ALPHINAT INC.

CONDENSED INTERIM FINANCIAL STATEMENTS

(unaudited)

AS AT FEBRUARY 29, 2020 AND FEBRUARY 28, 2019

The interim financial statements for the three and six-month periods ended on February 29, 2020 and February 28, 2019, have not been audited or reviewed by the Company's external auditors.

These financial statements are presented in Canadian dollars unless otherwise specified.

ALPHINAT INC.
BALANCE SHEETS
AS AT FEBRUARY 29, 2020 AND AUGUST 31, 2019

(in Canadian dollars)

	Note	**February 29, 2020 (unaudited)**	August 31, 2019 (audited)
ASSETS		**$**	$
Current assets			
Accounts receivable and other receivables	5	**493,826**	265,759
Prepaid expenses		**42,342**	8,976
		536,168	274,735
Non-current assets			
Fixed assets	6	**4,734**	3,728
Right of use assets	2	**308,397**	-
Intangible assets	7	**9,324**	11,074
Total assets		**858,623**	289,537
LIABILITIES			
Current liabilities			
Bank overdraft		**98,464**	8,627
Accounts payable and accrued liabilities	8	**959,143**	843,535
Deferred revenues		**320,263**	248,140
Current portion of lease liabilities	2	**58,364**	-
Loans from private companies bearing interest at 9% and 12%		**180,400**	254,200
Loan from an individual related to an important insider shareholder bearing interest at 12%		**16,139**	18,446
Loans from directors bearing interest at 12%		**45,625**	58,375
Loan from a company under common control bearing interest at 12%		**7,500**	8,750
Loans from shareholders bearing interest at 12%		**9,000**	11,125
Debentures	9	**120,000**	120,000
		1,814,898	1,571,198
Non-current liabilities			
Lease liabilities	2	**253,330**	-
Total liabilities		**2,068,228**	1,571,198
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	10	**6,713,719**	6,713,719
Contributed surplus	11	**1,833,202**	1,743,662
Deficit		**(9,756,526)**	(9,739,042)
Total equity (deficiency)		**(1,209,605)**	(1,281,661)
Total liabilities and equity		**858,623**	289,537

Going concern (note 1)

On behalf of the Board

(signed) Curtis Page, President *(signed) Marc Chartrand*, Chief financial officer

ALPHINAT INC.

STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX-MONTH PERIODS ENDED FEBRUARY 29, 2020 AND FEBRUARY 28, 2019

(in Canadian dollars)

(unaudited)	Note	**Share capital**	**Contributed surplus**	**Deficit**	**Total**
		$	$	$	$
Balance - August 31, 2019		6,713,719	1,743,662	(9,739,042)	(1,281,661)
Issuance of stock options	11	-	89,540	-	89,540
Net income		-	-	(17,484)	(17,484)
Balance - February 29, 2020		**6,713,719**	**1,833,202**	**(9,756,526)**	**(1,209,605)**

Balance - August 31, 2018		6,094,448	1,743,662	(9,739,559)	(1,901,449)
Debenture conversion	9	632,287	-	-	632,287
Net loss		-	-	(50,748)	(50,748)
Balance - February 28, 2019		6,726,735	1,743,662	(9,790,307)	(1,319,910)

ALPHINAT INC.

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

FOR THE THREE AND SIX-MONTH PERIODS ENDED FEBRUARY 29, 2020 AND FEBRUARY 28, 2019

(in Canadian dollars)

	Note	**February 29, 2020 (3 months) (unaudited)**	February 28, 2019 (3 months) (unaudited)	**February 29, 2020 (6 months) (unaudited)**	February 28, 2019 (6 months) (unaudited)
		$	$	**$**	$
REVENUES					
Licenses		**75,761**	26,078	**135,901**	83,540
Support		**105,699**	92,894	**228,533**	200,371
Professional services		**109,533**	101,868	**333,919**	177,634
		290,993	220,840	**698,353**	461,545
OPERATING EXPENSES					
Cost of services, selling and administrative	14	**227,188**	219,095	**406,438**	365,380
Research and development expenses	15	**93,375**	129,019	**175,420**	257,161
Stock based compensation	11	**-**	-	**89,540**	-
		320,563	348,114	**671,398**	622,541
NET INCOME (LOSS) BEFORE THE FOLLOWING ITEMS		**(29,570)**	(127,274)	**26,955**	(160,996)
Financial expenses	19	**26,064**	20,226	**40,846**	35,485
Depreciation - fixed assets		**1,040**	1,128	**1,843**	2,427
Amortization - intangible assets		**875**	469	**1,750**	937
		27,979	21,823	**44,439**	38,849
NET LOSS BEFORE INCOME TAXES		**(57,549)**	(149,097)	**(17,484)**	(199,845)
INCOME TAXES		-	-	-	-
NET LOSS AND COMPREHENSIVE LOSS		**(57,549)**	(149,097)	**(17,484)**	(199,845)
Basic and diluted loss per share	16	**(0.0009)**	(0.0025)	**(0.0003)**	(0.0034)
Weighted average number of common shares outstanding	10	**63,148,956**	59,303,264	**63,148,956**	59,303,264

Going concern (note 1)

ALPHINAT INC.

STATEMENTS OF CASH FLOWS

FOR THE THREE AND SIX-MONTH PERIODS ENDED FEBRUARY 29, 2020 AND FEBRUARY 28, 2019

(in Canadian dollars)

	Note	**February 29, 2020 (3 months) (unaudited)**	February 28, 2019 (3 months) (unaudited)	**February 29, 2020 (6 months) (unaudited)**	February 28, 2019 (6 months) (unaudited)
		$	$	**$**	$
OPERATING ACTIVITIES					
Net income (loss)		**(57,549)**	(149,097)	**(17,484)**	(199,845)
Adjustments for :					
Depreciation - fixed assets		**1,040**	1,128	**1,843**	2,427
Amortization - intangible assets		**875**	469	**1,750**	937
Depreciation of right of use assets		**2,508**	-	**3,297**	-
Stock based compensation		**-**	-	**89,540**	-
		(53,126)	(147,500)	**78,946**	(196,481)
Net change in non cash working capital items	4 a)	**31,222**	43,675	**(73,702)**	67,096
		(21,904)	(103,825)	**5,244**	(129,385)
INVESTING ACTIVITIES					
Acquisition of fixed assets		**(2,849)**	-	**(2,849)**	-
		(2,849)	-	**(2,849)**	-
FINANCING ACTIVITIES					
Loans from private companies		**-**	5,000	**-**	239,000
Repayment of loans from private companies		**(30,275)**	-	**(73,800)**	-
Loans from directors		**-**	8,000	**-**	-
Loan from an individual related to an important insider shareholder		**(2,307)**	-	**(2,307)**	-
Repayment of loans from directors		**(7,625)**	-	**(12,750)**	(14,000)
Loan from a company under common control		**-**	2,000	**-**	17,000
Repayment of loans from a company under common control		**(1,250)**	-	**(1,250)**	(50,000)
Loans from shareholders		**-**	5,000	-	5,000
Repayment of loans from shareholders		**(1,500)**	**-**	**(2,125)**	**-**
Repayment of debentures	4 b)	**-**	**-**	**-**	(112,000)
		(42,957)	20,000	**(92,232)**	85,000
NET CHANGE IN CASH		**(67,710)**	(83,825)	**(89,837)**	(44,385)
CASH (BANK OVERDRAFT), BEGINNING OF PERIOD		**(30,754)**	11,967	**(8,627)**	(27,473)
BANK OVERDRAFT, END OF PERIOD		**(98,464)**	(71,858)	**(98,464)**	(71,858)

Cash flows related to operating activities include paid interest of $24,317 for the three-month period ended February 29, 2020 ($16,812 for the three-month period ended February 28, 2019) and $53,074 for the six-month period ended February 29, 2020 ($40,533 for the six-month period ended February 28, 2019).

1. DESCRIPTION OF BUSINESS AND GOING CONCERN

The Company was incorporated on March 12, 2004 under the Canada Business Corporations Act. Its mission is to develop and market software products that meet leading edge industry standards and that allow for the implementation of self service solutions and Web based work space, thereby facilitating all dealings between the organization and its clients, partners, suppliers, employees and shareholders.

Alphinat Inc. operates, grouped under one activity area, in four primary markets:

- Public sector
- Telecommunications
- Healthcare sector
- Financial institutions

The solutions provided help to reduce the complexity and costs of an organization's business processes by computerizing data input, processing, switching and dissemination.

These solutions offer a one stop service to users who must deal with many different stakeholders and information sources within an organization whether it is a business or government organization.

Alphinat Inc.'s common shares are trading on the TSX Venture Exchange in Toronto under the NPA symbol. Stock options are not traded on a stock exchange.

The Company's registered head office is located at 2000 Peel Street, Suite 680, Montreal, Quebec, Canada, H3A 2W5.

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis. Under the going concern assumption, a company is viewed as being able to continue its operations in the foreseeable future and realize its assets and discharge its liabilities in the normal course of operations.

Although these condensed interim financial statements have been prepared on a going concern basis, certain facts and circumstances raise doubts as to this assumption. The Company incurred major operating losses in the past. Its current liquidities may be insufficient to meet its obligations as the Company's current liabilities exceed its current assets by $1,278,730 as at February 29, 2020 ($1,296,463 as at August 31, 2019). The cash flow shortfall was covered in previous years by loans from directors, shareholders, an individual related to an important insider shareholder, a company under common control and other and by the issuance of debentures. However, in November 2018, the Company entered into a settlement with the majority of debenture holders by converting debentures into share capital. This settlement will significantly reduce the future financial expenses of the Company. The Company is planning to make these repayments upon receipt of significant receivables from certain clients and partners. That being said, these delays could lead certain debenture holders to recall their loan under the terms of the debenture, it is however important to note that these debenture holders are also important shareholders of the company. These situations indicate the existence of material uncertainties that may cast significant doubt about the Company ability to pursue its activities.

The Company has focused on developing strong channel partner alliances in United States, in Canada and in France while improving versions of its SmartGuide® software. Deferred revenues totaling $320,263 as at February 29, 2020, ($248,140 as at August 31, 2019) will be recognised in revenues in the coming quarters.

The Company's continued operations depend on management's ability to successfully implement its business plan, under which it expects to be able to increase its operating revenues from existing products and have agreements and partnerships with third parties. There is no assurance that these measures implemented by management will provide results. these condensed interim financial statements do not include any adjustments that would be required if the Company was unable to continue operating. Should the Company be required to realize the value of its assets and settle its obligations in other than the ordinary course of business, the net realizable value of its assets may be materially less than the amounts shown in the interim financial statements. These adjustements could be material.

1. DESCRIPTION OF BUSINESS AND GOING CONCERN (CONTINUED)

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company's board of directors has approved and authorized for publication these condensed interim financial statements on April 23, 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all financial years presented in these condensed interim financial statements, unless otherwise indicated.

Basis of measurement

These condensed interim financial statements have been prepared on an accrual basis under the historical cost convention.

FINANCIAL INSTRUMENTS

Recognition and derecognition
Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets
Except for those account receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:
- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the Company does not have any financial assets categorised as FVTPL or FVOCI. The classification is determined by both:
- the entity’s business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, except for impairment of account receivables which is presented within cost of services, selling and administrative.

Subsequent measurement of financial assets

Financial assets at amortised cost
Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):
- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. Accounts receivable (except sales taxes) fall into this category of financial instrument.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Impairment of financial assets
IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaced IAS 39's 'incurred loss model'.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:
- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2).

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Accounts receivable and other receivables
The Company makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Company assess impairment of trade receivables on an individual basis.

Classification and measurement of financial liabilities
The Company's financial liabilities include bank overdraft, accounts payable and accrued liabiliites, loans and debentures.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

All interest-related charges are included within finance costs.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FIXED ASSETS

Fixed assets are initially recorded at cost, including acquisition fees and all the preparation fees directly related to the asset before it can be used. Subsequent to the initial measurement, fixed assets are recorded at cost, less accumulated depreciation and impairment.

Depreciation is recognised on a straight-line basis, in line with the asset's useful life, as follows:

	Methods	Duration
Office furniture and equipment	Straight-line	5 years
Computer equipment	Straight-line	3 years

The Company allocates the amount initially recognised for a fixed assets to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gain and losses on disposals of fixed assets are determined by comparing the proceeds with the carrying amount of the asset and are included as part of the net income in other revenues or other charges.

INTANGIBLE ASSETS

The Company's intangible assets are capitalized and amortized on a straight-line basis in the statement of income over their expected useful lives as follows:

	Methods	Duration
Trademarks	Straight-line	4 years

Residual value and useful life duration are reviewed each year at year-end.

IMPAIREMENT OF FIXED ASSETS

Fixed assets and intangible assets with finite lives subject to depreciation or amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is required to assess at each reporting date whether there is any indication that an asset may be impaired. Where such an indication exists, the asset's recoverable amount is compared to its carrying value, and an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its' value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, or cash-generating units ("CGU"). In determining the value in use of a given asset or CGU, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Fixed assets and intangible assets with finite lives subject to depreciation or amortization that suffered impairment are reviewed for possible reversal of the impairment if there has been a change, since the date of the most recent impairment test, in the estimates used to determine the impaired asset's recoverable amount. However, an asset's carrying amount, increased due to the reversal of a prior impairment loss, must not exceed the carrying amount that would have been determined, net of depreciation or amortization, had the original impairment not occurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHAREHOLDERS' EQUITY

Common shares issued with a share issuance, are classified as equity and are recorded in shareholders' equity at their issuance value. Incremental costs directly attributable to the issuance of shares or warrants are recorded in share capital, net of tax deduction.

Other components of equity
Contributed surplus includes stock based compensation expense until the exercice of those financial instruments. When exercised, the cost of the stock based compensation expense is credited to share capital. Deficit includes all the losses for current and past years.

RESEARCH AND DEVELOPMENT AND OTHER TAX CREDITS

Research and development and other tax credits are recognised when there is reasonable assurance that they will be received. Government authorities may not agree with the sompany's interpretation as it relates to admissibility of its research and development tax credits demands. When research and development tax credits relate to an asset, they are recognised as a decrease in the asset acquisition cost. When they relate to an expense item, they are reported in earnings.

RESEARCH AND DEVELOPMENT EXPENSES

Development expenses that do not meet the accepted accounting criteria for deferral and research expenses are charged to expenses in the year in which they are incurred. Development costs are deferred if they meet accepted accounting criteria for deferral and amortization and are amortized over the estimated period of economic benefits. As at February 29, 2020 and February 28, 2019 no development costs have been deferred.

PROVISIONS

In accordance with IAS 37 (provisions, contingent liabilities and contingent assets) provisions for risk and charges are recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic resources will be required to settle the obligation. In the case where a potential obligation resulting from past events exists, but where the occurrence of the outflow of resources is not probable or the estimate is not reliable, these contingent liabilities are disclosed in off-balance sheet commitments and litigation. The provisions are measured based on management's best estimate of the outcome on the basis of facts known at the reporting date.

Disputes are subject, case by case, to regular monitoring by the Company with the help of outside counsel for litigation that are more significant and complex. A provision is recognised when it becomes probable that a present obligation arising from past events will require a settlement whose amount can be measured reliably. The evaluation of the provision is the best estimate of the outflow of resources allowing the extinction of this obligation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

Professional service revenues are recognised according to the percentage of completion method. Percentage of completion is usually established by comparing the accrual costs incurred to the total cost of the contract. Work in progress is established by taking into account services rendered that have not yet been invoiced. Any payment received before services are rendered, is recorded as deferred revenue and recognised as revenues as the services are rendered.

Revenues from the sale of software licenses are recognised when there is persuasive evidence of a valid arrangement, the software product has been delivered and accepted by the client, and no significant obligations from the Company remain. Revenues from leasing the licenses as well as after-sales technical support is recognised on a straight-line basis over the contractual service period and revenues from other services are recognised as the services are rendered.

The Company conducts transactions involving many of its services and products such as software sales and support services. In all cases, the total transaction price of a given contract is distributed among the various obligations in proportion to the specific selling prices of each.

OPERATING LEASES

Since September 1, 2019, the Company has adopted the IFRS 16 accounting standard. Leases are valued at their present value based on the number of payments of the liability and using the interest rate provided for in the lease.

GOVERNMENT GRANTS

During the course of its activities, it is possible that the Company receives different grants. These grants are recognised when there is a reasonable assurance that they will be received and that the Company will comply with the conditions associated with the grant. Grants that compensate the Company for a specific expense incurred are recognised in the statement of income against the expense.

INCOME TAXES

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred income taxes are calculated using the balance sheet liability method.

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilised against future taxable income. This is assessed based on the Company's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is determined using the weighted average number of shares outstanding during the period.

Diluted earnings per share is determined using the weighted average number of shares outstanding during the period plus the dilutive potential effect of the common shares outstanding during the period. The diluted earnings per share is calculated using the treasury stock method as if all the potential dilutive shares had been issued no later than the beginning of the year or the issuance date, and the proceeds received had been used to redeem the Company's shares at the average market price during the period.

When funds are received, at the date of issuance of dilutive instruments, the net amount is adjusted net of tax expenses related to these instruments.

Diluted earnings per share is the same as basic earnings per share due to the anti-dilutive effect of stock options when the Company suffers losses or the stock options are issued at a premium to the average market price.

STOCK BASED COMPENSATION

The Company has granted stock options as described in note 11 a). Stock based compensation expense is recorded using the fair value method for the options granted to directors, officers and employees. Under this method, the stock based compensation expense is measured at the fair value at the date of grant using an option pricing model and is recognised over the vesting year of the options.

The Company estimates the fair value of stock options using the Black Scholes option pricing model. The Black Scholes model was developed to estimate the fair value of traded options that have no vesting or transfer restrictions. Furthermore, this pricing model requires the use of subjective assumptions including expected stock price volatility.

When goods or services are obtained in exchange for stock options or warrants, the Company estimates the goods or services received and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless the fair value cannot be reliably estimated. If the Company cannot estimate reliably the fair value of the goods or services received, it evaluates the value and the corresponding increase in equity, indirectly, by reference to the fair value of equity instruments granted.

All considerations paid for stock options and the amount previously included for these stock options in shareholders' equity (contributed surplus) are credited to the share capital when the options are exercised.

ACCOUNTS DENOMINATED IN FOREIGN CURRENCIES

Presentation currency and foreign currency operations

The Canadian dollar is the Company's presentation currency, which is also the Company's functional currency.

Foreign currency transactions are translated into the functional currency environment in which the entity operates using the exchange rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies at the date of the statement of financial position are converted into functional currencies at the exchange rates prevailing at that date. All resulting changes are recognised in profit of loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTING STANDARD ADOPTION

The following amendments to the existing standards have been adopted by the Company :

IFRS 15 - Revenue from Contracts with Customers - In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue – Barter Transactions Involving Advertising Services.

The standard provides for a single model that applies to contracts with customers as well as two revenue recognition approaches: at a point in time or over time. The proposed model features a contract-based, five-step analysis of transactions to determine whether, when and how much revenue is recognised. New thresholds have been established for estimates and judgments, which could affect the amount of revenue recognised and/or the timing of recognition.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or leases, which are within the scope of other IFRSs. The new standard is effective for annual periods beginning on January 1, 2018. The Company has adopted this standard on September 1, 2018 retrospectively with restatement of comparative periods and has determined it had no significant impact on its results and financial situation. IFRS 15 was only applied to contracts that were incomplete on September 1, 2018.

IFRS 9 – Financial Instruments - On July 24, 2014, the IASB issued the final version of IFRS 9, referred to as IFRS 9 (2014). The final standard largely retains the classification and measurement requirements and new hedge accounting model included in earlier versions, while introducing a single forward-looking expected credit loss impairment model. The main features introduced in the final version of this new standard are as follows:

• Financial assets are measured at fair value through other comprehensive income if they are held within a business model whose objective is to both collect contractual cash flows and sell financial assets, and the contractual cash flows are solely payments of principal and interest.

• All gains and losses on financial assets measured at fair value through other comprehensive income are recognised in profit or loss when the financial asset is impaired, reclassified to fair value through profit or loss, or derecognised.

• An expected credit loss impairment model is applicable to financial instruments measured at amortized cost or fair value through other comprehensive income, lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes 12-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses if credit risk has increased significantly since initial recognition.

• IFRS 9 also includes new general hedge accounting requirements, which will result in aligning hedge accounting more closely with risk management. These new requirements do not significantly change the types of hedging relationships or the requirement to measure hedge ineffectiveness. However, they will provide a broader range of hedging strategies for risk management purposes that qualify for hedge accounting, and further require the use of judgment in measuring the effectiveness of a hedging relationship. Specific transitional provisions have been developed to apply the new general hedge accounting requirements.

The Company will have to classify financial assets as subsequently measured either at amortized cost or fair value, on the basis of the Company's business model for managing the financial assets and contractual cash flows of the financial asset. Measurement at amortized cost for most financial liabilities is maintained; however, when an entity measures a financial liability at fair value, the portion of the changes in fair value related to the entity's own credit risk must be presented in other comprehensive income rather than in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTING STANDARD ADOPTION (CONTINUED)

IFRS 9 – Financial Instrument (continued)

IFRS 9 also resulted in consequential amendments to IFRS 7 Financial Instruments: Disclosures to include disclosures about an entity's risk management strategy and the effect of hedge accounting on the financial statements.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and the standard must be applied retrospectively, with restatement of comparative periods. The Company has adopted this standard with no significantly impact on its results and financial situation except for the reclassification of its financial assets in the amortized cost category where they were classified as loans and receivable under IAS 39. In addition, the Company applies a simplified model for accounting for expected credit losses for the life of contract assets arising from IFRS 15 and receivables, since these elements do not have a significant financing component.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration – This new interpretation, issued by the IASB in December 2016, provides guidance on the issue of the "date of the transaction" for the purpose of determining the exchange rate at the time of the transaction, to apply to transactions that are within the scope of IAS 21, Effects of Changes in Foreign Exchange Rates, which involve the receipt or payment of an advance consideration in a foreign currency. The main elements of the interpretation are:

• The entity uses the exchange rate on the date that the foreign currency advance consideration is paid or received to convert the asset, expense or related income on initial recognition.

• When the consideration paid or received in advance consists of multiple payments, the entity determines the date of the transaction for each of them.

The interpretation applies for annual reporting periods beginning on or after January 1, 2018. The Company has adopted this standard with no significantly impact on its results and financial situation.

IFRS 16 - Leases - In January 2016, the IASB issued IFRS 16 which will replace IAS 17 - Leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position with exemptions permitted for leases of low-value assets. In addition, IFRS 16 changes the definition of a lease, sets requirements on how to account for the asset and the liability (including complexities such as non-lease elements, variable lease payments and options periods), changes the accounting for sale and leaseback arrangements, largely retains the approach to lessor accounting in IAS 17, and introduces new disclosure requirements.

On September 1st, 2019, the Company adopted the new standard IFRS 16. The Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lease rate which is 3% plus September 1st, 2019 prime rate of 3.95%, for a total interest of 6.95%. The change in accounting method resulted in an increase of $343,982 in right of use assets and lease liabilities as of September 1st, 2019.

IFRIC 23 – Uncertainty over income tax treatments – This new interpretation, issued by the IASB in June 2017, provides guidance as to when it is appropriate to recognize a current tax asset when the taxation authority requires an entity to make an immediate payment related to an amount in dispute. This interpretation applies for annual reporting periods beginning on or after January 1, 2019. On September 1st, 2019 the Company adopted the new accounting standard and has concluded that there is no significant impact resulting from the application of this new standard on its financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in accordance with IFRS often requires management to make estimates and apply assumptions or subjective judgment to future events and other matters that affect the reported amounts of the Company's assets, liabilities, revenues, expenses and related disclosures. Assumptions, estimates and judgments are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Company's financial statements are prepared. Management reviews, on a regular basis, the Company's accounting policies, assumptions, estimates and judgments in order to ensure that the financial statements are presented fairly and in accordance with IFRS.

Critical accounting estimates and judgments are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustments.

Management considers the following areas to be those where critical accounting policies affect the significant judgments and estimates used in the preparation of the Company's financial statements.

Fair value of stock options

Determining the fair value of stock options at the grant date requires judgment related to the choice of a pricing model, the estimation of stock price volatility and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results or other components of shareholders' equity.

Fair value

Financial instruments must be recorded at their fair value on initial recognition. These instruments are then estimated at amortized cost or at fair value based on their classification.

Fair value is the amount of consideration that would be agreed between knowledgeable parties acting under conditions of competition. This measurement is performed at a specific time and may be modified during future reporting years due to future market conditions or other factors.

Fair value for that instrument is determined using the most advantageous quoted prices on an active market to which the Company has immediate access. If there is no active market, fair value is based on internal or external valuation models, including discounted cash flows models. Fair value determined using these valuation models requires the use of assumptions regarding the amount and timing of estimated future cash flows, as well as a number of other variables. In determining these assumptions, external readily observable market data are used as applicable. Otherwise, the Company uses the best estimate. Since they are based on estimates, these fair values may not be realized through an actual sale or immediate settlement of these instruments.

Revenue allocation of multiple component contracts

The Company's arrangements often include a mix of services and products. If an arrangement involves the provision of multiple components, the total arrangement value is allocated to each separately identifiable component based on its relative selling price. A component is considered to be separately identifiable if it has value to the client on a stand-alone basis. Assessing whether an arrangement involving the provision of multiple components has separately identifiable components requires judgment by management. When estimating selling price, the Company maximizes the use of observable prices which are established using the Company's prices for same or similar components. When observable prices are not available, the Company estimates selling prices based on its best estimate of selling price. The best estimate of selling price is the price at which the Company would normally expect to offer the services or products and is established by considering a number of internal and external factors including, but not limited to, the Company's pricing policies, internal costs and margins. The appropriate revenue recognition method is applied for each separately identifiable component.

(unaudited) (in Canadian dollars)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Deferred income taxes

When the company incurs losses that cannot be associated with current or past profits, it evaluates the probability of generating taxable income in the future based on its budget forecasts. These forecasts are adjusted to take account of certain non-taxable revenues and expenses and specific regulations relating to the use of unused credit or unused tax losses. When the forecasts indicate that future taxable profits will be sufficient for temporary differences to be deductible, a deferred tax asset is recognised for all deductible temporary differences.

Government assistance

The Company is entitled to government assistance in the form of research and development tax credits and grants. These are applied against related expenses and the cost of the asset acquired. Tax credits are available based on eligible research and development expenses consisting of direct and indirect expenditures and including a reasonable allocation of overhead expenses. Grants are subject to compliance with terms and conditions of the related agreements. Government assistance is recognised when there is reasonable assurance that the Company has met the requirements of the approved grant program or, with regard to tax credits, when there is reasonable assurance that they will be realized.

Work in progress

Revenues from long-term contracts are accounted for using the stage of completion method. The stage of completion is generally determined by comparing the incurred actual costs to anticipated total costs to complete the contract, excluding costs that are not representative in measuring the stage of completion. Estimated revenues include revenues from order changes and claims, when it is probable that they will result in additional revenue and that the amount can be reliably estimated. If a revision of a contract indicates a negative gross margin, the total expected loss on the contract is recognised in cost of services in the year during which the negative gross margin is determined.

Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment. The current situation indicates the existence of a material uncertainty, which may cast significant doubt upon the Company's ability to continue as a going concern. Further information regarding going concern is outlined in note 1.

4. SUPPLEMENTARY CASH FLOW INFORMATION

a) Net change in non-cash working capital items is as follows for the periods ended :

	February 29, 2020 (3 months)	February 28, 2019 (3 months)	**February 29, 2020 (6 months)**	February 28, 2019 (6 months)
	$	$	**$**	$
Accounts receivable and other receivables	**(123,257)**	(112,858)	**(228,067)**	(79,516)
Prepaid expenses	**(28,933)**	(322)	**(33,366)**	(5,479)
Accounts payable and accrued liabilities	**147,113**	60,138	**115,608**	86,068
Deferred revenues	**36,299**	96,717	**72,123**	66,023
	31,222	43,675	**(73,702)**	67,096

4. SUPPLEMENTARY CASH FLOW INFORMATION (CONTINUED)

b) Changes arising from financing activities are as follows for the years ended :

	February 29, 2020 (3 months)	February 28, 2019 (3 months)	**February 29, 2020 (6 months)**	February 28, 2019 (6 months)
	Debentures	Debentures	**Debentures**	Debentures
	$	$	**$**	$
Balance, beginning of period	**120,000**	120,000	**120,000**	864,286
Repayment of debentures	**-**	-	**-**	(112,000)
Conversion	**-**	-	**-**	(632,286)
	120,000	120,000	**120,000**	120,000

	Loans	Loans	**Loans**	Loans
	$	$	**$**	$
Balance, beginning of period	**301,621**	311,360	**350,896**	134,360
Increase in loans	**-**	20,000	**-**	261,000
Repayments of loans	**(42,957)**	-	**(92,232)**	(64,000)
	258,664	331,360	**258,664**	331,360

5. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	February 29, 2020	August 31, 2019
	$	$
Accounts receivable in Canadian currency (1)	**206,384**	134,654
Accounts receivable in Euro currency (1)	**52,288**	63,785
Accounts receivable in US currency (1)	**78,659**	-
Research and development tax credits	**62,406**	50,119
Receivable grant	**-**	11,650
Work in progress	**84,919**	-
Advances to a shareholder	**9,170**	5,551
	493,826	265,759

(1) The terms of these accounts receivable are detailed in the following table:

Breakdown of accounts receivable:	**February 29, 2020**	August 31, 2019
	$	$
0 to 30 days	**178,295**	94,282
31 to 60 days	**142,038**	91,016
61 to 90 days	**882**	-
More than 90 days	**16,116**	13,141
	337,331	198,439

(unaudited) (in Canadian dollars)

6. FIXED ASSETS

	Office furniture and equipment	Computer equipment	Total
Cost	$	$	$
Balance as at August 31, 2019	12,843	28,926	41,769
Acquisitions	-	2,849	2,849
Balance as at February 29, 2020	12,843	31,775	44,618
Accumulated depreciation			
Balance as at August 31, 2019	12,022	26,019	38,041
Depreciation	141	1,703	1,843
Balance as at February 29, 2020	12,163	27,722	39,884
Net book value as at February 29, 2020	680	4,053	4,734

	Office furniture and equipment	Computer equipment	Total
Cost	$	$	$
Balance as August 31, 2018	12,285	27,624	39,909
Acquisitions	558	1,302	1,860
Balance as at August 31, 2019	12,843	28,926	41,769
Accumulated depreciation			
Balance as August 31, 2018	11,133	22,534	33,667
Depreciation	889	3,485	4,374
Balance as at August 31, 2019	12,022	26,019	38,041
Net book value as at August 31, 2019	821	2,907	3,728

7. INTANGIBLE ASSETS

	Trademarks
Cost	$
Balance as at August 31, 2019	38,000
Acquisitions	-
Balance as at February 29, 2020	38,000
Accumulated amortization	
Balance as at August 31, 2019	26,926
Amortization	1,750
Balance as at February 29, 2020	28,676
Net book value as at February 29, 2020	9,324

	Trademarks
Cost	$
Balance as August 31, 2018	31,500
Acquisitions	6,500
Balance as at August 31, 2019	38,000
Accumulated amortization	
Balance as August 31, 2018	24,780
Amortization	2,146
Balance as at August 31, 2019	26,926
Net book value as at August 31, 2019	11,074

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	February 29, 2020	August 31, 2019
	$	$
Accounts payable and accrued liabilities, contracted in Canadian currency	**226,798**	216,943
Accounts payable, contracted in US currency	**52,865**	14,147
Liabilities payable to shareholders, without interest	**63,959**	63,959
Interest payable to shareholders at the rate of 9% and 12%	**9,468**	30,919
Salaries and fringe benefits	**184,925**	148,897
Sales tax	**43,450**	3,129
European taxes payable, contracted in Euro currency	**377,679**	365,541
	959,143	843,535

9. DEBENTURES

Class A and B debentures issued during the year ended August 31, 2013 ($810,358) and the year ended August 31, 2014 ($270,000), unsecured, bearing an annual interest rate of 10%, with interest payable quarterly and maturing on September 30, 2017, right to convert the principal amount plus any unpaid accrued interest during the next equity issue of the Company at the market price at the date of issuance. In the event that the issue was offered at a discount to market, insiders Class B debenture holders shall not be entitled to any discount. Redeemable by the Company on or after September 30, 2015, or prior to that date in the event of a change of control (50%) or in the event that the Company proceeds to complete a public issue of its securities of $3,000,000 or more.

The Company issued one common share for every dollar of Class A debentures subscribed. Class B debentures were offered, in the context of a debt settlement, exclusively to secured lenders who advanced $500,000 to the Company in October 2011. In consideration of the cancellation of the secured indebtedness, which bears interest at a substantially higher rate than the Class B debentures and the removal of the security, the Company issued Class B debentures on the basis of 120% of the secured indebtedness being settled. In addition, the secured lenders have received one common share per dollar of Class B debentures subscribed.

Following approval at the special shareholders meeting on February 26, 2014, the Company has issued 198,989 additional common shares to Class B debenture holders.

In February 2017 the debenture holders of the Class A and Class B debentures have agreed to an extension of the maturity date of the debentures. The debentures continue to bear interest at 10% annually and shall now be reimbursed over a period of four years, being 20% no later than September 30, 2017, 30% no later than September 30, 2018, 20% no later than September 30, 2019 and the balance no later than September 30, 2020.

On November 20, 2018 the Company issued an aggregate of 12,645,736 Common Shares to Class A and Class B debenture holders who converted their debentures pursuant to the Company's offer announced in its press release of October 5, 2018. Furthermore, $112,000 of debentures were repurchased for cancellation by the Company with the purchase financed over eight quarterly payments at an interest rate of 12%. An aggregate of $120,000 of debentures were not converted and remain outstanding.

As at February 29, 2020 the company was late in repayment in principal of debentures in the amount of $90,000. Since the Company is in payment default, the balance is presented in the current liabilities.

	February 29, 2020	August 31, 2019
	$	$
Debentures Class A - non insiders	**120,000**	120,000
Short term portion	**(120,000)**	(120,000)
	-	-

The installments over the next year are as follows:

	$
2020	120,000

(unaudited) (in Canadian dollars)

10. CAPITAL STOCK

a) Authorized

An unlimited number of participating and voting common shares.

b) Issued

	February 29, 2020	August 31, 2019
	$	$
63,148,956 common shares as at February 29, 2020 and August 31, 2019	**6,713,719**	6,713,719

c) Transactions during the year ended August 31, 2019

On November 20, 2018 the Company issued an aggregate of 12,645,736 Common Shares to Class A and Class B debenture holders who converted their debentures pursuant to the Company's offer announced in its press release of October 5, 2018. The shares were issued at a price of $0.05 per share (closing price of $0.0325 the day of announcement), being the minimum issuance price pursuant to the TSX Venture Exchange regulations for an aggregate consideration of $632,286.

d) Capital stock details	**Number**	**Amount**
		$
Balance as at August 31, 2017 and 2018	50,503,220	6,094,448
- Issuance of capital stock (note c)	12,645,736	632,286
- Share issue expenses		(13,015)
Balance as at February 29, 2020 and August 31, 2019	63,148,956	6,713,719

11. STOCK OPTIONS

a) Stock options

Subsequent to the reverse takeover on April 27, 2005, the Company introduced a stock option plan. This plan replaced the stock option plan that existed in the capital pool company prior to the reverse takeover transaction.

Pursuant to the terms of the new plan modified in February 2010 and February 2013, the Board of Directors is authorized to grant directors, officers, employees and consultants of the Company's options to acquire common shares of the Company. Options granted under this plan have a maximum term of five years and will be granted at a price and for other conditions determined by the directors in order to achieve the objective of the new plan, the whole in accordance with the applicable regulatory policies. The maximum number of options that can be granted under this plan is 7,193,041. The exercice price of the option may not be below the market price.

The maximum number of options that may be granted to a beneficiary of the Company cannot exceed 5% of the total outstanding common shares. The maximum number of options that may be granted to consultants cannot exceed 2% of the total outstanding common shares.

The following table presents information concerning outstanding stock options for the three-month period ended February 29, 2020 and the year ended August 31, 2019 (these options are vested as granted):

	Number of options	**Weighted average exercise price per share**
		$
Balance - August 31, 2018	2,108,544	0.12
Expired	(1,190,294)	0.12
Balance as at August 31, 2019	918,250	0.12
Granted	4,335,000	0.12
Balance as at February 29, 2020	**5,253,250**	**0.12**

(unaudited) (in Canadian dollars)

11. STOCK OPTIONS (CONTINUED)

Transactions during the six-month period ended February 29, 2020 and the year ended August 31, 2019

On November 19, 2019, the company has granted 4,335,000 stock options that entitle the holder to purchase 4,335,000 common shares at an exercise price of $0.12, for a period of three years.The fair value of $89,540 was estimated on the grant date using the Black and Scholes pricing model. These stock options are vested at issue.

During the year ended August 31, 2019, 1,190,294 options expired and 1,000,000 expired during year ended August 31, 2018.
The following assumptions were used:

	November 19, 2019
Risk-free interest rate	1.51%
Expected volatility	118%
Dividend yield	0%
Expected life	3 years

The following table summarizes information about outstanding stock options granted by the Company as at February 29, 2020 and August 31, 2019 :

Outstanding options				**Exercisable options**	
Range of exercise price	**Number of options**	**Weighted average remaining contractual life (months)**	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
$			**$**		**$**
As at August 31, 2019					
0.12	918,250	20	0.12	918,250	0.12
As at February 29, 2020					
0.12	**5,253,250**	**30**	**0.12**	**5,253,250**	**0.12**

b) Contributed surplus
Contributed surplus includes outstanding and expired stock options. The balance is as follows :

	February 29, 2020	August 31, 2019
	$	$
Outstanding stock options	**124,060**	34,520
Expired stock options	**1,684,142**	1,684,142
Others	**25,000**	25,000
	1,833,202	1,743,662

12. COMMITMENTS

The commitments of the Company under a lease for the rental of its office in Montreal, expiring June 30, 2024, amount to $361,794. The installments over the next years are as follows:

	$
2020	40,795
2021	82,271
2022	83,307
2023	84,364
2024	71,057

(unaudited) (in Canadian dollars)

13. FINANCIAL INSTRUMENTS

Fair value

The Company measured the fair value of its financial instruments based on current interest rates, fair value and the current price of financial instruments with comparable characteristics. Unless otherwise indicated, the carrying value is considered approximately equal to fair value. IFRS 7 requires additional disclosure regarding fair value measurements, including a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three levels of hierarchy regarding fair value measurements are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;
Level 2 – Inputs, other than quoted prices, for which assets or liabilities are directly or indirectly observable;
Level 3 – Inputs that are not based on observable market data.

	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets at amortized cost				
Accounts receivable	-	210,089	-	210,089
Advances to a shareholder	-	5,551	-	5,551
Financial liabilities at amortized cost				
Bank overdraft	(8,627)	-	-	(8,627)
Accounts payable and accrued liabilities	-	(474,865)	-	(474,865)
Loans from private companies	-	(254,200)	-	(254,200)
Loan from an individual related to an important insider shareholder	-	(18,446)	-	(18,446)
Loans from a directors	-	(58,375)	-	(58,375)
Loan from a company under common control	-	(8,750)	-	(8,750)
Loans from shareholders	-	(11,125)	-	(11,125)
Debentures	-	(120,000)	-	(120,000)
As at August 31, 2019	(8,627)	(730,121)	-	(738,748)
Financial assets at amortized cost				
Accounts receivable and other receivables	-	337,331	-	337,331
Advances to a shareholder	-	9,170	-	9,170
Financial liabilities at amortized cost				
Bank overdraft	(98,464)	-	-	(98,464)
Accounts payable and accrued liabilities	-	(538,013)	-	(538,013)
Loans from private companies	-	(180,400)	-	(180,400)
Loan from an individual related to an important insider shareholder	-	(16,139)	-	(16,139)
Loans from directors	-	(45,625)	-	(45,625)
Loan from a company under common control	-	(7,500)	-	(7,500)
Loans from shareholders	-	(9,000)	-	(9,000)
Debentures	-	(120,000)	-	(120,000)
As at February 29, 2020	(98,464)	(570,176)	-	(668,640)

Credit risk

The Company makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flow, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. As at February 29, 2020, the Company had a credit concentration since more than 62% (92% as at August 31, 2019) of its' accounts receivable were due from three customers. Due to these customers' excellent financial situation, management is of the opinion that this credit risk is limited.

13. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

The Company is exposed to interest rate risk on its financial instruments at a fixed interest rate. Financial instruments at fixed-interest rate subject the Company to a fair value risk.

The following table presents the Company's exposure to interest rate risk:

Accounts receivable and other receivables	Non-interest bearing
Interest payable	12%
Accounts payable and accrued liabilities, except interest payable	Non-interest bearing
Loans from private companies	9% and 12%
Loan from an individual related to an important insider shareholder	12%
Loans from directors and shareholders	12%
Loan from a company under common control	12%
Debentures	10%

Market risk

The future performance of the Company is dependent on the continued popularity of its existing solutions and its ability to develop and release updated and upgraded versions of SmartGuide® software suite that gain acceptance and satisfy consumer demands in its targeted markets. The popularity or relevance of any of its solutions may decline over time as consumer preferences change or as new competing softwares are introduced to target markets. The development of new solutions and their distribution within the target market, require significant investments.

Liquidity risk

In order to meet additional capital requirements, the Company may consider collaborative arrangements and additional public or private financing to fund all or a part of particular software development programs and/or working capital needs. Private financing could include incurring debt and the issuance of additional equity securities, which could result in dilution to shareholders. There can be no assurance that additional funding will be available. The corporation manages this risk by establishing a detailed cash forecast, as well as long term operating and strategic plans. According to this forecast, cash flows from operating activities will be generated by government license and maintenance fees and professional services sales directly and through partnerships.

Foreign exchange risk

Because of its leasing and sales of licenses in Euros and its operations in US currency, the Company is exposed to foreign exchange risk (notes 5 and 8 show details of accounts receivable and payable in foreign currencies). These risks are partially offset by its marketing expenses in Europe. The risk is not hedged.

The following table details the Company's sensitivity to an increase or decrease of 10% in foreign exchange rate compared to the Canadian currency. The analysis only considers current monetary items :

	Increase of 10%		Decrease of 10%	
	February 29, 2020	February 28, 2019	**February 29, 2020**	February 28, 2019
	$	$	**$**	$
Euro versus Canadian $				
Net gain (loss) and shareholders' equity (i)	**(32,539)**	(31,208)	**32,539**	31,208
US currency versus Canadian $				
Net gain (loss) and shareholders' equity (i)	**2,579**	(1,446)	**(2,579)**	1,446

(i) Essentially due to exposure to receivables and payables denominated in foreign currencies.

(unaudited) (in Canadian dollars)

14. COST OF SERVICES, SELLING AND ADMINISTRATIVE EXPENSES

	February 29, 2020 (3 months)	February 28, 2019 (3 months)	**February 29, 2020 (6 months)**	February 28, 2019 (6 months)
	$	$	**$**	$
Insurance	**7,702**	10,507	**14,702**	19,474
Other administrative expenses	**18,726**	12,823	**22,516**	22,192
Travel expenses	**10,079**	8,414	**32,737**	22,672
Rent	**22,654**	20,078	**43,591**	40,020
Publicity and promotion	**8,259**	1,584	**7,495**	10,399
Professional fees	**36,139**	67,782	**85,115**	97,714
Research and development expenses reclassifi	**(88,059)**	(128,872)	**(187,707)**	(278,059)
Salaries and fringe benefits	**200,762**	176,586	**371,763**	350,776
Subcontractors	**10,926**	50,193	**16,226**	80,192
	227,188	219,095	**406,438**	365,380

15. RESEARCH AND DEVELOPMENT EXPENSES

	February 29, 2020 (3 months)	February 28, 2019 (3 months)	**February 29, 2020 (6 months)**	February 28, 2019 (6 months)
	$	$	**$**	$
Research and development expenses	**88,059**	128,872	**187,707**	278,059
Tax credits	**5,316**	147	**(12,287)**	(20,898)
	93,375	129,019	**175,420**	257,161

16. EARNINGS PER SHARE

For the three and six-month periods ended February 29, 2020 and February 28, 2019, there was no difference between the basic and diluted earnings per share due to the fact that all stock options that have been issued have an antidilutive effect and consequently, were not included in the calculations. The basic and diluted earnings per share was calculated using the weighted average number of common shares outstanding.

17. IMPORTANT CLIENTS

Sales made to the most important clients in relation with total sales :

	February 29, 2020 (3 months)	February 28, 2019 (3 months)	**February 29, 2020 (6 months)**	February 28, 2019 (6 months)
	$	$	**$**	$
Federal Government Procurement strategies provider	**82,078 (28%)**	-	**145,637 (21%)**	19,925 (4%)
Professional consulting firm	**61,576 (21%)**	-	**211,068 (30%)**	-
Major provider for Public Sector Agencies	**32,138 (11%)**	43,391 (20%)	**68,070 (10%)**	89,690 (19%)

18. GEOGRAPHICAL DISTRIBUTION

Sales made by geographic regions :	**February 29, 2020 (3 months)**	February 28, 2019 (3 months)	**February 29, 2020 (6 months)**	February 28, 2019 (6 months)
	$	$	**$**	$
Canada	**267,957 (92%)**	187,334 (85%)	**650,674 (93%)**	357,222 (77%)
United States	**11,569 (4%)**	9,821 (5%)	**23,339 (4%)**	32,621 (7%)
France	**7,580 (3%)**	14,870 (7%)	**18,705 (2%)**	54,605 (12%)
Other	**3,887 (1%)**	8,815 (3%)	**5,635 (1%)**	17,098 (4%)

(unaudited) (in Canadian dollars)

19. INFORMATION ON INCOME - FINANCIAL EXPENSES

	February 29, 2020 (3 months)	February 28, 2019 (3 months)	**February 29, 2020 (6 months)**	February 28, 2019 (6 months)
	$	$	**$**	$
Interest and bank charges	**20,372**	15,801	**30,915**	24,541
Interest on debentures	**2,992**	2,959	**5,983**	12,068
Foreign exchange loss (gain)	**2,700**	1,466	**3,948**	(1,124)
	26,064	20,226	**40,846**	35,485

20. CAPITAL DISCLOSURES

With regards to capital management, the Company's objective, from the beginning of its operations, is the continuity of its operations in order to carry on with the development and marketing of the SmartGuide® software suite, the protection of its assets, while maximizing the shareholders' return on investment. The Company is not subject to any externally imposed capital requirements. The Company has several options regarding its capital needs such as issuance of capital shares, warrants and other current and long term financing.

The Company defines its capital as the sum of its shareholders' equity, loans and advances from private companies, shareholders, directors, a company under common control, an individual related to an important insider shareholder and debentures. The shareholders' deficiency of $(1,209,605) as at February 29, 2020 ($(1,281,661) as at August 31, 2019) includes share capital and contributed surplus related to stock options issued in exchange of services and deficit. The loans and advances from private companies, shareholders, directors, a company under common control, an individual related to an important insider shareholder and debenture amount to $378,664 as at February 29, 2020 ($470,896 as at August 31, 2019).

There was no significant changes in the Company’s approach to capital management during the period ended February 29, 2020.

21. RELATED PARTY TRANSACTIONS

a) Key management compensation

Key management compensation, paid as salaries, for the three-month period ended February 29, 2020 was $54,231 ($38,077 for the three-month period ended February 28, 2019). Key management compensation, paid as professional fees, for the three-month period ended February 29, 2020 was $11,838 ($12,763 for the three-month period ended February 28, 2019).

Key management compensation, paid as stock options, for the three-month period ended February 29, 2020 was $0 ($0 for the three-month period ended February 28, 2019).

Key management compensation, paid as salaries, for the six-month period ended February 29, 2020 was $92,308 ($82,500 for the six-month period ended February 28, 2019). Key management compensation, paid as professional fees, for the six-month period ended February 29, 2020 was $18,363 ($24,051 for the six-month period ended February 28, 2019).

Key management compensation, paid as stock options, for the six-month period ended February 29, 2020 was $20,655 ($0 for the six-month period ended February 28, 2019).

21. RELATED PARTY TRANSACTIONS (CONTINUED)

b) Related party transactions

During the three-month period ended February 29, 2020, the Company has incurred interest charges to:

- directors and individuals related to directors totalling $838 ($428 for the three-month period ended February 28, 2019) on loans from directors
- companies related to directors and a company owned by a director, totalling $6,209 ($8,202 for the three-month period ended February 28, 2019) on loans from private companies.
- shareholders and a company owned by a controlling shareholder, totalling $1,335 ($325 for the three-month period ended February 28, 2019) on loans from shareholders and a company under common control.

During the six-month period ended February 29, 2020, the Company has incurred interest charges to:

- directors and individuals related to directors totalling $1,675 ($2,763 for the six-month period ended February 28, 2019) on loans from directors
- companies related to directors and a company owned by a director, totalling $13,016 ($14,876 for the six-month period ended February 28, 2019) on loans from private companies.
- shareholders and a company owned by a controlling shareholder, totalling $2,820 ($2,537 for the six-month period ended February 28, 2019) on loans from shareholders and a company under common control.

As at February 29, 2020, accounts payable include an amount of $6,414 ($8,319 as at February 28, 2019) relating to these transactions.

These transactions were carried out in the normal course of business.

22. CONTINGENCY

In the normal course of business, the Company is exposed to litigation or claims arising from transactions with customers or suppliers or resulting from verifications by local and foreign regulatory authorities. The Company cannot predict the outcome of such situations and the probability of an outflow of economic resources. The Company recognizes a contingent liability when the time and amount of the outflow are more likely than not to occur.