SPONSORSONE INC.

Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited)

(Stated in Canadian dollars - unless otherwise noted)

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by CPA Canada for a review of interim financial statements by an entity's auditor.

August 29, 2018

"Myles Bartholomew" (signed)
Myles Bartholomew, CEO

"Brad E. Herr" (signed)
Brad E. Herr, CFO

SPONSORSONE INC.

Condensed Interim Consolidated Statements of Financial Position
As at,
(Unaudited)

	Note	June 30, 2018	December 31, 2017 (Audited)
Assets			
Current assets:			
Cash and cash equivalents		$ **5,322**	$ 60,460
Other receivables	**3**	**39,634**	36,065
		44,956	96,525
Capital assets, net	**4**	**102,575**	107,374
Intangible assets, net	**5**	**-**	-
		$ **147,531**	$ 203,899
Liabilities and Shareholders' Deficit			
Current liabilities:			
Accounts payable and accrued liabilities	**6 & 12**	$ **280,114**	$ 2,228,768
HST Payable	**6**	**194,994**	
Current portion of long-term debt	**7**	**112,695**	137,695
		587,803	2,366,463
Long-term liabilities			
Long-term debt	**7**	**624,387**	-
		1,212,190	2,366,463
Shareholders' deficit			
Share capital	**8**	**5,130,592**	5,075,467
Shares subscribed but not issued	**8**	**-**	90,000
Shares to be issued	**8**	**232,616**	232,616
Share-based payment reserve	**9**	**1,239,799**	804,799
Warrant reserve	**10**	**1,316,399**	1,266,525
Special Warrants	**10**	**254,087**	-
Accumulated deficit		**(9,238,152)**	(9,631,971)
		(1,064,659)	(2,162,564)
		$ **147,531**	$ 203,899

Nature of Operations and Going Concern – *Note 1*
Subsequent Event – *Note 16*

Approved on behalf of the Board:

"Myles Bartholomew" Director (Signed)

"Gary Bartholomew" Director (Signed)

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

SPONSORSONE INC.

Condensed Interim Consolidated Statements of Operations and Comprehensive Income (Loss)
For the three and six months ended June 30,
(Unaudited)

		Three Months Ended June 30,		Six Months Ended June 30,	
	Note	**2018**	2017	**2018**	2017
Revenue		**$ -**	$ -	**$ -**	$ -
Operating expenses:					
Marketing, general and administrative		**$ 187,141**	$ 176,600	**$ 680,755**	$ 351,017
Research and development		**-**	22,500	**2,661**	49,250
Depreciation	**5 & 6**	**4,509**	3,669	**8,178**	7,338
HST Assessment	**6**	**194,994**	-	**194,994**	-
Loss before finance expense and other income		**386,644**	202,769	**886,588**	407,605
Finance expense		**4,646**	656	**4,647**	656
Other income - settlement of accounts payable	**6**	**1,285,054**	-	**1,285,054**	-
Net income (loss) and comprehensive income (loss)		**$ 893,764**	$ (203,425)	**$ 393,819**	$ (408,261)
Weighted average number of common shares	**11**	**30,530,908**	26,122,446	**30,470,645**	26,803,164
Loss per share - basic and diluted	**11**	**$ 0.03**	$ (0.01)	**$ 0.01**	$ (0.02)

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

SPONSORSONE INC.

Condensed Interim Consolidated Statements of Changes in (Deficit) Equity
For the six months ended June 30, 2018 and 2017
(Unaudited)

	Number of common shares	Share capital	Shares to be issued	Shares subscribed but not issued	Warrants	Share-based payment reserve	Deficit	Total
Balance at December 31, 2017	27,784,712	$ 5,075,467	$ 232,616	$ 90,000	$ 1,266,525	$ 804,799	$ (9,631,971)	$ (2,162,564)
Shares issued on private placement, net	2,625,000	105,000	-	(90,000)	-	-	-	15,000
FMV of warrants issued	-	(49,875)	-	-	303,961	-	-	254,086
Share-based payments	-	-	-	-	-	435,000	-	435,000
Net loss for the period	-	-	-	-	-	-	393,819	393,819
Balance at June 30, 2018	**30,409,712**	**$ 5,130,592**	**$ 232,616**	**$ -**	**$ 1,570,486**	**$ 1,239,799**	**$ (9,238,152)**	**$ (1,064,659)**

	Number of common shares	Share capital	Shares to be issued	Shares subscribed but not issued	Warrants	Share-based payment reserve	Deficit	Total
Balance at December 31, 2016	25,434,164	$ 5,009,439	$ 232,616	$ -	$ 1,215,024	$ 712,825	$ (9,029,667)	$ (1,859,763)
Shares issued on private placement, net	2,000,000	100,000	-	-	-	-	-	100,000
Shares issued for debt settlement	350,548	17,527	-	-	-	-	-	17,527
FMV of warrants issued	-	(24,800)	-	-	24,800	-	-	-
Share-based payments	-	-	-	-	-	87,021	-	87,021
Net loss for the period	-	-	-	-	-	-	(408,261)	(408,261)
Balance at June 30, 2017	**27,784,712**	**$ 5,102,166**	**$ 232,616**	**$ -**	**$ 1,239,824**	**$ 799,846**	**$ (9,437,928)**	**$ (2,063,476)**

SPONSORSONE INC.

Condensed Interim Consolidated Statements of Cash Flows
For the six months ended June 30,
(Unaudited)

	Note		2018		2017
Cash flows from operating activities:					
Net income (loss) for the period		**$**	**393,819**	$	(408,261)
Adjustments for:					
Depreciation	**5 & 6**		**8,178**		7,338
Share-based compensation	**9**		**435,000**		87,021
Change in non-cash operating working capital					
Other receivables			**(3,569)**		36,213
Accounts payable and accrued liabilities	**6**		**(1,948,654)**		186,880
HST Payable	**6**		**194,994**		-
LTD	**7**		**624,387**		-
			(295,845)		(90,809)
Cash flows from financing activities:					
Proceeds from issuance of securities, net	**8**		**269,086**		100,000
Payment of bank indebtedness			**(25,000)**		-
			244,086		100,000
Cash flows from investing activities:					
Investment in property and equipment	**5**		**(3,379)**		-
			(3,379)		-
Increase (decrease) in cash and cash equivalents			**(55,138)**		9,191
Cash and cash equivalents, beginning of period			**60,460**		43
Cash and cash equivalents, end of period		**$**	**5,322**	$	9,234

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Nature of Operations

SponsorsOne Inc. (the "Company" or “SponsorsOne”) was incorporated under the laws of the Province of Ontario on March 9, 1965. Over the years, the Company has changed its name a number of times and currently operates as SponsorsOne, Inc. The primary office is located at 400 – 365 Bay Street, Toronto, ON M5H 2V1. References to SponsorsOne or the Company include the other names the company has operated under.

MXM Nation Inc. (“MXM”) was incorporated on February 2, 2005 under the Business Corporations Act of Ontario, Canada. On December 19, 2013, MXM completed a reverse takeover transaction of SponsorsOne. For accounting purposes, MXM is considered the acquirer and SponsorsOne the acquiree.

The Company is an early stage technology company developing a cloud based social sponsorship platform. This cloud-based platform called “SponsorsCloud” is designed to connect and facilitate one-to-one engagement between corporations to users within social networks.

These consolidated financial statements were authorized by the Board of Directors of the Company on August 29, 2018.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has experienced negative cash flows from operations since inception. In the three months ended June 30, 2018, the Company generated net income of $1,086,937. This net income is the result of non-operating debt settlements in the amount of $1,285,054. As of June 30, 2018, the Company has not yet generated revenue from operations. As of June 30, 2018, the Company had a working capital deficit of $542,847.

The Company has relied on financing from its shareholders and officers as well as equity raises to fund operations to date. Implementation of the Company’s business plan will require additional debt or equity financing and there can be no assurance that adequate funding will be available in the future, or available under terms favourable to the Company. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. These uncertainties cast significant doubt upon the Company’s ability to continue as a going concern. Management believes that it can raise sufficient funds to pay its ongoing administrative expenses and to meet its liabilities for the ensuing twelve months as they fall due.

Accordingly, these consolidated financial statements do not reflect adjustments or classifications which might be necessary if the Company was not able to continue as a going concern.

As disclosed in Note 16 - Subsequent Events. The Company closed a financing in July that netted the Company $1,916,006, and management believes this amount will be sufficient to sustain operations through the next twelve months as the Company moves from the development to the operational stage.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance with International Financial Reporting Standards

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

b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis.

c) Functional currency

The Company and its subsidiary's functional and reporting currency as determined by management, is the Canadian dollar.

d) Basis of consolidation

The consolidated financial statements of the Company include the accounts of the Company and its wholly-owned subsidiaries, MXM and NFU Inc. All intercompany balances and transactions have been eliminated. Subsidiaries are consolidated from the date of acquisition, being the date on which the Company has power to govern the financial and operating policies of an entity so as to obtain benefits from its activities and continue to be consolidated until the date such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies in all material respects.

e) Use of estimates and judgments

The preparation of these consolidated financial statements requires management to make certain judgments, estimates and assumptions about the carrying amounts of assets and liabilities, revenue and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to, impairment of assets and the useful life of capital and intangible assets.

f) Standards adopted during the period

IFRS 9 Financial Instruments ("IFRS 9") covers the classification and measurement of financial assets and financial liabilities and the effective date is for annual periods on or after January 1, 2018, with earlier application permitted. The Company is still assessing the impact of adopting IFRS 9. Amendments to IFRS 9 also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. Instead, additional transition disclosures will be required to help investors understand the

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. The Company assessed this new standard and there was no significant impact to the consolidated financial statements when adopted.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15"). In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases. The Company assessed this new standard and there was no significant impact to the consolidated financial statements when adopted.

g) Standards issued but not yet effective

IFRS 16, Leases ("IFRS 16") was issued on January 13, 2016. The new standard brings most leases onto the balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

h) Foreign currency translation

Transactions in foreign currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the period end exchange rate with the resulting gains and losses being recognized in the consolidated statements of operations and comprehensive loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated.

i) Capital assets

The Company records equipment at cost and provides for depreciation over the useful life of the assets using the straight-line method over two years for computer and office equipment and 15 years for marketing vehicle.

In the year of disposal, the resulting gain or loss is included in the statements of operations and comprehensive loss and the cost of the equipment retired or otherwise disposed and the related accumulated depreciation are eliminated from these accounts.

j) Research and development costs

Research costs are expensed as incurred. The Company has not capitalized development expenditures to date. An intangible asset may be recognized in future periods if the Company can demonstrate:

- the technical feasibility of completing the intangible asset so it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably of the expenditure during development.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Intangible assets

Intangible assets consist of system architecture and design, patent applications, customer lists, and application code, design and branding. The Company carries intangible assets with finite useful lives that it acquires separately at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized over their useful lives, on the straight-line basis over 3 years.

The Company reviews the estimated useful life and amortization method at the end of each reporting period, accounting for the effect of any changes in estimate on a prospective basis.

l) Share-based compensation

The Company grants stock options to acquire common shares of the Company to directors, officers and employees. The Board of Directors grants such options for periods of up to ten years, with vesting periods determined at its sole discretion and at exercise prices equal to or greater than the closing market price on the day preceding the date the options were granted.

The fair value of the options for employee services is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period of the options using the graded vesting method. The fair value is recognized as an expense with the corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

Where the terms of a stock option are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based compensation arrangement or is otherwise beneficial to the employee as measured at the date of modification over the remaining vesting period.

Share-based payments for non-employee services are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received.

m) Loss per share

Basic income (loss) per share is calculated using the weighted-average number of common shares outstanding during the year. Diluted loss per share is computed using the treasury stock method. Stock options and warrants outstanding are not included in the computation of diluted loss per share if their inclusion would be anti-dilutive. At June 30, 2018, the Company had issued Special Warrants which converted to shares of common stock and warrants upon closing a public offering which occurred on July 30, 2018. As a result, the shares underlying the Special Warrants were deemed outstanding for purposes of computing the weighted average shares outstanding on June 30, 2018.

n) Income tax

Income tax expense consists of current and deferred tax expense. Current and deferred taxes are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

enacted or substantively enacted tax rates is recognized in profit or loss or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

o) Financial instruments
Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in profit or loss. The Company classifies its cash as fair value through profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity dates. They are initially recognized at fair value and subsequently carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. The Company classifies its other receivables and investments as loans and receivables.

Held-to-maturity investments - These assets are non-derivative 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 recognized at fair value and subsequently are measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in other comprehensive income, within equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial assets, except for those at fair value through profit or loss, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that the future cash flows associated with a financial asset or a group of financial assets have been negatively impacted. Different criteria to determine impairment are applied for each category of financial assets described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value through profit or loss – this category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities – items in this category are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The Company classifies its accounts payable and accrued liabilities as other financial liabilities.

Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

p) Impairment of non-financial assets

The Company reviews its tangible and intangible assets for indications of impairment at the end of each reporting period or when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any indication of impairment exists, the asset's recoverable amount is estimated. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the assets belong. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

An impairment loss is recognized when the carrying amount of an asset, or its CGU, exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. In determining the value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss. Where an impairment loss subsequently reverses the carrying amount of the asset or CGU is increased by the revised estimate of its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of such impairment loss is also recognized in profit or loss.

No impairment of non-financial assets have been recorded for the periods ended June 30, 2018 or 2017.

3. OTHER RECEIVABLES

	June 30, 2018	June 30, 2017	December 31, 2017
HST recoverable	**$ 38,334**	$ 33,612	$ 34,765
Other receivables	**1,300**	1,300	1,300
	$ 39,634	$ 34,912	$ 36,065

4. CAPITAL ASSETS

	Computer equipment	Marketing vehicle	Total
Cost			
At December 31, 2016	$ 5,608	$ 219,596	**$ 225,204**
Additions for the period	-	-	**-**
Balance at December 31, 2017	$ 5,608	$ 219,596	**$ 225,204**
Additions for the period	3,379	-	**3,379**
Balance at June 30, 2018	**$ 8,987**	**$ 219,596**	**$ 228,583**

Accumulated depreciation			
At December 31, 2016	$ 5,608	$ 97,546	**$ 103,154**
Additions for the period	-	14,676	**14,676**
Balance at December 31, 2017	$ 5,608	$ 112,222	**$ 117,830**
Additions for the period	840	7,338	**8,178**
Balance at March 31, 2018	**$ 6,448**	**$ 119,560**	**$ 126,008**
Net book value			
At June 30, 2018	**$ 2,539**	**$ 100,036**	**$ 102,575**
At December 31, 2017	$ -	$ 107,374	$ 107,374

5. INTANGIBLE ASSETS

	System architecture and design	System architecture and design	System architecture and design	System architecture and design	System architecture and design
Cost					
At December 31, 2016	$ 200,000	$ 150,000	$ 25,000	$ 50,000	**$ 425,000**
Additions	-	-	-	-	**-**
Balance at June 30, 2018 and December 31, 2017	**$ 200,000**	**$ 150,000**	**$ 25,000**	**$ 50,000**	**$ 425,000**

Accumulated depreciation					
At December 31, 2106	$ 200,000	$ 150,000	$ 25,000	$ 50,000	**$ 425,000**
Additions	-	-	-	-	**-**
Balance at June 30, 2018 and December 31, 2017	**$ 200,000**	**$ 150,000**	**$ 25,000**	**$ 50,000**	**$ 425,000**
Net book value					
At June 30, 2018	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
At December 31, 2017	$ -	$ -	$ -	$ -	$ -

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

As at,	**June 30, 2018**	December 31, 2017
Accounts payable	**$ 280,114**	$ 1,890,579
HST Payable	**194,994**	-
Accrued liabilities	**25,286**	338,189
	$ 587,803	$ 2,228,768

During the period ending June 30, 2018, the Company reached settlement agreements with many of its vendors resulting in reclassification of $624,387 of accounts payable to long-term debt, and the write-off or reduced payment of $1,324,267 of accounts payable and accrued liabilities.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (continued)

On April 28, 2018, the Corporation received a Notice of (Re) Assessment (the “HST Assessment”) from Canada Revenue Agency regarding GST / HST filings for the period from July 1, 2015 to December 31, 2017, which, if correct, would give rise to $194,994 in HST payable. The Corporation’s tax advisors have advised that there are valid grounds to appeal the assessment and the Corporation is currently in the process of filing a Notice of Objection. Pending the outcome of the appeal process, the Corporation will book the $194,994 as an amount payable in its second quarter 2018 financial statements.

7. CURRENT PORTION OF LONG-TERM DEBT AND LONG-TERM DEBT

In February 2007, a company controlled by an officer of the Company entered into a loan agreement for the purchase of equipment. As the Company holds an exclusive use agreement over the equipment, which was obtained for the benefit of the Company, and the Company has agreed to pay for all reasonable costs associated with using and financing the equipment, the equipment and corresponding loan obligation are recorded on the Company’s records. The loan amount was $42,043, maturing February 2023 bearing interest at 6.69%. The loan was refinanced at 7.71% for another five years effective February 2012. The equipment serves as collateral for the loan. As at June 30, 2018 the principal balance of this loan was $28,519 (December 31, 2017 – $28,519).

In March 2011, an officer of the Company entered into a loan agreement for the purchase of equipment. As the Company holds an exclusive use agreement over the equipment, which was obtained for the benefit of the Company, and the Company has agreed to pay for all reasonable costs associated with using and financing the equipment, the equipment and corresponding loan obligation are recorded on the Company’s records. The loan amount was $176,910, maturing February 2028 bearing interest at 7.64%. The loan was refinanced at 7.10% in August 2013, with the maturity date unchanged. The equipment serves as collateral for the loan. As at June 30, 2018, the balance of this loan was $84,176 (December 31, 2017 – $109,177).

Both loans have now been classified as current as payments are past due and the loans are in default. As of June 30, 2018, the Company was in negotiations with the lenders for repayment of the outstanding balances out of proceeds from the Company’s public offering which closed in July 2018. See Note 16 - Subsequent Events.

The following table summarizes the payments and interest payable for the next five years:

As at	**June 30, 2018**	December 31, 2017
Payments due within one year	**$ 112,695**	$ 137,695

In connection with the debt settlements negotiated in June 2018, the Company entered into agreements with certain vendors holding accounts payable to convert these accounts payables aggregating $154,271 to long-term notes payable over three years commencing on July 31, 2019 bearing interest at 12% per annum. The Company also reclassified a portion of accounts payable totaling $470,116 from current to long-term as disputed. Amounts reclassified to long-term debt total $624,387.

8. SHARE CAPITAL

Authorized:

The Company is authorized to issue an unlimited number of common shares with no par value.

Issued:

(i) On May 16, 2018, the Company completed an offering of Special Warrants which convert by their terms into units in the public offering at the time of closing. A total of 1,568,440 Special Warrants were sold at $0.18 per share for an aggregate of $282,319. Commissions were paid in the amount of $28,232 to the selling brokers and the net proceeds to the Company were $$254,087. These Special Warrants are disclosed separately on the Statement of Financial Position as at June 30,

8. SHARE CAPITAL (continued)

2018 and will convert to common stock and warrants at the closing of the public offering in July 2018. No additional consideration will be received by the Company at the time of conversion.

(ii) On January 5, 2018, the Company completed a non-brokered private placement for gross proceeds of $105,000 through the issuance of 2,625,000 units (the "Units") at a price of $0.04 per Unit. Each Unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.05 per common share for a period of 24 months from the closing of the private placement.

(iii) On May 8, 2017, the Company completed a non-brokered private placement for gross proceeds of $100,000 through the issuance of 2,000,000 units (the "Units") at a price of $0.05 per Unit. Each Unit is comprised of one common share (a "Common Share") and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder thereof to acquire one additional Common Share of the Company exercisable for 36 months from the closing of the private placement at an exercise price of $0.15 per Common Share. The Company has also issued an aggregate of 350,548 Units in settlement of an aggregate of $17,527 of indebtedness at a price of $0.05 per Unit on the same terms and conditions as the private placement.

9. SHARE-BASED PAYMENT RESERVE

Share Option Plan

The Board of Directors of the Company adopted a stock option plan (the "Plan") whereby the aggregate number of common shares reserved for issuance under the Plan, including common shares reserved for issuance under any other share compensation arrangement granted or made available by the Company from time to time may not exceed 15% of the Company's issued and outstanding common shares. The Plan is administered by the Board of Directors and grants made pursuant to the Plan must at all times comply with the policies of the Canadian Stock Exchange and the Plan.

The terms of any options granted under the Plan are fixed by the Board of Directors and may not exceed a term of ten years. The exercise price of the options granted under the Plan is set at the last closing price of the Company's common shares before the date of grant.

Each employee share option converts into one common share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

A summary of the change in the Company's stock options is as follows:

		Weighted average exercise price	Number of options
Balance at December 31, 2017 and 2016	$	0.39	1,885,000
Granted January 10, 2018	$	0.30	1,450,000
Balance at June 30, 2018	**$**	**0.35**	**3,335,000**

During the period ended June 30, 2018, the Company granted 1,450,000 stock options with an exercise price $0.30 per share for a period of 10 years from the date of grant. For the period ended June 30, 2018, $435,000 of stock-based compensation expense was recorded for the fair value of stock options vested (2017 – $43,843).

The following table summarizes the exercise price of outstanding and exercisable stock options as at March 31, 2018:

9. SHARE-BASED PAYMENT RESERVE (continued)

Range of exercise prices	Number of options	Weighted average remaining life (years)	Vested and exercisable
$0.15 - $0.30	2,460,000	7.61	2,460,000
$0.31 - $0.90	625,000	6.90	625,000
$0.91 - $1.00	250,000	6.07	250,000
$0.05 - $1.00	**3,335,000**	7.36	**3,335,000**

The fair values of stock options issued in 2018 were estimated using the Black-Scholes option pricing model with the following assumptions:

		January 10, 2018
Assumptions		
Volatility		183%
Risk-free interest rate		0.77%
Expected life (years)		10
Dividend yield		Nil
Forfeiture rate		0%
Exercise price	$	0.30
Share price	$	0.30

10. WARRANT RESERVE

The following is a summary of warrants as at June 30, 2018:

Expiry date		Balance, December 31, 2017	Granted	Exercised	Expired or retracted	Balance, June 30, 2018, 2016	Weighted average exercise price
July 5, 2018	(a)	6,790,784	-	-	-	6,790,784	$0.30
May 8, 2020	(b)	2,350,548	-	-	-	2,350,548	$0.15
January 5, 2020	(c)	-	2,625,000	-	-	2,625,000	$0.30
May 16, 2018	(d)		282,319	-	-	282,319	$0.18
Total		**9,141,332**		**-**	**-**	**12,048,651**	**$0.27**

The following is a summary of warrants as at December 31, 2017:

Expiry date		Balance, December 31, 2016	Granted	Exercised	Expired	Balance, December 31, 2017	Weighted average exercise price
July 5, 2018	(a)	6,790,784	-	-	-	6,790,784	$0.30
May 8, 2020	(b)	-	2,350,548	-	-	2,350,548	$0.15
Total		7,140,784	2,350,548	-	350,000	9,141,332	$0.26

(a) On July 5, 2016, 6,790,784 warrants were issued as part of the private placement and debt settlements.
(b) On May 8, 2017, 2,350,548 warrants were issued as part of the private placement and debt settlement.
(c) On January 5, 2018, 2,625,000 warrants were issued as part of the private placement.
(d) On May 16, 2018, 282,319 Special Warrants were issued as part of a private placement in connection with a planned public offering which closed on July 30, 2018. On closing of the public offering, the Special Warrants will converted into Units in the public offering.

The fair values of warrants issued in 2018 (excluding the Special Warrants) were estimated using the Black-Scholes option pricing model under the following assumptions:

10. WARRANT RESERVE (continued)

Assumptions		
Volatility		193%
Risk-free interest rate		0.77%
Expected life (years)		2
Dividend yield		Nil
Exercise price	$	0.05
Share price	$	0.21

The Special Warrants were recorded at the value of the net offering proceeds received.

The fair values of warrants issued in 2017 were estimated using the Black-Scholes option pricing model under the following assumptions:

Assumptions		
Volatility		173%
Risk-free interest rate		0.77%
Expected life (years)		3
Dividend yield		Nil
Exercise price	$	0.15
Share price	$	0.05

11. LOSS PER SHARE

The calculation of basic and diluted income (loss) per share for the period ended June 30, 2018 was based on the gain (loss) attributable to common shareholders of $588,813 (2017 – ($408,261)) and the weighted average number of common shares outstanding of 30,470,645 (2017 – 26,803,164). Diluted income (loss) per share did not include the effect of 3,335,000 stock options (2017 – 1,885,000) and 12,048,651 warrants (2017 – 9,141,332) as they are anti-dilutive. Weighted average shares includes the shares issuable on exercise of the Special Warrants.

12. RELATED PARTY TRANSACTIONS

During the period ended June 30, 2018, officers, directors, and management, which are considered key management, compensation was $420,000 (June 30, 2017 - $340,880). Management compensation has been included in the marketing, general and administrative account:

As at December 31,		**June 30, 2018**		June 30, 2017
Consulting fees	**$**	**50,000**	$	258,000
Accounting fees		**25,000**		18,000
Share-based compensation		**345,000**		82,880
	$	**420,000**	$	340,880

As at June 30, 2018, included in accounts payable and accrued liabilities is $558,586 (June 30, 2017 – $1,146,502) due to related parties for consulting services.

13. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities as at June 30, 2018 and December 31, 2017 were as follows:

As at June 30, 2018	**Fair value through profit and loss**	**Loans and receivables**	**Other financial liabilities**	**Total**
Cash	**$ 5,322**	**$ -**	**$ -**	**$ 5,322**
Other receivables	**-**	**39,634**	**-**	**39,634**
Accounts payable and accrued liabilities	**-**	**-**	**(209,871)**	**(209,871)**
Current portion of long-term debt	**-**	**-**	**(112,695)**	**(112,695)**
	$ 5,322	**$ 39,634**	**$ (322,566)**	**$ (277,610)**

As at December 31, 2017	**Fair value through profit and loss**	**Loans and receivables**	**Other financial liabilities**	**Total**
Cash	**$ 60,460**	**$ -**	**$ -**	**$ 60,460**
Other receivables	**-**	**36,065**	**-**	**36,065**
Accounts payable and accrued liabilities	**-**	**-**	**(2,228,768)**	**(2,228,768)**
Current portion of long-term debt	**-**	**-**	**(137,695)**	**(137,695)**
	$ 60,460	**$ 36,065**	**$ (2,366,463)**	**$ (2,269,938)**

The carrying amount reflected above represents the Company's maximum exposure to credit risk for such loans and receivables. As at June 30, 2018 and December 31, 2017, the Company did not hold financial instruments recorded at fair value that would require classification within the fair value hierarchy, with the exception of cash.

The carrying value of cash and cash equivalents, other receivables and accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments.

14. FINANCIAL RISK FACTORS

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

Credit Risk

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its payment obligations. The Company is exposed to credit risk with respect to its cash, investments and other receivables.

The Company's credit risk is primarily attributable to cash. Management believes that the credit risk with respect to cash and investments is remote as it maintains accounts with highly rated financial institutions and the Government of Canada.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to capital markets is hindered, whether as a result of a downturn in stock market conditions, generally, or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at June 30, 2018, the Company had a cash balance of $5,322

14. FINANCIAL RISK FACTORS (continued)

(December 31, 2017 - $60,460) to settle current liabilities of $587,803 (December 31, 2017 - $2,366,463) (Note 1).

All of the Company's financial liabilities classified as current liabilities have contractual maturities of less than one year and are subject to normal trade terms. The Company cannot ensure there is sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's cash holdings. The Company is currently seeking sources of funding to settle short-term liabilities, and short-term cash requirements.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

Interest rate risk

Interest rate risk consists of a) the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, and b) to the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities.

Due to the short-term nature of the Company's financial instruments, fluctuations in market rates do not have a significant impact on the estimated fair values.

Foreign currency risk

The Company is not exposed to any significant foreign currency risk.

Other price risk

Other 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 foreign currency risk. The Company is not exposed to significant other price risk.

15. CAPITAL MANAGEMENT

The Company's objectives when managing capital, defined as shareholders' equity (currently a deficiency), are to safeguard the Company's ability to continue as a going concern (Note 1) in order to maintain a flexible capital structure that optimizes the costs of capital at an acceptable risk.

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

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 365 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations. There have been no changes

15. CAPITAL MANAGEMENT (continued)

to the Company's approach to capital management during the period ended June 30, 2018. The Company is not subject to externally imposed capital requirements.

16. SUBESEQUENT EVENTS

On April 18, 2018 the Corporation entered into an engagement letter with Emerging Equities Inc. to act as agent, on a reasonable best-efforts basis, in connection with a proposed financing up to 16,666,667 units ("Units") at a price of $0.18 per unit for gross proceeds of CA$3 million (the "Unit Offering"). Each Unit is comprised of one Common Share and one half of a common share purchase with each whole warrant entitling the holder thereof to purchase one Common Share at an exercise price of $0.30 for a period of twelve (12) months (subject to acceleration in certain circumstances). This offering was closed on July 30, 2018 after sale of an aggregate of 13,994,182 Units (including units issuable on exercise of the Special Warrants) raising an aggregate of $2,518,953 (including amounts received on purchase of the Special Warrants) in gross offering proceeds before deduction of commissions and offering expenses.

On June 18, 2018, the Corporation announced the extension of the expiry dates of 6,790,784 outstanding share purchase warrants (the "Warrants") that were issued pursuant to a private placement and debt settlement completed in July 2016. Each Warrant entitles the holder to purchase one Common Share at a price of $0.30 per share for a period of 24 months from the date of issuance which expires on July 4, 2018. The extension was approved by the Canadian Securities Exchange and the expiration of the Warrants has been extended to July 4, 2019. All other terms of the Warrants will remain the same.