

VSBLTY Groupe Technologies Corp.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended June 30, 2019 and 2018

(Expressed in United States dollars)
(Unaudited)

VSBLTY Groupe Technologies Corp.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE
LOSS
(Expressed in United States dollars)
(Unaudited)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2019	2018	2019	2018
Revenue					
License fees	\$	1,360	\$ 22,073	\$ 28,300	\$ 28,223
Connectivity		2,920	2,550	7,000	5,355
Professional services		13,450	6,459	13,450	6,459
Hardware and other		10,086	4,545	44,333	12,268
		27,816	35,627	93,083	52,305
Cost of sales	13	(10,136)	(12,513)	(14,951)	(23,963)
Gross profit		17,680	23,114	78,132	28,342
Sales and marketing expenses	12, 13	(298,363)	(28,602)	(515,250)	(72,801)
General and administrative expenses	12, 13	(838,171)	(275,330)	(1,487,198)	(499,102)
Research and development expenses	12, 13	(266,504)	(76,985)	(552,074)	(137,171)
Share-based payments	11(c)	(782,814)	-	(1,132,840)	-
Operating loss		(2,168,172)	(357,803)	(3,609,230)	(680,732)
Listing expense	5	-	-	(12,776,736)	-
Finance costs	8, 9, 15	(2,692)	(22,715)	(28,264)	(42,447)
Change in fair value of derivative liability	8	-	-	60,162	-
Loss on settlement of debt	8, 9	-	-	(12,063)	-
Interest income		2,179	-	4,459	-
Foreign exchange gain (loss)	8	(5,451)	-	(25,253)	-
Net loss for the period		(2,174,136)	(380,518)	(16,386,925)	(723,179)
Foreign currency translation		(2,772)	-	(16,932)	-
Comprehensive loss for the period		\$ (2,176,908)	\$ (380,518)	\$ (16,403,857)	\$ (723,179)
Loss per share – Basic and diluted		\$ (0.03)	\$ (0.01)	\$ (0.24)	\$ (0.02)
Weighted average shares outstanding – Basic and diluted		77,352,810	36,796,897	66,914,570	36,610,445

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

VSBLTY Groupe Technologies Corp.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
(Expressed in United States dollars)
(Unaudited)

	Notes	Number of common shares	Share capital	Reserves	Accumulated deficit	Accumulated other comprehensive income	Total shareholders' equity (deficiency)
Balance, December 31, 2017		36,068,707	\$ 3,964,972	\$ 76,734	\$ (4,356,875)	\$ -	\$ (315,169)
Issuance of common shares	11(a)	319,223	101,064	-	-	-	101,064
Warrants issued	11(a)	-	-	7,204	-	-	7,204
Exercise of warrants	11(b)	131,783	39,821	(15,885)	-	-	23,936
Loss for the period		-	-	-	(723,179)	-	(723,179)
Balance, June 30, 2018		36,519,713	\$ 4,105,857	\$ 68,053	\$ (5,080,054)	\$ -	\$ (906,144)
Balance, December 31, 2018		37,307,078	\$ 4,335,914	\$ 87,996	\$ (6,806,257)	\$ -	\$ (2,382,347)
Shares issued pursuant to reverse takeover acquisition	11(a)	24,546,881	15,863,364	(21,353)	-	-	15,842,011
Conversion of special warrants	11(a)	14,600,000	1,634,496	-	-	-	1,634,496
Exercise of warrants	11(b)	900,917	270,306	(701)	-	-	269,605
Share-based payments	11(c)	87,498	38,032	1,132,840	-	-	1,170,872
Foreign currency translation		-	-	-	-	(16,932)	(16,932)
Loss for the period		-	-	-	(16,386,925)	-	(16,386,925)
Balance, June 30, 2019		77,442,374	\$ 22,142,112	\$ 1,198,782	\$ (23,193,182)	\$ (16,932)	\$ 130,780

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

VSBLTY Groupe Technologies Corp.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Expressed in United States dollars)
(Unaudited)

	Six months ended June 30	
	2019	2018
Cash flows from operating activities		
Loss for the period	\$ (16,386,925)	\$ (723,179)
Adjustments for non-cash items:		
Depreciation	20,031	5,435
Accretion expense	10,020	12,592
Share-based payments	1,132,840	-
Consulting fees paid in shares	38,032	-
Listing expense	12,776,736	-
Change in fair value of derivative liability	(60,162)	-
Loss on settlement of debt	12,063	-
Foreign exchange gain	(844)	-
Changes in non-cash working capital items:		
Trade and other receivables	(59,443)	(38,240)
Prepaid expenses and deposits	(80,503)	2,943
Accounts payable and accrued liabilities	(136,397)	222,128
Deferred revenue	8,160	14,388
Net cash used in operating activities	(2,726,392)	(503,933)
Cash flows from investing activities		
Acquisition of equipment	(32,292)	(1,548)
Cash acquired in reverse takeover	1,854,451	-
Net cash provided by (used in) investing activities	1,822,159	(1,548)
Cash flows from financing activities		
Principal portion of lease payments	(2,810)	-
Proceeds from issuance of notes	-	50,000
Proceeds from issuance of common shares	-	101,064
Proceeds from exercise of warrants	269,605	23,936
Net cash provided by financing activities	266,795	175,000
Net increase (decrease) in cash	(637,438)	(330,481)
Cash and cash equivalents, beginning of period	832,827	334,303
Cash and cash equivalents, end of period	\$ 195,389	\$ 832,827
Supplemental cash flow disclosures:		
Interest paid	\$ 5,399	\$ -
Discount allocated to APIC	-	7,204
Promissory notes and accrued interest settled for shares	656,410	-
Convertible debt converted into shares	1,131,304	-
Non-cash exercise of warrants	87,996	-
Settlement of intercompany loans and advances on acquisition	948,590	-
Initial recognition of lease assets and liabilities	\$ 107,838	\$ -

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

VSBLTY Groupe Technologies Corp. (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on August 1, 2018. The Company’s head office is located at 417 North 8th Street, Suite 300, Philadelphia, Pennsylvania 19123 and its registered office is located at The Corporation Trust Center, 1201 Orange Street, City of Wilmington, New Castle County, DE 19801. The Company is a retail technology and marketing company with a variety of applications to drive brand engagement and puts insights in motion to drive sales. The Company’s shares trade on the Canadian Securities Exchange under the symbol “VSBY” and the Frankfurt stock exchange under the symbol “5VS”.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and discharge of liabilities in the normal course of business. As at June 30, 2019, the Company had not yet achieved profitable operations and has an accumulated deficit of \$23,193,182 since its inception. The continuing operations of the Company are dependent upon its ability to develop a viable business and to attain profitable operations and generate funds there from. This indicates the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. Management intends to finance operating costs with capital market equity financings. If the Company is unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its statement of financial position.

Reverse takeover

On December 12, 2018, the Company, VSBLTY, Inc. and VSBLTY Merger Co., a wholly-owned subsidiary of the Company incorporated in Delaware, U.S. entered into a Merger Agreement (the “Agreement”) pursuant to which the Company acquired all of the issued and outstanding common shares of VSBLTY, Inc. (the “Acquisition” or the “RTO”) for 7.21228396 common shares the Company and VSBLTY, Inc. became a wholly-owned subsidiary of the Company. The Acquisition closed on February 15, 2019.

As a result of the Acquisition, VSBLTY, Inc. is deemed as the acquirer for accounting purposes, and therefore its assets, liabilities and operations are included in the consolidated financial statements at their historical carrying value. VSBLTY, Inc.’s operations were considered to be a continuance of the business and operations of VSBLTY, Inc. The Company’s results of operations are those of VSBLTY, Inc., with the Company’s operations being included from February 15, 2019, the closing date of the Acquisition, onwards. Refer to note 5 for more details.

2. BASIS OF PRESENTATION

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including International Accounting Standards (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and

interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 28, 2019.

b) Basis of measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis, modified where applicable. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information. The condensed consolidated interim financial statements are presented in United States dollars, unless otherwise noted.

The preparation of these condensed consolidated interim financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amount of expenses during the period. Actual results could differ from these estimates.

These condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. The impact of such estimates is pervasive throughout these condensed consolidated interim financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

c) Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiary, VSBLTY, Inc. All inter-company balances, transactions, income and expenses have been eliminated upon consolidation.

Subsidiaries are entities controlled by the Company. Control exists when the Company has power over an entity, when the Company is exposed, or has rights, to variable returns from the entity and when the Company has the ability to affect those returns through its power over the entity. Subsidiaries are included in the condensed consolidated interim financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control. Where necessary, adjustments are made to the condensed consolidated interim financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

d) Comparative information

Certain comparative information has been reclassified to conform with the condensed consolidated interim financial statement presentation adopted in the current period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with the accounting policies disclosed in Note 3 of the audited financial statements for the year ended December 31, 2018, except for those summarized below. These condensed consolidated interim statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2018.

a) Foreign currency transactions

Functional and presentation currency

The functional currency of the Company is determined based on the currency of the primary economic environment in which the Company operates. The functional currency of the Company, as determined by management, is the Canadian dollar. The functional currency of the Company's wholly-owned subsidiary, VSBLTY, Inc. is the United States dollar. The presentation currency of the Company is the United States dollar.

Transactions and balances

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

Non-monetary assets and liabilities that are measured at historical cost are translated into the relevant functional currency by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated.

Translation into the presentation currency

The operating results and statements of financial position of entities with functional currencies different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities presented are translated at the year end closing rate as at the date of the statements of financial position;
- Income and expenses for the statements of loss are translated at average exchange rates, unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated at the rate on the dates of the transactions; and
- All resulting exchange differences from translating foreign operations are recognized in a separate component of shareholders' equity as other comprehensive income (loss).

b) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid money market investments that are readily convertible into cash or have terms to maturity of less than three months.

c) Leases

Lessee

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

The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for leases with a lease term of 12 months or less and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments and expected payments at the end of the lease, discounted using the rate implicit in the lease. If the rate implicit in the lease cannot be readily determined, the Company uses its incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability using the effective interest method and by reducing the carrying amount to reflect the lease payments made.

The right-of-use asset is measured at a cost that includes the lease liability, adjusted for any initial direct costs; prepaid lease payments; estimated costs to dismantle, remove or restore; and lease incentives received. The right-of use asset is subsequently measured at cost less accumulated depreciation and impairment losses.

The Company re-measures the lease liability and makes a corresponding adjustment to the related right-of-use asset whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

d) Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the instruments at the grant date and recognized in expense over the vesting periods. Equity-settled share-based payments to nonemployees are measured at the fair value of goods or services received or the fair value of the equity instruments issued if it is determined that the fair value of the goods or services received cannot be reliably measured. Nonemployee share-based payments are recognized in expense at the date the goods or services are received. The corresponding amount is recorded to reserves. Upon the exercise of stock options, consideration received on the exercise is recorded as share capital and the related amount in reserves is transferred to share

capital. Amounts recorded for forfeited or expired unexercised options are transferred to deficit in the year of forfeiture or expiry.

The fair value of options are determined using the Black-Scholes Option Pricing Model on the date of the grant, based on certain assumptions.

Performance shares with non-market vesting conditions are those with a performance target that is not related to the market price of the equity instruments of the Company. The amount recognized as an expense is based on and adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. The corresponding amount is recorded to reserves.

e) Accounting standards adopted effective January 1, 2019

Effective January 1, 2019, the following standards were adopted:

IFRS 16 Leases (“IFRS 16”)

Effective January 1, 2019, the Company adopted IFRS 16 which supersedes IAS 17 Leases (“IAS 17”). The Company has applied the new standard using the modified retrospective approach with no restatement of comparative periods. There were no adjustments to retained earnings required at the date of initial application as a result of adoption.

The Company has elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its previous assessment made under IAS 17 and IFRIC 4 Determining whether an arrangement contains a lease. The definition of a lease under IFRS 16 was applied only to contracts entered into or modified on or after January 1, 2019.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rate as of January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company applied the following practical expedients when adopting IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on previous assessments on whether leases are onerous;
- Applied the exemption not to recognize right-of-use assets and liabilities for leases where the lease term ends within 12 months of the date of initial application;
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight to determine the lease term where contracts contain options to extend or terminate the lease.

Under IFRS 16, the Company is required to assess the classification of a sublease with reference to the right-of-use asset, not the underlying asset. The Company does not have any subleases.

On transition to IFRS 16, the Company recognized lease assets and liabilities. The impact on transition is summarized below.

	January 1, 2019
Operating lease commitment at December 31, 2018	\$ 140,665
Discounted using the incremental borrowing rate at January 1, 2019	(32,827)
Lease asset and lease liability recognized at January 1, 2019	\$ 107,838

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied was 10%.

f) Accounting standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any new standards and determined that there are no standards that are relevant to the Company.

4. USE OF JUDGMENTS AND ESTIMATES

In preparing these condensed consolidated interim financial statements, management has made judgments, estimates and assumptions that affect the applicable of the Company's accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

In preparing these condensed consolidated interim financial statements, the significant estimates and critical judgments were the same as those applied to the financial statements as at and for the year ended December 31, 2018, except for those summarized below.

a) Judgments

Share-based payments

When share-based payments are granted to individuals who are not employees in legal form, management makes a judgment as to whether they are considered employees or nonemployees for the purpose of share-based payment transactions. The basis for this judgment is on the substance of the relationship, whether the Company is able to direct the individuals in the same way as an employee, whether the services rendered are similar to those rendered by employees and whether the individual is able to determine how and when the services are provide. These

judgments may impact the measurement of and pattern over which share-based payments are recorded.

Functional currency

The functional currency for the Company and each of its subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of the functional currency involves certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

b) Estimates

Share-based payments

In estimating fair value of options using the Black-Scholes option pricing model, management is required to make certain assumptions and estimates such as the expected life of options, volatility of the Company's future share price, risk-free rate, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

Leases

As more fully described in note 3(e), on January 1, 2019, the Company adopted IFRS 16. Under IFRS 16, the Company assesses whether a contract contains a lease and, if so, recognizes a lease liability by discounting the future lease payments over the non-cancelable term of the lease, using the Company's estimated incremental borrowing rate. Differences in the estimated incremental borrowing rate could result in materially different lease liabilities and assets.

5. REVERSE TAKEOVER

As described in note 1, on February 15, 2019, the Company completed an RTO with VSBLTY, Inc. which became a wholly owned subsidiary of the Company. In consideration for the RTO, the Company issued 61,853,958 shares of the Company to shareholders of VSBLTY, Inc. at a fair value of CAD\$0.30 per share (USD\$0.23).

As a result of the RTO, the former shareholders of VSBLTY, Inc. acquired control of the Company, thereby constituting a reverse takeover of the Company. The RTO is considered a purchase of the Company's net assets by the shareholders of VSBLTY, Inc.

The transaction is accounted for in accordance with guidance provided in IFRS 2 Share-Based Payment and IFRS 3 Business Combinations ("IFRS 3"). As the Company did not qualify as a business according to the definition in IFRS 3, the Acquisition does not constitute a business combination; rather, it is treated as an issuance of shares by VSBLTY, Inc. for the net assets of the Company and the Company's listing status with VSBLTY, Inc. as the continuing entity.

VSBLTY Groupe Technologies Corp.
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A breakdown of the listing expense is as follows:

Consideration:	
Fair value of VSBLTY Groupe Technologies Corp. shares issued (61,853,958 shares at CAD\$0.30 (USD\$0.23) per share)	\$ 13,987,654
Fair value of share purchase warrants and special warrants	1,701,139
Settlement of intercompany balances	(948,590)
Total consideration	14,740,203
Fair value of net assets of the Company:	
Cash and cash equivalents	1,854,451
Trade and other receivables	7,114
Prepaid expenses	118,685
Accounts payable	(16,783)
Total net assets	1,963,467
Listing expense	\$ 12,776,736

In connection with the completion of the RTO, the Company recognized the following:

- 14,600,000 special warrants. Each special warrant will automatically convert into one common share of the Company and a one-half of a transferable share purchase warrant on the date that is the earlier of (i) the third business day after a receipt for a final prospectus qualifying the distributions of the share and warrants issuable upon the conversion of the Special Warrants, and (ii) 4 months and one day after the issue date of the special warrants. Each whole share purchase warrant is exercisable into one share at a price of CAD\$0.40 per share for a period equal to the shorter of (i) one year after the date that the shares are listed on the Canadian Stock Exchange, and (ii) five years after the issue date of the special warrants.
- 760,426 common share purchase warrants, each of which is exercisable to purchase one common share at a price of CAD\$0.40 per share for a period of 12 months from October 17, 2018.

The fair value of warrants and special warrants assumed in the Acquisition was determined to be \$1,701,139 and estimated using the Black-Scholes Option Pricing Model with the following assumptions:

Assumptions	
CAD/USD exchange rate	1.3266
Risk-free interest rate	2.50 - 2.55%
Expected volatility	150%
Dividend yield	0%
Expected life	0.67 - 1.03 years

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6. EQUIPMENT

	Computer equipment		Equipment		Total
Cost					
Balance, December 31, 2017	\$	9,998	\$	35,666	\$ 45,664
Additions		-		1,548	1,548
Balance, December 31, 2018		9,998		37,214	47,212
Additions		6,052		26,239	32,291
Balance, June 30, 2019	\$	16,050	\$	63,453	\$ 79,503

	Computer equipment		Equipment		Total
Accumulated depreciation					
Balance, December 31, 2017	\$	4,832	\$	1,963	\$ 6,795
Additions		3,332		7,738	11,070
Balance, December 31, 2018		8,164		9,701	17,865
Additions		2,203		7,391	9,594
Balance, June 30, 2019	\$	10,367	\$	17,092	\$ 27,459

	Computer equipment		Equipment		Total
Net book value					
Balance, December 31, 2018	\$	1,834	\$	27,513	\$ 29,347
Balance, June 30, 2019	\$	5,683	\$	46,361	\$ 52,044

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2019		December 31, 2018	
Accounts payable	\$	313,734	\$	308,939
Accrued liabilities		96,696		182,542
Accrued interest		-		142,818
	\$	410,430	\$	634,299

8. CONVERTIBLE DEBENTURES

On August 24, 2018, the Company closed tranche 1 of a private placement of convertible debt (the "Tranche 1 Debentures"), issuing \$383,550 in debentures (CAD\$500,000). Of the proceeds raised, \$174,185 (CAD\$225,000) was concurrently paid as prepaid consulting fees to certain subscribers, which has been expensed and is included in consulting fees. The Tranche 1 Debentures are denominated in Canadian dollars, mature on August 24, 2019, bear interest at a rate of 10% per annum, payable at maturity, and are secured by all the assets of the Company. The Tranche 1 Debentures automatically convert upon closing of the Acquisition. The Tranche 1 Debentures convert

into one share of the Company's publicly traded entity for each CAD\$0.05 principal amount outstanding of the Tranche 1 Debentures and the Holders shall forfeit any and all accrued and unpaid interest on the Holders of the Tranche 1 Debentures.

On September 17, 2018, the Company closed tranche 2 of a private placement of convertible debt (the "Tranche 2 Debentures" and collectively with the Tranche 1 Debentures, the "Debentures"), issuing \$768,100 in debentures (CAD\$1,000,000). Of the proceeds raised, \$174,515 (CAD\$225,000) was concurrently paid as prepaid consulting fees to certain subscribers, of which \$161,714 has been expensed and is included in consulting fees. The Tranche 2 Debentures are denominated in Canadian dollars, mature on September 17, 2019, bear interest at a rate of 10% per annum, payable at maturity, and are secured by all the assets of the Company. The Tranche 2 Debentures automatically convert upon closing of the Acquisition. The Tranche 2 Debentures convert into one share of the Company's publicly traded entity for each CAD\$0.10 principal amount outstanding of the Tranche 2 Debentures and the Holders shall forfeit any and all accrued and unpaid interest on the Holders of the Tranche 2 Debentures.

In the event the Acquisition is terminated, the Company has the right to prepay the Debentures by repaying the principal amount outstanding, paying a 10% administration fee and by issuing 350 warrants for each \$1,000 principal amount outstanding of the Debentures. In the event that, prior to maturity, the Company completes a change of control other than in connection with the Acquisition, then the Company must, prior to completion of the change of control, repay the principal amount outstanding, pay a 10% administration fee and issue 350 warrants for each \$1,000 principal amount outstanding of the Debentures. In the event that the Debentures are not prepaid or converted prior to maturity, the Company must issue 350 warrants for each \$1,000 principal amount outstanding of the Debentures. Each aforementioned warrant would entitle the holder to acquire one common share of the Company and is exercisable at a price of USD\$0.30 (USD\$2.18 prior to the Acquisition) per share for a period of three years.

As the debentures and embedded conversion feature are denominated in Canadian dollars, they were determined to be a financial instrument comprising an embedded derivative representing the conversion feature with a residual host debt component. On initial recognition, the Company used the residual value method to allocate the principal amount of the Debentures between the embedded derivative conversion feature and host debt components. The conversion feature was valued first with the residual allocated to the host debt component.

The fair value of the conversion features were determined based on the Black-Scholes Option Pricing Model using the assumptions set out as follows:

Assumptions	At settlement	At December 31, 2018	At initial recognition
CAD/USD exchange rate	1.3266	1.3642	1.3019 - 1.3036
Risk-free interest rate	2.50%	2.56%	2.44 - 2.57%
Expected volatility	150%	150%	150%
Dividend yield	0%	0%	0%
Expected life	0.52 – 0.59 years	0.65 – 0.71 years	1.00 year

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A continuity of convertible debt and embedded derivative conversion feature is as follows:

	Host debt component	Conversion feature	Total
Balance, December 31, 2017	\$ -	\$ -	\$ -
Issued during the period	1,098,620	53,030	1,151,650
Accretion	15,762	-	15,762
Change in fair value of derivatives	-	8,305	8,305
Foreign exchange gain	(34,776)	(2,831)	(37,607)
Balance, December 31, 2018	1,079,606	58,504	1,138,110
Accretion	6,526	-	6,526
Change in fair value of derivative	-	(60,162)	(60,162)
Foreign exchange loss	14,430	1,658	16,088
Converted to common shares	(1,100,562)	-	(1,100,562)
Balance, June 30, 2019	\$ -	\$ -	\$ -

On February 15, 2019, the Company's Debentures were converted into common shares in accordance with their terms and \$49,225 in accrued interest was forgiven. This resulted in settlement of the conversion feature embedded derivative. The conversion and related accrued interest forgiveness resulted in a gain on settlement of debt of \$18,513.

During the three and six months ended June 30, 2019, interest expense for the Debentures, excluding accretion, was \$nil and \$15,216, respectively (2018 - \$nil and \$nil). Finance costs for the three and six months ended June 30, 2019 includes \$nil and \$6,526 in non-cash accretion expense, respectively, (2018 - \$nil and \$nil) from the Debentures.

9. NOTES PAYABLE

	June 30, 2019	December 31, 2018
Balance, beginning of period	\$ 1,515,930	\$ 446,847
Issued during the period	-	1,050,000
Allocated to reserves	-	(7,204)
Accretion	3,494	26,287
Settled for common shares	(519,424)	-
Settled on acquisition	(1,000,000)	-
Balance, end of period	-	1,515,930
Balance, end of period, current	-	(150,000)
Balance, end of period, long-term	\$ -	\$ 1,365,930

During the six months ended June 30, 2019, the Company issued \$nil (year ended 2018 - \$50,000) in promissory notes (the "Notes") with attached warrants to various individuals, some of which are related (see note 13). Subscribers received 1.350659 (0.187272 prior to the Acquisition) warrants per dollar principal of Notes (see note 11(b)). The Notes bear interest at prime rate plus 550 basis points

and mature three years after issuance. The Notes are secured by the accounts receivable of the Company and have no financial covenants.

The Notes are presented net of discounts and accreted at an effective interest rate such that the carrying amount of the Notes will equal the principal amount at maturity. The Notes were initially recognized at fair value based on similar debt securities without attached warrants and are carried at amortized cost. At initial recognition, the principal amount of the Notes less the initial fair value has been allocated to the warrants (see note 11(b)). Finance costs for the three and six months ended June 30, 2019 includes \$nil and \$3,494, respectively, in non-cash accretion expense (2018 - \$6,639 and \$12,592) from the Notes.

On February 15, 2018, the Company's Notes and accrued interest were settled in exchange for 2,853,956 common shares of the Company with a fair value of \$656,410 or \$0.23 per share. As a result of the unamortized discount, the carrying value of the Notes and accrued interest at settlement was \$625,834 and the settlement resulted in a loss on settlement of debt of \$30,576.

On December 12, 2018 and December 13, 2018, VSBLTY, Inc. received \$600,000 and \$400,000, respectively, from the Company pursuant to a promissory note agreement (the "Interest-Free Notes"). The Interest-Free Notes are non-interest bearing, except upon termination of the Agreement or an event of default, upon which the loan would bear interest at a rate of 10% per annum. The Interest-Free Notes will mature on the earlier of the date that is 24 months from the issuance date or three months from termination of the Agreement, by which VSBLTY Groupe will acquire all of the issued and outstanding common shares of the Company and the Company will become a wholly-owned subsidiary of VSBLTY Groupe. The Interest-Free Notes are recorded at their face value. On February 15, 2018, the Acquisition resulted in the effective settlement of the Interest-Free Notes (see note 5).

10. LEASES

The Company leases certain assets under lease agreements. The lease liability consists of a single lease for office space. The lease has an imputed interest rate of 10% per annum and expires in February 2024.

Lease assets		Property
At January 1, 2019	\$	107,838
Depreciation expense		(10,436)
At June 30, 2019	\$	97,402

At June 30, 2019, the Company's lease liability related to office leases is as follows:

Lease liability		June 30, 2019
Current portion	\$	27,122
Long-term portion		77,906
Total lease liability	\$	105,028

At June 30, 2019, the Company is committed to minimum lease payments as follows:

Maturity analysis		June 30, 2019
Less than one year	\$	27,122
One to five years		105,335
Total undiscounted lease liabilities	\$	132,457

The adoption of IFRS 16 had the following impact for the six months ended June 30, 2019:

Amounts recognized in profit or loss		June 30, 2019
Interest on lease liabilities	\$	5,399

Amounts recognized in the statement of cash flows		June 30, 2019
Interest paid	\$	5,399
Principal payments on lease liabilities		2,810
Total cash outflows for leases	\$	8,209

11. SHAREHOLDERS' EQUITY

a) Share capital

Authorized share capital of the Company consists of an unlimited number of common shares with no par value.

On February 15, 2019, the Company completed the Acquisition, pursuant to which the Company acquired all of the issued and outstanding common shares of VSBLTY, Inc. for 7.21228396 common shares the Company in a reverse takeover transaction. Immediately following the Acquisition, there were 61,853,959 common shares of the Company issued and outstanding. As the financial statements are considered a continuance of the operations of VSBLTY, Inc., due to the reverse takeover, all of the share numbers, share prices, and exercise prices in these financial statements have been adjusted, on a retroactive basis, to reflect this exchange.

During the six months ended June 30, 2019, the Company issued an aggregate of:

- 20,000,000 common shares on conversion of the Company's Debentures (see note 8);
- 2,853,956 common shares for settlement of the Notes and related accrued interest (see note 9);
- 1,692,925 common shares for no proceeds, pursuant to the exercise of warrants;
- 14,600,000 common shares, pursuant to the automatic conversion of special warrants to one share and one-half share purchase warrant upon receipt of a final prospectus qualifying the distribution of the shares and warrants;
- 900,917 common shares for cash proceeds of \$269,605 (CAD\$360,367), pursuant to the exercise of warrants; and
- 87,498 common shares granted to a non-employee in exchange for services with a fair value of \$38,032 (CAD\$50,750).

During the year ended December 31, 2018, the Company issued an aggregate of:

- 153,431 common shares for cash proceeds of \$351,064, \$19,943 of which was allocated to attached warrants (see note 11(b)); and
- 18,272 common shares for cash proceeds of \$23,936, pursuant to the exercise of warrants.

b) Warrants

On February 15, 2019, in connection with the Acquisition, the Company assumed 14,600,000 special warrants and 760,426 issued and outstanding warrants of the accounting acquiree (see note 5). On February 18, 2019, the special warrants were automatically converted into 14,600,000 common shares and 7,300,000 common share purchase warrants upon receipt of a final prospectus qualifying the distribution of the shares and warrants.

During the year ended December 31, 2018, the Company issued Notes with attached warrants (see note 9) and shares with attached warrants (see note 11(a)). Each warrant issued with Notes entitles the holder to acquire one common share of the Company and is exercisable at a price of \$0.18 (\$1.31 prior to the Acquisition) per warrant for a period of three years. Each warrant issued

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(Expressed in United States dollars)
(Unaudited)

with shares entitles the holder to acquire one common share of the Company and is exercisable at a price of \$0.18 (\$1.31 prior to the Acquisition) per warrant for a period of five years.

For the Notes issued during the year ended December 31, 2018, a value of \$7,204 has been attributed to the attached warrants and was determined based on the Notes' principal value less the fair value attributed to the Notes.

For the shares issued during the year ended December 31, 2018, a value of \$19,943 has been attributed to the attached warrants and was determined based on residual method after first estimating the fair value of the shares based on recent share issuances without attached warrants.

Continuity of the Company's U.S. dollar denominated warrants is as follows:

	Number of warrants		Weighted average exercise price
Outstanding, December 31, 2017	675,329	\$	0.18
Granted	1,149,379		0.18
Exercised	(131,783)		0.18
Outstanding, December 31, 2018	1,692,925		0.18
Exercised	(1,692,925)		0.18
Outstanding, June 30, 2019	-	\$	-

Continuity of the Company's Canadian dollar denominated warrants is as follows:

	Number of warrants		Weighted average exercise price (\$CAD)		Weighted average exercise price (\$USD)
Outstanding, December 31, 2018	-	\$	-	\$	-
Granted	8,060,431		0.40		0.31
Exercised	(900,917)		0.40		0.31
Outstanding, June 30, 2019	7,159,514	\$	0.40	\$	0.31

As at June 30, 2019, the following warrants were outstanding and exercisable:

Number of warrants outstanding	Exercise price (\$CAD)	Exercise price (\$USD)	Expiry date	Number of warrants exercisable
752,426	\$ 0.40	\$ 0.31	October 17, 2019	752,426
6,407,088	0.40	0.31	February 27, 2020	6,407,088
7,159,514	\$ 0.40	\$ 0.31		7,159,514

As at June 30, 2019, the weighted average remaining contractual life of outstanding warrants is 0.62 years.

c) Options

The Company has adopted an incentive stock option plan (the “Plan”) under which the aggregate number of securities reserved for issuance will be 10% of the number of common shares of the Company issued and outstanding. The Plan is administered by the Board of Directors (the “Board”), which has full and final authority with respect to the granting of all options thereunder. Options may be granted under the Plan to such service providers of the Company and its affiliates, if any, as the Board may from time to time designate. The exercise prices will be determined by the Board, but will, in no event, be less than the closing market price of Common Shares on (a) the trading day prior to the date of grant of the stock options; and (b) the date of grant of the stock options. All options granted under the Plan will expire not later than the date that is ten years from the date that such options are granted. Options granted under the Plan are not transferable or assignable other than by testamentary instrument or pursuant to the laws of succession.

Continuity of the Company’s stock options is as follows:

	Number of options	Weighted average exercise price (\$CAD)	Weighted average exercise price (\$USD)
Outstanding, December 31, 2018	-	\$ -	\$ -
Granted	5,955,000	0.31	0.24
Outstanding, June 30, 2019	5,955,000	\$ 0.31	\$ 0.24

As at June 30, 2019, the following stock options were outstanding and exercisable:

Number of options outstanding	Exercise price (\$CAD)	Exercise price (\$USD)	Expiry date	Number of options exercisable
200,000	\$ 0.60	\$ 0.46	April 23, 2020	200,000
25,000	0.50	0.38	June 5, 2022	-
5,730,000	0.30	0.23	February 15, 2023	1,432,500
5,955,000	\$ 0.31	\$ 0.24		1,632,500

As at June 30, 2019, the weighted average remaining contractual life of outstanding options is 3.53 years.

Employee options were measured at fair value on the grant date and recognized over the vesting period from the date of grant. Nonemployee options were measured indirectly with reference to the fair value of the equity instruments granted as the fair value of goods and services received cannot be measured reliably. Nonemployee options are measured at the end of each reporting period over the term that goods and services are received.

The fair value of stock options granted during the period was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

Assumptions	
Risk-free interest rate	1.38 - 2.50%
Expected volatility	150%
Dividend yield	0%
Expected life	1.00 - 4.00 years

d) Performance shares

On February 15, 2019, the Board agreed to issue to six executives, up to a total of 3,000,000 common shares of the Company with a grant date fair value of \$0.22 per share (CAD\$0.30 per share) upon the Company meeting certain bonus criteria.

The performance conditions are not related to the market price of the equity instruments of the Company and, as a result, they are non-market performance conditions. At June 30, 2018, management estimates that certain bonus criteria will be met and 1,000,000 instruments will vest. As a result, \$224,248 (CAD\$300,000) has been recorded to share-based payments expense. Management will re-evaluate its assessment every reporting period and changes, if any, will be reflected in future periods.

12. EXPENSES BY NATURE

	Three months ended		Six months ended	
	2019	June 30 2018	2019	June 30 2018
Marketing expenses	\$ 223,544	\$ 10,500	\$ 316,092	\$ 23,140
Meals and entertainment	8,376	6,936	31,255	16,660
Tradeshaw expenses	9,443	2,166	53,528	15,001
General and administrative expenses	50,968	44,073	95,555	61,694
Professional fees	185,937	72,171	266,675	115,320
Consulting fees	285,385	-	487,875	-
Management fees	117,000	55,000	234,000	115,000
Rent	6,658	4,627	13,315	9,255
Salaries and wages	177,076	154,406	351,398	288,887
Travel	66,773	22,876	133,980	50,725
Depreciation (note 6)	5,244	2,786	9,595	5,435
Lease-related depreciation (note 10)	5,218	-	10,436	-
Utilities	9,159	5,376	18,730	7,957
Investor relations	8,930	-	18,038	-
Transfer agent and filing fees	6,823	-	21,976	-
Research and development contract labour and materials	236,504	-	492,074	-
Total sales and marketing, general and administrative expense, and research and development expenses	\$ 1,403,038	\$ 380,917	\$ 2,554,522	\$ 709,074

13. RELATED PARTY TRANSACTIONS

Key management compensation

During the six months ended June 30, 2019, remuneration of the Company's key management personnel consisted of management fees of \$339,000 (2018 - \$120,000) and share-based payments of \$812,737 (2018 - \$nil). Management fees are included in general and administrative expenses and sales and marketing expense.

Other related party transactions

During the six months ended June 30, 2019 and 2018, other related party transactions consisted of the following:

	Six months ended June 30, 2019	Six months ended June 30, 2018
Creative services paid to a related entity, included in cost of sales	\$ 10,093	\$ 2,919
Marketing expenses paid to a related entity, included in sales and marketing expenses	129,748	4,140
Accounting and administrative fees paid to related entities, included in general and administrative expenses	108,345	138,995
Contract project development labour paid to a related entity, included in research and development expenses	281,736	7,200
Interest expense for notes payable to related parties, excluding discount accretion	\$ 6,882	\$ 22,073

Related party balances

At June 30, 2019, \$1,013 (December 31, 2018 - \$4,807) was due from related parties and is included in trade and other receivables. The amounts were non-interest bearing and due on demand.

At June 30, 2019, \$112,016 (December 31, 2018 - \$142,938) was due to related parties and is included in accounts payable and accrued liabilities. The amounts were non-interest bearing and due on demand.

At June 30, 2019, \$nil (December 31, 2018 - \$1,412,500) in notes payable were due to related parties, excluding discounts.

14. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue its operations and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. The Company considers its capital for this purpose to be its equity, promissory notes and convertible debt.

The Company's primary source of capital is through the issuance of common shares and debt. The Company manages and adjusts its capital structure when changes in economic conditions occur. To maintain or adjust the capital structure, the Company may seek additional funding. The Company may require additional capital resources to meet its administrative overhead expenses in the long term. The Company believes it will be able to raise capital as required in the long term but recognizes there will be risks involved that may be beyond its control. There are no external restrictions on the management of capital.

15. FINANCIAL RISK MANAGEMENT

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Foreign exchange risks are closely monitored, and attempts are made to match foreign cash inflows and outflows. As at June 30, 2019, the Company is primarily exposed to foreign exchange risk through its cash and cash equivalents denominated in Canadian dollars. The Company mitigates foreign exchange risk by monitoring foreign exchange rate trends and evaluating reinvestment opportunities when possible. The Company does not currently hedge its foreign exchange risk. Based on current exposures as at June 30, 2019 and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the United States dollar would result in a gain or loss of approximately \$15,200 in the Company's condensed consolidated statements of loss and comprehensive loss.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash, cash equivalents and trade and other receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness and mitigate its credit risk on receivables by actively managing and monitoring its receivables. Trade and other receivables also includes refundable goods and services tax which bears minimal credit risk as it is receivable from the Canadian government. The Company has been determined that no allowance is required, as all amounts outstanding are considered collectible. During the six months ended June 30, 2019, the Company incurred \$nil in bad debt expense (2018 - \$nil). The Company mitigates credit risk by evaluating the creditworthiness of customers prior to conducting business with them and monitoring its exposure for credit losses with existing customers.

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. As at June 30, 2019, the Company is not exposed to significant interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. The Company addresses its liquidity through equity financing obtained through the issuance of equity and common shares. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

16. BASIS OF FAIR VALUE

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable marker data (unobservable inputs).

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities and lease liabilities. With the exception of lease liabilities, the carrying value of the Company's financial instruments approximate their fair values due to their short-term maturities. The fair value of lease liabilities approximates their carrying value due to minimal changes in interest rates and the Company's credit risk since initial recognition.

17. SUBSEQUENT EVENTS

On July 18, 2019, the Company closed a non-brokered private placement offering of unsecured convertible debentures for gross proceeds of CAD\$745,500. The debentures bear interest at 10% per annum on an accrual basis, calculated and payable semi-annually, maturing on July 18, 2021. The debentures, together with any interest accrued but unpaid, may be converted, in whole or in part, at any time before the maturity date, into units of the Company at \$0.45 per unit, if converted at any time before one year from the closing date, or otherwise convertible at \$0.60 per Unit if converted after one year from the closing date but before the maturity date. Each unit consists of one common share in the capital of the Company and one-half of a share purchase warrant. Each warrant will be exercisable into one Share at a price of \$0.60 per warrant share for a period of 24 months from the closing date, subject to acceleration.