

Certive Solutions Inc.

Consolidated Financial Statements
(Expressed in U.S. Dollars)

For the years ended May 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Certive Solutions Inc.:

We have audited the accompanying consolidated financial statements of Certive Solutions Inc., which comprise the consolidated statements of financial position as at May 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity (deficit) for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the financial statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Certive Solutions Inc. as at May 31, 2018 and 2017, and its operations and cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt about Certive Solution Inc.'s ability to continue as a going concern.



Vancouver, British Columbia
October 9, 2018

Buckley Dodds LLP
Chartered Professional Accountants

Certive Solutions Inc.
Consolidated Statements of Financial Position as at
(Expressed in U.S. Dollars)

	Notes	May 31, 2018	May 31, 2017
ASSETS			
Current assets			
Cash		\$ 20,141	\$ 138,258
Marketable securities	17	7,474	-
Receivables	4	345,964	501,322
Prepayments		-	16,597
Total current assets		373,579	656,177
Non-current assets			
Capital assets	5	-	6,250
Goodwill	6	-	465,000
Trade name	7	-	200,000
Customer lists	8	515,855	995,855
Software development	9	372,933	433,750
Total non-current assets		888,788	2,100,855
Assets from discontinued operations	10	-	182,886
Total assets		\$ 1,262,367	\$ 2,939,918
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	11, 17	\$ 2,673,181	\$ 1,370,673
Deferred revenue		98,007	-
Convertible debt	12	2,527,142	1,428,249
Short term loan	13, 17	139,326	297,487
Note payable – current portion	6	250,000	-
Total current liabilities		5,687,656	3,096,409
Non-current liabilities			
Derivative liability	15	489,170	268,707
Note payable – long term portion	6	250,000	-
Total liabilities		6,426,826	3,365,116
Shareholders' deficit			
Share capital	14	21,030,282	21,057,849
Shares to be issued		98,525	-
Reserve - Transactions costs		(655,877)	(612,593)
Reserve - Share options		1,854,015	1,854,015
Reserve - Share warrants		760,095	487,220
Equity portion of convertible debt	12	424,833	300,715
Other equity instruments	6	840,000	840,000
Contributed surplus		766,829	766,829
Deficit		(30,283,161)	(25,119,233)
Total shareholders' deficit		(5,164,459)	(425,198)
Total deficit and liabilities		\$ 1,262,367	\$ 2,939,918

Nature of operations and going concern (Note 1)
Contingent liability (Note 20)
Subsequent events (Note 22)

APPROVED ON BEHALF OF THE BOARD:

“Tim Hyland” Director

“Tom Marreel” Director

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

Certive Solutions Inc.
Consolidated Statements of Loss and Comprehensive Loss for the Years Ended
(Expressed in U.S. Dollars)

	Notes	May 31, 2018	May 31, 2017
REVENUE			
Consulting revenue		\$ 213,171	\$ 250,609
Chargemaster revenue		1,144,725	1,338,955
Dashboard sales		78,339	127,102
Total revenue		1,436,235	1,716,666
OPERATING COSTS			
Commission	17	48,297	39,962
Contractor and consultant fees	17	262,651	228,811
Direct payroll and employee benefits	17	963,828	1,153,150
Travel to client sites		5,330	1,357
License Fees		150	378
Total operating costs		1,280,256	1,423,658
Gross profit		155,979	293,008
EXPENSES			
Advisory board fees	17	40,000	130,000
Allowance for doubtful accounts		-	15,746
Amortization	5, 9	91,664	103,696
Bank charges and interest		448,058	483,840
Consulting fees	17	445,443	470,829
Corporate finance	17	80,300	171,150
Directors' fees	17	187,200	155,000
Foreign exchange gain		70,873	(299,664)
General and administrative		210,199	192,478
Investor relations		7,500	191,717
Management fees	17	570,000	618,000
Professional fees		328,571	417,315
Rent		251,074	250,204
Salaries and wages	17	788,598	685,033
Sales and marketing		10,910	49,535
Transfer agent and filing fees		38,016	38,570
Travel and promotion		171,180	153,910
Total expenses		3,739,586	3,827,359
		(3,583,607)	(3,534,351)
Share-based compensation expense	14	-	(432,384)
Impairment of tradename	7	(200,000)	-
Impairment of goodwill	6	(465,000)	-
Impairment of customer list	8	(480,000)	-
Omega settlement	6	(462,535)	-
Foreign derivative expense	15	(220,463)	(268,707)
Recovery of bad debts	17	236,358	-
Write-off of accounts payable		11,319	-
Other income	14	-	290,720
Loss from continuing operations		(5,163,928)	(3,944,722)
Revenue from discontinued operations	10	-	3,787,947
Expenses from discontinued operations	10	-	(3,584,340)
Income from discontinued operations		-	203,607
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		\$ (5,163,928)	\$ (3,741,115)
Basic and diluted loss per common share		\$ (0.07)	\$ (0.05)
Weighted average number of common shares outstanding		78,957,065	73,461,641

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

Certive Solutions Inc.
Consolidated Statements of Cash Flow for the Years Ended
(Expressed in U.S. Dollars)

	May 31, 2018	May 31, 2017
CASH FLOWS USED IN OPERATING ACTIVITIES		
Loss for the year	\$ (5,163,928)	\$ (3,741,115)
Adjustments for		
Amortization	91,664	106,099
Allowance for doubtful accounts	-	15,746
Share-based compensation	-	432,384
Accretion and transaction costs	215,655	473,536
Other income	-	(290,720)
Foreign derivative expense	220,463	268,707
Foreign exchange	(723)	(279,996)
Impairment of Titan	-	588,627
Impairment of tradename	200,000	-
Impairment of goodwill	465,000	-
Impairment of customer list	480,000	-
Loss from Omega acquisition	462,535	-
Recovery of bad debt expense	(236,358)	-
Write-off of accounts payable	(11,319)	-
Changes in non-cash working capital:		
Receivables	155,358	(192,370)
Prepaid expenses	16,597	(78,268)
Deferred revenue	98,007	-
Accounts payable and accrued liabilities	1,505,288	505,972
Net cash used in operating activities	<u>(1,501,761)</u>	<u>(2,191,398)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Software technology development costs	(24,597)	(130,752)
Sale of discontinued operations	100,000	-
Business acquisitions and settlements	-	(126,268)
Net cash provided by (used in) investing activities	<u>75,403</u>	<u>(257,020)</u>
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Convertible debt	1,062,500	1,077,951
Short term loan	5,741	148,140
Cash received from LiteLink	240,000	-
Issuance of common shares	-	1,203,305
Cash share issuance costs	-	(56,000)
Net cash provided by financing activities	<u>1,308,241</u>	<u>2,373,396</u>
CHANGE IN CASH DURING THE YEAR	(118,117)	(75,022)
CASH, BEGINNING OF YEAR	138,258	213,280
CASH, END OF YEAR	\$ 20,141	\$ 138,258

Supplemental disclosure of cash flow information

Cash paid for interest and income taxes \$ - \$ -

Non cash transactions affecting cash flows from financing and investing activities for the year ended May 31, 2018:

- the Company transferred \$148,140 from short-term debt to convertible notes
- the Company issued 1,666,700 shares valued at \$55,319 as a transaction costs on convertible debt
- the Company has recorded \$98,525 as a transaction cost on convertible debentures that will be settled by the issuance of 3,125,000 shares.

Non cash transactions affecting cash flows from financing and investing activities for the year ended May 31, 2017:

- the Company issued 2,101,523 finance warrants with a fair value of \$148,345
- 3,294,924 stock options were exercised with a fair value of \$526,467
- the Company issued 5,779,473 shares upon the conversion of debt.
- the Company issued 4,100,000 warrants valued at \$338,875 as a financing cost upon the issuance of convertible debt.
- the Company allotted shares for the settlement of convertible debt of \$600,000.

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

Certive Solutions Inc.
Consolidated Statements of Changes in Shareholders' Equity (Deficit)
(Expressed in U.S. Dollars)

	Capital Stock		Shares to be Issued	Reserve – Transaction Costs	Reserve – Share Options	Reserve - Warrants	Contributed Surplus	Other Equity Instruments	Equity Portion of Convertible Debt	Deficit	Total Equity (Deficit)
	Number of Shares	Amount									
Balance as at May 31, 2016	67,085,477	\$ 18,094,420	\$ -	\$ (529,689)	\$ 1,948,098	\$ -	\$ 445,933	\$ 937,139	\$ 621,878	\$ (21,378,118)	\$ 139,661
Private placement	2,101,523	630,457	-	-	-	-	-	(50,000)	-	-	580,457
Fair value of warrants issued	-	(148,345)	-	-	-	148,345	-	-	-	-	-
Share issuance costs – cash	-	-	-	(56,000)	-	-	-	-	-	-	(56,000)
Exercise of stock options	3,294,924	622,848	-	-	-	-	-	-	-	-	622,848
Fair value of stock options exercised	-	526,467	-	-	(526,467)	-	-	-	-	-	-
Conversion of debt	5,779,473	1,115,139	-	-	-	-	174,583	-	(93,805)	-	1,195,917
Shares allotted for conversion of debt	-	-	-	-	-	-	146,313	600,000	(146,313)	-	600,000
Shares issued for debt settlement	450,000	33,786	-	-	-	-	-	-	-	-	33,786
Shares issued for acquisition of KCA	900,000	183,077	-	-	-	-	-	(183,077)	-	-	-
Equity portion of convertible debt	-	-	-	(26,904)	-	338,875	-	-	91,328	-	403,299
Cancellation of shares to be issued	-	-	-	-	-	-	-	(464,062)	(172,373)	-	(636,435)
Share-based compensation	-	-	-	-	432,384	-	-	-	-	-	432,384
Loss and comprehensive loss	-	-	-	-	-	-	-	-	-	(3,741,115)	(3,741,115)
Balance as at May 31, 2017	79,611,397	21,057,849	-	(612,593)	1,854,015	487,220	766,829	840,000	300,715	(25,119,233)	(425,198)
Shares returned to treasury on discontinuation of Titan	(2,240,667)	(82,886)	-	-	-	-	-	-	-	-	(82,886)
Shares for transaction costs on convertible debt	1,666,700	55,319	98,525	(15,691)	-	-	-	-	-	-	138,153
Warrants issued as transaction costs on convertible debt	-	-	-	(27,593)	-	272,875	-	-	-	-	245,282
Convertible debt issued	-	-	-	-	-	-	-	-	124,118	-	124,118
Loss and comprehensive loss	-	-	-	-	-	-	-	-	-	(5,163,928)	(5,163,928)
Balance as at May 31, 2018	79,037,430	\$ 21,030,282	\$ 98,525	\$ (655,877)	\$ 1,854,015	\$ 760,095	\$ 766,829	\$ 840,000	\$ 424,833	\$ (30,283,161)	\$ (5,164,459)

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

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

(Expressed in U.S. Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Certive Solutions Inc. (the “Company”) was incorporated under the Laws of British Columbia and is traded on the Canadian Security Exchange (“CSE”) and is quoted on the OTCQB in the United States. The Company provides revenue cycle management services to U.S. hospitals, delivered collaboratively, utilizing proprietary workflow document management and analytics tools tailored to health care business processes. The Company is currently focused on the denied claim segment of revenue cycle management and provides services to enhance the efficiency and effectiveness of denied claims recovery, in revenue sharing relationships that improve hospitals’ net operating results.

The mailing address of the head office of the Company is 1140 - 1185 West Georgia Street, Vancouver, BC V6E 4E6.

The consolidated financial statements of the Company are presented in U.S. dollars, unless otherwise indicated, which is the functional currency of the Company.

These consolidated financial statements have been prepared using International Financial Reporting Standards (“IFRS”) on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue as a going concern is dependent upon the ability of the Company to obtain financing and generate positive cash flows from its operations. As at May 31, 2018, the Company has a working capital deficit of \$5,314,077, a loss for the year of \$5,163,928 and an accumulated deficit of \$30,283,161.

Management of the Company does not expect that cash flows for the Company’s operations will be sufficient to cover its operating requirements, financial commitments and business development priorities during the next twelve months. The Company will need to obtain further financing in the form of debt, equity or a combination thereof for the next twelve months to fund operations. There can be no assurance that additional funding will be available to the Company, or, if available, that this funding will be on acceptable terms. If adequate funds are not available, the Company may be required to delay or reduce the scope of its operations. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classification that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material.

2. BASIS OF PRESENTATION

a) Statement of compliance to International Financial Reporting Standards

These consolidated financial statements, including comparatives have been prepared in accordance with International Accounting Standards (“IAS”) 1, “Presentation of Consolidated Financial Statements” using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

(Expressed in U.S. Dollars)

2. BASIS OF PRESENTATION (cont'd...)

a) Statement of compliance to International Financial Reporting Standards (cont'd...)

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments classified as fair value through profit and loss, and available for sale, which are stated at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These consolidated financial statements were reviewed and approved and authorized for issue by the Board of Directors of the Company on October 9, 2018.

b) Significant accounting judgements and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements. Actual results could differ from these estimates.

Critical Judgements

The preparation of these consolidated financial statements requires management to make judgements regarding the going concern of the Company, as previously discussed in Note 1, as well as determination of functional currency. The functional currency is the currency of the primary economic environment in which an entity operates, and has been determined for each entity within the Company. The functional currency for the Company and its subsidiaries has been determined to be the U.S. dollar.

Key Sources of Estimation Uncertainty

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be material. Significant estimates made by management affecting the consolidated financial statements include:

i) Share-based payments

Estimating the fair value for granted stock options and compensatory warrants requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate model including the expected life of the option or warrant, volatility, dividend yield, and rate of forfeitures and making assumptions about them.

ii) Useful lives of property and equipment and intangible assets

Estimates of the useful lives of property and equipment and intangible assets are based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed annually and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence, and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of the relevant assets may be based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factor and circumstances.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

(Expressed in U.S. Dollars)

2. BASIS OF PRESENTATION (cont'd...)

b) Significant accounting judgements and estimates (cont'd...)

Key Sources of Estimation Uncertainty (cont'd...)

iii) Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognized on the statement of financial position. Deferred tax assets, including those arising from un-utilized tax losses require management to assess the likelihood that the Company will generate taxable earnings in future years, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future years.

iv) Carrying values of tangible and intangible assets

The Company assesses the carrying value of its tangible and intangible assets annually or more frequently if warranted by a change in circumstances. If it is determined that carrying values of assets cannot be recovered, the unrecoverable amounts are charged against current earnings. Recoverability is dependent upon assumption and judgements regarding market conditions, costs of operations and sustaining capital requirements. Other assumptions used in the calculation of recoverable amounts are discount rates, and future cash flows. A material change in the assumptions may significantly impact the potential impairment of these assets.

v) Discount rates used in convertible debentures

The Company calculates the liability portion of convertible debentures by calculating the present value of the loan and related interest, using a discount rate equal to the market rate that would be given for similar debt, without a conversion feature. Management determines this rate by assessing what rate the Company could borrow funds at from an unrelated party.

vi) Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involve the exercise of significant judgment and estimates of the outcome of future events.

c) Determination of functional currency

The functional currency is the currency of the primary economic environment in which the entity operates. Management has determined that the functional currency for the Company, and each of its subsidiaries is the U.S. dollar.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

(Expressed in U.S. Dollars)

2. BASIS OF PRESENTATION (cont'd...)

d) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

Details of the Company's subsidiaries are as follows:

Name	Place of incorporation	Interest %	Principal activity
Certive Solutions Inc. (the parent company)	British Columbia, Canada	100%	Revenue cycle management solutions
Certive Health Inc. (formerly Certive Technologies Arizona Inc.)	Arizona, United States	100%	Revenue cycle management solutions
Omega Technology Solutions Inc. ("Omega")	Florida, United States	100%	Revenue cycle management solutions
Titan Health Management Solutions Inc. ⁽¹⁾	Arizona, United States	100%	Revenue cycle management solutions
Knowledge Capital Alliance Inc. ("KCA")	Arizona, United States	100%	Performance management solutions for public health agencies
Advantive Information Systems Inc. ("AIS")	British Columbia, Canada	100%	Revenue cycle management solutions

⁽¹⁾ Titan Health Management Solutions Inc. was sold during the year ended May 31, 2018, and recorded as discontinued operations for the year ended May 31, 2017. (Note 10).

3. SIGNIFICANT ACCOUNTING POLICIES

Cash

Cash includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amount of cash and subject to an insignificant risk of change value.

Capital assets

Capital assets are stated at cost less accumulated amortization and accumulated impairment losses. The cost of a capital asset consists of the purchase price, and costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the items and restoring the site on which it is located. Amortization is provided at rates calculated to write off the costs of the asset, less its estimated residual value. The capital assets of the Company consist primarily of furniture and fixtures and are amortized straight line over 2 years.

Intangible assets

Separately acquired intellectual property and technological assets are recorded at historical cost. Intellectual property and technological assets acquired in a business combination are recognized at fair value at the acquisition date. Technological assets have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the items over their estimated useful lives of 7 years.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

(Expressed in U.S. Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments

All financial instruments are initially recognized at fair value on the statement of financial position. The Company has classified each financial instrument into one of the following categories: (1) financial assets or liabilities at fair value through profit or loss (“FVTPL”), (2) loans and receivables, (3) financial assets available-for-sale (“AFS”), (4) financial assets held-to-maturity, and (5) other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in net earnings. Financial assets AFS are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of tax.

Financial assets “held-to-maturity”, “loans and receivables”, and “other financial liabilities” are subsequently measured at amortized cost using the effective interest method. The Company’s financial assets and liabilities are recorded and measured as follows:

<u>Asset or Liability</u>	<u>Category</u>	<u>Measurement</u>
Cash	FVTPL	Fair value
Marketable securities	AFS	Fair value
Receivables	Loans and receivables	Amortized cost
Accounts payable	Other liabilities	Amortized cost
Convertible debt	Held to maturity	Amortized cost
Short term loans	Other liabilities	Amortized cost
Note payable	Other liabilities	Amortized cost
Derivative liability	FVTPL	Fair value

The Company determines the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Cash and marketable securities are measured at fair value using Level 1 inputs. The derivative liability has been measured at fair value using level 3 inputs (Note 15).

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

(Expressed in U.S. Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Company elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Share-based payment transactions

The Company grants stock options to buy common shares of the Company to directors, officers, employees and service providers. The Company recognizes share-based compensation expense based on the estimated fair value of the options. A fair value measurement is made for each vesting instalment within each option grant and is determined using the Black-Scholes option-pricing model. The fair value of the options is recognized over the vesting period of the options granted as both share-based compensation expense and reserves. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods. The reserves account is subsequently reduced if the options are exercised and the amount initially recorded is then credited to capital stock.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of the goods or services received.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

(Expressed in U.S. Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Revenue recognition

The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, the risks and rewards have been transferred to the customer, or the services have been provided to the customer, the fee is fixed and determinable, and collectability is reasonably assured.

In addition to this general policy, the following are the specific revenue recognition policies for each major category of revenue:

- (i) *Consulting Services:*
Consulting revenues are billed in accordance with contracted hourly rates after the service have been performed.
- (ii) *ChargeMaster/Lost Charge Recovery:*
Revenue from ChargeMaster services are billed to the customer when the insurance company posts confirmation of payment to our customer. Generally, invoices are rendered in the same month as the confirmation posting occurs.
- (iii) *Dashboard Sales:*
Revenue from dashboard sales are recognized over the term of the contract on a straight-line basis.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

(Expressed in U.S. Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Foreign exchange

Transactions in currencies other than the U.S. dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting year, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are recognized through profit or loss.

Impairment

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, are recognized in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to other comprehensive income. For such properties, the impairment is recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or Company of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future years.

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

(Expressed in U.S. Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Future accounting pronouncements

A number of new standards, amendments to standards and interpretations are not yet effective as at the date of issuing these statements, and have not been applied in preparing these financial statements. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

Amendments to *IFRS 2 – 'Share-based payments'* - This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. The Company is in the process of determining the impact of the adoption of this standard on the financial statements, if any. Effective for annual periods beginning on or after January 1, 2018.

IFRS 9 - Financial Instruments, addresses classification, measurement and recognition of financial assets and financial liabilities. This new standard is a partial replacement of IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for the classification and measurement of financial assets, additional changes relating to financial liabilities, a new general hedge accounting standard which will align hedge accounting more closely with risk management. The new standard also requires a single impairment method to be used, replacing multiple impairment methods in IAS 39. IFRS 9 is effective for annual years beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 - Revenue from Contracts and Customers ("IFRS 15") will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual years beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16 - Leases, effective for annual periods beginning on or after January 1, 2019. The scope of IFRS 16 includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRIC 22 - "Foreign currency transactions and advance consideration" - This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The Company has considered the change and assessed that it will have no material impact on adoption. Effective for annual periods beginning on or after January 1, 2018.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

*(Expressed in U.S. Dollars)***4. RECEIVABLES**

	May 31, 2018	May 31, 2017
GST input tax credits	\$ 6,797	\$ 7,718
Trade receivables	69,834	124,962
Work in progress	269,333	368,642
	\$ 345,964	\$ 501,322

The average credit period on rendering of services is between 30 to 45 days. No interest is charged on outstanding trade receivables.

5. CAPITAL ASSETS

	Furniture and equipment
<u>Cost</u>	
Balance at May 31, 2016, 2017 and 2018	\$ 129,270
<u>Accumulated Amortization</u>	
Balance at May 31, 2016	\$ 81,915
Amortization for the year	41,105
Balance at May 31, 2017	123,020
Amortization for the year	6,250
Balance at May 31, 2018	\$ 129,270
<u>Net Book Value</u>	
At May 31, 2017	\$ 6,250
At May 31, 2018	\$ -

Of the \$41,105 of amortization recognized in the year ended May 31, 2017, \$2,403 relates to assets to be returned to Titan, which are fully amortized as at May 31, 2017 (Note 10).

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

(Expressed in U.S. Dollars)

6. GOODWILL AND NOTE PAYABLE

During the year ended May 31, 2016, the Company completed the acquisition of Omega Technology Solutions LLC., (“Omega”). In connection with the acquisition, the Company issued a convertible promissory note of \$600,000 to the former owner of Omega. During the year ended May 31, 2017, this promissory note was converted into shares to be issued, and is recorded in other equity reserve as at May 31, 2017 and 2018. In addition, a further \$240,000 is recorded in other equity reserve relating to 1,300,000 common shares to be issued to the former owner of Omega. (Note 14).

In connection with the acquisition, the Company recorded a goodwill of \$465,000. During the year ended May 31, 2018, management of the Company assessed Omega (which it considers a CGU) for impairment, and determined that it is not recoverable. As a result, the Company recorded an impairment on goodwill of \$465,000.

During the year ended May 31, 2018, the Company and the former owner of Omega negotiated a further amount to be paid in connection with the acquisition of Omega. The Company has agreed to make a \$500,000 payment, which will also be used as settlement for any amounts owed between the Company and the former owner of Omega as follows:

- \$250,000 due on or before October 31, 2018
- Payment of an additional \$250,000 with the following terms:
 - Quarterly payments equal to 25% of net income from the Omega division; and
 - if the total amount of \$250,000 is not paid by February 28, 2020, the remaining balance will be due on that date; and
 - no interest is to accrue during the pay-out period.

As a result of this renegotiation, the Company recorded a loss on the settlement of Omega of \$462,535 during the year ended May 31, 2018. The loss was recorded as the difference of \$500,000 and \$37,465 which was owing to the former owner of Omega. (Note 17).

7. TRADE NAME

During the year ended May 31, 2016, the Company capitalized \$200,000 for a trade name acquired upon the acquisition of Omega. During the year ended May 31, 2018, management of the Company assessed Omega (which it considers a CGU) for impairment, and determined that it is not recoverable. As a result, the Company recorded an impairment on the trade name of \$200,000.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

*(Expressed in U.S. Dollars)***8. CUSTOMER LISTS**

	Titan Health Management Solutions	Knowledge Capital Alliance Inc.	Omega Technology Solutions LLC	Total
Balance, May 31, 2016	\$ 2,530,547	\$ 515,855	\$ 480,000	\$ 3,526,402
Discontinued operations (Note 10)	(2,530,547)	-	-	(2,530,547)
Balance, May 31, 2017	-	515,855	480,000	995,855
Impairment	-	-	(480,000)	(480,000)
Balance, May 31, 2018	\$ -	\$ 515,855	\$ -	\$ 515,855

The Company acquired these customer lists as part of their acquisitions of Titan, KCA, and Omega.

As a result of the Settlement and Mutual Release agreement entered into with Titan during the year ended May 31, 2018, the Company has determined that as at May 31, 2017, an impairment of the Titan CGU is required. The Company calculated the fair value of Titan as at May 31, 2017, and has written down all of its assets and liabilities to this value (Note 10).

The Company considers KCA, and Omega to be separate CGUs. The Company assessed each of these CGUs for impairment as at May 31, 2018 and 2017, and has determined that KCA was not impaired as at May 31, 2018 and 2017. The Company determined that Omega was impaired as at May 31, 2018, and determined that its recoverable amount was \$Nil. As a result, the Company recorded an impairment of \$480,000 during the year ending May 31, 2018 in connection with the Omega customer list.

9. SOFTWARE DEVELOPMENT

	Software Development
<u>Cost</u>	
Balance at May 31, 2016	\$ 417,967
Additions	130,752
Balance at May 31, 2017	548,719
Additions	24,597
Balance at May 31, 2018	\$ 573,316
<u>Accumulated Amortization</u>	
Balance at May 31, 2016	\$ 49,975
Amortization	64,994
Balance at May 31, 2017	114,969
Amortization	85,414
Balance at May 31, 2018	\$ 200,383
<u>Net Book Value</u>	
At May 31, 2017	\$ 433,750
At May 31, 2018	\$ 372,933

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

(Expressed in U.S. Dollars)

10. DISCONTINUED OPERATIONS

During the year ended May 31, 2015, the Company purchased Titan Health Management Solutions Inc. (“Titan”), for the purchase price of \$2,568,653.

During the year ended May 31, 2018, the Company entered into a settlement agreement and mutual release (the “Settlement Agreement”) with Titan. Pursuant to this Settlement Agreement, the Company and Titan agreed to terminate the purchase agreement entered into during the year ended May 31, 2015. The terms of the Settlement Agreement were as follows:

- The assets, liabilities, and business of Titan will be returned to Titan, and the Company will relinquish any rights or interest in the operation results of Titan that are earned on or after June 1, 2017;
- The Company will receive \$100,000 cash (received). All other assets and liabilities as at June 1, 2017 will remain with Titan;
- Titan will return 2,240,667 common shares of the Company (returned, Note 14).
- Titan will forgive the convertible note of \$1,800,000 and all accrued interest;
- Titan will forgive a \$208,000 non-convertible note owing by the Company;
- The 1,000,000 common shares of the Company pursuant to the initial acquisition will no longer be issuable to Titan.
- The 1,250,000 preferred shares of the Company pursuant to the initial acquisition will no longer be issuable to Titan.

This settlement agreement constituted a discontinued operation of the Company as at May 31, 2017. As a result, all of the assets and liabilities of Titan as at May 31, 2017 have been removed from the statement of financial position of the Company. The Company has valued its investment in Titan as at May 31, 2017 at \$182,886, being the value of the shares to be returned and the cash to be acquired upon final settlement.

The revenues and expenses of Titan have been determined to be a discontinued operation by the Company as at May 31, 2017, and as a result, have been disclosed separately on the statement of loss and comprehensive loss.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

*(Expressed in U.S. Dollars)***10. DISCONTINUED OPERATIONS (cont'd...)**

Revenues and expenses from Titan are as follows:

	Year ended May 31, 2017
REVENUE	
Billing support	\$ 1,223,895
Claim audit and collections	2,564,052
	<u>3,787,947</u>
OPERATING COSTS	
Commission	111,859
Contractors and consultant fees	55,920
Direct payroll and employee benefits	1,818,180
License fees	6,395
	<u>1,992,354</u>
Gross Profit	1,795,593
EXPENSES	
Amortization	2,403
Bank charges and interest	42,846
General and administrative	254,062
Professional fees	28,231
Rent	123,578
Salaries and wages	487,447
Travel and promotion	64,792
Impairment of Titan	588,627
	<u>1,591,986</u>
Income from discontinued operations	\$ 203,607

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	May 31, 2018	May 31, 2017
Accounts payable (Note 17)	\$ 1,711,654	\$ 815,081
Accrued liabilities	638,231	485,459
Payroll liabilities (Note 20)	323,296	70,133
	<u>\$ 2,673,181</u>	<u>\$ 1,370,673</u>

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

(Expressed in U.S. Dollars)

12. CONVERTIBLE DEBT

During the year ended May 31, 2018, the Company issued the following convertible notes:

- The Company converted an advance of \$157,640 (CDN\$200,000), made in June 2017 into a convertible promissory note on February 28, 2018, maturing on February 28, 2020. The note bears interest at 10% per annum payable at maturity, calculated semi-annually up to and including the term of the note. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into 3,333,334 common shares of the Company. Of the total amount of the convertible note, \$17,240 was recorded as the equity component of the loan, and \$140,400 was recorded as a liability, using an effective interest rate of 15%. In addition, the Company issued 3,333,400 warrants exercisable into common shares of the Company at a price of CDN\$0.06 expiring on February 26, 2020. These warrants were valued at \$38,721 using the Black Scholes option pricing model with an expected volatility of 185.24%, discount rate of 1.78%, expected life of 2 years, and a dividend rate of 0%. Of these transaction costs, \$4,235 was recorded as an equity component of the transaction costs, with the remainder amortized over the term of the loan. In addition, 666,700 shares valued at \$24,691 were issued to the lender of this note, and recorded as transaction costs. Of these transaction costs, \$2,700 was recorded as a cost of the equity component of the convertible note. The remainder was recorded against the liability portion of the note, and will be amortized over the term of the note.
- The Company converted an advance of \$157,640 (CDN\$200,000), made in June 2017 into a convertible promissory note on February 28, 2018, maturing on February 28, 2020. The note bears interest at 10% per annum payable at maturity, calculated semi-annually up to and including the term of the note. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into 3,333,334 common shares of the Company. Of the total amount of the convertible note, \$17,240 was recorded as the equity component of the loan, and \$140,400 was recorded as a liability, using an effective interest rate of 15%. In addition, the Company issued 3,333,334 warrants exercisable into common shares of the Company at a price of CDN\$0.06 expiring on February 26, 2020. These warrants were valued at \$38,721 using the Black Scholes option pricing model with an expected volatility of 185.24%, discount rate of 1.78%, expected life of 2 years, and a dividend rate of 0%. Of these transaction costs, \$4,235 was recorded as an equity component of the transaction costs, with the remainder amortized over the term of the loan. In addition, 1,000,000 shares valued at \$30,628 were issued to the lender of this note, and recorded as transaction costs. Of these transaction costs, \$3,350 was recorded as a cost of the equity component of the convertible note. The remainder was recorded against the liability portion of the note, and will be amortized over the term of the note.
- The Company converted an advance of \$45,000 made in July 2017 into a convertible promissory note on February 28, 2018 maturing on February 28, 2020. The note bears interest at 10% per annum payable at maturity, calculated semi-annually up to and including the term of the note. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into common shares of the Company at a price of \$0.03 per share at the option of the lender. Of the total amount of the convertible note, \$4,403 was recorded as the equity component of the loan, and \$40,597 was recorded as a liability. The Company issued 1,500,000 warrants exercisable into common shares of the Company at a price of \$0.06 expiring on February 26, 2020 valued at \$16,872 for this note. These warrants were valued using the Black Scholes option pricing model with an expected volatility of 185.24%, discount rate of 1.78%, expected life of 2 years, and a dividend rate of 0%. Of the total value of the transaction costs, \$1,651 was recorded as a cost of the equity component of the convertible note. The remainder was recorded against the liability portion of the note, and will be amortized over the term of the note.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

(Expressed in U.S. Dollars)

12. CONVERTIBLE DEBT (cont'd...)

- The Company converted advances of \$82,500 made in August 2017 into convertible promissory notes on February 28, 2018 maturing on February 28, 2020. The notes bear interest at 10% per annum payable at maturity, calculated semi-annually up to and including the term of the note. The Company shall not be penalized for early repayment of any, or all of the notes. The notes are convertible into common shares of the Company at a price of \$0.06 per share at the option of the lender. Of the total amount of the convertible notes, \$8,073 was recorded as the equity component of the loans, and \$74,427 was recorded as a liability, using an effective interest rate of 15%. The Company issued 750,000 warrants, exercisable into common shares of the Company at a price of \$0.06 expiring on February 26, 2020, valued at \$8,436 for these notes. These warrants were valued using the Black Scholes option pricing model with an expected volatility of 185.24%, discount rate of 1.78%, expected life of 2 years, and a dividend rate of 0%. Of the total value of the transaction costs, \$826 was recorded as a cost of the equity component of the convertible note. The remainder was recorded against the liability portion of the note, and will be amortized over the term of the note.
- The Company converted an advance of \$60,000 made in August 2017 into a convertible promissory note on February 28, 2018 maturing on February 28, 2020. The note bears interest at 10% per annum payable at maturity, calculated semi-annually up to and including the term of the note. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into common shares of the Company at a price of \$0.03 per share at the option of the lender. Of the total amount of the convertible note, \$5,871 was recorded as the equity component of the loan, and \$54,129 was recorded as a liability. The Company issued 2,000,000 warrants, exercisable into common shares of the Company at a price of \$0.06 expiring on February 26, 2020, valued at \$22,496 for this note. These warrants were valued using the Black Scholes option pricing model with an expected volatility of 185.24%, discount rate of 1.78%, expected life of 2 years, and a dividend rate of 0%. Of the total value of the transaction costs, \$2,201 was recorded as a cost of the equity component of the convertible note. The remainder was recorded against the liability portion of the note, and will be amortized over the term of the note.
- The Company converted an advance of \$50,000 made in October 2017, by the CFO and director of the Company (Note 17), into a convertible promissory note on February 28, 2018 maturing on February 28, 2020. The note bears interest at 10% per annum payable at maturity, calculated semi-annually up to and including the term of the note. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into common shares of the Company at a price of \$0.05 per share at the option of the lender. Of the total amount of the convertible note, \$4,893 was recorded as the equity component of the loan, and \$45,107 was recorded as a liability. The Company issued 1,000,000 warrants, exercisable into common shares of the Company at a price of \$0.05 expiring on February 26, 2020, valued at \$11,636 for this note. These warrants were valued using the Black Scholes option pricing model with an expected volatility of 185.24%, discount rate of 1.78%, expected life of 2 years, and a dividend rate of 0%. Of the total value of the transaction costs, \$1,139 was recorded as a cost of the equity component of the convertible note. The remainder was recorded against the liability portion of the note, and will be amortized over the term of the note.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

(Expressed in U.S. Dollars)

12. CONVERTIBLE DEBT (cont'd...)

- The Company converted an advance of \$295,575 (CDN\$375,000), made in October 2017 into a convertible promissory note on February 28, 2018, maturing on February 28, 2020. This loan was issued at a discount, with the Company receiving \$279,335 (CAD\$350,000). The note bears interest at 10% per annum payable at maturity, calculated semi-annually up to and including the term of the note. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into 9,375,000 common shares of the Company. Of the total amount of the convertible note, \$28,923 was recorded as the equity component of the loan, and \$266,652 was recorded as a liability, using an effective interest rate of 15%. The Company is to issue 3,125,000 shares valued at \$98,525 to the lender of this note, and have been recorded as transaction costs. Of these transaction costs, \$9,641 was recorded as the equity component, with the remainder to be amortized over the term of the note. In addition, the Company issued 9,375,000 warrants, exercisable into common shares of the Company at a price of CDN\$0.04 expiring on February 26, 2020, valued at \$116,354 for this note. These warrants were valued using the Black Scholes option pricing model with an expected volatility of 185.24%, discount rate of 1.78%, expected life of 2 years, and a dividend rate of 0%. Of the value of these transaction costs, \$12,167 was recorded as a cost of the equity component of the convertible note. The remainder was recorded against the liability portion of the note, and will be amortized over the term of the note.
- The Company converted an advance of \$50,000 made in November 2017 into a convertible promissory note on February 28, 2018 maturing on February 28, 2020. The note bears interest at 10% per annum payable at maturity, calculated semi-annually up to and including the term of the note. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into common shares of the Company at a price of \$0.05 per share at the option of the lender. Of the total amount of the convertible note, \$4,893 was recorded as the equity component of the loan, and \$45,107 was recorded as a liability. The Company issued 1,000,000 warrants, exercisable into common shares of the Company at a price of \$0.05 expiring on February 26, 2020, valued at \$11,636 for this note. These warrants were valued using the Black Scholes option pricing model with an expected volatility of 185.24%, discount rate of 1.78%, expected life of 2 years, and a dividend rate of 0%. Of the total value of the transaction costs, \$1,139 was recorded as a cost of the equity component of the convertible note. The remainder was recorded against the liability portion of the note, and will be amortized over the term of the note.
- The Company converted an advance of \$90,000 made in fiscal 2018 into a convertible promissory note on February 28, 2018 maturing on November 24, 2019. The note bears interest at 10% per annum payable at maturity, calculated semi-annually up to and including the term of the note. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into common shares of the Company at a price of \$0.05 per share at the option of the lender. Of the total amount of the convertible note, \$8,806 was recorded as the equity component of the loan, and \$81,194 was recorded as a liability, using an effective interest rate of 15%.
- Convertible promissory note of \$50,000 in March 2018 with a maturity date of April 20, 2020. The note bears interest at 10% per annum payable at maturity, calculated semi-annually. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into common shares of the Company at a price of \$0.03 per share at the option of the lender. Of the total amount of the convertible note, \$4,893 was recorded as the equity component of the loan, and \$45,107 was recorded as a liability, using an effective interest rate of 15%.
- Convertible promissory note of \$100,000 in March 2018, from a director of the Company (Note 17), maturing on February 28, 2019. The note bears simple interest at 8% per annum. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into common shares of the Company at a price the higher of \$0.06 per share, at the option of the lender. Of the total amount of the convertible note, \$5,854 was recorded as the equity component of the loan, and \$94,146 was recorded as a liability, using an effective interest rate of 15%.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

(Expressed in U.S. Dollars)

12. CONVERTIBLE DEBT (cont'd...)

- Convertible promissory note of \$25,000 in March 2018, from a director of the Company (Note 17), maturing on April 4, 2019. The note bears simple interest at 8% per annum. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into common shares of the Company at a price the higher of \$0.06 per share at the option of the lender. Of the total amount of the convertible note, \$1,445 was recorded as the equity component of the loan, and \$23,555 was recorded as a liability, using an effective interest rate of 15%.
- Convertible promissory note of \$25,000 in March 2018 maturing on February 28, 2019. The note bears simple interest at 8% per annum. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into common shares of the Company at a price of \$0.06 per share, at the option of the lender. Of the total amount of the convertible note, \$1,604 was recorded as the equity component of the loan, and \$23,396 was recorded as a liability, using an effective interest rate of 15%.
- Convertible promissory note of \$25,000 in March 2018 maturing on March 1, 2019. The note bears simple interest at 8% per annum. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into common shares of the Company at a price of \$0.06 per share, at the option of the lender. Of the total amount of the convertible note, \$1,449 was recorded as the equity component of the loan, and \$23,551 was recorded as a liability, using an effective interest rate of 15%.
- Convertible promissory note of \$50,000 in April 2018 maturing on March 26, 2020. The note bears interest at 10% per annum, calculated semi-annually. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into common shares of the Company at a price of \$0.03 per share at the option of the lender. Of the total amount of the convertible note, \$4,893 was recorded as the equity component of the loan, and \$45,107 was recorded as a liability, using an effective interest rate of 15%.
- Convertible promissory note of \$25,000 in May 2018, from an advisory board member of the Company (Note 17), maturing on March 30, 2019. The note bears simple interest at 8% per annum. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into common shares of the Company at a price of \$0.06 per share, at the option of the lender. Of the total amount of the convertible note, \$1,739 was recorded as the equity component of the loan, and \$23,261 was recorded as a liability, using an effective interest rate of 15%.
- Convertible promissory note of \$7,500 in May 2018, from a director of the Company (Note 17), maturing on April 21, 2019. The note bears simple interest at 8% per annum. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into common shares of the Company at a price of \$0.06 per share at the option of the lender. Of the total amount of the convertible note, \$435 was recorded as the equity component of the loan, and \$7,065 was recorded as a liability, using an effective interest rate of 15%.
- Convertible promissory note of \$25,000 in May 2018, from a director of the Company (Note 17), maturing on April 30, 2019. The note bears simple interest at 8% per annum. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into common shares of the Company at a price the higher of \$0.06 per share at the option of the lender. Of the total amount of the convertible note, \$1,464 was recorded as the equity component of the loan, and \$23,526 was recorded as a liability, using an effective interest rate of 15%.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

(Expressed in U.S. Dollars)

12. CONVERTIBLE DEBT (cont'd...)

During the year ended May 31, 2018, the Company modified terms for certain convertible notes that were issued during the year ended May 31, 2017:

- For the convertible notes of \$150,000 issued in May 2017, the Company extended the maturity of these notes to February 28, 2020, and issued 525,000 warrants valued at \$4,802.
- For the convertible note of \$100,000 issued in March 2017, to an advisory board member of the Company (Note 17), the Company extended this maturity of this note to February 28, 2020, and issued 350,000 warrants valued at \$3,201.

During the year ended May 31, 2017, the Company issued the following convertible notes:

- Convertible promissory note in November 2016 in the amount of \$299,918 (CDN\$400,000), maturing on May 31, 2017. The note bears interest at 10% per annum payable at maturity, calculated semi-annually up to and including the term of the note. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into 2,000,000 common shares of the Company. In addition, the Company issued 1,600,000 warrants exercisable into common shares of the Company at a price of CDN\$0.15 expiring on November 21, 2018. These warrants were valued at \$126,262 using the Black Scholes option pricing model with an expected volatility of 194.87%, discount rate of 0.67%, expected life of 2 years, and a dividend rate of 0%. Of this value, \$3,652 was recorded as a cost of the equity component of the convertible note. The remainder was recorded in the statement of loss and comprehensive loss since the note matured on May 31, 2017. As at May 31, 2017, the Company has recorded this note at \$296,280, using an effective interest rate of 15%. As at May 31, 2017, the Company had accrued interest of \$17,465 included in accrued liabilities.
- Convertible promissory note in January 2017 in the amount of \$524,856 (CDN\$700,000), maturing on January 23, 2019. The note bears interest at 10% per annum payable at maturity, calculated semi-annually up to and including the term of the note. Thereafter, interest shall accrue at a rate of 18% per annum calculated semi-annually. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into 2,500,000 common shares of the Company. In addition, the Company issued 2,500,000 warrants exercisable into common shares of the Company at a price of CDN\$0.15 expiring on January 23, 2019. These warrants were valued at \$212,613, using the Black Scholes option pricing model with an expected volatility of 183.05%, discount rate of 0.78%, expected life of 2 years, and a dividend rate of 0%. Of this value, \$23,252 was recorded as a cost of the equity component of the convertible note. The remainder was capitalized against the value of the note, and will be amortized over the term of the note. As at May 31, 2017, the Company has recorded this note at \$316,539, using an effective interest rate of 15%. As at May 31, 2017, the Company had accrued interest of \$13,386 included in accrued liabilities.
- Convertible promissory note in March 2017 in the amount of \$100,000, maturing on March 20, 2019. The note bears interest at 10% per annum payable quarterly, calculated semi-annually up to and including the term of the note. Thereafter, interest shall accrue at a rate of 18% per annum calculated semi-annually. The Company shall not be penalized for early repayment of any, or all of the note. The note is convertible into common shares of the Company at a price of \$0.15 per share at the option of the lender. As at May 31, 2017, the Company has recorded this note at fair value of \$90,763, using an effective interest rate of 15%. As at May 31, 2017, the Company had accrued interest of \$2,126 included in accrued liabilities. During the year ended May 31, 2018, the Company extended this maturity of this note to February 28, 2020, and issued 350,000 warrants valued at \$3,201.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

(Expressed in U.S. Dollars)

12. CONVERTIBLE DEBT (cont'd...)

- Convertible promissory notes in May 2017 in the amount of \$150,000, maturing on May 1, 2019. The notes bear interest at 10% per annum payable quarterly, calculated semi-annually up to and including the term of the notes. Thereafter, interest shall accrue at a rate of 18% per annum calculated semi-annually. The Company shall not be penalized for early repayment of any, or all of the notes. The notes are convertible into common shares of the Company at a price of \$0.15 per share at the option of the lender. As at May 31, 2017, the Company has recorded these notes at a value of \$135,666, using an effective interest rate of 15%. As at May 31, 2017, the Company had accrued interest of \$1,346 included in accrued liabilities. During the year ended May 31, 2018, the Company extended the maturity of these notes to February 28, 2020, and issued 525,000 warrants valued at \$4,802.

On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at the time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. The difference is attributed to the equity component of the compound financial instrument. These notes have all been classified as current liabilities, since they can be converted at any time at the option of the lender.

As at May 31, 2018 and 2017, the Company has the following convertible notes outstanding:

	May 31, 2018	May 31, 2017
Convertible notes over due	\$ 699,060	\$ 296,280
Convertible notes due within 12 months of year end date	1,028,194	816,289
Convertible notes due after 12 months from year end	1,211,801	470,312
Transaction costs and bond discounts	(411,913)	(154,632)
	\$ 2,527,142	\$ 1,428,249

The Company has recorded all convertible notes as current, since they are convertible at the discretion of the lender.

13. LOANS PAYABLE

The loans are made of the following:

	May 31, 2018	May 31, 2017
Loans from related parties (Note 17)	\$ 131,326	\$ 144,347
Loans from other entities	8,000	153,140
	\$ 139,326	\$ 297,487

All loans payable have no terms of repayment, are non-interest bearing and are unsecured.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

(Expressed in U.S. Dollars)

14. SHARE CAPITAL

a) Common stock

Authorized

Unlimited common shares without par value.

Unlimited Class A Preferred shares without par value, dividend at 12% of profits or surplus, redeemable at any time.

Unlimited Class B Preferred shares without par value, dividend at 13% of profits or surplus, redeemable at any time.

Issued and outstanding

During the year ended May 31, 2018, the Company had the following share transactions:

- The Company issued 1,666,700 shares valued at \$55,319 as transaction costs on convertible notes.
- 2,240,667 shares valued at \$82,886 were returned to treasury as part of the discontinuation of Titan. Note 10).
- The Company recorded \$98,525 for 3,125,000 shares to be issued as transaction costs on convertible debentures. As at May 31, 2018, these shares had not yet been issued. (Note 12).

During the year ended May 31, 2017, the Company had the following share transactions:

- On September 12, 2016, the Company completed a private placement and issued 2,101,523 units at a price of \$0.30 per unit for total proceeds of \$630,457, of which \$50,000 was received in the prior year. Each unit consisted of one common share and one common share purchase warrant exercisable at \$0.35, with an expiry date of September 12, 2018. The warrants were valued at \$148,345 using the residual method. The Company paid \$56,000 in share issuance costs pursuant to this private placement.
- On September 12, 2016, the Company issued 1,263,570 shares valued at \$241,563 upon the exercise of stock options. The fair value relating to these options was \$201,895.
- On November 30, 2016, the Company issued 5,270,030 shares and 2,635,015 share purchase warrants upon the conversion of \$1,001,305 notes payable (Note 12). Each warrant is exercisable into one common share of the Company at a price of CDN\$0.50, expiring on November 30, 2018. The residual value allocated to these warrants was \$Nil.
- On November 30, 2016, the Company issued 509,443 shares and 254,722 share purchase warrants upon the conversion of \$113,834 notes payable (Note 12). Each warrant is exercisable into one common share of the Company at a price of CDN\$0.60, expiring on November 30, 2018. The residual value allocated to these warrants was \$Nil.
- On January 6, 2017, the Company issued 2,031,354 shares valued at \$381,285 upon the exercise of stock options. The fair value relating to these options was \$324,572.
- On March 16, 2017, the Company issued 450,000 shares valued at \$33,786 for the settlement of \$256,200 of debt. A recovery of \$222,414 was recorded on the statement of loss and comprehensive loss as a result of this debt settlement.
- On March 16, 2017, the Company issued 900,000 shares valued at \$67,572 pursuant to an agreement with KCA. The Company had previously recorded \$183,077 as another equity instrument. As a result of this share issuance, a recovery of \$115,505 was recorded on the statement of loss and comprehensive loss.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

*(Expressed in U.S. Dollars)***14. SHARE CAPITAL (cont'd...)**

b) Share purchase warrants

The following table summarizes the continuity of share purchase warrants:

	Number of Warrants		Weighted Average Exercise Price
Outstanding, May 31, 2016	5,061,239	\$	0.19
Issued	9,091,260		0.25
Expired	(3,727,906)		0.15
Outstanding, May 31, 2017	10,424,593		0.26
Issued	23,166,734		0.05
Expired	(1,333,333)		0.35
Outstanding, May 31, 2018	32,257,994	\$	0.10

As at May 31, 2018, the Company had the following share purchase warrants outstanding:

Outstanding	Exercise Price	Remaining Life (Years)	Expiry Date
2,101,523	\$0.35	0.28	September 12, 2018
1,600,000	CDN\$0.15	0.48	November 21, 2018
2,635,015	CDN\$0.50	0.50	November 30, 2018
254,722	CDN\$0.60	0.50	November 30, 2018
2,500,000	CDN\$0.15	0.65	January 23, 2019
6,666,734	CDN\$0.06	1.74	February 26, 2020
9,375,000	CDN\$0.04	1.74	February 26, 2020
2,000,000	\$0.05	1.74	February 26, 2020
4,250,000	\$0.06	1.74	February 26, 2020
875,000	\$0.15	1.74	February 26, 2020
32,257,994	\$0.10	1.39	

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

*(Expressed in U.S. Dollars)***14. SHARE CAPITAL (cont'd...)**

c) Stock options

The Company's Stock Option Plan is a 20% rolling plan that allows a maximum 20% of the issued shares to be reserved for issuance under the plan. Options granted under the plan may not have a term exceeding 5 years and vesting provisions are at the discretion of the Board of Directors.

The following is a summary of stock option activities during the years ended May 31, 2018 and 2017:

	Number of Stock Options	Weighted Average Exercise Price
Outstanding May 31, 2016	12,297,417	CDN\$0.25
Granted	2,100,000	\$0.22
Exercised	(3,294,924)	CDN\$0.25
Outstanding, May 31, 2017	11,102,493	\$0.19
Outstanding, May 31, 2018	11,102,493	\$0.20

At May 31, 2018, the following stock options were outstanding to directors, officers and employees:

Outstanding	Exercisable	Exercise Price	Remaining Life (Years)	Expiry Date
4,252,493	4,252,493	CDN\$0.25	2.59	December 31, 2020
4,750,000	4,750,000	CDN\$0.25	0.47	November 17, 2018
2,100,000	2,100,000	\$0.22	3.29	September 13, 2021
11,102,493	11,102,493	\$0.19	1.81	

Share-based compensation

The Company recognizes compensation expense for all stock options granted using the fair value based method of accounting. For the year ended May 31, 2018, the Company did not issue and options, and did not have a share-based compensation expense. During the year ended May 31, 2017, the Company had a share-based compensation expense of \$432,384. The Company calculated the fair value of options issued using the Black-Scholes option pricing model, with the following assumptions:

	May 31, 2018	May 31, 2017
Weighted average fair value of options granted	N/A	\$0.21
Expected life	N/A	5 years
Risk-free interest rate	N/A	0.60%
Expected volatility	N/A	165%
Expected dividends yield	N/A	0%
Forfeiture rate	N/A	0%

d) Transactions costs reserve

The transactions costs reserve is used to record the costs directly attributable to the issue of common shares and share purchase options and is recognized as a deduction from equity, net of any tax effects.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

*(Expressed in U.S. Dollars)***14. SHARE CAPITAL (cont'd...)**

e) Other equity instruments

This consists of \$240,000, the value of the 1,300,000 preferred shares to be issued upon the acquisition of Omega, and \$600,000 for the shares to be issued upon the conversion of the Omega note (Note 6).

15. DERIVATIVE LIABILITY

The derivative liability consists of the fair value of non-compensatory share purchase warrants and convertible notes that have an exercise price or a conversion price that differs from the functional currency of the Company.

Details of the derivative liability as at May 31, 2018 is as follows:

Expiration Date	Exercise price	Number of securities exercisable/convertible	Fair value as at May 31, 2018
November 30, 2018	CDN\$0.50	2,635,015	\$ 20,409
November 30, 2018	CDN\$0.60	254,722	1,816
March 23, 2019	CDN\$0.15	2,666,667	38,729
March 23, 2019	CDN\$0.15	4,666,667	64,356
January 23, 2019	CDN\$0.15	2,500,000	34,477
November 21, 2018	CDN\$0.15	1,600,000	18,654
February 26, 2020	CDN\$0.06	3,333,334	63,081
February 26, 2020	CDN\$0.06	3,333,400	63,082
February 26, 2020	CDN\$0.04	9,375,000	184,566
		30,364,805	\$ 489,170

These securities were valued using the Black Scholes option pricing model with a weighted average expected volatility of 266.05%, discount rate of 1.87%, expected life of 1.22 years, and a dividend rate of 0%.

Details of the derivative liability as at May 31, 2017 is as follows:

Expiration Date	Exercise price	Number of securities exercisable/convertible	Fair value as at May 31, 2017
November 30, 2018	CDN\$0.50	2,635,015	\$ 37,670
November 30, 2018	CDN\$0.60	254,722	3,372
November 21, 2018	CDN\$0.15	1,600,000	40,866
March 23, 2019	CDN\$0.15	2,666,667	60,407
January 23, 2019	CDN\$0.15	4,666,667	82,302
January 23, 2019	CDN\$0.15	2,500,000	44,090
		14,323,071	\$ 268,707

These securities were valued using the Black Scholes option pricing model with a weighted average expected volatility of 166.42%, discount rate of 0.69%, expected life of 1.63 years, and a dividend rate of 0%.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

*(Expressed in U.S. Dollars)***16. INCOME TAXES**

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	May 31, 2018	May 31, 2017
Loss for the year	\$ (5,163,928)	\$ (3,741,115)
Statutory rate	26%	25%
Expected income tax recoverable at statutory rate	(1,290,982)	(935,277)
Adjustment to prior year's provision vs statutory tax return	(180,655)	541,203
Permanent differences	(2,840)	179,510
Share issuance costs	-	(14,000)
Change in unrecognized deductible temporary differences	1,474,477	228,564
Total income tax recovery	\$ -	\$ -

The significant components of the Company's deferred tax assets and liabilities are as follows:

	May 31, 2018	May 31, 2017
<u>Temporary Differences</u>		
Intangible assets	\$ (128,964)	\$ (415,214)
Share issuance costs	8,400	11,200
Property and equipment	-	(1,564)
Software	(93,233)	(108,438)
Debt with accretion	631,786	357,108
Non-capital losses available for future period	4,189,130	3,289,550
	4,607,119	3,132,642
Unrecognized deferred tax asset	(4,607,119)	(3,132,642)
Net deferred tax asset	\$ -	\$ -

The deferred tax assets have not been recognized in these consolidated financial statements as it is not probable that they will be realized.

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

	May 31, 2018	Expiry Date Range	May 31, 2017
<u>Temporary Differences</u>			
Share issuance costs	\$ 34,000	2039 - 2041	\$ 45,000
Debt with accretion	\$ 2,527,000	No expiry	\$ 1,428,000
Non-capital losses available for future period - Canada	\$ 5,579,105	2031 - 2038	\$ 5,211,685
Non-capital losses available for future period - USA	\$ 11,177,895	2032 - 2038	\$ 7,946,315

Tax attributes are subject to review, and potential adjustment by tax authorities.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements

For the years ended May 31, 2018 and 2017

*(Expressed in U.S. Dollars)***17. RELATED PARTY TRANSACTIONS**

Balances and transactions between the Parent Company and its consolidated subsidiaries, which are related parties of the Parent, have been eliminated on consolidation and are not disclosed in this note.

The Company's related parties consist of its Directors, Key Management Personals ("KMPs") and companies owned in whole or in part by KMPs and directors as follows:

Name	Position and nature of relationship
LiteLink Technologies Inc. (Formerly AXS Blockchain Solutions Inc, and formerly Canadian Data Preserve, Inc.) ("LiteLink")	Company with common former directors
Advantive Information Management, Inc.	Subsidiary
Certive Technologies Arizona Inc.	Subsidiary
Omega Technology Solutions, LLC	Company controlled by key management personnel
Titan Health Management Solutions Inc.	Company controlled by former key management personnel
Knowledge Capital Alliance Inc.	Company controlled by key management personnel
Bridge Business Development	Company controlled by former director
MoeVela, LLC	Company controlled by key management personnel
SMA Group, LLC	Company controlled by key management personnel
Miller and Associates Environmental Consultants Inc.	Company controlled by the corporate secretary
Precision Health Systems	Company controlled by key management personnel
Tim Hyland	Director and officer, and former advisory board member
Tom Marreel	Director, officer, and former advisory board member
Jeff Wareham	Director
Jack Saltich	Director
Scott Thomas	Director
Brian Cameron	Director and former officer
Mike Miller	Corporate secretary
Susan Miller	Spouse of the corporate secretary
Fredrick Erickson	Key management personnel
Ann Fierro	Key management personnel
Timothy Tolchin	Key management personnel
Van Potter	Former director and former officer
Michael Bartlett	Former director
John Shackleton	Former director
Edwin Holder	Former director
Mary Ann Miller	Former director
Thomas Hoehner	Former key management personnel
Todd Hisey	Former key management personnel
Bob Uxa	Advisory board member
Jack Chapman	Advisory board member

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements
 For the years ended May 31, 2018 and 2017
(Expressed in U.S. Dollars)

17. RELATED PARTY TRANSACTIONS (cont'd...)

The amounts due (to) or from the related parties are as follows:

	Nature of relationship	May 31, 2018	May 31, 2017
Accounts payable (Note 11)	Directors, key management personnel, and companies controlled by these parties,	\$ 716,072	\$ 273,417
Accounts payable (Note 11)	Former directors, former key management personnel, and companies controlled by these parties	\$ 329,731	\$ 57,800
Loans receivable (100% allowance given)	Company controlled by common directors	\$ -	\$ (493,770)
Convertible loans – face value (Note 12)	Directors and CFO	\$ 207,500	\$ -
Convertible loans – face value (Note 12)	Advisory board member	\$ 125,000	\$ -
Notes payable (Note 6)	Key management personnel	\$ 500,000	\$ -
Short-term loans payable (Note 13)	Key management personnel	\$ 106,326	\$ 107,258
Short-term loans payable (Note 13)	Former director and former officer	\$ 25,000	\$ 37,089

Unless otherwise noted, amounts due to or from related parties are non-interest bearing with no set terms of repayment.

The Company incurred the following fees and expenses in the normal course of operations in connection with companies owned by key management and directors. Expenses have been measured at the exchange amount which is determined based on actual cost. There is no other remuneration of directors or other members of key management personnel during the years ended May 31, 2018 and 2017.

	May 31, 2018	May 31, 2017
Management fees	\$ 570,000	\$ 618,000
Salaries to key management personnel, included in operating costs and expenses	422,651	772,460
Contractors, included in operating costs	63,916	-
Commission, included in operating costs	48,297	-
Consulting fees	174,945	-
Directors' fees	187,200	155,000
Advisory board fees to a former advisory board member, and current director.	40,000	130,000
Corporate finance fee to an advisory board member, and directors	80,300	-
Total	\$ 1,587,309	\$ 1,675,460

During the year ended May 31, 2018, the Company reached a settlement agreement with LiteLink, whereby the Company received \$240,000 in cash, plus 160,000 shares of LiteLink, valued at \$7,474 as at May 31, 2018, in settlement of all amounts owed to the Company by LiteLink. As a result, the Company recorded a gain on recovery of bad debts of \$236,358 during the year ended May 31, 2018. As at May 31, 2017, the Company had \$493,770 due from LiteLink, for which it had recorded an allowance for the total amount.

CERTIVE SOLUTIONS INC.

Notes to consolidated financial statements
For the years ended May 31, 2018 and 2017
(Expressed in U.S. Dollars)

18. MANAGEMENT OF CAPITAL

The Company manages its common shares, stock options and share purchase warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its assets and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk. The Company is not subject to any externally imposed capital requirements.

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

In order to maximize ongoing efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury invested in demand certificates of deposit with major financial institutions.

There have been no changes to the Company's approach to capital management during the year ended May 31, 2018.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash, marketable securities, receivables, accounts payable, convertible debt, short-term loans, notes payable, and derivative liability.

The fair value of cash and marketable securities are measured on the statement of financial position using level 1 of the fair value hierarchy. The fair value of convertible debt and derivative liability is measured on the statement of financial position using level 3 of the fair value hierarchy. The fair values of receivables, accounts payable, and short-term loans and notes payable approximate their book values because of the short-term nature of these instruments.

Financial instrument risk exposure

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, and market risk, which includes currency risk, interest rate risk and price risk.

a) Credit risk

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

The Company has no material counterparties to its financial instruments with the exception of the financial institutions which hold its cash, and receivables. The Company manages this credit risk by ensuring that these financial assets are placed with a major financial institution with strong investment grade ratings by a primary ratings agency. In addition, the Company affords credit to customers with which it believes it will collect payment. The Company does not believe it has a material exposure to credit risk.

CERTIVE SOLUTIONS INC.

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For the years ended May 31, 2018 and 2017
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19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)

Financial instrument risk exposure (cont'd...)

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through the management of its capital structure as described in Note 18. There is a risk that the Company may not be able to meet its financial obligation when they are due. All of the Company's accounts payable have contractual maturities of 30 days or are due on demand and are subject to normal trade terms.

c) Market risk

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

(i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign currency exchange rates. The Company's functional currency is the United States dollar as the Company's main center of operations is the United States. As at May 31, 2018, the Company has approximately CDN\$2,951,000 of financial liabilities denominated in Canadian dollars. A 10% change in exchange rate would result in a change to loss and comprehensive loss of approximately \$230,000.

(ii) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk that the Company will realize a loss as a result of interest rate risk on its notes payable is minimal, as these have a short-term to maturity, and a fixed interest rate.

(iii) Price risk

The Company is not exposed to significant price risk as it does not hold significant investments in publicly traded securities. The Company's price risk is limited to the value of its marketable securities.

20. CONTINGENT LIABILITY

During the year ended May 31, 2017, the Company received correspondence from the Internal Revenue Services ("IRS") with assessed penalties totaling \$94,217 regarding failure to report ownership of foreign assets. Management believes that all the correct forms were filed with the IRS on time, and has discussed these matters with the IRS. Management is of the opinion that this would be resolved, and that no penalties will be owing. As a result, no liability was recorded on the statement of financial position as at May 31, 2018 and 2017.

During the year ended May 31, 2018, the Company received correspondence from the IRS regarding the Company's withholding of payroll taxes from its employees that have not been remitted to the IRS. As at May 31, 2018, the Company has fully recorded this obligation of approximately \$325,000 in its payroll liabilities (Note 11).

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21. SEGMENT INFORMATION

The Company operates in two business operating segments, being Chargemaster revenue earned by Omega; and consulting and dashboard sales earned by KCA.

As at, and during the year ended May 31, 2018, operating segment information was as follows:

	Omega	KCA
Revenue	\$ 1,144,725	\$ 291,510
Operating costs	892,895	387,361
Gross profit	\$ 251,830	\$ (95,851)
Assets	\$ 480,767	\$ 53,886
Liabilities	\$ 864,021	\$ 223,384

As at, and during the year ended May 31, 2017, operating segment information was as follows:

	Omega	KCA
Revenue	\$ 1,338,955	\$ 377,711
Operating costs	1,104,056	319,602
Gross profit	\$ 234,899	\$ 58,109
Assets	\$ 671,772	\$ 65,975
Liabilities	\$ 168,159	\$ 105,939

22. SUBSEQUENT EVENTS

- Subsequent to year end, the Company's Board of Directors in August 2018, approved the cancellation of a Preferred Stock program for management.
- During July 2018, the Company's Executive Chairman of the Board and CEO sadly passed away. The Board elected director Tom Marreel to Executive Chairman of the Board and Acting CEO while the Company conducts an executive search for a new CEO.
- Subsequent to the year ended May 31, 2018, Tim Hyland replaced Brian Cameron as CFO and treasurer, and Mike Miller was appointed as Corporate Secretary.
- Subsequent to the year ended May 31, 2018, the Company received \$120,000 in short-term demand loans from officers of the Company, bearing simple interest of 12% per annum.
- Subsequent to the year ended May 31, 2018, the Company issued \$445,000 in convertible debentures, maturing between July 16, 2019 and June 6, 2020. These notes bear interest at 8% - 15% per annum.
- Subsequent to the year ended May 31, 2018, the Company reached a settlement agreement with a vendor, whereby the Company agreed to issue 1,000,000 shares in settlement of all outstanding debt.