IDENTILLECT TECHNOLOGIES CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2018

Dated: April 30, 2019

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

This management's discussion and analysis ("MD&A") reports on the operating results and financial condition of Identillect Technologies Corp. ("Identillect" or the "Company") for the year ended December 31, 2018 and is prepared as at April 30, 2019. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2018 and 2017 and the notes thereto which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") (the "Financial Statements"). Other information contained in these documents has also been prepared by management and is consistent with the data contained in the Financial Statements.

All dollar amounts referred to in this MD&A are expressed in US dollars except where indicated otherwise.

APPROVAL

The Company's certifying officers, based on their knowledge, having exercised reasonable diligence, are also responsible to ensure that this MD&A does not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the periods reported. The Financial Statements together with the other financial information included in this MD&A fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented in this MD&A. The Board's review is accomplished principally through the Audit Committee, which meets periodically to review all financial reports, prior to filing. The Board of Directors has approved the consolidated financial statements and MD&A, as well as ensured that management has discharged its financial responsibilities as at April 30, 2019.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this report may constitute forward-looking statements that are subject to certain risks and uncertainties. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "continue", "expect", "may", "will", "believe", "should" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Consequently, readers should not place any undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they were made.
These forward-looking statements include, but are not limited to, statements relating to:

- the Company's ability to continue as a going concern;
- the Company's ability to raise additional capital through the issuance of equity or debt instruments;

- the Company's strategies and objectives;
- the Company's cost reductions and other financial operating objectives;
- general business and economic conditions;
- the Company's ability to meet its financial obligations as they become due;
- the Company's ability to identify, successfully negotiate and/or finance an acquisition of a new business opportunity;
- the positive cash flows and financial viability of new business opportunities;
- the Company's ability to manage growth with respect to a new business opportunity; and
- the Company's tax position, anticipated tax refunds and the tax rates applicable to the Company.

Actual results and developments are likely to differ, and may differ significantly, from those expressed or implied by the forward-looking statements in this report. These statements are based on a number of assumptions, which may prove to be incorrect, including, but not limited to, assumptions about:

- general business and economic conditions;
- changes in the financial markets generally and our ability to raise sufficient funding to pay creditors and continue as a going concern; and
- the continued financial support of the Company's debt holders and shareholders.

Readers are cautioned that the lists of risks, uncertainties, assumptions and other factors are not exhaustive. The forward-looking statements are expressly qualified by this cautionary statement.

OVERVIEW

Identillect Technologies Corp. is a Canadian public company that is listed on the TSX Venture Exchange (the "Exchange") under the symbol ID. The Company was incorporated under the Canada Corporations Business Act on December 27, 1985, registered extra-provincially under the British Columbia Company Act on July 9, 1987, and effective June 18, 2014 the Company was continued into British Columbia. The Company's principle address is 1600 – 609 Granville Street, Vancouver, BC V7Y 1C3 and its registered and records office is 2200 – 885 West Georgia Street, Vancouver, BC, V6C 3E8.

The Company's wholly owned subsidiary, Identillect Technologies Inc. ("Identillect Technologies") was incorporated under the Nevada Business Corporation Act on August 24, 2010. Identillect Technologies is a software development company that has developed an email encryption software solution. The head office of Identillect Technologies is located at 23686 Birtcher Dr., Lake Forest, CA 92630.

The primary activity of Identillect Technologies has been the research, design and development of an email encryption solution for use by business and individuals in their day-to-day communication. The result of these efforts has been the creation of its Delivery Trust® software. Identillect Technologies' Delivery Trust® proprietary e-mail encryption technology targets organizations of all sizes, as well as individuals (i.e. medical professionals, insurance companies, accountants, lawyers, real estate agents, educators) on a monthly subscription basis. Delivery Trust® can be accessed by professionals on a vast array of electronic communication devices. All messages and their attachments are secured with patented, state-of-the-art encryption and blockchain technology while providing complete control of the message with the click of a button, ensuring safety and control while in transit. In addition, Identillect Technologies software empowers senders to maintain control of their messages by restricting recipients' printing/forwarding/viewing privileges, audit log, read receipt as well as securing all replies from recipients, without any requirement for them to register. All this coupled with advanced administrative controls and reporting to ensure compliance to regulatory requirements.

Identillect Technologies sets itself apart from its competition with unique and intuitive customizable security and control capabilities. These controls work with many platforms such as Outlook, O365, and O365 for Apple, Outlook.com, Hotmail.com, Gmail.com, Web Mail, and Mobile applications.

Since commercializing the product, Identillect Technologies has quickly grown its subscriber base and is becoming recognized in the security industry as a top e-mail security provider. Visit https://identillect.com/ to learn more.

DEVELOPMENTS

The following key and strategic milestones met during the period ended September 30, 2018 included:

- Partnered with the Arkansas Bar Association in January 2018, lecturing at their Annual Bar Association meetings and Cyber-Security conferences. Additionally, providing regular CLE (Continued Learning Education) around cyber-security and providing encrypted email communication to their members who require the service.
- Partnered with New Jersey State Bar Association in September 2018 to provide cyber-security education and make our encryption available to their members. This program integrates with their cyber-security task force. Identillect looks forward to expanding this relationship.
- Partnered with CalBar Connect in October 2018. CalBar is managed by Cal Bar Affinity, a subsidiary of California Change Lawyers (formerly California Bar Foundation). This is the benefits arm of the California State Bar Association. Identillect is providing CLE and secure communications to CalBar, the largest state bar in the United States. Delivery Trust is now being offered to their membership base across the state of California. California just implemented the strictest data handling regulation of any state in the U.S.
- Partnered with Nebraska State Bar in November 2018 to provide our encryption service to their members. Identillect will also lecture at their Annual Bar Association meetings and CLE on cyber-security ethics. Additionally, Identillect will provide regular CLE around cyber-security and encrypted email communication to their members.
- Partnered with Wyoming Bar in December 2018 to provide our encryption service to their members. Identillect will also lecture at their Annual Bar Association meetings and CLE on cyber-security ethics. Additionally, Identillect will provide regular CLE around cyber-security and encrypted email communication to their members.
- Partnered with Minnesota State Bar Association in January 2019 to provide our encryption service to their members. Identillect will also lecture at their Annual Bar Association meetings and CLE on cyber-security ethics. Additionally, Identillect will provide regular CLE around cyber-security and encrypted email communication to their members.

- Partnered with Mississippi Bar in February 2019 to provide our encryption service to their members. Identillect will also lecture at their Annual Bar Association meetings and CLE on cyber-security ethics. Additionally, Identillect will provide regular CLE around cyber-security and encrypted email communication to their members.
- Partnered with West Virginia Bar in March 2019 to provide our encryption service to their members. Identillect will also lecture at their Annual Bar Association meetings and CLE on cyber-security ethics. Additionally, Identillect will provide regular CLE around cyber-security and encrypted email communication to their members.
- Partnered with The Virginia Bar Association in March 2019 to provide our encryption service to their members. Identillect will also lecture at their Annual Bar Association meetings and CLE on cyber-security ethics. Additionally, Identillect will provide regular CLE around cyber-security and encrypted email communication to their members.
- Partnered with the State Bar of Montana in April 2019 to provide our encryption service to their members. Identillect will also lecture at their Annual Bar Association meetings and CLE on cyber-security ethics. Additionally, Identillect will provide regular CLE around cyber-security and encrypted email communication to their members.
- Partnered with Hampden County Bar in April 2019 to provide our encryption service to their members. Identillect will provide regular CLE around cyber-security and encrypted email communication to their members.
- Engaged reseller partners like Smile Savvy January 2018 a leading managed service provider in the pediatric dentistry field. Erickson Technologies September 2018 a leading managed service provider for the dental industry and COMPacific in July 2018 a major government technology provider in Guam and Micronesia.
- Contracted with Department of Public Health and Social Services for Guam in November 2018.
- Launched electronic signature wizard to allow templating for businesses creating limitless opportunity for them to standardize client communication and authorizing documentation with their clientele with minimal effort. This templating also improves end-user experience and usability.
- Launched Gmail plugin allowing users to encrypt and decrypt emails directly from Gmail in the Chrome browser. This allows secure communication to occur directly from Gmail, eliminating the need for users to navigate to Identillect's web portal for secure email communication.
- Launched an Office 365 Plug-in for Delivery Trust®® which possesses all the functionality of the other Delivery Trust® products and allows users to work direct from the web access of Outlook in Office 365.
- Launched Office 365 Secure scan technology. Secure Scan technology coupled with Delivery Trust® email security eliminates the possibility for users to inadvertently send out sensitive information in an unsecured message.
- Launched Office 365 server-side secure scan technology which allows a business administrator to automatically scan emails for sensitive terms and phrases which need to be secured.
- Implemented enterprise controls for Gmail and O365
- Moved to MSI Outlook installer for seamless integration experience.
- Enhanced Outlook plugin speed and accessibility and maximized connectivity form external links.
- Developed a new 'getting started' process which allows new users to simplify integration to the Delivery Trust® system. Now even the most novice user can secure their organizational or company email with a few easy steps.

- Launched a new corporate website. The new site reflects recent product updates and an enhanced focus on user interface and experience. Through the development of Gmail version 2, the new site offers a fully integrated security platform integrated into Gmail platform, expanding the user base Identillect can market to. The website has been separated from the secure web portal, allowing for increased levels of security for web portal access.
- Create HIPAA specific landing page on website to provide more detailed information for customers in the medical space which are required to have an increased level of security in their email communications.
- Enhanced vulnerability testing for website and web-portal to maximize security measures against outside threats.
- Increased user authorization, utilizing the most advanced API available
- Developed Single Sign On (SSO) for Microsoft O365/Outlook and Google based environments to simplify the user login process and maximize security protocols.
- Developed advanced SSO capabilities for Gmail add-ins.
- Integrated blockchain technology to create verification of the encryption key process on every email. This process is now required in a number of new regulations. Additionally, this technology is used to thwart man-in-the-middle attacks which is a major issue for industries experiencing wire fraud.
- Created European data center for Amazon s3, to allow growth into the European markets with the newly expanded GDPR regulation which is going into effect May 25th, 2018. This new regulation will affect all European and United States based businesses doing business with European companies.
- Advanced API authentication was implemented to meet GDPR security demands.
- Changed security protocols and privacy policy to meet or exceed GDPR requirements.
- Enhanced billing capabilities to handle increased amount of European, Guam, and Micronesia clients.
- Expanded reseller portal allows for more integrated reseller partners and advanced joint marketing campaigns and automation.
- Enhanced Enterprise deployment for Gmail. This allows a remote administrator to install on hundreds or thousands of computers at one time.
- Hired a full-time developer to increase the scalability and modularity of Delivery Trust. This will allow faster development time, continuous integration/development practices, and accelerates delivery of new functions.
- Hired Ken Gertsen as Product Manager. Mr. Gertsen was previously with Quest Software, and Dell, where he lead his team to win the Gold Stevie® Award in 2014 for “New Product or Service of the Year – Software - Systems Management Solution” from The American Business Awards.

OUTLOOK

Enterprise applications are moving to the cloud in droves; Gartner estimates the enterprise shift to the cloud will affect $1 Trillion in IT spending by 2020, and State of cloud adoption and security predicts that within 15 months, 80% of all IT budgets will be committed to cloud solutions.

Email communication still remains one of the top communication paths for businesses, while it still has inherent vulnerabilities which have created advanced regulatory change to elevate demands for organizations of all industries. The "email malware rate has increased to 1 in every 359 emails. Phishing emails have also increased to 1 in every 1,968 emails."

Identillect Technologies, with its Delivery Trust® email encryption solution, is poised to expand its brand as the leader in email security with Identillect Technologies' focus on a growing subscriber base in a variety of industries, both through direct sales and reseller partnerships.

Email-borne cyber-attacks have become a major issue for business communications, and it's a problem that has adversely affected almost every industry. The most recent estimates of the average cost of a data breach is $3.62 million. To ensure companies protect the sensitive data of customers and, in the healthcare industry their patients, lawmakers are imposing new rules and regulations companies are required to adhere to when communicating any type of personal identifying information with clients or other businesses. These regulations are affecting businesses on a state, federal, and industry level. These regulations are now going globally as the GDPR (Global Data Protection Regulation) is the most aggressive stance ever taken to secure personal identifiers across 28 countries in Europe affecting every single business dealing with client information. The fines are as much a 4% of topline revenue for non-compliance of the regulation. This regulation will affect other companies around the world doing business on a global stage, therefore, the reach of this regulation has no boundaries.

The changes in state and federal regulations across the United States is expected to emulate the GDPR for security and regulatory compliance. California state data handling regulations have already adopted this approach. The California Consumers Data Protection Act of 2018 is the first of these types of regulations to occur in the United States. This regulation goes into effect January 1, 2020. It is anticipated that we will see this as a trend with other states across the U.S.

HIPAA is the medical compliance regulation in the United States; this regulation specifies how all organizations dealing with patient health information must secure it. Currently, HIPAA is performing phase 2 audits requiring all entities affected by the regulation and all companies doing business with those entities to secure data in transit. With over 30 million medical records breached in 2017 alone, the healthcare industry is consistently one of the most targeted sectors for cybercriminals. https://breachlevelindex.com/

Cyber criminals also affect other industries such as financial, legal, real-estate, and all businesses in Europe. North America is seeing the greatest number of breaches in the world. In the U.S., Canada, Mexico, and Central America, 86% of all the breaches occurred worldwide come from North America. Identillect focuses on providing encryption technology to advance the amount of protected information and limit the successful breaches.

With ever-increasing regulations, data breaches are now one of the largest issue's businesses are facing in retaining the security of their clients' information and consequently insuring the integrity of their business' reputation. Identillect Technologies' product, Delivery Trust®® with Smart Scan technology allows businesses to enforce compliant employee e‐mailing behaviour by requiring the use of encryption when sensitive content is identified.

Identillect Technologies has greatly expanded its strategic partner network to a wide array of managed information technology (IT), software-as-a-service (SAAS) and compliance organizations. One of the key areas of growth which Identillect Technologies is currently focused on is in assisting its reseller partners to implement compliance within the many regulated industries to ensure their clients are complying and do not fall victim to substantial fines.

Identillect has also taken a progressive approach toward serving the legal security needs of Bar Associations across the United States. Identillect has done a marketing push to the legal industry and is now the most recognized security provider for the legal community in the united states. Identillect has partnered 10 state Bar association who are now recommending Identillect as their membership’s cyber-security provider. Identillect is now partnered with state Bars representing more than 400,000 members and anticipates this number to grow sustainably in 2019. Identillect has partnered 1 to 2 new state bars every month for the past 8 month and predict this momentum to continue. If this energy continues throughout 2019 Identillect will be the recommended resource for almost 40% of the U.S legal market.

In 2018 the ABA (American Bar Association) put out an opinion urging lawyers to take advanced security measures when communicating client data over email. Stating this is the most widely used form of communication and the most inherently vulnerable. This along with increased cyber-security education is changing the prospective of the legal community and advancing security measures to meet their client fiduciary responsibilities along with advancing data handling regulations nationwide.

Due to greater exposure in its target markets, Identillect Technologies expects to continue to gain the attention of larger organizations such as hospitals, insurance companies, legal, real-state and benefits providers in the United States, resulting in significant growth in Identillect Technologies' subscriber base.

As underscored by recent partnerships Identillect Technologies has announced with IT companies throughout North America, businesses moving their IT operations to the cloud face a growing need for a trusted, brand-defining tool that protects their communications from email-borne cyber-attacks and provides them with a roadmap to protect their sensitive customer data from cybercriminals. With Delivery Trust®, Identillect Technologies will grow its brand as the leader in email encryption and email safety. Delivery Trust®.

SELECTED ANNUAL INFORMATION

	For the year ended December 31, 2018	**For the year ended December 31, 2017**	**For the year ended December 31, 2016**
Total revenue	$1,085,346	$910,930	$642,336
Net loss and comprehensive loss	$(1,419,901)	$(2,004,588)	$(3,303,463)
Basic and diluted loss per share	$(0.01)	$(0.03)	$(0.09)
Total current assets	$290,715	$1,265,104	$267,418
Total current liabilities	$1,024,242	$766,947	$1,076,774

Over the periods presented, the Company has endeavoured to increase its subscriber base of Delivery Trust™.

SUMMARY OF QUARTERLY RESULTS[1]

	4th Quarter Ended Dec 31, 2018	3rd Quarter Ended Sept 30, 2018	2nd Quarter Ended Jun 30, 2018	1st Quarter Ended Mar 31, 2018
Total revenue	$264,081	$278,535	$262,159	$280,571
Net loss and comprehensive loss	$487,809	$210,678	$387,894	$333,520
Basic and diluted loss per share	$(0.01)	$(0.00)	$(0.00)	$(0.00)

	4th Quarter Ended Dec 31, 2017	3rd Quarter Ended Sept 30, 2017	2nd Quarter Ended Jun 30, 2017	1st Quarter Ended Mar 31, 2017
Total revenue	$268,010	$236,894	$223,309	$182,717
Net loss and comprehensive loss	$514,922	$359,679	$681,019	$448,967
Basic and diluted loss per share	$(0.01)	$(0.01)	$(0.01)	$(0.01)

[1] The information presented is derived from the respective unaudited condensed interim financial statements which have been prepared by management using accounting policies consistent with IFRS and in accordance with IAS 34-Interim Financial Reporting

The revenues of Identillect have increased over time as the Company works to expand its sales. Correspondingly, corporate activity and expenditures have increased.

RESULTS OF OPERATIONS

For the three months ended December 31, 2018

The following is an analysis of the Company's operating results for the three months ended December 31, 2018, and includes a comparison against the three months ended December 31, 2017.

Sales revenue, which consisted primarily of sales of software for the three months ended December 31, 2018 was $264,081, as compared to $268,010 for the three months ended December 31, 2017. The Company continues to grow its subscriber base.

Cost of sales for the three months ended December 31, 2018 was $51,021, comparable to $65,603 for the three months ended December 31, 2017. The decrease was due to lower sales commissions as a result of a higher proportion of repeat customers.

Operating costs for the three months ended December 31, 2018 were $68,346 as compared to $50,289 for the three months ended December 31, 2017. Operating costs were comparable to Q3 2017.

Professional fees for the three months ended December 31, 2018 were $63,846 as compared to $7,968 for the three months ended December 31, 2017. The increase is due to an increase in legal fees during the period.

Salaries and wages for the three months ended December 31, 2018 were $122,248 as compared to $260,582 for the three months ended December 31, 2017. The decrease is due to a reduction in development and operation teams, as the software matures.

Sales and marketing for the three months ended December 31, 2018 were $81,450 as compared to $82,962 for the three months ended December 31, 2017. The decline is a result of the Company changing its approach to increasing corporate awareness.

Bad debts expense for the three months ended December 31, 2018 was $220,906 (2017 - $151,700) reflecting the Company’s allowance policy against receivables and the targeted write-off of certain customer relationships.

Comprehensive loss for the period
As a result of the activities discussed above, the Company experienced a comprehensive loss for the three months ended December 31, 2018 of $339,786 as compared to comprehensive loss $514,922 for the three months ended December 31, 2017.

For the year ended December 31, 2018

The following is an analysis of the Company’s operating results for the year ended December 31, 2018, and includes a comparison against the year ended December 31, 2017.

Sales revenue, which consisted primarily of sales of software for the year ended December 31, 2018 was $1,085,346, as compared to $910,930 for the year ended December 31, 2017. The Company continues to expand its subscriber base.

Cost of sales for the year ended December 31, 2018 was $228,176, as compared to $216,354 for the year ended December 31, 2017. Costs have increased in proportion to the increase in sales.

General and administrative costs for the year ended December 31, 2018 were $72,327 as compared to $96,011 for the year ended December 31, 2017. The decrease is the result of a reduction in administrative costs during the period.

Operating costs for the year ended December 31, 2018 were $173,721 as compared to $177,572 for the year ended December 31, 2017. The decrease is the result of a reduction in software costs during the period.

Professional fees for the year ended December 31, 2018 were $182,321 as compared to $221,764 for the year ended December 31, 2017. The reduction is due to a decrease in legal fees during the period.

Salaries and wages for the year ended December 31, 2018 were $844,923 as compared to $1,071,017 for the year ended December 31, 2017. The decrease is due to a reduction in development and operation teams, as the software matures.

Sales and marketing for the year ended December 31, 2018 were $160,940 as compared to $547,112 for the year ended December 31, 2017. The decline is a result of the Company changing its approach to increasing corporate awareness.

Bad debts expense for the year ended December 31, 2018 was $484,122 (2017 - $151,700) reflecting the Company's allowance policy against receivables and the targeted write-off of certain customer relationships.

Comprehensive loss for the period
As a result of the activities discussed above, the Company experienced a comprehensive loss for the year ended December 31, 2018 of $1,419,901 as compared to comprehensive loss of $2,004,587 for the year ended December 31, 2017.

LIQUIDITY AND CAPITAL MANAGEMENT

The Company considers the aggregate of its share capital and deficit as capital. The Company's objective, when managing capital, is to ensure sufficient resources are available to meet day to day operating requirements and to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the business.

At December 31, 2018, the Company has not achieved profitable operations and has accumulated losses and expects to incur further losses in the development of its business. This material uncertainty may cast significant doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent on its ability to attain profitable operations to generate funds and/or its ability to raise equity capital or borrowings sufficient to meet its current and future obligations. Although the Company has been successful in the past in raising funds to continue operations, there is no assurance it will be able to do so in the future.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to any externally imposed capital requirements or debt covenants. There was no change to the Company's approach to capital management during the year ended December 31, 2018.

The Company experienced a net loss and comprehensive loss of $1,419,901 for the year ended December 31, 2018 (2017 - $2,004,588). The Company has a history of losses and accumulated losses of $10,234,890 since its inception. The Company anticipates further future losses until the Company secures sales contracts to sustain positive cash flows. Identillect Technologies has created a product which is efficient, easy to use, and cost effective for people to implement into their day to day communications. With this ease of use and seamless integration into already existing email systems, combined with privacy protection to prevent breaches in confidentiality, Identillect anticipates a high user adoption rate of its Delivery Trust product, with a direct impact on the growth of Identillect's sales revenue.

During the year ended December 31, 2018, the Company's operating activities consumed cash of $903,840 (2017 - $2,127,867).

Financing activities generated $142,876 (2017 – $2,981,956) in the year. The Company generated $5,983 (2017 - $1,209,589) in relation to cash received for warrants exercised. In the year ended December 31, 2017 the Company generated funds of $98,457 for options exercised and $2,075,019 from a private placement less issuance costs of $87,375. The timing and nature of funding from equity varies due to changes in the Company's quoted share price as well as management's strategic financing decisions. In the year ended December 31, 2018, the Company generated $260,645 by way of proceeds on loans (2017 - $28,300) and repaid $123,752 in loans and interest (2017 – $348,148). Detailed debt schedules are provided in the accompanying consolidated financial statements for the year ended December 31, 2018.

The Company's financial statements have been prepared in accordance with IFRS applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. See below under liquidity risk for further information regarding the going concern assumption.

TRANSACTIONS WITH RELATED PARTIES

The Company defines key management personnel as directors and officers.

The following table summarizes the Company's activities with key management personnel:

Type of Service	**Nature of Relationship**	**For the years ended December 31,**	
		2018	2017
Professional fees	Emprise Capital Corp, a company related to the CFO and a director of the Company	**$120,508**	$75,082
Salaries and wages	Todd Sexton, CEO, and Einar Mykletun, CTO	**210,561**	245,178
Legal	Cassels Brock & Blackwell LLP, a law firm in which a director of the Company is a partner	**14,950**	72,610
Rent	Todd Sexton, CEO	**10,450**	7,600
Share-based payments expense	Officers/Directors	**89,400**	94,117
		$ 445,869	$494,587

The following table represents amounts due to related parties included in accounts payable and accruals:

Type of Service	Nature of Relationship	December 31, 2018	December 31 2017
Promissory note payable (Note 6)	Emprise Capital Corp, a company related the the CFO and a director of the Company	**$ 197,846**	$ -
Other payables	Emprise Capital Corp, a company related to the CFO and a director of the Company	**19,765**	18,982
Legal Fees payable	Cassels Brock & Blackwell LLP, a law firm in which a director of the Company is a partner	**2,178**	36,158
Salaries and wages	Todd Sexton, CEO	**132,716**	41,395
		$ 352,505	$ 96,535

Unless otherwise specified, amounts payable to related parties referred to are non-interest bearing, unsecured, payable on demand, and have arisen from the provision of services and expense reimbursements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

a. Fair value of financial instruments

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Cash	$ 861,025	$ -	$ -	$ 861,025
Convertible debentures	-	(228,281)	-	(228,281)
	$ 861,025	**$ (228,281)**	**$ -**	**$ 632,744**
December 31, 2018				
Cash	$ 87,385	$ -	$ -	$ 87,385
Convertible debentures	-	(216,321)	-	(216,321)
	$ 87,385	**$ (216,321)**	**$ -**	**$ (128,936)**

Cash is classified as fair value through profit or loss and measured at fair value. The fair value of cash was measured using Level 1 hierarchy inputs. The fair value of convertible debentures is determined based on level 2 inputs and estimated using the fair value of a similar liability that does not have an equity conversion option.

Receivables are classified as amortized cost. Accounts payable and accrued liabilities and loans are classified as amortized cost. The fair values of these financial instruments approximate their carrying values because of their short-term nature and/or the existence of market related interest rates on the instruments.

b. Financial Instrument risk

The Company’s risk exposures and the impact on the Company’s financial instruments are summarized below:

i. 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 places its cash with institutions of high-credit worthiness. Management has assessed there to be a low level of credit risk associated with its cash balances. As at December 31, 2018, accounts receivables of $148,154 (2017 - $393,236) are from subscribers of the Company’s Delivery Trust sales. The subscribers represent a well-diversified group of individuals and small to mid-sized companies. There is moderate risk that some of these subscribers may fail to make payments, however each subscriber amount taken individually is not material and the Company actively monitors its monthly collections so as to mitigate the amount of a potential financial impact.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables are assessed primarily based on days past due. The loss allowance provision as at December 31, 2018 is determined to be 64% on total receivables. The total provision as at December 31, 2018 was $266,370.

For the year ended December 31, 2018, no significant changes were noted for the expected loss rates.

The loss allowance provision for trade receivables as at December 31, 2018 reconciles to the opening loss allowance provision as follows:

ii. Liquidity risk

L i **Loss allowance provision**	**December 31, 2018**
q**December 31, 2017**	**$ 14,092**
u Changes in the period	484,122
i Written off as not recoverable	(231,844)
d**December 31, 2018**	**$ 266,370**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has not yet achieved profitable operations, and expects to incur further losses in the development of its business. The Company’s objective in managing liquidity risk is to minimize operational costs and to maintain sufficient liquidity in order to meet its operational requirements at any point in time. The Company manages liquidity risk through the management of its capital structure as outlined in Note 11 of the accompanying consolidated financial statements.

Until such time as the Company's operations are profitable and can internally generate sufficient funds to finance its operating costs, the Company remains dependent upon the financial support of its shareholders. If the Company is unable to finance itself through these means, it is possible that the Company will be unable to continue as a going concern.

At December 31, 2018, the Company has negative working capital of $739,150 (2017 – positive $487,314) and the Company has insufficient working capital to fund its operating requirements for the next 12 months. The Company's continued operations will remain dependent on external sources of financing until such time as it can internally generate sufficient income from software sales to service its on-going operating cost requirements. Future funding may be obtained by means of issuing share capital, the exercise of warrants, the exercise of stock options or debt financing. Based on these facts, the Company is significantly exposed to liquidity risk.

iii. Market risk

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

a. Interest rate risk

As of December 31, 2018, the Company did not have any investments in investment-grade short-term deposit certificates, and interest exposure with respect to its cash balances is minimal.

As at December 31, 2018, the Company had loans bearing interest at a fixed rate of 10% and convertible debentures bearing interest at a fixed rate of 7% per annum and as such is not significantly exposed to interest rate fluctuations.

b. Foreign currency risk

At December 31, 2018, $286,438 of the Identillect Technologies Inc.'s liabilities and $16,206 of its current assets are denominated in Canadian funds. A 1% change in the Canadian/US dollar exchange rate would result in a $2,540 net impact on the Company's foreign exchange gain or loss. As at December 31, 2018, the Company is moderately exposed to foreign exchange fluctuations.

SHARE CAPITAL

a. Authorized

Unlimited number of common shares, without par value.
Unlimited number of preferred shares, without par value.

b. Issued and outstanding

During the period ended December 31, 2018, 50,000 common shares were issued for exercised stock options for which $6,024 had been received as at December 31, 2017. Upon exercise of the options $4,709 share-based payment reserve was reclassified as share capital. During the period ended December 31, 2018, 50,000 warrants were exercised into common shares for proceeds of $5,983.

	Number of Common shares
Balance as at December 31, 2017	**97,115,964**
Warrants exercised	50,000
Options exercised	50,000
Balance as at December 31, 2018 and the date of this MD&A	**97,215,964**

c. Stock Options

The Company has a stock option plan whereby, from time to time, at the discretion of the Board of Directors, stock options are granted to directors, officers, employees and certain consultants. The exercise price of each option is based on the market price of the Company's common stock at the date of grant less an applicable discount. The options can be granted for a maximum term of ten years.

	Number of Options	Weighted Average Exercise Price (Cdn$)
Balance, December 31, 2017	**6,246,875**	**$ 0.170**
Issued	400,000	0.14
Exercised	(50,000)	0.16
Balance, December 31, 2018 and the date of this MD&A	**6,596,875**	**$ 0.17**

Grant Date	Number of Options Outstanding	Number of Options Exercisable	Exercise Price (Cdn$)	Expiry date
May 24, 2016	3,000,625	3,000,625	$0.200	May 24, 2021
November 23, 2016	286,250	286,250	$0.130	November 23, 2021
March 1, 2017	250,000	250,000	$0.110	March 1, 2022
November 3, 2017	2,550,000	1,881,250	$0.160	November 3, 2022
November 22, 2017	100,000	50,000	$0.220	November 22, 2022
November 22, 2017	10,000	5,000	$0.200	November 22, 2022
January 12, 2018	150,000	75,000	$0.270	January 12, 2023
August 14, 2018	250,000	62,500	$0.065	August 14, 2021

d. Warrants

	Number of warrants	Weighted average exercise price (Cdn$)
Balance, December 31, 2017	50,000	$ 0.15
Exercised	(50,000)	0.15
Balance, December 31, 2018 and the date of this MD&A	**-**	**$ -**

e. Broker Warrants

	Number of warrants	Weighted average exercise price (Cdn$)
Balance, December 31, 2017	**291,000**	**$ 0.12**
Expired	(291,000)	$ 0.12
Balance, December 31, 2018 and at date of this MD&A	**-**	**-**

CHANGES IN ACCOUNTING POLICIES

The Company has adopted IFRS 9 and IFRS 15 as of January 1, 2018 as described below:

IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* (“IAS 39”).

The Company has adopted IFRS 9 retrospectively as of January 1, 2018. Changes in accounting policies resulting from the adoption of IFRS 9 does not have a material impact on the Company’s consolidated financial statements.

Classification and measurement of financial assets and financial liabilities

IFRS 9 replaces the guidance in IAS 39, on the classification and measurement of financial assets. IFRS 9 eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- Financial assets measured at amortized cost; or
- Financial assets measured at fair value.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed on its contractual cash flow characteristics. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition. For financial assets measured at amortized cost, these assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

The Company’s financial assets previously carried as loans and receivables are now classified as amortized cost without material impact to carrying values.

Financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable and accrued liabilities, loans payable and convertible debenture.

Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an expected credit loss (“ECL”) model. The Company will measure loss allowances for trade and other receivables at an amount equal to lifetime ECLs. ECLs are a probability-weighted estimate of credit losses.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. Impairment losses on trade and other receivables are presented as bad debts expense in the statement of loss and comprehensive loss, similar to the presentation under IAS 39.

The Company has determined that the application of IFRS 9’s impairment requirements as at January 1, 2018 does not result in any additional impairment allowances.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued with the intent of significantly enhancing consistency and comparability of revenue recognition practices across entities and industries. IFRS 15 replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts,* and related interpretations. The new standard establishes a single, principles-based five-step model to be applied to all contracts with customers and introduces new and enhanced disclosure requirements.

The Company has adopted the modified retrospective approach which allows the cumulative impact of the adoption to be recognized in retained earnings as of January 1, 2018 and that the comparative figures will not be restated. Changes in accounting policies resulting from the adoption of IFRS 15 does not have a material impact on the Company's consolidated financial statements.

Revenue recognition

The Company sells its technology on a software-as-a-service ("SaaS") basis. Subscription revenue is recognized over time when the right to access the Company's technology is transferred to the customer over the term of the subscription period. Purchase agreements are typically for a monthly or annual period and related fee. Contracts for subscriptions are sold to personal and corporate users and if billed upfront and prior to revenue recognition, results in deferred revenue. Customers may also be billed subsequent to revenue recognition which results in trade receivables.

FUTURE ACCOUNTING PRONOUNCEMENTS

The following standard, made mandatory by the IASB, has not yet been adopted by the Company and is being evaluated to determine its impact:

- IFRS 16 *Leases*: A new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 *Leases* and instead introduces a single lease accounting model. The standard is effective for annual periods beginning on or after January 1, 2019.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a. Critical accounting judgements

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

a) Expected credit losses

Expected credit losses ("ECLs") on trade receivables are calculated based on the expected credit loss for clients with an accounts receivable balance greater than 90 days past due. When determining ECLs, the Company considers the historic credit losses observed by the Company, customer-specific payment history and economic conditions.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience, informed credit assessment and forward-looking information.

b) Share-based payments

The fair value of stock options issued with Canadian dollar exercise prices are subject to the limitation of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in the subjective input assumptions can materially affect the fair value estimate.

c) Valuation of financial instruments

The Company is required to determine the valuation of convertible debentures at inception. The convertible notes valuation required discounted cash flow analysis that involved various estimates and assumptions (Note 7 of the December 31, 2018 consolidated financial statements).

b. Critical accounting judgements

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the statements are, but are not limited to, the following:

i. Determination of functional currency

The functional and reporting currency of the Company is the US dollar. The functional currency determination was conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates. The determination of functional currency involves certain judgments to determine the primary economic environment and the Company reconsiders the functional currency if there are changes in events and conditions of the factors used in the determination of the primary economic environment.

ii. Going Concern

The preparation of these financial statements requires management to make judgments regarding the going concern of the Company. As at December 31, 2018, the Company had a working capital deficit of

$739,150 (2017 – positive $487,314). The Company likely has insufficient funds from which to finance its operating activities for the next 12 months; consequently, the Company remains dependent on external sources of financing until such time as it can internally generate sufficient income from software sales to service its on-going operating cost requirements.

RISKS AND UNCERTAINTIES

Ongoing Need for Financing

It is intended that the Company will continue to make investments to support business growth and may require additional funds to respond to business challenges, including the need to develop new services or enhance existing services, enhance operating infrastructure and acquire complementary businesses and technologies. Accordingly, the Company may need to engage in equity or debt financings to secure additional funds. If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of common shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, additional financing may not be available on favourable terms, if at all. If the Company is unable to obtain adequate financing or financing on terms satisfactory to them, when they require it, their ability to continue to support business growth and to respond to business challenges could be significantly limited.

Issuance of Debt

From time to time, the Company may enter into transactions to acquire the assets or shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. The level of the Company's indebtedness from time to time could impair its ability to obtain additional financing in the future, on a timely basis, to take advantage of business opportunities that may arise.

Company's Limited Operating History upon which its business can be evaluated

Company's business and prospects must be considered in light of the risk, expenses and difficulties frequently encountered by technology companies in the early stage of product development. Such risks include the unpredictable nature of Company's business, its ability to anticipate and adapt to a dynamic market and the ability to identify, attract and retain qualified personnel. There can be no assurance that Company will be successful in addressing these risks.

Company's History of Net Losses, may incur net losses in the future and may not achieve or maintain profitability

Company has incurred losses in recent periods. Therefore, there is no assurance that the Company will operate profitably or will generate positive cash flow in the future. In addition, the Company's operating results in the future may be subject to significant fluctuations due to many factors not within its control, such as the unpredictability of when customers will order products, the size of customers' orders, the demand for its products, and the level of competition and general economic conditions. The Company expects to incur operating losses and negative cash flow until its products gain market acceptance sufficient to generate a commercially viable and sustainable level of sales, and/or additional products are developed and commercially released and sales of such products made so that we are operating in a profitable manner.

Inability to attract new customers or sell additional services or products to its existing customers

To increase the Company's revenues, it must regularly add new customers, sell additional products and/or services to existing customers and encourage existing customers to increase their minimum commitment levels. If the Company's existing and prospective customers do not perceive the Company's products to be of sufficiently high value and quality, the Company may not be able to attract new customers or increase sales to existing customers and its operating results will be adversely affected.

Failure to meet or exceed the expectations of securities analysts or investors

The Company's quarterly results of operations may fluctuate as a result of a variety of factors, many of which are outside of its control. If the Company's quarterly results of operations fall below the expectations of securities analysts or investors, the price of the Company's shares could decline substantially. Fluctuations in quarterly results of operations may be due to a number of factors, including, but not limited to, those listed below:

- the Company's ability to increase sales to existing customers and attract new customers;
- the addition or loss of large customers;
- the amount and timing of operating costs and capital expenditures related to the maintenance and expansion of the Company's business, operations and infrastructure;
- the timing and success of new product introductions by the Company or its competitors;
- changes in the Company's pricing policies or those of competitors;
- limitations of the capacity of the Company's systems;
- the timing of costs related to the development or acquisition of products or businesses;
- general economic, industry and market conditions; and
- Geopolitical events such as war, threat of war or terrorist actions.

The quarterly revenues and results of operations of the Company may vary significantly in the future and that period-to-period comparisons of the Company's operating results may not be meaningful.

Limited Market for Securities

There can be no assurance that an active and liquid market for the Company's common shares will develop or be maintained on the Exchange.

Regulatory Matters

The operations carried on by the Company will be subject to government legislation, policies and controls. The exercise of discretion by governmental authorities under existing regulations, the implementation of new regulations or the modification of existing regulations affecting the industry are beyond the control of the Company and could have a material adverse impact on the Company and its business.

Privacy Issues

On behalf of its customers, the Company will collect and use anonymous and personal information and information derived from the activities of consumers. This enables the Company to provide its customers with anonymous or personally identifiable information from and about such consumers. Government bodies and agencies have adopted or are considering adopting laws regarding the collection, use and disclosure of this information. The Company's compliance with privacy laws and regulations and its reputation among the public depend on its customers' adherence to privacy laws and regulations and their use of the Company's services in ways consistent with consumers' expectations. The Company will also rely on representations made to it by its customers that their own use of the Company's services and the information the Company provides to them via its services do not violate any applicable privacy laws, rules and regulations or their own privacy policies. If these representations are false or if the Company's customers do not otherwise comply with applicable privacy laws, the Company could face potential adverse publicity and possible legal or other regulatory action.

Competition

The Company will compete in a rapidly evolving and highly competitive market, and failure to compete effectively may adversely affect its ability to generate revenues. Some of the Company's potential competitors have longer operating histories, greater name recognition, access to larger customer bases and substantially greater resources, including sales and marketing, financial and other resources. As a result, these competitors may be able to:

- absorb costs associated with providing their products at a lower price;
- devote more resources to new customer acquisitions;
- respond to evolving market needs more quickly than the Company; and
- finance more research and development activities to develop better products.

In addition, larger email encryption technology companies may enter the market, either by developing competing products, acquiring existing competitors or offering a broader product line which may provide a more comprehensive solution than the Company's current solutions, and compete against the Company effectively as a result of their significant resources. Moreover, many of these companies may have pre-existing relationships with the Company's current and potential customers. If the Company is not able to compete successfully against its current and future competitors, it will be difficult to acquire and retain customers, and the Company may experience limited revenue growth, reduced revenues and operating margins and loss of market share.

Incapacity to Cope with Rapid Technological Development

The Company's software business is characterized by rapidly changing technology and evolving industry standards. The Company believes that its success will depend on its ability to continuously develop products, to enhance current products and to introduce them promptly into the market. The Company can make no assurance that its technology or systems will not become obsolete due to the introduction of alternative technologies. If the Company is unable to continue to develop and introduce new products to meet technology changes and changes in market demands, its business and operating results, including its ability to generate revenues, could be adversely affected.

Ability to Manage Growth Effectively

Early stage technology companies face many risks. While management is unable to eliminate risks, the Company will intend on identifying and mitigating such risks as much as is reasonably possible. Many early stage technology companies are unsuccessful in achieving operational growth due to external factors that cannot be predicted, anticipated, or controlled by management, and even one such factor may result in the economic viability of a particular project being detrimentally impacted to the point where it is not feasible nor economical to proceed. The Company will frequently evaluate and monitor its activities and the risk factors which could impact those activities, and will make timely decisions in regard to risk management. Management will occasionally seek the assistance of experienced professionals when appropriate to address risks.

Any accelerated growth of the Company's revenue will place a strain on managerial and financial resources. Company's recent expansion has resulted in substantial growth in the number of its employees, and the scope of its operating and financial systems, resulting in increased responsibility for both existing and new management personnel. As such, the Company's future growth will depend upon a number of factors, including the ability to:

- build and train staff to create an expanding presence in the evolving marketplace for the Company's solutions, and to keep staff informed regarding the technical features, issues and key selling points of the Company's solutions;
- attract and retain qualified technical personnel to continue to develop reliable and scalable solutions and services that respond to evolving customer needs and technological developments; and
- expand the Company's internal management and enhance financial controls significantly to maintain control over operations and provide support to other functional areas within the Company.

The Company's inability to achieve any of these objectives could harm its business, financial condition and operating results.

Failure to Effectively Expand Sales and Marketing Capabilities

Increasing the Company's customer base and achieving broader market acceptance of its products will depend to a significant extent on its ability to expand its sales and marketing operations and attract new distribution channel partners. It is expected that the Company will be substantially dependent on its direct sales force and distribution channel partners to obtain new customers. There is significant competition for direct sales personnel and channel partners with the sales skills that the Company requires. The Company's ability to achieve significant growth in revenues in the future will depend, in large part, on its success in recruiting, training and retaining sufficient numbers of channel partners and of direct sales personnel. New hires require significant training and, in most cases, take a significant period of time before they achieve full productivity. The Company's hires may not become as productive as it would like, and the Company may be unable to hire or retain sufficient numbers of qualified individuals or partners in the future in the markets where it does business. The Company's business will be seriously harmed if these expansion efforts do not generate a corresponding significant increase in revenues.

Reliance on Intellectual Property

The Company will require continuous technological improvements in order to remain competitive. There can be no assurance that the Company will be successful in its efforts in this regard. While Company anticipates that its research and development experience will allow it to explore additional business opportunities, there is no guarantee that such business opportunities will be presented or realized. The commercial advantage of the Company may depend to an extent on its intellectual property and its ability to prevent others from copying its products. In the future, the Company may seek patents or other similar protections in respect of a particular technology or process; however, there can be no assurance that any future patent applications will actually result in issued patents, or that, even if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to the Company. Moreover, the process of seeking patent protection can itself be long and expensive. In the meantime, competitors may develop products that are similar or superior to the products of the Company or design around the patents owned by the Company, thereby adversely affecting the Company's competitive advantage in one or more of its businesses. Despite the efforts of the Company, its intellectual property rights may be invalidated, circumvented, challenged, infringed or required to be licensed to others. It cannot be assured that any steps it may take to protect its intellectual property rights and other rights to such proprietary technologies that are central to the Company's operations will prevent misappropriation or infringement of such technologies.

Infringement of Intellectual Property

From time to time the Company may receive notices from third parties alleging that it has infringed upon their intellectual property rights. Responding to any such claim, regardless of its merit, may be time-consuming, result in costly litigation, divert management's attention and resources and cause the Company to incur significant expenses. Any meritorious claim of intellectual property infringement against the Company may potentially result in a temporary or permanent injunction, prohibiting it from marketing or selling certain products or requiring it to pay royalties to a third party. In the event of a meritorious claim, failure of the Company to develop or license substitute technology, its business and results of operations may be materially adversely affected.

Potential Conflicts of Interest

Certain directors or officers of the Company are also directors, officers, shareholders and/or Promoters of other reporting and non-reporting issuers. Such associations may give rise to conflicts of interest from time to time. The directors and officers of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the Board of Directors, any director in a conflict will disclose his interest and abstain from voting on such matter. Conflicts of interest, if any, will be subject to, and will be resolved in accordance with, the procedures and remedies under the BCBCA.

Reliance on Others and Dependence on Key Personnel

The success of the Company will be strongly dependent upon the performance and technical expertise of its management and key employees, as well as the talents of its outside consultants and suppliers. There is little possibility that this dependence will decrease in the near term. As the Company’s operations expand, additional general management resources will be required, as the Company will encounter risks that are inherent in doing business in several countries.

Moreover, the Company may not have any “key man” insurance policies, and therefore there is a risk that the death or departure of any one or more members of management or any key employee could have a material adverse effect on the Company. The Company also faces intense competition for qualified personnel and there can be no assurance that the Company will be able to attract and retain the employees, personnel and/or consultants necessary to successfully carry out its activities.

Litigation

All industries are subject to legal claims, with and without merit. Defence and settlement costs can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, there can be no assurance that the resolution of any particular legal proceeding will not have a material effect on the Company’s operations and financial position.

Possible Dilution to Present and Prospective Shareholders

The Company may be required to complete additional equity financings and issue securities on less than favourable terms in order to raise sufficient capital to fund its business plan in a timely manner. Any future transaction involving the issuance of equity securities or securities convertible into common shares or issuance of previously authorized but unissued common shares would result in dilution, possibly substantial, to present and prospective shareholders of the Company.

Lack of Dividend Policy

The Company does not presently intend to pay cash dividends in the foreseeable future, as any earnings are expected to be retained for use in developing and expanding its business. However, the actual amount of dividends received from the Company will remain subject to the discretion of the Company’s Board of Directors and will depend on results of operations, cash requirements and future prospects of the Company and other factors.

Changes in Laws

Changes to any of the laws, rules, regulations or policies to which the Company is subject could have a significant impact on the Company's business. There can be no assurance that the Company will be able to comply with any future laws, rules, regulations and policies. Failure by the Company to comply with applicable laws, rules, regulations and policies may subject it to civil or regulatory proceedings, including fines or injunctions, which may have a material adverse effect on the Company's business, financial condition, liquidity and results of operations. In addition, compliance with any future laws, rules, regulations and policies could negatively impact the Company's profitability and have a material adverse effect on its business, financial condition, liquidity and results of operations.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

ADDITIONAL INFORMATION

Additional information relating to the Company can be found on SEDAR at www.sedar.com