VENTRIPOINT DIAGNOSTICS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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Independent Auditor's Report

To the Shareholders of
Ventripoint Diagnostics Ltd.

Opinion

We have audited the consolidated financial statements of Ventripoint Diagnostic Ltd. and its subsidiary (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficit), and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(b) in the consolidated financial statements, which indicates that the Group incurred a net loss of $2,084,014 and a negative operating cash flow of $3,048,987 during the year ended December 31, 2018 and, and has accumulated $34,620,018 of losses as at December 31, 2018. As stated in Note 2(b), these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises:

- The information, other than the consolidated financial statements and our auditor's report thereon, included in the Management Discussion & Analysis ("MD&A").

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

We obtained the Management Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is John Leavitt.

BDO Canada LLP

Chartered Professional Accountants

Calgary, Alberta

April 29, 2019

Ventripoint Diagnostics Ltd.

Consolidated Statements of Financial Position
Amounts in CDN Dollars

	Note	As at December 31, 2018	As at December 31, 2017
ASSETS			
Cash and equivalents		$66,566	$1,358,923
Accounts receivable	4	80,222	99,809
Inventory	3(g)	68,990	50,582
Prepaid expenses		164,365	113,387
Total current assets		380,143	1,622,701
Property and equipment	6	49,004	49,915
Intangible assets		37,340	37,340
Total non-current assets		86,344	87,255
Total assets		$466,487	$1,709,956
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Accounts payable and accrued liabilities	5	$1,296,308	$1,152,366
Deferred revenue		9,823	-
Derivative liabilities	8	133,619	2,183,831
Total current liabilities		1,439,750	3,336,197
Total liabilities		$1,439,750	$3,336,197
Shareholders' deficit			
Share capital	9	28,623,802	26,565,366
Contributed surplus	9	5,022,953	4,344,397
Deficit		(34,620,018)	(32,536,004)
Total deficit		($973,263)	($1,626,241)
Total liabilities and shareholders' deficit		$466,487	$1,709,956

Going concern – Note 2(b)
Contractual commitments – Note 15
Subsequent events – Note 20

See accompanying notes to the consolidated financial statements.

Ventripoint Diagnostics Ltd.
Consolidated Statements of Loss and Comprehensive Loss
Amounts in CDN Dollars

	Note	Year ended December 31, 2018	December 31, 2017
Revenue		$60,177	$38,905
Cost of revenue		(33,979)	(40,001)
Gross Margin		26,198	(1,096)
Expenses			
General and administrative	11	1,425,226	1,223,156
Research and development	11	1,450,262	1,178,908
Sales and marketing	11	973,939	988,791
Total operating expenses		3,849,427	3,390,855
Loss from operations		(3,823,229)	(3,391,951)
Non-operating income (loss)			
Finance costs	14	(10,634)	(443,469)
Derivative liabilities revaluation adjustment	8	1,796,076	(42,161)
Other income	12	6,253	27,908
Gain (loss) on shares issued for debt	7(b)	-	133,942
Foreign currency differences		(52,480)	12,529
Total non-operating income (loss)		1,739,215	(311,251)
Loss and comprehensive loss		($2,084,014)	($3,703,202)
Basic and diluted loss per share	9	(0.04)	(0.08)

See accompanying notes to the consolidated financial statements.

Ventripoint Diagnostics Ltd.

Consolidated Statements of Cash Flows
Amounts in CDN Dollars

	Note	Year ended December 31 2018	2017
OPERATING ACTIVITIES			
Net loss		($2,084,014)	($3,703,202)
Adjustments for items not effecting cash:			
Depreciation and amortization	6	28,285	12,714
Share-based compensation	9, 13	436,351	486,302
Accretion of debenture and notes payable	7	-	13,907
Interest on debenture and notes payable	7	-	18,981
Deferred Share Unit expense	16	-	80,638
Derivative liabilities revaluation adjustment	8	(1,796,076)	42,161
Gain on shares issued for debt	7(b)	-	(133,942)
Consulting fees & accrued salaries settled with shares	9	204,000	-
Other expense (income)	7(b)	-	(28,484)
Transaction costs for financing activities	14	6,021	405,598
Loss on disposal of property and equipment		-	576
Foreign exchange gain (loss)		52,480	(12,529)
		(3,152,953)	(2,817,280)
Change in non-cash working capital items:			
Amounts receivable		19,587	29,113
Prepaid expenses		(50,978)	165,445
Inventory		(18,408)	(38,614)
Accounts payable and accrued liabilities		143,942	(369,746)
Deferred revenue		9,823	(38,902)
Cash used in operating activities		(3,048,987)	(3,069,984)
INVESTING ACTIVITIES			
Additions to property and equipment	6	(27,374)	(39,047)
Cash used in investing activities		(27,374)	(39,047)
FINANCING ACTIVITIES			
Issuance of share capital for cash	9	1,864,750	4,677,506
Interest paid on debentures and notes in cash		-	(40,382)
Debenture & note repayment in cash		-	(109,000)
Share and debenture issuance costs paid in cash	9	(28,266)	(282,066)
Cash provided by financing activities		1,836,484	4,246,058
Effect of foreign exchange on cash and equivalents		(52,480)	30,614
Net increase (decrease) in cash and equivalents		(1,292,357)	1,167,641
Cash and equivalents at beginning of period		1,358,923	191,282
Cash and cash equivalents at end of period		$66,566	$1,358,923

See accompanying notes to the consolidated financial statements.

Ventripoint Diagnostics Ltd.

Consolidated Statements of Changes in Shareholders' Equity (Deficit)
Amounts in CDN Dollars except numbers of shares

	Note	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2017		51,588,508	$26,565,366	$4,344,397	($32,536,004)	($1,626,241)
Shares issued with sale of stock	8, 9	4,816,666	1,011,500			1,011,500
Warrants issued with sale of stock	8		(324,635)	324,635		-
Share-based compensation	9, 13			436,351		436,351
Stock options exercised	9	700,000	248,929	(82,430)		166,499
Warrants exercised	8	2,371,667	940,887			940,887
Liabilities settled with shares	9	648,397	204,000			204,000
Share issuance costs			(22,245)			(22,245)
Loss and comprehensive loss					(2,084,014)	(2,084,014)
Balance, December 31, 2018		60,125,238	$28,623,802	$5,022,953	($34,620,018)	($973,263)

	Note	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2016		32,138,218	$22,881,118	$3,701,841	($28,832,802)	($2,249,843)
Shares issued with sale of stock	8, 9	10,496,938	3,359,020			3,359,020
Warrants issued with sale of stock	8		(3,359,020)			(3,359,020)
Liabilities settled with shares	7(b), 9	1,575,000	504,000			504,000
Warrants issued with settlement of liabilities	7(b), 8		(504,000)			(504,000)
Shares issued on conversion of convertible debentures	7(c)	766,667	399,389			399,389
Share-based compensation	9, 13			486,302		486,302
Finder's Units issued in connection with sale of stock	9	282,555		123,533		123,533
Stock options exercised	9	425,000	116,167	(47,917)		68,250
Warrants exercised	8	5,904,130	3,168,692			3,168,692
Deferred Share Units issued				80,638		80,638
Loss and comprehensive loss					(3,703,202)	(3,703,202)
Balance, December 31, 2017		51,588,508	$26,565,366	$4,344,397	($32,536,004)	($1,626,241)

See accompanying notes to the consolidated financial statements.

1. Corporate information

Ventripoint Diagnostics Ltd. (“Diagnostics” or the “Company”) was incorporated by a Certificate of Incorporation pursuant to the provisions of the Business Corporations Act (Alberta) on May 4, 2005. Diagnostics acquired Ventripoint Inc. (“Ventripoint”, Diagnostics and Ventripoint, collectively referred to herein as the “Company” or “Companies”) on September 18, 2007. Diagnostics is a Canadian public company with its shares listed on the TSX Venture Exchange (“TSXV” or the “Exchange”) with the trading symbol “VPT” and on the OTCQB in the U.S. with the trading symbol “VPTDF”. Ventripoint Inc. was incorporated in the State of Washington in July, 2004 and commenced operations in January, 2005. Ventripoint Inc.’s registration was migrated to the State of Delaware on December 21, 2017. The Companies’ registered office is at Livingston Place West, Suite 1000, 250 – 2nd Avenue S.W., Calgary, Alberta, T2P 0C1.

The Company is a medical device company engaged in the development and commercialization of diagnostic tools that monitor patients with heart disease. The system is based upon patented technology, the commercialization rights of which Ventripoint has licensed from the University of Washington.

The Board of Directors approved these financial statements on April 26, 2019.

2. Basis of presentation

(a) Statement of compliance

These consolidated financial statements, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(b) Basis of measurement and going concern

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, see Note 3(c). These consolidated financial statements have been prepared using IFRS that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. There is no certainty whether the Company will generate significant revenues or attain profitable operations in the near future and there can be no assurance that it will achieve profitability in the future, as it incurred a loss of $2,084,014 and had a negative operating cash flow of $3,048,987 for the year ended December 31, 2018, and has accumulated $34,620,018 of losses as at December 31, 2018. As a result, there is a material uncertainty which creates significant doubt regarding the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent on its raising of future required capital, bringing its products to market and achieving and maintaining profitable operations. The outcome of these matters cannot be predicted at this time. These consolidated financial statements do not include any adjustments and classifications of assets and liabilities, which might be necessary should the Company be unable to continue its operations. Such adjustments could be material.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars (“CDN$”), the Company's functional currency. The functional currency of the Company’s wholly owned subsidiary is US dollars (“US$”) and has been translated to CDN$ using the closing rate, the spot exchange rate or the annual average exchange rate.

(d) Critical accounting judgements and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses.

Information about critical judgments in applying accounting policies and assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the consolidated financial statements includes the assumptions and model used to estimate share-based compensation (Note 9) and the valuation of warrants and other derivative liabilities (Note 8), the capitalization and expensing of development costs (Note 3(j)), the allocation of revenues between amounts recognized upon installation and amounts deferred and recognized over the initial warranty period, the designation of the Canadian dollar as the Company’s functional currency (Note 2(c)) and factors considered in inventory obsolescence (Note 3(g)).

2. Basis of presentation (continued)

(d) Critical accounting judgements and estimates (continued)

Reported amounts and note disclosure reflect the anticipated measures management intends to take. Actual results could differ from those estimates. The above estimates and assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

These consolidated financial statements include the accounts of Diagnostics and Ventripoint, its wholly-owned and controlled subsidiary. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries, including entities which the Company controls, are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany transactions and balances have been eliminated.

(b) Foreign currency

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into the functional currency by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into the functional currency by using the exchange rate in effect at the year-end date and the related translation differences are recognized in profit or loss.

Non-monetary assets and liabilities that are measured at historical cost are translated into the functional currency by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into the functional currency by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in profit or loss or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

(c) Financial instruments

As the Company adopted IFRS 9, *Financial Instruments*, as of January 1, 2018 cumulatively without restatement of comparative figures, different policies apply to the 2018 period presented versus the comparative period. IFRS 9 supersedes IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities; and new guidance for measuring impairment on financial assets.

Financial assets

All financial assets are initially recorded at fair value and designated on acquisition to one of the following three categories: amortized cost, fair value through profit or loss, or fair value through other comprehensive income. The Company does not have any financial instruments classified as fair value through other comprehensive income.

Amortized cost

These assets arise principally from the provision of goods and services to customers, but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely the payments of principal and interest. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issuance and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

3. Significant accounting policies (continued)

Impairment provisions for accounts receivable are recognized based on the simplified approach within IFRS 9 using the lifetime expected credit losses. During the process of reviewing accounts receivable for impairment, the probablility of the non-payment of the accounts receivable is assessed. This probablility is then mulitpled by the amount of the expected loss arising from default to determine the lifetime expected credit loss for accounts receivable. For accounts receivable, which are reported net, such provisions are recorded in a separate provision account with the loss being recognized within operating expenses in the Consolidated Statement of Loss and Comprehensive Loss. On confirmation that a certain accounts receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Company's financial assets measured at amortized cost are comprised of cash and equivalents, which include balances with banks and a restricted term deposit with a maturity of three months or less, and accounts receivable.

Fair value through profit or loss

These assets are carried in the Consolidated Statement of Financial Position at their fair value with changes in fair value recognized in the Consolidated Statement of Loss and Comprehensive Loss. Transaction costs associated with financial instruments measured at fair value through profit or loss are expensed as incurred.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or when the Company has transferred its rights to receive cash flows from the asset.

Financial liabilities

The Company classified its financial instruments into one of two categories, depending on the purpose for which the liabilities were acquired.

Fair value through profit or loss

These liabilties are classified and measured at fair value through profit or loss. As at December 31, 2018, the Company has classified its derivative financial liabilities and financial liabilities designated upon initial recognition at fair value through profit or loss to this category. A financial liability is derecognized when its contractual obligations are discharged, cancelled, or expire.

Other financial liabilities

Other financial liabilties are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method. This category includes accounts payable and accrued liabilities.

(d) Share capital and contributed surplus

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(e) Revenue recognition

The Company adopted IFRS 15, *Revenue from Contracts with Customers*, as of January 1, 2018 using the cumulative transition method. The adoption of IFRS 15 did not have a material effect on the financial statements. Comparative figures did not require restatement as a result of this adoption.

The Company derives revenue from product sales of its Ventripoint Medical System ("VMS") equipment.

Applying the five-step model required by IFRS 15, *Revenue from Contracts with Customers,* revenue is recognized as follows for these contracts:

Identify the contract:

The contractual arrangement executed with the customer, specifying the equipment, scope and compensation.

Identify distinct performance obligations:

The contract may include multiple performance obligations including the sale of inventory and server access.

Amounts in Canadian Dollars unless otherwise stated

3. Significant accounting policies (continued)

Estimate transaction price:

Transaction price is based on the observable stand-alone selling price as stated in the contract and is based on a fixed fee. No variable consideration exists.

Allocate price to performance obligations:

The transaction price is allocated to each performance obligation linked to customer commitments for each obligation under the contract based on stand-alone selling prices.

Recognize revenue as the performance obligations are satisfied:

Revenue is recognized at a point in time once control passes to the customer and when all significant contractual obligations have been satisfied, collection is probable and the amount of revenue can be estimated reliably.

(f) Government grant and contribution recognition

Government grants for reimbursement of costs are recognized as income in the period the expenses are incurred.

(g) Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. For assembled inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost of inventory recognized in the cost of goods sold in 2018 is $20,874 (2017 - $33,511). Inventory at year end consisted of $45,300 (2017 – $17,900) in finished goods and $23,690 (2017 - $32,682) in raw materials.

(h) Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in profit or loss. Property and equipment is assessed annually for indicators of impairment.

Depreciation

The estimated useful lives and the methods of depreciation for the current and comparative periods are as follows:

Asset	Basis
Computer and office equipment	Straight-line over 3 years
Equipment and software	Straight-line over 5 years
Furniture and fixtures	Straight-line over 3 years

Depreciation methods, useful lives and residual values are reviewed at each reporting period and adjusted as appropriate.

(i) Intangible assets

The Company owns intangible assets consisting of licensed patent rights. Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

3. Significant accounting policies (continued)

Intangible assets with finite lives are amortized over the useful economic life and all intangibles are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset with a finite life is reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in research and development expenses.

Intangible assets with finite lives are amortized over the useful economic life and all intangibles are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset with a finite life is reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in research and development expenses.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The technology license is stated at cost and will be amortized over a period of 10 years, using the straight-line method, commencing upon commercialization. As at December 31, 2018, the technology has not yet reached full commercialization.

(j) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs 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 or sell the asset. These criteria will be deemed by the Company to have been met when revenue is received by the Company and management has determined that it has sufficient resources to market and sell its product offerings.

Upon a determination that the criteria to capitalize development expenditures have been met, the expenditure capitalized will include the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are expensed as incurred. Capitalized development expenditures will be measured at cost less accumulated amortization and accumulated impairment losses. No development costs have been capitalized to date.

(k) Impairment

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment test is performed, on an individual basis, for each material financial asset. Other individually non-material financial assets are tested as groups of financial assets with similar risk characteristics. Impairment losses are recognized in profit or loss.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against the respective financial asset. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss but does not exceed the original cost of the asset net of amortization.

3. Significant accounting policies (continued)

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount is estimated. The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or cash-generating units. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(l) Share-based compensation

The grant-date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in contributed surplus, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that met the related service and non-market performance conditions at the vesting date.

For equity-settled share-based payment transactions with non-employees, the Company measures the goods or services received, and the corresponding increase in contributed surplus, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, it measures their value by reference to the fair value of the equity instruments granted.

Deferred Share Units issued to Directors and Executive Officers are recognized at fair value on the date of grant which is determined to be the fair value of a common share on the grant date. Upon the Director or Officer ceasing their duties, one common share in respect of each whole Deferred Share Unit will be issued to the individual.

(m) Finance costs

Finance costs comprise interest expense on borrowings, bank charges and accretion on debentures.

(n) Income taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting year the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

3. Significant accounting policies (continued)

(o) Loss per share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. The inclusion of the Company's stock options and warrants in the computation of diluted loss per share has an anti-dilutive effect and therefore they have been excluded from the calculation of diluted loss per share.

(p) Accounting standards adopted in 2018

IFRS 9 *Financial Instruments*

'Financial Instruments' is part of the IASB's wider project to replace IAS 39 'Financial Instruments: Recognition and Measurement', the current standard on the recognition and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model for an entity to recognize revenue in order to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue Barter Transactions Involving Advertising Services. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. This standard is effective for annual periods beginning on or after January 1, 2018.

(q) New standards and interpretations not yet applied

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective. The following pronouncements are being assessed to determine their impact on the Company's results and financial position:

IFRS 16 *Leases.*

In January 2016, the IASB issued the standard to replace IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is assessing the impact of IFRS 16 on the Company's consolidated financial statements.

IFRIC 23 *Uncertainty Over Income Tax Treatments.*

In June 2017, the IASB issued IFRIC 23, which clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainity over income tax treatments. The Interpretation requires:

- An entity to contemplate whether uncertain tax treatments should be considered separately or together as a group, based on which approach provides predictions of the resolution;
- An entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

IFRIC 23 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The interpretation requires retrospective application, with some practical expedients available on adoption. The Company is assessing the impact of IFRIC 23 on the Company's consolidated financial statements.

Amounts in Canadian Dollars unless otherwise stated

4. Accounts receivable

	December 31, 2018	December 31, 2017
Trade accounts receivable	-	-
Government contribution receivable	821	-
Goods and services taxes receivable	79,401	99,809
Total	$ 80,222	$ 99,809

5. Accounts payable and accrued liabilities

	December 31, 2018	December 31, 2017
Trade and other payables	$ 729,124	$ 678,134
Accrued liabilities	567,184	474,232
Total	$ 1,296,308	$ 1,152,366

Accrued liabilities include $467,153 (December 31, 2017 - $377,120) of accrued but unpaid compensation payable to the Company's CEO, President and CFO.

6. Property and equipment

Cost:	
Balance December 31, 2016	$244,508
Additions	39,047
Disposals	(87,936)
Balance, December 31, 2017	195,619
Additions	27,374
Disposals	(43,439)
Balance, December 31, 2018	$179,554
Accumulated depreciation:	
Balance, December 31, 2016	$(220,350)
Depreciation	(12,714)
Disposals	87,360
Balance, December 31, 2017	(145,704)
Depreciation	(28,285)
Disposals	43,439
Balance, December 31, 2018	$(130,550)
Net carrying amounts:	
December 31, 2017	$ $49,915
December 31, 2018	$ $49,004

Amounts in Canadian Dollars unless otherwise stated

7. Debentures payable

As at December 31, 2017 the debentures payable were fully paid out. The changes in the debenture balances during the year ended December 31, 2017 consist of:

Balance December 31, 2016	**$597,122**
Debentures repaid in cash, (b)	(91,992)
Debentures settled in shares, (b)	(423,753)
Conversion of convertible debentures into shares, (c)	(95,284)
Accretion	13,907
Balance December 31, 2017 and 2018	**$ -**

The conversion features and the warrants issued in connection with the Company's debenture issuances have been valued for consolidated financial statements using either a Binomial pricing model or a Black-Scholes pricing model, with assumptions that are further described in Note 8. All outstanding warrants and debenture conversion features were treated as derivative financial liabilities due to either an acceleration clause (Note 7(b) and Note 8) or a down round clause (Note 7(c)). These Derivative Liabilities are revalued at each statement of financial position date and adjustments are reflected in the profit and loss.

The debenture obligations are accreted to their face value at maturity using the effective interest rate method.

(a) Convertible Debentures:

On August 21, 2013, the Company issued $300,000 of convertible non-secured debentures which matured on August 21, 2016, (the 'August Tranche') and issued a total of 1,500,000 common share purchase warrants with an exercise price of $1.50 for a period of three years from the date of issuance. An additional $500,000 tranche (the 'October Tranche') of Convertible Debentures, maturing October 22, 2016, was issued on October 22, 2013 with the issuance of 2,500,000 common share purchase warrants (August and October Tranches together, "Convertible Debentures").

The Convertible Debentures bear a 12% annual simple interest calculated on the principal amount. Any accrued but unpaid interest is due and payable on the anniversary of the debentures, in either cash or common shares (at the option of the Company), with the number of common shares being determined by using the 10 day volume-weighted average price of the common shares on the TSX Venture Exchange on that date that is five days prior to the anniversary date.

The Convertible Debentures may be converted by the holder at any time following the date of issuance at a price of $1.00 per common share and may be repaid partially, or in full, by the Company to any or all of the subscribers at any time without penalty. An Officer of the Company purchased $100,000 of Convertible Debentures under the offering.

(b) Amended Convertible Debentures with Warrants:

On August 21, 2016, and October 22, 2016 the Company amended $228,000 of the August Tranche and $385,000 of the October Tranche of the Convertible Debentures, such that the maturity date of the Convertible Debentures was extended for a period of 24 months to August 21, 2018 and October 22, 2018, respectively (the "Amended Debentures"). In consideration for agreeing to extend the maturity date, the Company issued to the debenture holders an aggregate of 1,519,998 and 2,566,667 common share purchase warrants, respectively for the August and October amendments, exercisable a price of $0.15 per common share for two years from the date of issuance. In all other respects, the terms of the original Convertible Debentures remain unchanged from those described in 7(a).

In March, 2017, $109,000 of the Amended Debentures were repaid in cash, which resulted in a gain on retirement of the debentures of $10,400, a reduction in the debenture balance of $91,992 and a reduction in the Derivative Liability balance of $27,409.

Interest expense and accretion of $Nil (2017 - $16,267) and $Nil (2017 - $11,879) respectively, were recognized on the Amended Debentures in 2018.

The remaining $504,000 of the Amended Debentures were repaid in a shares for debt transaction which closed on March 21, 2017 (see Note 9). The Company issued to the holders of the debentures a total of 1,575,000 units ("Units"), each Unit consisting of one common share and one common share purchase warrant ("Warrant"), with each Warrant entitling the holder to acquire one common share at a price of $0.50 for a period of 2 years after the issuance of the Warrant.

7. Debentures payable (continued)

The accreted fair value of the debentures of $423,753 plus the fair value of the conversion features of $213,709 exceeded the fair value of the Units issued to extinguish the debenture resulting in a gain on the shares for debt transaction of $133,942, which is recognized in the profit and loss.

(c) Amended Conversion Convertible Debentures:

In 2016 holders of $115,000 of the October Tranche Convertible Debentures (7(a) above) opted at maturity to extend the debentures for two years to October 22, 2018 and to have the debenture conversion price reduced from $1.00 to $0.15 per common share (the "Amended Conversion Debentures"). The Amended Conversion Debentures were also amended to add a clause whereby, if the Company issues common shares or convertible securities which are convertible into common shares at a conversion price which is lower than the amended conversion price of $0.15, the Company will apply to the TSXV Exchange to amend the conversion price of the Amended Conversion Debentures to the 10-day volume-weighted market price of the common shares. As the conversion price can be amended, the conversion feature failed the 'fixed-for-fixed' criteria and was classified as a derivative liability with a fair value of $56,787 at the date of issuance.

For financial statement purposes the amendment of the Convertible Debentures is treated as an extinguishment and the repurchase of the debentures with the issuance of new Amended Conversion Debentures. The Amended Conversion Debenture liability was valued at fair market value at the date of issuance of $93,472, calculated as the present value of the Amended Conversion Debenture's cash flows using a market rate of interest of 25%. The debenture obligation, net of transaction costs of $2,091, is accreted to face value at maturity using the effective interest rate method.

The conversion feature of the Amended Conversion Debentures was valued using a Binomial model with the following assumptions:

	Conversion
Exercise price	$0.15
Time to maturity	2
Risk-free rate	0.52%
Volatility	119.50%
Dividend rate	nil

Interest expense and accretion of $Nil (2017 - $2,714) and $Nil (2017 - $2,028) respectively, were recognized on the Amended Conversion Debentures in 2017.

In March, 2017 all $115,000 of the Amended Conversion Debentures were converted to common shares with the issuance of 766,667 shares. The shares were recorded at the total of the accreted fair value of the debentures of $95,284 plus the fair value of the conversion feature of $305,988 at the conversion date.

8. Derivative liabilities and warrants

Warrants are issued in connection with private placements of common shares and convertible debentures with an exercise price in Canadian dollars. Certain warrants have been treated as derivative financial liabilities as exercise price of the warrants may be adjusted if the Company issues common shares at less than 95% of the quoted market price. The fair value movement during the period was recognized in profit or loss (however, warrants issued to agents and brokers are classified as share based payments and are therefore not accounted for as liabilities and are not subject to re-measurement at each statement of financial position date). The Company also issues convertible debentures and the conversion features were considered a derivative liability and measured in accordance with the above. The Company uses the Black-Scholes model or a Binomial model to determine the fair value of the Derivative Liabilities at inception and at each period end.

Warrants issued in the Private Placement on September 4th and 13th, 2018 are not treated as derivative financial liabilities as these warrants meet the "fixed for fixed" criteria. Therefore, the fair value of the warrants on issuance is recorded in Contributed Surplus, rather than Derivative Liabilities, and is not adjusted to fair value at each balance sheet date.

Amounts in Canadian Dollars unless otherwise stated

8. Derivative liabilities and warrants (continued)

The following table summarizes the changes in Derivative Liabilities during the years ended December 31, 2018 and 2017:

Balance, December 31, 2016	**$742,808**
Warrants issued with sale of shares (Note 9)	3,359,020
Warrants issued with Shares for Debt transaction (Note 7(b), 9)	504,000
Conversion of convertible debentures (Note 7(c))	(304,105)
Warrant exercises	(1,918,455)
Repayment of convertible debentures with Shares for Debt (Note 7(b))	(214,189)
Repayment of convertible debentures with cash (Note 7(b))	(27,409)
Derivative revaluation adjustment	42,161
Balance, December 31, 2017	**$2,183,831**
Warrant exercises	(254,136)
Derivative revaluation adjustment	(1,796,076)
Balance, December 31, 2018	**$133,619**

Warrant Transactions – 2018

Private Placement

On September 4, 2018 the Company closed the first tranche of a non-brokered private placement (the “Private Placement”) of 2,380,952 units (“Units”) at $0.21 per Unit for total gross cash proceeds of $500,000 (see Note 9). Each Unit consists of one common share of the Company and one-half of one common share purchase warrant (“Warrant”), with each Warrant entitling the holder thereof to acquire one common share at a price of $0.34 per common share for a period of 2 years after the issuance of the Warrant.

On September 13, 2018 the Company closed the second tranche of the Private Placement with the issuance of 2,435,714 Units for gross proceeds of $511,500. No Finder’s fees were paid. An Officer and Director of the Company subscribed for 1,500,000 Units.

The Warrants issued were initially valued on the grant dates at $324,635 using a Black-Scholes model with the assumptions outlined below and were recorded in Contributed Surplus, rather than Derivative Liabilities.

	Warrants September 4, 2018	**Warrants September 13, 2018**
Exercise price	$0.34	$0.34
Time to maturity	2 years	2 years
Risk-free rate	2.05%	2.14%
Volatility	165.40%	165.11%
Dividend rate	nil	nil

Warrant Exercises

During the year ended December 31, 2018 the Company’s warrant holders elected to exercise a total of 2,371,667 warrants at exercise prices ranging between $0.15 and $0.30 per common share. The proceeds to the Company from these warrant exercises totaled $686,750 in cash. Warrant exercises are accounted for as a reduction to the Derivative Liability of the warrant value, revalued at the date of exercise. The common shares issued are accounted for as the total of the cash exercise price plus the warrant value of $254,137, which was determined using a Binomial model at assumptions which varied with each warrant exercise.

Amounts in Canadian Dollars unless otherwise stated

8. Derivative liabilities and warrants (continued)

Warrant Extension

On November 29, 2018 the Company received final approval from the TSX Venture Exchange to amend the expiry date of 1,150,000 common share purchase warrants with an exercise price of $0.30 issued by the Company in connection with a Private Placement financing on December 16, 2016. The expiry date was amended from December 16, 2018 to December 16, 2020 with all other terms to remain the same.

For financial statement purposes the amendment of the Warrants is treated as an extinguishment and issuance of new extended Warrants and is recognized in the profit and loss in the Derivative Liabilities Revaluation Adjustment and as an increase to Derivative Liabilities of $77,050. The new Warrants were valued using a Binomial model with assumptions as follows:

	Warrants
Exercise price	$0.30
Time to maturity	2.05 years
Risk-free rate	2.19%
Volatility	160.18%
Dividend rate	nil

Warrant Transactions – 2017

Private Placement

As part of a Private Placement on March 23, 2017 (Note 9) the Company issued 10,496,938 common share warrants. Each warrant ("Warrant") entitles the holder thereof to acquire one common share of the Company at an exercise price of $0.50 per common share for a period of 2 years after the issuance of the Warrant. The Warrants were initially valued on the grant date at $3,359,020 using a Binomial model with the assumptions outlined below and recorded in Derivative Liabilities. An Officer and Director of the Company purchased 312,500 of the Units.

The Company paid cash finder's fees of $188,030 and issued an aggregate of 282,555 common shares and 282,555 non-transferable warrants (the "Finder's Warrants") to finders in connection with the Private Placement. Each Finder's Warrant is exercisable into one common share at a price of $0.50 per common share for a period of two years from the date of issuance. The Finder's Warrants were valued at $123,533 using a Binomial model with assumptions outlined below.

	Warrants	Finder's Warrants
Exercise price	$0.50	$0.50
Time to maturity	2 years	2 years
Risk-free rate	0.77%	0.77%
Volatility	152%	152%
Dividend rate	nil	nil

Shares for Debt Private Placement

On March 21, 2017, as part of the same Private Placement, the Company completed a shares-for-debt ("Shares for Debt") transaction with holders of $423,753 of outstanding Amended Convertible Debentures (Note 7(b)). As part of the transaction, the Company issued to the debenture holders a total of 1,575,000 Warrants. An Officer and Director of the Company was issued 312,500 Warrants in payment of $100,000 of the Amended Convertible Debentures.

Amounts in Canadian Dollars unless otherwise stated

8. Derivative liabilities and warrants (continued)

The Warrants were initially valued on the grant date at $504,000 using a Binomial model with the assumptions outlined below.

	Warrants
Exercise price	$0.50
Time to maturity	2 years
Risk-free rate	0.79%
Volatility	152%
Dividend rate	nil

Warrant exercises

During the months of March, April and May, 2017 the Company's warrant holders elected to exercise a total of 5,904,130 warrants at exercise prices ranging between $0.15 and $0.40 per common share. The proceeds to the Company from these warrant exercises totaled $1,250,236 in cash. Warrant exercises are accounted for as a reduction to the Derivative Liability of the warrant value, revalued at the date of exercise. The common shares issued are accounted for as the total of the cash exercise price plus the Warrant value $1,918,455, which was determined using a Binomial model at assumptions which varied with each warrant exercise.

Warrants outstanding

Changes in the number of warrants outstanding during the years ended December 31, 2018 and 2017 were as follows:

	December 31, 2018		**December 31, 2017**	
	Number of Warrants	**Weighted average exercise price**	**Number of Warrants**	**Weighted average exercise price**
Balance, January 1	19,321,766	$0.44	13,171,403	$0.30
Granted	2,408,333	$0.34	12,354,493	$0.50
Expired	(1,763,789)	$0.40	(300,000)	$1.10
Exercised	(2,371,667)	$0.29	(5,904,130)	$0.21
Balance, period end	**17,594,643**	**$0.46**	**19,321,766**	**$0.44**

The following table reflects warrants outstanding, all of which are exercisable, at December 31, 2018:

Exercise Price	**Quantity**	**Remaining Avg Contractual Life**
$0.30	1,150,000	1.96
$0.34	2,408,333	1.69
$0.40	1,681,817	0.66
$0.50	12,354,493	0.22
$0.46	**17,594,643**	**0.58**

The fair value of the derivative liability warrants at the dates of the statement of financial position of re-measurement for 2018 and 2017 were valued using either a Binomial model or a Black-Scholes model with the following weighted average assumptions:

	December 31, 2018	**December 31, 2017**
Time to maturity	0.37 yrs	1.15 yrs
Risk-free rate	1.85%	1.66%
Volatility	95.19%	111.14%
Dividend rate	nil	nil

9. Share capital

The Company has authorized share capital of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares without nominal or par value. No preferred shares have been issued. Common shareholders are entitled to receive dividends as declared by the Company at its discretion and are entitled to one vote per share at the Company's annual general meeting.

Share transactions – 2018

Unit Private Placement

On September 4, 2018 the Company closed the first tranche of a non-brokered private placement (the "Private Placement") of 2,380,952 units ("Units") at $0.21 per Unit for total gross cash proceeds of $500,000. Each Unit consists of one common share of the Company and one-half of one common share purchase warrant ("Warrant"), with each Warrant entitling the holder thereof to acquire one common share at a price of $0.34 per common share for a period of 2 years after the issuance of the Warrant.

On September 13, 2018 the Company closed the second and final tranche of the Private Placement with the issuance of 2,435,714 Units for gross proceeds of $511,500.

An Officer and Director of the Company subscribed for 1,500,000 Units in the Private Placement. No finder's fees were paid, and the common shares and the Warrants are subject to a hold period of four months plus one day from the date of issuance.

The Warrants were initially valued on the grant date at $324,635, with the assumptions disclosed in Note 8 and were recorded as Contributed Surplus.

Warrant Exercises

In 2018, the Company issued 2,371,667 common shares due to the exercise of warrants at exercise prices between $0.15 and $0.30, for total proceeds received of $686,750. The common shares issued due to these warrant exercises are free-trading. The shares issued are accounted for as the total of the cash exercise price of the warrants plus the warrant value of $254,136 for a total increase to Share Capital of $940,887.

Stock Option Exercises

In 2018, 700,000 shares were issued as a result of the exercise of stock options for proceeds of $166,499. Common shares issued were recorded at a value of $248,929.

Shares for Debt and Services

On April 5, 2018, the Company issued to the CEO 375,000 common shares of the Company in payment of outstanding backpay accrued from 2013 through 2016, of $120,000. The shares were issued at a deemed price of $0.32 per common share in a Shares for Debt transaction.

Also on April 5, 2018, the Company issued 28,125 common shares to a consultant in payment of $9,000 of consulting fees at a deemed price of $0.32 and the Company issued 96,774 shares in payment of a $30,000 quarterly work fee due to financial consultants under a financial and strategic advisory services contract. The deemed price of these shares was $0.31.

On June 5, 2018, the Company issued 51,724 common shares to a consultant in payment of $15,000 of consulting fees at a deemed price of $0.29.

On July 3, 2018, the Company issued 96,774 common shares in payment of a $30,000 quarterly work fee due to financial consultants at a deemed price of $0.31.

9. Share capital (continued)

Share transactions – 2017

Unit Private Placement

On March 23, 2017 the Company closed a non-brokered private placement (the "Private Placement") of 10,496,938 units ("Units") at $0.32 per Unit for total gross cash proceeds of $3,359,020. Each Unit consists of one common share of the Company and one common share purchase warrant ("Warrant"), with each Warrant entitling the holder thereof to acquire one common share at a price of $0.50 per common share for a period of 2 years after the issuance of the Warrant. The common shares and the Warrants are subject to a hold period of four months plus one day from the date of issuance. The Warrants were initially valued on the grant date with the assumptions disclosed in Note 8.

An Officer and Director of the Company subscribed for 312,500 Units in the Private Placement.

The Company paid cash finder's fees of $188,030 and issued an aggregate of 282,555 common shares and 282,555 non-transferable warrants (the "Finder's Warrants") to finders in connection with the Private Placement. Each Finder's Warrant is exercisable into one common share at a price of $0.50 per common share for a period of two years from the date of issuance. The Finder's Warrants were valued at $123,533 using a Binomial model with assumptions described in Note 8.

Shares for Debt Private Placement

As part of the Unit Private Placement, on March 21, 2017 the Company completed a shares-for-debt ("Shares for Debt") transaction with holders of $504,000 of outstanding Amended Convertible Debentures (Note 7(b)). The Company issued to the holders of the debentures a total of 1,575,000 Units. An Officer and Director received 312,500 Units in full payment of $100,000 of the debentures. The shares were recorded at a value of $504,000. The accreted fair value of the debentures of $423,753 plus the fair value of the debenture conversion features exceeded the $504,000 share capital value of the Units resulting in a gain on the Shares for Debt transaction of $133,942, which is recognized in the profit and loss.

Convertible Conversions

In March, 2017 holders of the Amended Conversion Convertible Debentures (Note 7(c)) converted all $115,000 of the debentures into a total of 766,667 common shares at an exercise price of $0.15 per common share. The 766,667 common shares were recorded at the total of the accreted fair value of the debentures of $95,284 plus the fair value of the conversion feature of $305,987 at the conversion date.

Warrant Exercises

In 2017, the Company issued 5,904,130 common shares due to the exercise of warrants at exercise prices between $0.15 and $0.40, for total proceeds received of $1,250,236 (Note 8). The common shares issued due to these warrant exercises are free-trading. The common shares issued are accounted for as the total of the cash exercise price of the Warrants plus the Warrant value of $1,918,455 for a total increase to Share Capital of $3,168,692.

Stock Option Exercises

In addition, 425,000 shares were issued in 2017 as a result of the exercise of stock options for proceeds of $68,250. Common shares issued were recorded at a value of $116,167.

Deferred Share Unit Grants

In 2017, the shareholders approved an increase of 300,000 shares available under the DSU plan to a total of 600,000 shares. At this date, the Company granted a total of 300,000 DSUs equally to four independent Directors. Under the terms of the Company's Deferred Share Unit Plan, holders of DSUs may redeem each DSU for one share of common stock upon the termination of their services to the Company at no cost to the holder. DSUs are measured at fair value on the date of grant and were recorded at a value of $80,638.

Weighted average number of shares

The weighted average number of shares for the year ended December 31, 2018 was 55,586,835 (2017 – 47,215,163). The Company has not adjusted its weighted average number of shares outstanding for the purpose of calculating the diluted loss per share as any adjustment related to stock options or warrants would be anti-dilutive.

9. Share capital (continued)

Nature and purpose of Contributed Surplus

The reserves recorded in equity on the Company's statement of financial position include 'Contributed Surplus' and 'Deficit'. Contributed Surplus is used to recognize the value of stock option grants, DSUs and share purchase warrants prior to exercise. Deficit is used to record the Company's change in deficit from earnings from year to year.

Stock Option Plan

The Company has adopted an incentive stock option plan in accordance with the policies of the TSXV Exchange (the "Stock Option Plan") which provides that the Board of Directors of the Company may from time to time, at its discretion, grant to Directors, Officers, employees and consultants of the Company non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance under the Stock Option Plan shall not exceed ten percent (10%) of the issued and outstanding common shares. In addition, the number of common shares reserved for issuance in any one period to any one optionee shall not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to any one consultant will not exceed two percent (2%) of the issued and outstanding common shares. The Board of Directors determines the price per common share and the number of common shares which may be allotted to each Director, Officer, employee and consultant and all other terms and conditions of the option, subject to the rules of the Exchange.

Stock option transactions – 2018

Stock option grants

Effective January 1, 2018, the new Director of North American sales was granted 50,000 stock options of the Company, with an exercise price of $0.25, a term of five years, and vesting quarterly over three years.

On March 20, 2018, the Board of Directors granted 120,000 stock options to employees and 50,000 options to the Chair of the Company's new Business Advisory Committee. The options have an exercise price of $0.32, a term of five years, and vest quarterly over three years.

On June 22, 2018, the Board of Directors granted a total of 1,185,000 stock options, of which 325,000 options were granted to three Officers of the Company, 235,000 were granted to employees, 300,000 stock options were granted to four independent Directors, and the remaining 325,000 options were granted to consultants. All options are exercisable at $0.31 per share. Stock options granted to employees and Officers have a term of five years, and vest quarterly over three years.

Directors' options also have a term of five years and vest quarterly over one year. Of the consultants' options, 300,000 have a term of one year and vest immediately, while 25,000 have a term of three years and vest quarterly over one year.

On November 6, 2018 the Company issued 300,000 stock options with an exercise price of $0.15, maturing on June 22, 2019, to two consultants in replacement of 300,000 cancelled options. The options vest immediately. The Company also issued 15,000 stock options to a new employee at an exercise price of $0.17 per share, with a term of five years and vesting quarterly over three years.

On November 30, 2018 the Company issued 250,000 stock options to a consultant. The options had an exercise price of $0.20, mature on May 30, 2019, and vested immediately.

Stock option exercises

The Company issued 700,000 common shares as a result of the exercise of stock options for proceeds of $166,499. The value of the Share Capital recognized is the total of the cash proceeds from the exercises and the expense previously recognized for the issuance of the stock options, resulting in a total increase to Share Capital of $248,929.

Stock option transactions – 2017

Stock option exercises

In 2017, 425,000 stock options were exercised with the issuance of 425,000 common shares, resulting in cash proceeds of $68,250. The value of the Share Capital recognized is the total of the cash proceeds from the exercise and the expense previously recognized for the issuance of the stock options, resulting in a total increase to Share Capital of $116,167. A Director of the Company exercised 75,000 stock options at an exercise price of $0.17 per common share.

Amounts in Canadian Dollars unless otherwise stated

9. Share capital (continued)

Stock option grants

On December 4, 2017 the Board of Directors granted 70,000 stock options to new employees at an exercise price of $0.25, with a term of 5 years, and vesting quarterly over 3 years. In addition, 150,000 stock options were granted to consultants with an exercise price of $0.25, a term of one year, and vesting immediately.

On August 14, 2017 the Board of Directors granted to the new Vice President, Development and Operations 250,000 options at an exercise price of $0.32 for a term of 5 years, vesting quarterly over 2 years. The Board also granted each of the three new Vice Presidents a further 250,000 stock options each at an exercise price of $0.32 for a term of 5 years, vesting quarterly over 3 years. The CEO and CFO were each granted 100,000 stock options each at $0.32 for a term of 5 years, to replace their vested stock options, which were cancelled on July 1, 2017. In addition, the CEO was granted 300,000 new stock options at the same price and term.

Effective July 1, 2017 the Board of Directors of the Company granted to two new Sales Vice Presidents, 250,000 stock options each at an exercise price of $0.32 for a term of 5 years, vesting quarterly over 2 years.

On June 19, 2017 the Board of Directors granted a consultant 50,000 common stock options with an exercise price of $0.32 per share, vesting immediately, and maturing in one year. On May 2, 2017 the Board of Directors granted 445,000 common stock options to six consultants with an exercise price of $0.32 per share and maturing in 2 years. These stock options vest quarterly over one year. In addition, the Board granted 100,000 stock options to the CFO of the Company, with an exercise price of $0.32, maturing in 5 years and vesting immediately. On January 6, 2017 the Company announced that FronTier Consulting Ltd. ('FronTier') has been retained for 12 months to provide IR services for a fee of $6,000 per quarter, and to provide additional marketing consulting services for $60,000. Under the terms of the agreement the Company also issued 200,000 stock options to FronTier at an exercise price of $0.15 per common share, maturing in 2 years and vesting quarterly over one year.

Stock options outstanding

Changes in the number of options outstanding during the years ended December 31, 2018 and 2017 were as follows:

	Year ended December 31, 2018		**Year ended December 31, 2017**	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Balance, January 1	3,389,400	$0.38	1,106,400	$0.73
Granted	1,970,000	$0.27	3,015,000	$0.30
Exercised	(700,000)	$0.24	(425,000)	$0.16
Cancelled /expired	(934,400)	$0.40	(307,000)	$1.21
Balance, December 31	3,725,000	$0.34	3,389,400	$0.38

The following table reflects stock options outstanding and exercisable at December 31, 2018:

	Options Outstanding			**Options Exercisable**		
grant price range	**# of options**	**weighted avg remaining life**	**weighted avg exercise price**	**# of options**	**weighted avg remaining life**	**weighted avg exercise price**
$0.15 - $0.25	510,000	2.42	$0.18	416,249	2.05	$0.17
$0.26 - $0.32	2,950,000	3.55	$0.32	1,745,412	3.16	$0.32
$0.33 - $1.25	265,000	1.10	$0.97	265,000	1.10	$0.97
	3,725,000	3.22	$0.34	2,426,661	2.75	$0.36

Amounts in Canadian Dollars unless otherwise stated

9. Share capital (continued)

Share-based compensation expense was determined based on the fair value of the options at the date of measurement using the Black-Scholes model with the following weighted average assumptions:

	December 31, 2018	December 31, 2017
Expected option life	3.74 years	4.09 years
Risk-free rate	1.74%	1.37%
Expected forfeiture rate	6.0%	6.0%
Expected volatility	143.61%	141.26%
Dividend yield	nil	nil

The Black-Scholes model used by the Company to calculate option values was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. This model also requires four highly subjective assumptions, including future stock price volatility and average option life, which greatly affect the calculated values.

The risk-free interest rate is based primarily on the implied yield on a Canadian Government zero-coupon issue with a remaining term equal to the expected term of the option. The volatility is based solely on historical volatility equal to the expected life of the option. The life of the options is estimated considering the vesting period at the grant date, the life of the option and expectations of early exercise. The forfeiture rate is an estimate based on historical evidence and future expectations. The dividend yield was excluded from the calculation since it is the present policy of the Company to retain all earnings to finance operations and future growth.

10. Income taxes

Income taxes are calculated at year end only. The provision for income taxes varies from the amount that would be computed by applying the expected tax rate to income (loss) before income taxes. The principle reasons for differences between such “expected” income tax expense and the amount actually recorded are as follows for the years ended December 31, 2018 and 2017:

	2018	2017
Loss before income taxes	$(2,084,014)	$(3,703,202)
Statutory income tax rate	25.69%	28.65%
Expected tax recovery	(535,391)	(1,061,023)
Non-deductible expenses	(364,904)	109,448
Differences due to foreign jurisdiction and foreign exchange	45,449	6,024
Change in unrecognized deferred tax assets	437,262	(2,238,302)
Adjustments to prior years' loss carry-forwards estimates	332,186	-
Change in tax rates	85,398	3,183,853
Income tax provision (recovery)	-	-

The statutory income tax rate represented is a blended U.S. and Canadian statutory tax rate. The operations of the Company are in both Canada and in the U.S. and therefore this rate would provide a more meaningful representation of the tax consequences.

Amounts in Canadian Dollars unless otherwise stated

10. Income taxes (continued)

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2018	2017
Share issuance costs	$105,856	$184,830
Non-capital losses	9,752,347	9,232,567
Eligible capital expenditures	23,864	26,280
Payroll difference	267,661	257,975
Other	16,925	15,828
Unrecognized deferred tax assets	$10,166,653	$9,717,480

At December 31, 2018, the Company had Canadian tax losses of $18.1M (2017 - $15.8M) that will expire between 2026 and 2038, and U.S. tax losses of approximately $23.5M (2017 - $23.6M) which will expire between 2025 and 2038.

11. Consolidated Statement of loss and comprehensive loss supplementary information

Components of operating expenses for the years ended December 31, 2018 and 2017 were as follows:

Research and development	2018	2017
Research and development	$1,314,563	$ 1,103,477
Share-based compensation	113,942	72,454
Depreciation and amortization of property and equipment	21,757	2,977
Total	$1,450,262	$ 1,178,908

Sales and marketing	2018	2017
Sales and marketing	$828,253	$ 845,969
Share-based compensation	144,966	135,677
Depreciation and amortization of property and equipment	720	7,145
Total	$973,939	$ 988,791

General and administration	2018	2017
General and administration	$1,241,976	$ 942,392
Share-based compensation	177,442	278,172
Depreciation and amortization of property and equipment	5,808	2,592
Total	$1,425,226	$ 1,223,156

12. Government Grants and Contributions

Other Income in 2018 includes a Federal government grant from the Natural Sciences and Engineering Research Council of Canada (NSERC) for an Experience Award reimbursing partial salary costs for an engineering student on a four month contract with the Company, and a contribution from the National Research Council of Canada Industrial Research Assistance Program (NRC IRAP) under a Contribution Agreement for partial reimbursement of salary and contractor costs for research and development work on next generation product features, which is ongoing until June 2019.

Amounts in Canadian Dollars unless otherwise stated

13. Personnel costs

Personnel costs for the years ended December 31, 2018 and 2017 were as follows:

Personnel costs	2018	2017
Salaries, fees and short-term benefits	$1,678,318	$ 1,007,771
Share-based compensation	436,351	486,302
Total	$2,114,669	$ 1,494,073

In 2018, stock based compensation of $89,283 (2017 - $117,228) was paid to consultants and was recorded in general and administrative, research and development and sales and marketing share-based compensation expense.

14. Finance costs

Finance costs for the years ended December 31, 2018 and 2017 were as follows:

Finance costs	2018	2017
Bank charges and fees	$4,613	$ 4,983
Transaction Costs	6,021	405,598
Interest expense on debentures	-	18,981
Accretion on debentures and transaction costs	-	13,907
Total finance costs	$10,634	$ 443,469

Transaction costs include cash paid for legal, regulatory, cash finder's fees and non-cash finder's fees, if any, related to the issuance of shares due to warrant exercises, shares for debt or the issuance of derivative liability warrants issued in the Unit Private Placement in 2017.

15. Contractual Commitments

The Company has the following contractual obligations as of December 31, 2018:

	2019	2020	2021	2022-2028	Total
Premises lease	$45,575	$46,799	$48,022	$36,705	$177,101
University of Washington Technology License Minimum Annual Royalty	6,490	6,490	6,490	45,430	64,900
Total contractual commitments for the period	$52,065	$53,239	$54,512	$82,135	$242,001

The annual Royalty due to the University of Washington under the Technology License Agreement is the higher of 1.5% of gross sales or the Minimum Annual Royalty of US$5,000.

In October, 2017, the Company moved into new leased office premises at 2 Sheppard Ave East, Suite 605, Toronto, Ontario. The lease is a 5 year lease with annual increases in base rent, which is expensed evenly over the lease period for financial statement purposes.

Amounts in Canadian Dollars unless otherwise stated

16. Related parties

The key management personnel of the Company are the Directors, the Chief Executive Officer, the President, and the Chief Financial Officer.

Compensation for key management personnel of the Company for the years ended December 31, 2018 and 2017 was as follows:

	2018	2017
Salaries, fees and short-term benefits	$623,675	$515,755
Deferred Share Units	-	80,638
Share-based compensation	154,893	233,398
Directors' fees	106,326	73,391
Debenture interest	-	2,630
Total key management personnel expenses	$884,894	$905,812

Executive Officers and Directors participate in the Stock Option Plan and the DSU Plan. Certain Officers may participate in the Company's health plan. Directors receive annual and meeting fees for their services. As at December 31, 2018 the key management personnel control 3.26% of the outstanding voting shares of the Company (7.50% on a fully diluted basis).

An Officer and Director of the Company subscribed for 1,500,000 Units at $0.21 per Unit in the Private Placement (Note 9) which closed on September 13, 2018. Each Unit consists of one common share of the Company and one-half of one common share purchase warrant ("Warrant"), with each Warrant entitling the holder thereof to acquire one common share at a price of $0.34 per common share for a period of 2 years after the issuance of the Warrant.

On June 22, 2018 the Board of Directors granted 325,000 stock options to three Officers of the Company at an exercise price of $0.31 per common share, and a term of five years, vesting quarterly over three years. The Board also granted the four independent Directors 75,000 stock options each at an exercise price of $0.31, for a term of five years, vesting quarterly over one year.

In 2017, the shareholders approved an increase of 300,000 shares available under the DSU plan to a total of 600,000. At this date, the Company granted a total of 300,000 DSUs equally to four independent Directors, in recognition of their past and future services to the Company. Under the terms of the Company's Deferred Share Unit Plan, holders of DSUs may redeem each DSU for one share of common stock upon the termination of their services to the Company at no cost to the holder. DSUs are measured at fair value on the date of grant (Note 9). A total of 600,000 (2017 – 600,000) DSUs have been granted; 37,500 (2017 – 37,500) DSUs have expired unused, 150,000 (2017 - 150,000) DSUs have been exercised, and 412,500 (2017 – 412,500) DSUs remain outstanding.

Effective July 1, 2017 the Board of Directors of the Company granted to two new Sales Vice Presidents, 250,000 stock options each at an exercise price of $0.32 for a term of 5 years, vesting quarterly over 2 years.

On August 14, 2017 the Board of Directors granted to the new Vice President, Development and Operations 250,000 options at an exercise price of $0.32 for a term of 5 years, vesting quarterly over 2 years. The Board also granted each of the three new Vice Presidents a further 250,000 stock options each at an exercise price of $0.32 for a term of 5 years, vesting quarterly over 3 years. The CEO and CFO were each granted 100,000 stock options at an exercise price of $0.32 for a term of 5 years, to replace fully vested stock options which were cancelled on July 1, 2017. In addition, the CEO was granted 300,000 new stock options at the same price and term.

In March, 2017, an Officer and Director of the Company who held $100,000 of the August Amended Convertible Debentures (Note 7(b)), was paid out in the March 21, 2017 Shares for Debt Private Placement with the issuance of 312,500 Units (Note 9). The same Officer and Director also subscribed for 312,500 Units in the March 23, 2017 Private Placement (Note 9).

Also in March, 2017 a Director of the Company exercised 75,000 of common stock options at an exercise price of $0.17 per common share. On May 5, 2017 an Officer of the Company was granted 100,000 stock options at an exercise price of $0.32 for a term of 5 years.

Amounts in Canadian Dollars unless otherwise stated

17. Capital disclosures

The Company's objective in managing capital is to safeguard its ability to continue as a going concern and to sustain future development of the business. In the management of capital, the Company includes shareholders' deficit, excluding accumulated other comprehensive loss. The Company's objective is met by retaining adequate equity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. In order to maintain or adjust its capital structure, the Company may issue new shares or units. The Board of Directors does not establish quantitative return on capital criteria for management. The Company is not subject to any externally imposed capital requirements and the Company's overall strategy with respect to capital management remains unchanged from the year ended December 31, 2017.

18. Geographical reporting

Revenue earned by the Company in 2018 was from equipment sales in Canada, the US and Europe (2017 sales were entirely to China). As at December 31, 2018 all intangible assets with a cost of $37,340, were located in the United States, while all fixed assets were in Canada.

	December 31, 2018				**December 31, 2017**			
	Canada	USA	Europe	Total	Canada	USA	China	Total
Sales	-	58,740	1,437	$60,177	-	-	38,905	$38,905
Non-current Assets	49,004	37,340	-	$86,344	49,915	37,340	-	$87,255

19. Financial instruments

The Company's financial instruments consist of cash and equivalents, accounts payables and accrued liabilities, debentures payable and derivative liabilities. Cash and equivalents are classified as loans and receivables. Accounts payable and accrued liabilities and debentures payable are classified as other financial liabilities, which are also measured at amortized cost. Derivative financial liabilities are measured at fair value.

IFRS 13 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The Hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly (ie. as prices) or indirectly (ie. derived from prices); and

Level 3: Inputs that are not based on observable market data.

The Company measures its derivative liabilities at fair value through profit or loss and has determined this valuation to be a level 2 valuation as it is based on inputs that are observable.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, market risk and foreign currency risk.

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and equivalents, and trade accounts receivable. The carrying amount of the financial assets represents the maximum credit exposure.

The Company limits its exposure to credit risk on cash and equivalents by placing these financial instruments with high-credit quality financial institutions and only investing in liquid, investment grade securities.

The Company has a number of individual customers and no one customer represents a concentration of credit risk.

19. Financial instruments (continued)

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss within operating expenses. When a receivable balance is considered uncollectible it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss. Within the accounts receivable, all amounts receivable are considered to be collectible. Amounts receivable from the Government for grants or sales tax refunds are considered to have no credit risk. The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk as at December 31, 2018 and 2017 was:

	December 31, 2018	December 31, 2017
Cash and equivalents	$66,566	$1,358,923
Accounts receivable	-	-
Total	$66,566	$1,358,923

***(b) Liquidity risk*:**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by monitoring forecasted and actual cash flows, as well as anticipated investing and financial activities. The majority of the Company's financial liabilities are due within 90 days. The Company has no long-term financial liabilities.

The following table consists of accounts payable and accrued liabilities and sets out contractual maturities (representing undiscounted contractual cash flows) of the financial liabilities outstanding at December 31, 2018:

	2019					
	Q1	Q2-Q4	2020	2021	2022	Total
Accounts payable & accrued liabilities	$1,285,542	$1,040	$2,508	$3,731	$3,487	$1,296,308

The contractual maturities of commitments at period end are included in Note 15.

(c) Market risk:

Market risk is the risk that changes in market prices, such as foreign currency exchange rates and interest rates will affect the Company's income or the value of the financial instruments held.

(d) Foreign currency risk:

The majority of the Company's total expenditures were denominated in CDN$ in 2018. Inventory purchases are primarily in US$. Sales were denominated in both US$ and CDN$ (100% CDN$ in 2017). The Company's capital transactions are denominated in CDN$ and the Company now maintains most of its cash and equivalents in CDN$. Foreign currency risk reflects the risk that the Company's earnings will be impacted by fluctuations in exchange rates.

With all other variables held constant, a 10% point increase in the value of the US$ relative to the CDN$ would have increased the non-operating loss due to foreign currency differences by approximately $6,300 for the year ended December 31, 2018 (2017 - $8,360). There would be an equal and opposite impact on the net loss with a 10% point decrease in the value of the US$ relative to the CDN$.

The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures and the resulting volatility of the Company's earnings. The Company manages this risk by pricing sales in CDN$ where possible. The Company has not entered into any forward foreign exchange contracts.

The Company was exposed to currency risk as at December 31, 2018 and 2017 as follows:

	2018 US$	2017 US$
Cash and equivalents	$28,735	$145,231
Accounts receivable	-	-
Accounts payable and accrued liabilities	449,225	521,472
	$477,960	$666,703

20. Subsequent events

On January 26, 2019, the Company announced that it had closed a non-brokered private placement of debenture units of the Company (“Units”) for gross proceeds of $1,511,000 (the “Offering”). Each Unit is comprised of: (i) CDN$1,000 principal amount of convertible unsecured debentures (“Debentures”), which will mature on January 25, 2022; and (ii) 6,000 common share purchase warrants with each warrant exercisable for one common share of the Company (“Common Share”) at an exercise price of $0.175 per Common Share until July 25, 2020. The securities issued pursuant to the Offering are subject to a four month hold period that expires on May 26, 2019.

The Debentures bear simple interest at an annual rate of 6.5%, calculated on the principal amount, with any accrued but unpaid interest under the Debentures due and payable quarterly in either cash or Common Shares (at the option of the Company), except for the first interest payment which shall be paid in cash, with the number of Common Shares being determined by using the 10 day volume-weighted average price of the Common Shares on the TSX Venture Exchange on that date that is five days prior to the last trading day of the applicable quarter. The Debentures may be converted by the holder at any time at a price of $0.155 per Common Share. The Debentures may be redeemed in whole or in part by the Company at any time after May 26, 2019, upon payment of the principal amount plus a premium of 2.5% of such principal amount and all accrued and unpaid interest.

The Chief Executive Officer and director subscribed for 233 Units under the Offering.

Finders acting in connection with this Offering received a finder’s fee in the aggregate total amount of $81,360 and an aggregate of 488,160 finder’s warrants, which is an average of 5.4% of the Offering. Each finder’s warrant is exercisable for one Common Share at an exercise price of $0.175 per Common Share until July 25, 2020.

On February 5, 2019 the Board of Directors granted a total of 685,000 common share stock options at an exercise price of $0.16 per share. Three officers of the Company were granted a total of 175,000 options and four independent directors were granted a total of 200,000 options, all of which have a maturity date of five years from the date of issuance, and vest over either three years or one year, respectively. The remaining options were granted to employees and consultants.

In 2019 year to date, 400,000 shares were issued as a result of the exercise of stock options for proceeds of $61,500.

On March 8, 2019 the Company received final approval from the TSX Venture Exchange to amend the expiry date of 10,496,938 common share purchase warrants with an exercise price of $0.50 issued by the Company in connection with a Private Placement financing on March 23, 2017. The expiry date was amended from March 23, 2019 to March 23, 2021 with all other terms to remain the same.