IDENTILLECT TECHNOLOGIES CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS AT AND FOR THE SIX MONTHS ENDED JUNE 30, 2019

Dated: August 29, 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 six months ended June 30, 2019 and is prepared as at May 29, 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") , together with the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2019, which were prepared using accounting policies consistent with IFRS and in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting (collectively referred to as 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 condensed consolidated interim financial statements and MD&A, as well as ensured that management has discharged its financial responsibilities as at August 29, 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 June 30, 2019 included:

- Marketing programs working closely with the Legal Bar Associations developed in the previous year. Identillect increases their presence with Arkansas State Bar, New Jersey State Bar, CalBar Connect, Nebraska State Bar, and Wyoming Bar Association to increase member adoption.
- 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.
- Partnered with Idaho State Bar May 2019 to provide our encryption service to their members. Identillect will provide regular CLE around cyber-security and encrypted email communication to their members.
- Partnered with Kentucky Bar Association in June 2019 to provide our encryption service to their members. Identillect will provide regular CLE around cyber-security and encrypted email communication to their members.
- Launched Multi-Factor Authentication (MFA) technology which allows for stronger security authentication used often in the real estate and financial industries.
- Identillect has also lectured extensively to the various associations about advancing cyber security measures and serving their members technology needs Arkansas Bar, Minnesota Bar, California Lawyers Assn., Wyoming State Bar, CalBar Connect, Virginia Bar Assn, Pennsylvania Land Title Assn, Mississippi Bar, Alabama Bar Assn., Idaho Bar Assn., and the New Jersey State Bar.
- Continuously advancing enterprise controls for Gmail and O365
- Continuous development on Identillect's 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.
- Continue to advance the 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.
- Continually improve API authentication was implemented to meet GDPR security demands. Continually increasing user authorization, utilizing the most advanced API available.
- Identillect continually integrates the most advanced forms of secure communication with Multi-factor authentication. Identillect has integrated this technology for account login as well as recipient verification. MFA combines two or more independent credentials: what the user knows (password), what the user possesses (token) or what the user is like (biometric verification). The goal of MFA is to create a layered defense and make it more difficult for an unauthorized person to access a target such as a physical location, computing device, network or database. If one factor is compromised or broken, the attacker still has at least one more barrier to breach before successfully breaking into the target.

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 ensuring 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 12 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 440,000 members and anticipates this number to grow sustainably in 2019. Identillect has partnered 1 to 2 new state bars every month for 9 consecutive months 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 several opinions 477 and 483 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®.

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SUMMARY OF QUARTERLY RESULTS[1]

	2nd Quarter Ended Jun 30, 2019	1st Quarter Ended Mar 31, 2019	4th Quarter Ended Dec 31, 2018	3rd Quarter Ended Sept 30, 2018
Total revenue	$225,214	$266,598	$264,081	$278,535
Net loss and comprehensive loss	$229,228	$72,916	$487,809	$210,678
Basic and diluted loss per share	$(0.00)	$(0.00)	$(0.01)	$(0.00)

	2nd Quarter Ended Jun 30, 2018	1st Quarter Ended Mar 31, 2018	4th Quarter Ended Dec 31, 2017	3rd Quarter Ended Sept 30, 2017
Total revenue	$262,159	$280,571	$268,010	$236,894
Net loss and comprehensive loss	$387,894	$333,520	$514,922	$359,679
Basic and diluted loss per share	$(0.00)	$(0.00)	$(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 June 30, 2019

The following is an analysis of the Company's operating results for the three months ended June 30, 2019, and includes a comparison against the three months ended June 30, 2018.

Sales revenue, which consisted primarily of sales of software for the three months ended June 30, 2019 was $225,214, as compared to $262,159 for the three months ended June 30, 2018. Although the Company continued to add subscribers, revenues declined due to the Company's decision to remove some subscribers with whom it had become cost ineffective to continue given the difficulties faced in collection of outstanding amounts. The Company has implemented procedures with all new customers which eliminates this previous collection potential issue.

Cost of sales for the three months ended June 30, 2019 was $32,611, comparable to $52,858 for the three months ended June 30, 2018. The decrease was due to lower sales commissions as a result of a higher proportion of repeat customers.

General and administrative costs for the three months ended June 30, 2019 were $22,892 which is comparable to $20,672 for the three months ended June 30, 2018.

Operating costs for the three months ended June 30, 2019 were $53,126 as compared to $29,022 for the three months ended June 30, 2018. Operating costs increased primarily due to software costs.

Professional fees for the three months ended June 30, 2019 were $47,457 which is comparable to $45,702 for the three months ended June 30, 2018.

Salaries and wages for the three months ended June 30, 2019 were $147,042 as compared to $280,765 for the three months ended June 30, 2018. The decrease is due to a reduction in development and operation teams, as the software matures.

Sales and marketing for the three months ended June 30, 2019 were $6,752 as compared to $53,816 for the three months ended June 30, 2018. The decline is a result of the Company changing its approach to increasing corporate awareness.

Bad debts expense for the three months ended June 30, 2019 was $87,935 (2018 - $141,349) 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 June 30, 2019 of $229,228 as compared to comprehensive loss $387,894 for the three months ended June 30, 2018.

For the six months ended June 30, 2019

The following is an analysis of the Company's operating results for the six months ended June 30, 2019, and includes a comparison against the six months ended June 30, 2018.

Sales revenue, which consisted primarily of sales of software for the six months ended June 30, 2019 was $491,812, as compared to $542,730 for the six months ended June 30, 2018. Although the Company continued to add subscribers, revenues declined due to the Company's decision to remove some subscribers with whom it had become cost ineffective to continue given the difficulties faced in collection of outstanding amounts. The Company has implemented procedures with all new customers which eliminates this previous collection potential issue.

Cost of sales for the six months ended June 30, 2019 was $83,056, comparable to $119,827 for the six months ended June 30, 2018. The decrease was due to lower sales commissions as a result of a higher proportion of repeat customers.

General and administrative costs for the six months ended June 30, 2019 were $38,945 as compared to $44,352 for the six months ended June 30, 2018. General and administrative costs decreased primarily due to a to a decrease in staffing.

Operating costs for the six months ended June 30, 2019 were $76,390 as compared to $61,985 for the six months ended June 30, 2018. Operating costs increased primarily due to software costs.

Professional fees for the six months ended June 30, 2019 were $77,488 which is comparable to $76,202 for the six months ended June 30, 2018.

Salaries and wages for the six months ended June 30, 2019 were $302,597 as compared to $516,976 for the six months ended June 30, 2018. The decrease is due to a reduction in development and operation teams, as the software matures.

Sales and marketing for the six months ended June 30, 2019 were $9,139 as compared to $72,046 for the six months ended June 30, 2018. The decline is a result of the Company changing its approach to increasing corporate awareness.

Bad debts expense for the six months ended June 30, 2019 was $87,935 (2018 - $201,476) 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 six months ended June 30, 2019 of $302,145 as compared to comprehensive loss $721,414 for the six months ended June 30, 2018.

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 June 30, 2019, 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 period ended June 30, 2019.

The Company experienced a net loss and comprehensive loss of $302,145 for the six months ended June 30, 2019 (2018 - $721,414). The Company has a history of losses and accumulated losses of $10,527,997 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 six months ended June 30, 2019, the Company's operating activities consumed cash of $95,474 (2018 - $582,234).

Financing activities produced net cash of $40,104 (2018 – consumed $39,582) in the six month ended June 30, 2019. The Company generated $nil (2018 - $5,983) in relation to cash received for warrants exercised. 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 six months ended June 30, 2019, the Company generated $75,808 by way of proceeds on loans (2018 - $6,000) and repaid $35,704 in loans and interest (2018 – $51,565). Detailed debt schedules are provided in the accompanying condensed consolidated interim financial statements for the six months ended June 30, 2019

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 six months ended June 30, 2019	2018
Professional fees	Emprise Capital Corp, a company related to the CFO and a director of the Company	**$58,487**	$60,962
Salaries and wages	Todd Sexton, CEO, and Einar Mykletun, CTO	**105,988**	101,481
Legal	Cassels Brock & Blackwell LLP, a law firm in which a director of the Company is a partner	**1,728**	4,292
Share-based payments expense	Officers/Directors	**11,394**	38,376
		$ 177,597	$205,111

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

Type of Service	Nature of Relationship	June 30, 2019	December 31 2018
Promissory note payable (Note 6)	The Emprise Special Opportunities Fund (2017) LP, a fund related the CFO and a director of the Company	**$ 259,234**	$ 197,846
Other payables	Emprise Capital Corp, a company related to the CFO and a director of the Company	**41,721**	19,765
Legal Fees payable	Cassels Brock & Blackwell LLP, a law firm in which a director of the Company is a partner	**4,114**	2,178
Salaries and wages	Todd Sexton, CEO	**192,254**	132,716
		$ 497,323	$ 352,505

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

As at June 30, 2019 and December 31, 2018, the Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, loans, and convertible debenture. Cash and receivables are classified as amortized cost. Accounts payable and accrued liabilities, loans, and convertible debentures 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 June 30, 2019, accounts receivables of $177,341 (December 31, 2018 - $148,154) 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 total provision as at June 30, 2019 was $263,781.

For the three months ended June 30, 2019, no significant changes were noted for the expected loss rates.

The loss allowance provision for trade receivables as at June 30, 2019 reconciles to the opening loss allowance provision as follows:

Loss allowance provision	
December 31, 2017	**$ 14,092**
Changes in the year	484,122
Written off as not recoverable	(231,844)
December 31, 2018	**$ 266,370**
Changes in the period	204,599
Written off as not recoverable	(207,188)
June 30, 2019	**$ 263,781**

ii. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company 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 12 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 June 30, 2019, the Company has negative working capital of $1,016,108 (December 31, 2018 – negative $739,150) 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 June 30, 2019, 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 June 30, 2019, 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 June 30, 2019, $380,808 of the Identillect Technologies Inc.'s liabilities and $55,023 of its current assets are denominated in Canadian funds. A 1% change in the Canadian/US dollar exchange rate would result in a $4,264 net impact on the Company's foreign exchange gain or loss. As at June 30, 2019, 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

There were no shares issued during the period ended June 30, 2019.

	Number of Common shares
Balance as at December 31, 2018, June 30, 2019 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$)
Balance, December 31, 2017	**6,246,875**	**$ 0.17**
Issued	400,000	0.14
Exercised	(50,000)	0.16
Balance, December 31, 2018, June 30, 2019 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	2,550,000	$0.160	November 3, 2022
November 22, 2017	100,000	75,000	$0.220	November 22, 2022
November 22, 2017	10,000	7,500	$0.200	November 22, 2022
January 12, 2018	150,000	112,500	$0.270	January 12, 2023
August 14, 2018	250,000	125,000	$0.065	August 14, 2021

CHANGES IN ACCOUNTING POLICIES

The Company has adopted IFRS 16 as of January 1, 2019 as described below:

New standard adopted - IFRS 16 *Leases*

IFRS 16 is 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 lessee accounting model. The Company adopted IFRS 16 on January 1, 2019. The Company's accounting policy under IFRS 16 is as follows:

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change rate, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognized as an expense on a straight line basis over the lease term.

The Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

On the initial application, the Company has elected to apply a practical expedient whereby leases with lease terms ending within 12 months of the initial application of IFRS 16 shall be accounted for in the same way as short term leases. Accordingly, the adoption of IFRS 16 did not have a material impact. The short term lease obligation is as follows:

The Company entered into an office lease agreement during 2016. The lease term ends on October 31, 2019 with remaining lease payments of $52,824.

Short-term lease obligation		
December 31, 2018	**$**	**52,824**
Lease payments		(31,694)
June 30, 2019	**$**	**21,130**

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 8 of the June 30, 2019 condensed consolidated interim 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 June 30, 2019, the Company had a working capital deficit of $1,016,108 (December 31, 2018 – negative $739,150). 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

The significant risks and uncertainties of the Company are detailed in management’s discussion and analysis for the year ended December 31, 2018. There have been no material changes in the period.

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