

POOLS SAFE

YOUR PERSONAL POOLSIDE ATTENDANT

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

POOL SAFE INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

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Chartered Professional Accountants

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Pool Safe Inc.:

Opinion

We have audited the consolidated financial statements of Pool Safe Inc. and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated 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 Company as at December 31, 2019 and 2018, 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 audits 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 consolidated Financial Statements section of our report. We are independent of the Company 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 in the consolidated financial statements, which indicates that as of December 31, 2019 the Company has a working capital deficiency in the amount of \$741,880 and had incurred losses in the year in the amount of \$714,514 resulting in an accumulated deficit of \$3,812,761. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company'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:

- Management's Discussion and Analysis

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

We obtained Management's 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.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor’s Responsibilities for the Audit of the consolidated Financial Statements

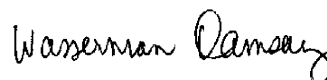
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not 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 Company’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 Company’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 Company 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.

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 auditors' report is Kevin Ramsay.



Chartered Professional Accountants
Licensed Public Accountants

Markham, Ontario
May 27, 2020

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

AS AT	Note	December 31, 2019	December 31, 2018
ASSETS			
Current			
Cash and cash equivalents		\$ 61	\$ 146,838
Receivables	5	21,023	40,529
Prepays	6	-	89,146
Inventory	7	67,331	138,080
		88,415	414,593
Deposit on lease	6	-	44,754
Patent design and costs	9	205,309	222,994
Equipment	8	319,924	166,367
Revenue share assets	10	211,004	128,606
TOTAL ASSETS		\$ 824,652	\$ 977,314
LIABILITIES AND EQUITY			
Current			
Trade payables and other liabilities	11	\$ 212,220	\$ 154,115
Deferred revenue	12	-	10,797
Current portion of lease liability	13	32,408	30,636
Promissory notes	16	85,000	-
Current portion of loans	15	61,104	-
Current portion of convertible debenture	14	439,563	-
Total current liabilities		830,295	195,548
Lease liability	13	141,425	36,074
Convertible debenture	14	-	377,050
Loan payable	15	118,370	-
Total liabilities		1,090,090	608,672
Going concern	2(a)		
Shareholders' Equity			
Share capital		3,074,649	3,074,649
Warrants		107,446	147,751
Equity component of convertible debentures		30,300	30,300
Reserves		334,928	308,106
Accumulated deficit		(3,812,761)	(3,192,164)
Total equity		(265,438)	368,642
TOTAL LIABILITIES AND EQUITY		\$ 824,652	\$ 977,314

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 Operations and Comprehensive Loss
(Expressed in Canadian Dollars)

	Year Ended December 31, 2019	2018
	\$	\$
Revenue	416,309	372,660
Cost of Sales	276,723	285,511
Gross Profit	139,586	87,149
Expenses		
Selling, general and administrative	459,415	456,136
Stock-based compensation	26,822	107,964
Professional fees	31,736	105,590
Litigation settlement	-	289,000
Regulatory	30,185	8,903
Advertising and promotion	107,084	40,341
Depreciation and amortization	30,603	2,117
Foreign exchange loss (gain)	3,056	6,225
Gain on debt repayment	-	(4,336)
Interest and accretion expense	165,199	71,745
	854,100	1,083,685
Net loss and comprehensive loss	(714,514)	(996,536)
Weighted average shares outstanding, basic	65,251,239	57,030,627
Basic loss per share	(0.01)	(0.02)

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

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

	Number of shares	Share capital	Warrants	Equity portion of convertible debenture	Share- based payments reserve	Accumulated deficit	Total
Balance at December 31, 2017	54,309,763	\$ 2,310,674	\$ 93,917	\$ -	\$ 200,142	\$ (2,195,628)	\$ 409,105
Units issued via private placement	5,643,020	352,084	21,412	-	-	-	373,496
Units issued via private placement	1,725,000	108,147	7,612	-	-	-	115,759
Shares issued to settle litigation	3,400,000	289,000	-	-	-	-	289,000
Shares issued to repay debt	173,456	14,744	-	-	-	-	14,744
Convertible debenture issuance	-	-	24,810	30,300	-	-	55,110
Stock-based compensation	-	-	-	-	107,964	-	107,964
Net loss	-	-	-	-	-	(996,536)	(996,536)
Balance at December 31, 2018	65,251,239	3,074,649	147,751	30,300	308,106	(3,192,164)	368,642
Warrants expired	-	-	(93,917)	-	-	93,917	-
Warrants issued	-	-	53,612	-	-	-	53,612
Stock-based compensation	-	-	-	-	26,822	-	26,822
Net loss	-	-	-	-	-	(714,514)	(714,514)
Balance at December 31, 2019	65,251,239	\$ 3,074,649	\$ 107,446	\$ 30,300	\$ 334,928	\$ (3,812,761)	\$ (265,438)

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

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

	Year ended December 31,	
	2019	2018
Operating activities		
Net loss	\$ (714,514)	\$ (996,536)
Items not affecting cash:		
Disposal of revenue share assets	2,189	35,633
Stock-based compensation	26,822	107,964
Litigation settlement for shares	-	289,000
Accretion of convertible debentures and warrants	74,364	30,195
Gain on debt repayment for shares	-	(4,336)
Right of use asset amortization	25,781	-
Depreciation	72,562	53,443
	(512,796)	(484,637)
Net changes in non-cash working capital:		
Decrease in receivables	19,506	21,988
Decrease (increase) in prepaids	89,146	(88,087)
Decrease (increase) in inventory	70,749	(30,099)
Increase (decrease) in trade payables and other liabilities	58,105	(26,891)
Increase (decrease) in deferred revenue	(10,797)	10,797
Increase (decrease) in obligation under capital lease	-	30,636
Cash flows used in operating activities	(286,087)	(566,293)
Investing activities		
Deposit on lease	44,754	(75,390)
Revenue share assets	(123,911)	(120,475)
Purchase of equipment	(1,532)	-
Purchase of patent and design costs, net of tax credits	-	(85,080)
Cash flows used in investing activities	(80,689)	(280,945)
Financing activities		
Repayment of loans	(51,565)	(31,857)
Proceeds from capital lease financing	-	78,000
Repayment of capital lease	(66,710)	(11,290)
Repayment of ROU liability	(19,526)	-
Issuance of capital stock for cash	-	489,255
Proceeds from long-term debt	272,800	-
Proceeds of promissory notes	85,000	-
Proceeds from debenture issue	-	401,965
Cash flows provided by (used in) financing activities	219,999	926,073
Net change in cash	(146,777)	78,835
Cash - beginning of year	146,838	68,003
Cash - end of year	\$ 61	\$ 146,838
Non-cash investing and financing activities:		
Shares issued for debt	-	14,744
Shares issued for litigation settlement	-	289,000
Warrants issued with long term debt	53,612	-
Cash paid for:		
Interest	90,835	44,787

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 Company manufactures and sells a product known as the "PoolSafe", which functions as a multi-purpose safe, contains a solar-powered charger for USB compatible devices including phones, cameras and tablets as well as a server call-button and a beverage cooler and holders. Pool Safe's head office located at 401 Magnetic Drive, Unit 14, Toronto, Ontario, M3J 3H9.

2. Basis of presentation

(a) Going concern

These 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 at a profit. Since inception the Company has incurred losses which as of December 31, 2019 totaled \$3,812,761. In addition, the Company had a working capital deficit in the amount of \$741,880 at December 31, 2019. 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, 2019.

These consolidated financial statements were approved by the Board of Directors on May 27, 2020.

(c) Basis of consolidation

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

(d) Basis of measurement

Apart from certain assets and liabilities measured at fair value as required under certain IFRS's, the 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 and design costs, and revenue share assets (collectively "Equipment")
Depreciation of equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the equipment.
- (ii) Income taxes
Income taxes and tax exposures recognized in the 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 adopted IFRS 9 as of January 1, 2018.

Financial assets

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

Financial assets at Fair-value through profit or loss

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

Financial assets at Fair-value through other comprehensive income

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

Financial assets at amortized cost

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

Financial liabilities

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

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

Pool Safe Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

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

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

Impairment

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

(a) Revenue Recognition

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

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

The Company recognizes revenues on revenue sharing units as it is earned. The Company places PoolSafe units into service with the venue operator. The PoolSafe units can be rented on a daily basis as part of a cabana or VIP daybed rental. The lease is treated as an operating lease. The Company retains ownership of the assets. The Company and the venue operator share the rental proceeds per an agreed distribution rate.

(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, 2019 and December 31, 2018 no provision for uncollectible accounts was recorded by the Company.

(c) Inventory

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

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

Pool Safe Inc.
Notes to Consolidated Financial Statements
Years ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

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

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

(e) Provisions

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

(f) Share capital

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

(g) Foreign exchange translation

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

(h) Research and development

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

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

(i) Income taxes

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

IFRS 16 - Leases replaces IAS 17, Leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases, with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods; changes the accounting for sale and leaseback arrangements; and introduces new disclosure requirements. Under IFRS 16, a lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Right-of-use assets will be initially measured at cost, which includes the initial measurement of the lease liabilities and other costs, less lease incentives. Lease liabilities will initially be measured at the present value of future lease payments and subsequently measured at amortized cost using the effective interest method. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances and may be applied retrospectively to each prior period presented (full retrospective approach) or with the cumulative effect of adoption recognized at initial application (modified retrospective approach). The modified retrospective approach offers the option, on a lease by lease basis, to either measure the right-of-use asset retrospectively using the discount rate as at the date of initial application or to measure the right-of-use asset at an amount equal to the lease liability.

The Company adopted IFRS 16 on January 1, 2019. On initial adoption, the Company did not have a right of use lease.

Lease accounting policy

At inception of a contract, the Company assesses whether a contract is, or contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease obligation at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date. The assets are depreciated over the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of future economic benefits.

The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease obligation. The lease obligation is subsequently measured at amortized cost using the effective interest rate method.

(l) 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 adopted in the current year

(a) IFRS 16 LEASES

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

(b) IFRIC 23 – Uncertainty Over Income Tax Treatments

IFRIC 23 was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The Company has adopted this standard in its consolidated financial statements commencing January 1, 2019. The adoption had no effect on the consolidated financial statements.

5. Receivables

Receivables are comprised of:

	Dec. 31, 2019	Dec. 31, 2018
Trade receivables	\$ 12,313	\$ 23,395
Taxes receivable	8,710	17,134
	\$ 21,023	\$ 40,529

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

	Dec. 31, 2019	Dec. 31, 2018
1 to 60 days	\$ 12,313	\$ 23,395
61 days and older	-	-
	12,313	23,395
Allowance for bad debts	-	-
Accounts receivable	\$ 12,313	\$ 23,395

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

6. Prepaids

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

7. Inventory

The following comprises inventory:

	Dec. 31, 2019	Dec. 31, 2018
Raw materials	\$ 67,331	\$ 138,080
Finished goods	-	-
	\$ 67,331	\$ 138,080

There was no write-down of inventory during the years ended December 31, 2019 nor December 31, 2018. During the year ended December 31, 2019, \$221,568 (December 31, 2018 - \$198,553) of inventory was expensed as cost of sales.

8. Equipment

December 31, 2019

Cost	Balance at December 31, 2018	Additions	As at December 31, 2019
Furniture and equipment	\$ 4,206	\$ -	\$ 4,206
Computer equipment	1,367	-	1,367
Manufacturing equipment tooling and moulds	204,764	-	204,764
Right of use asset	-	194,891	194,891
Leasehold improvement	14,145	-	14,145
Equipment	\$ 224,482	\$ 194,891	\$ 419,373

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	Balance at December 31, 2018	Additions	As at December 31, 2019
Accumulated depreciation			
Furniture and equipment	\$ 2,238	\$ 394	\$ 2,632
Computer equipment	857	153	1,010
Manufacturing equipment tooling and moulds	46,500	13,651	60,151
Right of use asset	-	25,781	25,781
Leasehold improvement	8,520	1,355	9,875
	\$ 58,115	\$ 38,234	\$ 99,449
Net book value	\$ 166,367		\$ 319,924

December 31, 2018

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

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

9. Patent and design costs

	Balance at December 31, 2018	Additions, net	As at December 31, 2019
Cost	\$ 265,283	\$ -	\$ 265,283
Accumulated amortization	(42,289)	(17,685)	(59,974)
Carrying value	\$ 222,994	\$ (17,685)	\$ 205,309

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

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10. Revenue share assets

	Balance at December 31, 2018	Disposals	Additions, net	As at December 31, 2019
Cost	\$ 161,781	\$ (6,052)	\$ 123,910	\$ 279,639
Accumulated amortization	(33,175)	3,863	(39,323)	(68,635)
Carrying value	\$ 128,606	\$ (2,189)	\$ 84,587	\$ 211,004

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

11. Trade payables and other liabilities

Trade payables and accrued liabilities are comprised as follows:

	December 31, 2019	December 31, 2018
Trade payables	\$ 100,580	\$ 51,220
Accrued liabilities	111,640	102,895
	\$ 212,220	\$ 154,115

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

	December 31, 2019	December 31, 2018
Current	\$ 69,563	\$ 48,220
>60 days	31,017	3,000
	\$ 100,580	\$ 51,220

12. Deferred revenue

Deferred revenue is comprised as follows:

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

13. Lease Liability

i) Right of use liability

In the current year the Company entered into a lease on its office location. Under the terms of IFRS 16, the Company recognized \$194,891 for right-of-use assets and \$194,841 of related lease liabilities. The liability has been recorded as follows:

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Balance, January 1, 2019	\$ -
Lease liability for ROU asset	193,358
Imputed interest	19,737
Payments	<u>(39,262)</u>
Balance, December 31, 2019	173,833
Current portion	<u>32,408</u>
Long-term portion	<u>\$ 141,425</u>

Payments, including interest, over the term of the lease are as follows:

	2020	2021	2022	2023	2024	Total
Payments	\$ 47,943	\$ 48,779	\$ 49,616	\$ 50,452	\$ 16,910	\$ 213,700

ii) Obligation under capital lease:

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

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

14. Convertible debenture

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

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

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

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

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

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

The debenture is classified as a liability, with the exception of the portion relating to the conversion feature, resulting in the carrying value of the debenture being less than face value. The equity portion of this debt was valued at \$30,300 using the residual method of valuation. The discount is being accreted over the term of the debenture utilizing the effective interest rate method at a 22.2% discount rate. An amount of \$62,513 was recorded as interest accretion expense on the consolidated statements of loss and comprehensive loss for the year.

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

2020	\$ 460,000
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After year end the \$450,000 of the \$460,000 were extended for a further year (see Note 25 – Subsequent events).

Total interest on long term debt for the year was \$162,352 in 2019, which comprised \$74,364 of accretion interest and \$87,988 of coupon interest on the loans.

15. Loans – Revolving Line of Credit

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

-

The Company entered a revolving credit facility for up to \$1 million. In April 2019 the Company drew \$159,500 against the facility. In May 2019, the Company drew \$113,300 against the facility. Total outstanding draws against the revolver facility at June 30, 2019 amount to \$272,800. The Company issued 3,000,000 warrants in conjunction with this facility. The warrants were valued at \$53,612 using a Black-Scholes valuation option model and are considered a cost of issuance. The facilities are due March 31, 2022 and bear interest at 10% per annum. Early repayment is permitted. The Company repaid \$51,565 against balances borrowed in 2019.

272,800

(53,612)

(51,565)
11,851

Accreted value of warrants

179,474

Less: Current portion

(61,104)

\$ 118,370

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

2020	\$ 61,104
2021	120,000
2022	40,131
	\$ 221,235

Revolving line of credit repayments are based on a percentage of the Company's share of revenue from revenue sharing assets. Repayments are based on a return to normal business by mid-summer 2020 as Covid-19 related shut downs are relaxed.

16. Loans – Promissory Notes

The Company entered other long-term loans which bear interest at 10% per annum	85,000
Less: Current portion of loans	85,000
	\$ -

The loans were unsecured and are due in full on December 20, 2020. Subsequent to year end the Company repaid \$15,000 of the principal outstanding under these promissory notes.

17. Share capital

(a) **Authorized**

An unlimited number of common shares without par value.

An unlimited number of voting class "A" shares.

(b) **Issued common shares**

	Number	Amount
Balance at December 31, 2017	54,309,763	2,310,674
Issuance of units for cash (i)	5,643,020	352,084
Issuance of units for cash (i)	1,725,000	108,147
Issuance of shares for litigation settlement (ii)	3,400,000	289,000
Issuance of shares for debt (iii)	173,456	14,744
Balance at December 31, 2019 and 2018	65,251,239	\$ 3,074,649

- (i) During September 2018, the Company issued 5,643,020 units for cash proceeds of \$395,011 (proceeds net of broker cash fees and legal and other costs, were \$373,496). Each unit was comprised of one common share and one common share purchase warrant. Each share warrant can be converted into one common share at an exercise price of \$0.12 until September 27, 2020, subject to certain acceleration rights in favour of the Company. The net proceeds were allocated as \$352,084 to common shares and \$21,412 to warrants (Note 17(c)), based on a Black-Scholes valuation of the warrants.
- In addition, 81,143 finder warrants were issued and valued at \$665. Each finder warrant is exercisable into a common share of the Company at a price of \$0.12 until September 27, 2020.
- During November 2018, the Company issued 1,725,000 units for cash proceeds of \$120,750 (proceeds net of broker cash fees, legal and other costs, were \$115,759). Each unit was comprised of one common share and one common share purchase warrant. Each share warrant can be converted into one common share at an exercise price of \$0.12 until November 26, 2020, subject to certain acceleration rights in favour of the Company. The net proceeds were allocated as \$108,147 to common shares and \$7,612 to warrants (Note 17(c)), based on a Black-Scholes valuation of the warrants.
- In addition, 80,800 finder warrants were issued and valued at \$597. Each finder warrant is exercisable into a common share of the Company at a price of \$0.12 until November 26, 2020.
- (ii) During September 2018, the Company issued 3,400,000 shares in settlement of litigation. The shares were valued at \$289,000 and were expensed in the September 2018 period.
- (iii) During September 2018, the Company issued 173,455 to settle \$19,080 of debt. The shares were valued at \$14,744 and the difference was recognized as a gain on settlement of debt in the September 2018 period.

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(c) **Warrants**

At December 31, 2019, the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
<u>Broker Units</u>		
196,364	\$0.11	February 8, 2020
81,143	\$0.12	September 27, 2020
80,800	\$0.12	November 26, 2020
<u>Warrants</u>		
568,125	\$0.15	May 11, 2020
113,625	\$0.15	June 21, 2020
2,821,510	\$0.12	September 27, 2020
862,500	\$0.12	November 26, 2020
3,000,000	\$0.07	March 31, 2022

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

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

As related to the revolving line of credit financings, the Company determined that the fair value of the warrant liability at April and May 2019 related to the 3,000,000 warrants, using the Black-Scholes Options Pricing Mode, was \$53,612. The Company determined that the fair value of the warrant liability using the Black-Scholes Options Pricing Model, using the following inputs; Dividend yield – Nil, interest rate of 0.52%, volatility of 91% and an expected life of 3 years.

As related to debenture financings, the Company determined that the fair value of the broker warrant liability at February 8, 2018 related to the 196,364 broker warrants, using the Black-Scholes Options Pricing Mode, was \$6,214. The Company determined that the fair value of the warrant liability at May 11, 2018 related to the 568,125 warrants, using the Black-Scholes Options Pricing Mode, was \$15,467. The Company determined that the fair value of the warrant liability at June 21, 2018 related to the 113,625 warrants, using the Black-Scholes Options Pricing Model, was \$3,129. The Black-Scholes Options Pricing Model used the following inputs; Dividend yield – Nil, interest rate of .62%, volatility of 85% and an expected life of 2 years.

As related to equity financings, the Company determined that the fair value of the warrant liability at September 27, 2018 related to the 2,821,510 warrants, using the Black-Scholes Options Pricing Mode, was \$21,412. The Company determined that the fair value of the finders warrant liability at September 27, 2018 related to the 81,143 finders warrants, using the Black-Scholes Options Pricing Mode, was \$665. The Company determined that the fair value of the warrant liability at November 26, 2018 related to the 862,500 warrants, using the Black-Scholes Options Pricing Model, was \$6,350. The Company determined that the fair value of the finders warrant liability at November 18, 2018 related to the 80,800 finders warrants, using the Black-Scholes Options Pricing Model, was \$597. The Black-Scholes Options Pricing Model used the following inputs; Dividend yield – Nil, interest rate of 0.62%, volatility of 85% and an expected life of 2 years.

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

(d) **Stock options**

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

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

At December 31, 2019, the following stock options were outstanding:

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

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

	December 31, 2019		December 31, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	5,350,000	\$ 0.11	4,429,942	\$ 0.12
Granted	-		1,300,000	\$ 0.12
Exercised	-		-	
Cancelled/Expired	(100,000)	0.11	(379,942)	
Outstanding, end of period	5,250,000	\$ 0.11	5,350,000	\$ 0.11
Exercisable, end of period	5,016,667	\$ 0.11	3,204,167	\$ 0.11

The aggregate intrinsic value for options vested and for total options as of December 31, 2019 is \$nil (December 31, 2018- \$nil). The weighted average contractual term of stock options outstanding and exercisable as at December 31, 2019 is 2.6 years (December 31, 2018 – 3.6 years).

The weighted average fair value of stock options granted, vested, and modified during the period was \$Nil (year ended December 31, 2018 - \$0.08).

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

	December 31, 2019	Dec. 31, 2018
Risk-free interest rate	N/A	0.5%
Expected life	N/A	2.0 to 4.0 years
Annualized volatility	N/A	85%
Dividend rate	N/A	-

18. Related party transactions

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

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(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:

	December 31, 2019	December 31, 2018
Short-term employee benefits, including salaries and fees	\$ 243,461	\$ 250,000
Stock-based compensation	22,562	90,917
Sub-contractors	-	-
	<u>\$ 266,023</u>	<u>\$ 340,917</u>

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

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

Balances of \$35,854 (2018 - \$nil) were due to related parties at December 31, 2019.

19. 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, 2019	Dec. 31, 2018
Net loss before income taxes	\$ (714,514)	\$ (996,536)
Combined statutory tax rate	26.5%	26.5%
Theoretical tax expense (recovery)	(189,346)	(264,082)
Non-deductible expenses	50,976	118,208
Listing expense	-	-
Share issue costs	2,144	13,788
Other adjustments	-	-
Changes in unrecognized deferred tax assets	136,226	132,086
Income tax recovery	<u>\$ -</u>	<u>\$ -</u>

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, 2019	Dec. 31, 2018
Non-capital loss carry-forwards	<u>\$2,815,000</u>	<u>\$2,293,000</u>

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	580,000
2037	587,000
2038	498,000

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2039		522,000
	\$	2,815,000

20. Operating segment information

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

21. Earnings (loss) per share

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

Numerators	December 31, 2019	December 31, 2018
Loss attributable to common shareholders	\$ (714,514)	\$ (994,013)
Loss used in the computation of basic and diluted earnings per share	\$ (714,514)	\$ (994,013)

Denominators	December 31, 2019	December 31, 2018
Weighted average number of common shares for computation of basic and diluted loss per share	65,251,239	57,030,627

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

22. Financial instruments

(a) Financial risks

(i) Liquidity risk

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

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's main credit risk relates to its accounts receivable. The accounts receivable are due from a few customers and various government bodies. The Company does not anticipate any significant loss for non-collection and has not set up an allowance for doubtful accounts

(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.

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(b) Fair value hierarchy

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

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

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

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

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

Level 1 - cash;

Level 2 - none;

Level 3 - none.

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

23. Capital management

The Company considers its capital to be its equity, and debt as disclosed in Notes 14, 15, 16 and 17. The Company's objectives when managing its capital are to maintain a sufficient capital base in order to meet its short-term obligations and at the 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, 2019, the Company is 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.

The Company manages the capital structure and makes appropriate adjustments to it based upon changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets,

24. Subsequent event

Subsequent to year end, 196,364 broker warrants were not exercised and expired.

Subsequent to year end, the Company completed the first tranche of a private placement, issuing 3,620,000 units for gross proceeds of \$181,000. Each unit comprised one common share and one common share purchase warrant. Each warrant is exercisable into one common share of the Company at a price of \$0.10 per share for 24 months. The Company also closed a second tranche of this financing, issuing 2,700,000 Units for proceeds of \$135,000.

Subsequent to year end, the Company amended the terms of \$450,000 of the total of \$460,000 of the principal of the outstanding convertible debentures ("Debentures") were amended. The holders of the \$450,000 agreed to a one-year extension. Of that total, \$300,000 of Debentures had the unit conversion price repriced from an 11-cent common and 15-cent half warrant to a 10-cent common and 12-cent half warrant. As consideration for the Amendments, the Company has agreed to pay these holders 5% of the principal amount of each Debenture, satisfied by the Company issuing to the holders units at a deemed price of \$0.05 per unit, with each unit being comprised of one common share and one Common share purchase Warrant, and each warrant entitling the holder thereof to purchase one additional common share for a period of two years at a price of \$0.10 per common share. Insiders, which are holders of \$150,000 principal amount, will only have the units common share repriced to 10-cents. As consideration the holders will receive 5% of the principal amount of each Debenture, satisfied by the Company issuing each holder common shares priced at \$0.05.

Subsequent to year end, the Company repaid \$18,000 of the promissory notes outstanding at year end.

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Years ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

Subsequent to year end, the outbreak of the novel strain of coronavirus, specifically identified as “COVID 19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID 19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods.