock options exercisable at a price of $0.065 per common share and expiring August 14, 2021.