# Pool Safe Inc.

## Consolidated Financial Statements

## Year ended December 31, 2017 and six-month period ended December 31, 2016

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## Consolidated Financial Statements
## Year ended December 31, 2017 and six-month period ended December 31, 2016

### Contents

**Wasserman Ramsay**

Chartered Accountants

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**INDEPENDENT AUDITORS' REPORT**

**To the Shareholders of**
**Pool Safe Inc.:**

We have audited the accompanying consolidated financial statements of Pool Safe Inc. and its subsidiary (the "Company") which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year ended December 31, 2017 and the six-month period ended December 31, 2016 and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pool Safe Inc. and its subsidiary as at December 31, 2017 and 2016 and the results of its operations, changes in shareholders' equity and cash flows for the year ended December 31, 2017 and the six month period ended December 31, 2016 in accordance with International Financial Reporting Standards.

**Emphasis of matter**

Without qualifying our opinion, we draw attention to note 2(a) in the consolidated financial statements, which indicates that the Company had losses during the year ended December 31, 2017 and the six-month period ended December 31, 2016 and has accumulated losses since inception totaling $2,195,628 (2016 - $923,360) as well as a working capital of $7,618 (2016 - deficiency in the amount of $254,401). These conditions, along with other matters set forth in Note 2(a) indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Wasserman Ramsay

Markham, Ontario
April 24, 2018

Chartered Accountants
Licensed Public Accountants

## Pool Safe Inc.
### Consolidated Statements of Financial Position
### (Canadian Dollars)
### As at

| | Notes | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| **Assets** | | | |
| Current | | | |
| Cash | | $ 68,003 | $ 10,751 |
| Prepaids and other receivables | 6 | 63,577 | 27,669 |
| Inventory | 7 | 107,981 | 10,933 |
| | | 239,561 | 49,353 |
| Equipment | 8 | 179,788 | 187,847 |
| Patent and design costs | 9 | 149,928 | 161,942 |
| Revenue share assets | 10 | 71,771 | 133,579 |
| | | $ 641,048 | $ 532,721 |
| **Liabilities** | | | |
| Current | | | |
| Trade payables and other liabilities | 11 | $ 200,086 | $ 247,678 |
| Current portion of long-term debt | 12 | 31,857 | 56,076 |
| | | 231,943 | 303,754 |
| Long-term debt | 12 | - | 171,857 |
| | | 231,943 | 475,611 |
| Going concern | 2(a) | | |
| Guarantee | 12 | | |
| Commitments and contingencies | 15 | | |
| Subsequent event | 21 | | |
| **Shareholders' Equity** | | | |
| Share capital | 13 | 2,310,674 | 980,470 |
| Warrants | | 93,917 | - |
| Reserves | | 200,142 | - |
| Accumulated deficit | | (2,195,628) | (923,360) |
| | | 409,105 | 57,110 |
| | | $ 641,048 | $ 532,721 |

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

(Signed) *"David Berger"*
Director

(Signed) *"Steven Glaser"*
Director

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

# Pool Safe Inc.

**Consolidated Statements of Loss and Comprehensive Loss**
**(Canadian Dollars)**

| | Notes | Year ended December 31, 2017 | Six-month period ended December 31, 2016 |
|---|---|---|---|
| **Revenue** | | $ 445,085 | $ 34,944 |
| **Cost of Sales** | | 354,882 | 52,665 |
| **Gross Profit** | | 90,203 | (17,721) |
| **Expenses** | | | |
| Selling, general and administrative | | 607,969 | 147,591 |
| Stock-based compensation | | 199,777 | |
| Public listing fees | | 459,885 | |
| Professional fees | | 34,469 | 54,296 |
| Regulatory fees | | 28,543 | 7,700 |
| Advertising and promotion | | 37,443 | 25,089 |
| Depreciation | | 2,652 | 1,088 |
| Foreign exchange | | (1,173) | (138) |
| Gain on debt payment | | (17,018) | |
| Interest on related party loans | | 6,292 | - |
| Interest on long term debt | | 3,632 | 2,747 |
| | | 1,362,471 | 238,373 |
| **Net and comprehensive loss** | | $ (1,272,268) | $ (256,094) |
| **Weighted average number of outstanding shares** | | 50,006,376 | 39,681,040 |
| **Loss per share** | | (0.03) | (0.01) |

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

## Pool Safe Inc.

**Consolidated Statements of Changes in Shareholders' Equity**

**(Canadian Dollars)**

**For the year ended December 31, 2017**

| | Notes | Number of shares | Share capital | Warrants | Share-based payments reserve | Accumulated deficit | Total |
|---|---|---|---|---|---|---|---|
| **Balance at June 30, 2016** | | 39,051,600 | 930,470 | - | - | (667,266) | 263,204 |
| Shares issued via private placement - July 22, 2016 | | 714,308 | 50,000 | - | - | - | 50,000 |
| Net loss | | | | | | (256,094) | (256,094) |
| **Balance at December 31, 2016** | | 39,765,908 | 980,470 | - | - | (923,360) | 57,110 |
| Units issued via private placement - April 18, 2017 | | 11,052,040 | 969,785 | 93,917 | - | - | 1,063,702 |
| Shares issued to acquire public listing - April 18, 2017 | | 1,786,923 | 184,443 | - | - | - | 184,443 |
| Shares issued to repay debt - April 18, 2017 | | 1,704,892 | 175,976 | - | - | - | 175,976 |
| Stock-based compensation | | - | - | - | 200,142 | - | 200,142 |
| Net loss | | - | - | - | - | (1,272,268) | (1,272,268) |
| **Balance at December 31, 2017** | | 54,309,763 | $ 2,310,674 | $ 93,917 | $ 200,142 | $ (2,195,628) | $ 409,105 |

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

**Pool Safe Inc.**
**Consolidated Statements of Cash Flows**
**(Canadian Dollars)**

| | Notes | Year ended December 31, 2017 | Six-month period ended December 31, 2016 |
|---|---|---|---|
| **Operating activities** | | | |
| Net loss | | $ (1,272,268) | $ (256,094) |
| Items not affecting cash: | | | |
| Disposal of revenue share assets | | 40,562 | - |
| Stock-based compensation | | 199,777 | - |
| Gain on debt payment | | (17,018) | - |
| Cost of public listing | | 459,885 | - |
| Depreciation | | 60,469 | 20,929 |
| | | (528,593) | (235,165) |
| Net changes in non-cash working capital: | | | |
| Increase in prepaids and other receivables | | (35,908) | (3,566) |
| Increase in inventory | | (97,048) | 56,401 |
| Increase (decrease) in trade payables and other liabilities | | (129,676) | 107,846 |
| Cash flows used in operating activities | | (791,225) | (74,484) |
| **Investing activities** | | | |
| Purchase of equipment | | (19,149) | (103,051) |
| Cash flows used in investing activities | | (19,149) | (103,051) |
| **Financing activities** | | | |
| Repayment of long-term debt | | (196,076) | (28,038) |
| Proceeds from long-term debt | | - | 140,000 |
| Proceeds from issuance of share capital | | 1,063,702 | 50,000 |
| Cash flows provided by (used in) financing activities | | 867,626 | 161,962 |
| Net change in cash | | 57,252 | (15,573) |
| Cash - beginning of period | | 10,751 | 26,324 |
| **Cash - end of period** | | $ 68,003 | $ 10,751 |
| **Non-cash investing and financing activities:** | | | |
| Shares issued for debt | | 175,796 | - |
| Shares issued for public listing | | 184,443 | - |
| **Cash paid for:** | | | |
| Interest | | 9,924 | 2,747 |
| Income taxes | | - | - |

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

## 1. Nature of business

Pool Safe Inc. ("Pool Safe" or the "Company"), was incorporated under the Business Corporations Act (Ontario) on October 27, 2011. The PoolSafe is an exclusive product which offers security, convenience and guest services all bundled in one product. Pool Safe's head office is located at 401 Magnetic Drive, Unit 14, Toronto, Ontario, M3J 3H9.

Effective December 31, 2016, the financial year end of the Company changed from June 30 to December 31.

## 2. Basis of presentation

(a) Going concern

These consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company's ability to continue in the normal course of operations is dependent on its ability to raise equity or debt financing or through the sale of its products to at a profit. Since inception the Company has incurred losses which as of December 31, 2017 totaled $2,195,628 (December 31, 2016 - $923,360). In addition, the Company has working capital of $7,618 (December 31, 2016 – deficit of $254,401). There are no assurances that the Company will be successful in achieving these goals. These circumstances cast significant doubt on the Company's ability to continue as going concern and ultimately on the appropriateness of the use of the accounting principles applicable to a going concern. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. These adjustments could be material.

(b) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board with an effective date of December 31, 2017

These consolidated financial statements were approved by the Board of Directors on April 24, 2018.

(c) Basis of consolidation

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

(d) Basis of measurement

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

(e) Functional and presentation currency

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

(f) Estimates and critical judgments by management

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

(i) Useful lives of equipment, patent design costs, and revenue share assets

Depreciation of property, plant and equipment, patent design costs, and revenue share assets is dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

(ii) Fair value of financial assets available for sale

Financial assets available for sale consist of privately held investments. Determination of the fair values of privately held investments requires the Company to make various assumptions about the future prospects of the investees, the economic, legal, and political environment in which the investees operate, and the ability of the investees to obtain financing to support their operations. As a result, any value estimated may not be realized or realizable, and the values may differ from values that would be realized if a ready market existed.

(iii) Income taxes

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

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

## 3. Significant accounting policies

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

(a) Financial instruments

The Company aggregates its financial instruments into classes based on their nature and characteristics.

Management determines the classification when the instruments are initially recognized, which is normally the date of the transaction.

All financial assets and liabilities with the exception of those measured at fair value through profit or loss, or available- for-sale are subject to review for impairment annually and written down when there is evidence of impairment based on specific criteria.

The Company's accounting policy for each category is as follows:

(i) Fair-value through profit or loss

Financial instruments classified as fair value through profit and loss are reported at fair value at each reporting date, and any change in fair value is recognized in the statement of operations in the period during which the change occurs. In these consolidated financial statements, cash has been classified as fair value through profit and loss.

(ii) Available-for-sale

Other investments, which consist of privately held investments are classified in this category as available-for-sale. These financial instruments are initially recorded at the fair value at the time of acquisition, represented by the transaction price. Thereafter, at each reporting date, the fair value may be adjusted using one or more of the valuation indicators described below. These constitute level three inputs in accordance with the fair value hierarchy of IFRS 13, as described in Note 19(b). Gains and losses as a result of the valuations are recorded in other comprehensive income, and transaction costs are expensed as incurred.

(ii) Held-to-maturity

Financial instruments classified as held-to-maturity are financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are initially recorded at fair value and subsequently carried at amortized cost, using the effective interest method. Transaction costs are included in the amount initially recognized. There are no financial instruments that are classified in this category.

(iii) Loans and receivables and other financial liabilities

Financial instruments classified as loans and receivables and other financial liabilities are carried at amortized cost using the effective interest method. Transaction costs are expensed as incurred. In these consolidated financial statements, loans receivable have been classified as loans and receivables. Trade payables and other liabilities, convertible loans payable, promissory note payable, and mortgage payable have been classified as other financial liabilities.

(a) Revenue Recognition

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

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

The Company recognizes revenues on revenue sharing units when cash is received for usage under the revenue sharing agreement with the location of installation.

(b) Trade receivables

Trade receivables are recognized initially at fair value less allowances made for doubtful receivables based on a review of year-end trade receivables, and do not carry any interest. An allowance for doubtful accounts receivables is generally made when there is objective evidence that the Company will not be able to collect the amounts due according to original payment terms or when there are indications of collection issues related to specific customers. As at December 31, 2017 and December 31, 2016 no provision for uncollectible accounts was recorded by the Company.

(c) Inventory

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

The value of obsolete or unmarketable inventory is based on the Company's assessment of market conditions for its product determined by historical usage, estimated future demand and in some cases, the specific risk of loss on specifically identified inventory.

(d) Equipment

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

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

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

(e) Provisions

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

(f) Share capital

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

(g) Foreign exchange translation

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

(h) Research and development

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

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

(i) Income taxes

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

(j) Share-based compensation

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

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

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

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

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

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

(k) Earnings per share

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

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

(a) IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income. The effective date of this standard is January 1, 2018. The Company will adopt this new standard as of its effective date. The Company is currently analyzing the possible impact of this Standard on its consolidated financial statements.

(b) IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 was issued by IASB in May 2014 and specifies how and when revenue should be recognized based on a five- step model, which is applied to all contracts with customers. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company will adopt this new standard as of its effective date. The Company is currently analyzing the possible impact of this Standard on its consolidated financial statements.

(c) IFRS 16 LEASES

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

## 5. Acquisition of Pounder Venture Capital Corp.

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

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

The terms of the Transaction including the following:

i) The Company assumed the outstanding liabilities of PVC which were estimated to be $257,994. The Company issued 1,704,892 common shares to settle $192,994 of these assumed debts;

ii) All stock options of PVC were converted to 129,942 stock options of the Company at a deemed cost of $365. These stock options had an exercise price of $0.40 per share and an expiry date of April 18, 2018;

iii) The Company issued 1,786,923 common shares for all common shares of PVC;

iv) The Company incurred transaction costs of $17,083 related to this portion of the transaction.

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

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

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

The Company's consolidated statements of comprehensive income include the result of operations for Pounder from its respective dates of acquisition to December 31, 2017.

## 6. Prepaids and other receivables

Prepaids and other receivable is comprised of:

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Trade receivables | $ 23,352 | $ 15,401 |
| Taxes receivable | 39,165 | 11,208 |
| Prepaids and deposits | 1,060 | 1,060 |
| | **$ 63,577** | **$ 27,669** |

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

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| 1 to 60 days | $ 20,447 | $ 15,300 |
| 61 days and older | 2,905 | 101 |
| | 23,352 | 15,401 |
| Allowance for bad debts | - | - |
| Accounts receivable | $ 23,352 | $ 15,401 |

The Company considers all trade receivables to be collectable and has not made any allowance for doubtful accounts as at December 31, 2017 nor December 31, 2016..

## 7. Inventory

The following comprises inventory:

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Raw materials | $ 107,981 | $ 10,933 |
| Finished goods | - | - |
| | $ 107,981 | $ 10,933 |

There was no write-down of inventory during the year ended December 31, 2017 (December 31, 2016 - $nil, June 30, 2016 - $nil). During the year ended December 31, 2017, $251,249 (six-month period ended December 31, 2016 - $36,852, year ended June 30, 2016 - $20,949) of inventory was expensed as cost of sales.

## 8. Equipment

**December 31, 2016**

| **Cost** | Balance at June 30, 2016 | Additions, net | As at Dec. 31, 2016 |
|---|---|---|---|
| Furniture and equipment | $ 57,602 | $ (54,506) | $ 3,096 |
| Computer equipment | 767 | 600 | 1,367 |
| Manufacturing equipment tooling and moulds | 203,788 | - | 203,788 |
| Leasehold improvement | 5,730 | - | 5,730 |
| | $ 267,887 | $ (53,906) | $ 213,981 |

| **Accumulated depreciation** | Balance at June 30, 2016 | Additions, net | As at Dec. 31, 2016 |
|---|---|---|---|
| Furniture and equipment | $ 16,235 | $ (15,381) | $ 853 |
| Computer equipment | 120 | 205 | 325 |
| Manufacturing equipment tooling and moulds | 14,720 | 6,792 | 21,512 |
| Leasehold improvement | 2,869 | 573 | 3,442 |
| | $ 33,944 | $ (7,811) | $ 26,132 |
| **Net book value** | $ 233,943 | | $ 187,847 |

**December 31, 2017**

| **Cost** | Balance at January 1, 2017 | Additions | As at December 31, 2017 |
|---|---|---|---|
| Furniture and equipment | $ 3,096 | $ 1,110 | $ 4,206 |
| Computer equipment | 1,367 | - | 1,367 |
| Manufacturing equipment tooling and moulds | 203,788 | 976 | 204,764 |
| Leasehold improvement | 5,730 | 8,415 | 14,145 |
| | $ 213,981 | $ 10,501 | $ 224,482 |

| **Accumulated depreciation** | Balance at January 1, 2017 | Additions | As at December 31, 2017 |
|---|---|---|---|
| Furniture and equipment | $ 853 | $ 893 | $ 1,746 |
| Computer equipment | 325 | 313 | 638 |
| Manufacturing equipment tooling and moulds | 21,512 | 13,683 | 35,196 |
| Leasehold improvement | 3,442 | 3,671 | 7,114 |
| | $ 26,132 | $ 18,560 | $ 44,694 |
| **Net book value** | $ 187,847 | | 179,788 |

## 9. Patent and design costs

| | Balance at July 1, 2016 | Additions, net | As at Dec. 31, 2016 |
|---|---|---|---|
| Cost | $ 180,203 | $ - | $ 180,203 |
| Accumulated amortization | (12,900) | (5,361) | (18,261) |
| Carrying value | $ 167,303 | $ (5,361) | $ 161,942 |

| | Balance at Jan. 1, 2017 | Additions, net | As at Dec. 31, 2017 |
|---|---|---|---|
| **Cost** | $ 180,203 | $ - | $ 180,203 |
| **Accumulated amortization** | (18,261) | (12,014) | (30,275) |
| Carrying value | $ 161,942 | $ (12,014) | $ 149,928 |

The Company commenced amortization on June 1, 2015.

## 10. Revenue share assets

| | Balance at July 1, 2016 | Disposals | Additions, net | As at Dec. 31, 2016 |
|---|---|---|---|---|
| Cost | $ - | $ - | $ 156,958 | $ 156,958 |
| Accumulated amortization | - | - | (23,379) | (23,379) |
| Carrying value | $ - | $ - | $ 133,579 | $ 133,579 |

| | Balance at Jan. 1, 2017 | Disposals | Additions, net | As at Dec. 31, 2017 |
|---|---|---|---|---|
| Cost | $ 156,958 | (62,751) | $ 8,649 | $ 102,856 |
| Accumulated amortization | (23,379) | 22,189 | (29,895) | (31,085) |
| Carrying value | $ 133,579 | (40,562) | $ (21,246) | $ 71,771 |

## 11. Trade payables and other liabilities

Trade payables and accrued liabilities are comprised as follows:

| | **Dec. 31, 2017** | **Dec 31, 2016** |
|---|---|---|
| Trade payables | $ 182,336 | $ 232,678 |
| Accrued liabilities | 17,750 | 15,000 |
| | $ 200,086 | $ 247,678 |

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

| | **Dec. 31, 2017** | **Dec 31, 2016** |
|---|---|---|
| Current | $ 85,897 | $ 136,241 |
| >60 days | 96,439 | 96,437 |
| | $ 182,336 | $ 232,678 |

## 12. Long-term debt

| | |
|---|---|
| Shareholder loans, unsecured, with interest rates between 3% and 10% | $ - |
| Bank loan bearing interest at the rate of prime plus 3.0% per annum, repayable in monthly principal repayments of $4,673 plus interest, secured by a general security agreement over all assets of the Company and a personal guarantee from the majority shareholders amounting to 25% of the original loan balance. The loan matures on July 15, 2018. | 31,857 |
| Less: Current portion of long-term debt | (31,857) |
| | $ - |

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

| | |
|---|---|
| 2018 | 31,857 |
| 2019 | - |
| | $ 31,857 |

**The shareholder loans plus accrued interest were repaid in the current year from proceeds of the financing.**

## 13. Share capital

(a) ***Authorized***

An unlimited number of common shares without par value.

An unlimited number of voting class "A" shares.

(b) ***Issued common shares***

| | Number | Amount |
|---|---|---|
| **Balance at June 30, 2016** | 39,051,600 | 930,470 |
| Issuance of shares for cash (i) | 714,308 | 50,000 |
| **Balance at December 31, 2016** | 39,765,908 | 980,470 |
| Issuance of shares for public company shell (ix) | 1,786,923 | 184,443 |
| Issuance of shares for debt (ii) | 1,704,892 | 175,976 |
| Issuance of units for cash (iii) | 11,052,040 | 969,785 |
| **Balance at December 31, 2017** | 54,309,763 | $ 2,310,674 |

(i) During July 2016, the Company issued 714,308 common shares for net proceeds of $50,000.

(ii) During April 2017, the Company issued 1,786,923 common shares in exchange for all the shares of Pounder Venture Capital Corp., a publicly traded company (see Note 5). The share portion of units issued had a deemed value of $0.1032 each for a deemed exchange value of $184,443.

(iii) During April 2017, the Company issued 11,052,040 units for cash proceeds of $1,251,250 (proceeds net of broker cash fees of $48,394, and legal and other costs of $139,154, were $1,063,702). Each unit was comprised of one common share and one half of one common share purchase warrant. Each whole share warrant can be converted into one common share at an exercise price of approximately $0.18 for a period until April 18, 2019. The net proceeds were allocated as $969,785 to common shares and $93,917 to warrants (Note 12(c)), based on a Black-Scholes valuation of the warrants.

In addition, 427,476 broker units were issued. Each broker unit is exercisable into a unit of the Company at approximately $0.11 per broker unit. Each broker unit is comprised of one share and one-half share warrant. Each whole share warrant can be converted into one common share at an exercise price of approximately $0.18 for a period until April 18, 2019.

(b) ***Warrants***

At December 31, 2017, the following warrants were outstanding:

| Number of Warrants | Exercise Price | Expiry Date |
|---|---|---|
| Broker Units | | |
| 427,476 | $0.11 | April 18, 2019 |
| Warrants | | |
| 5,526,020 | $0.18 | April 18, 2019 |

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

| | December 31, 2017 | | Dec. 31, 2016 |
|---|---|---|---|
| Balance, beginning of period | - | | - |
| Issued | 5,953,496 | $0.17 | - |
| Exercised | — | | - |
| Expired | — | | - |
| Balance, end of period | 5,953,496 | $0.17 | - |

The Company determined that the fair value of the warrant liability at April 18, 2017 related to the 5,526,020 warrants, using the Black-Scholes Options Pricing Mode, was $93,917. The Company determined that the fair value of the broker warrant liability at April 18, 2017 related to the 427,476 warrants, using the Black-Scholes Options Pricing Mode, was $13,806 using the following inputs; Dividend yield – Nil, interest rate of .62%, volatility of 85% and an expected life of 2 years.

(c) ***Stock options***

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

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

At December 31, 2017, the following stock options were outstanding:

| Number of Options | Exercise Price | Expiry Date |
|---|---|---|
| 129,942 | $0.40 | April 18, 2018 |
| 100,000 | $0.11 | June 2, 2019 |
| 100,000 | $0.11 | July 27, 2019 |
| 4,100,000 | $0.11 | June 2, 2022 |

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

| | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of period | - | | - | |
| Granted | 4,429,942 | $ 0.12 | - | |
| Exercised | - | | - | |
| Cancelled/Expired | - | | - | |
| Outstanding, end of period | 4,429,942 | $ 0.12 | - | |
| Exercisable, end of period | 1,646,609 | $ 0.13 | - | |

The aggregate intrinsic value for options vested and for total options as of December 31, 2017 is $nil (December 31, 2016 - $nil). The weighted average contractual term of stock options outstanding and exercisable as at December 31, 2017 is 4.4 years (December 31, 2016 - n/a).

The weighted average fair value of stock options granted, vested, and modified during the year was was $200,142 (year ended December 31, 2016 - n/a) which has been included in general and administrative expense ($199,777) and Listing expense ($365).

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

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Risk-free interest rate | 0.5% | - |
| Expected life | 0.8 to 4.0 years | - |
| Annualized volatility | 85% | - |
| Dividend rate | - | - |

## 14. Related party transactions

The following is a summary of the Company's related party transactions during the year ended December 31, 2017 and the six-month period ended December 31, 2016.:

(a) Key management compensation

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

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Short-term employee benefits, including salaries and fees | $ 196,788 | $ 17,780 |
| Stock-based compensation | 189,733 | - |
| Sub-contractors | 3,150 | 12,300 |
| | $ 389,671 | $ 30,080 |

Loans of $140,000 plus interest of $6,292 were repaid to related parties in the current year.

## 15. Commitments and contingencies

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

| | | |
|---|---|---|
| 2018 | | 19,240 |
| 2019 | | 16,033 |
| | $ | 35,273 |

(b) The Company is subject to a claim for damages related to an alleged breach of a non-disclosure document. The Company believes that the allegations contained in the statement of claim are without merit and plans to vigorously defend itself; accordingly, no provision for loss has been recognized.

## 16. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2014 - 26.5%) to the effective tax rate is as follows:

| | **Dec. 31, 2017** | **Dec 31, 2016** |
|---|---|---|
| Net loss before income taxes | $ (1,272,268) | $ (256,094) |
| Combined statutory tax rate | 26.5% | 26.5% |
| Theoretical tax expense (recovery) | (337,100) | (67,800) |
| Non-deductible expenses: | 64,500 | - |
| Listing expense | 117,250 | - |
| Share issue costs difference | 9,925 | - |
| Other adjustments | - | - |
| Changes in unrecognized deferred tax assets | 145,425 | 67,800 |
| Income tax recovery | $ - | $ - |

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences because it is not probable that future taxable profit will be available against which the Company can utilize the benefits there from.

| | **Dec. 31, 2017** | **Dec 31, 2016** |
|---|---|---|
| Non-capital loss carry-forwards | $1,713,000 | $ 1,164,000 |

For income tax purposes, the Company has losses carried forward from prior years which can be used to reduce future years' taxable income. These losses expire as follows:

| | Non-capital losses |
|---|---|
| 2032 | $ 29,000 |
| 2033 | 302,000 |
| 2034 | 297,000 |
| 2036 | 536,000 |
| 2037 | 549,000 |
| | $ 1,713,000 |

## 17. Operating segment information

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

## 18. Earnings (loss) per share

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

| **Numerators** | **Dec. 31, 2017** | **Dec. 31, 2016** |
|---|---|---|
| Loss attributable to common shareholders | $ (1,272,268) | $ (256,096) |
| Loss used in the computation of basic and diluted earnings per share | $ (1,272,268) | $ (256,096) |

| **Denominators** | **Dec. 31, 2017** | **Dec. 31, 2016** |
|---|---|---|
| Weighted average number of common shares for computation of basic and diluted loss per share | 50,006,376 | 39,681,040 |

## 19. Financial instruments

(a) Financial risks

(i) Liquidity risk

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

(ii) Credit risk

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

(iii) Market risk

(1) Price risk

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

(2) Concentration risk

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

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

(a) Fair value hierarchy

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

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

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

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

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

Level 1 – cash, trade payables and current portion of long term debt;

Level 2 - none;

Level 3 - none.

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

## 20. Capital management

The Company considers its capital to be its equity and debt as disclosed in Notes 12 and 13. The Company's objectives when managing its capital are to maintain a sufficient capital base in order to meet its short-term obligations and at the same time preserve investors' confidence required to sustain future investments.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than that of the TSXV which requires adequate working capital or financial resources of the greater of (i) $50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of December 31, 2017, the Company was not compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV. In February 2018 the Company raised gross proceeds of $300,000 (see Note 21(a)) which made them compliant with this TSXV rule.

## 21. Subsequent events

i) Subsequent to year end, the Company closed the initial tranche of a convertible debentures financing. The Company issued 300 $1,000 convertible debenture units for gross proceeds of $300,000. The Convertible Debenture Units bear interest from the date of closing at 10% per annum, payable quarterly and will mature two years following the closing date (the "Maturity Date"). The Convertible Debenture Units are convertible at the option of the holder into units of the Company ("Underlying Units") at any time prior to the close of business on the Maturity Date at a conversion price of $0.11 per Underlying Unit (the "Conversion Price"). Each Underlying Unit is comprised of one common share of the Company (a "Common Share") and one half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant will be exercisable to acquire one common share (a "Warrant Share") for a period of two years following the date hereof at an exercise price of $0.15 per Warrant Share, subject to adjustment in certain events. In connection with the closing of this tranche, the Company paid certain eligible persons cash commissions totaling $21,600 and granted 196,364 finder's warrants ("Finder's Warrants") to such eligible persons, with each Finder's Warrant entitling the holder thereof to acquire one common share of the Company at a price of $0.11 per common share for a period of 24 months following the closing date.

   All of the securities issued in connection with the Offering are subject to a "hold period" of four months plus one day from the date of closing pursuant to applicable securities laws.

ii) Subsequent to year end, 129,942 stock options expired unexercised.

iii) Subsequent to year end, 650,000 stock options were granted to a director and a consultant. The director received 500,000 stock options with a strike price of $0.11, vesting 33% immediately and 33% on the one-year and two-year anniversary of the grant, with a five-year term. The consultant received 150,000 stock options with a strike price of $0.11, vesting 25% on the quarterly anniversary of the grant, with a two-year term.