KONTROL ENERGY CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018
(UNAUDITED)
(Prepared in Canadian dollars)

KONTROL ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)
AS AT
(in Canadian dollars)

	Notes	September 30 2018	December 31 2017
Assets			
Cash		$531,926	$675,594
Accounts receivable		3,698,693	1,963,342
Work-in-progress and inventory		529,541	300,953
Prepaid expenses		123,141	121,559
Current assets		4,883,301	3,061,448
Property and equipment	5	551,813	396,982
Goodwill and intangible assets	6	10,384,960	7,316,216
Long-term investment	7	1	1
Non-current assets		10,936,774	7,713,199
Total assets		$15,820,075	$10,774,647
Liabilities			
Operating line	8	$627,180	$475,000
Accounts payable and accrued liabilities		2,109,153	1,168,264
Promissory note payable	9	-	157,650
Deferred revenue		157,509	302,444
Due to shareholder	10	65,000	130,000
Loan from shareholder	11	-	70,000
Holdbacks and vendor take back	12	892,889	640,389
Current portion of term loan	14	162,000	157,477
Debt financing	15	1,866,606	-
Current liabilities		5,880,337	3,101,224
Debentures	13	5,258,671	3,706,108
Holdbacks payable	12	1,082,500	-
Term loan	14	220,744	342,523
Deferred income taxes		858,290	858,290
Non-current liabilities		7,420,205	4,906,921
Total liabilities		13,300,542	8,008,145
Equity			
Common stock	16	5,917,864	4,462,970
Obligation to issue shares		-	120,000
Contributed surplus	17	449,809	257,000
Deficit		(3,848,140)	(2,073,468)
Total equity		2,519,533	2,766,502
Total liabilities and equity		$15,820,075	$10,774,647

Approved on Behalf of the Board

"Paul Ghezzi" — **Director**

"Claudio Del Vasto" — **Director**

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

KONTROL ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)
(in Canadian dollars)

		Three months ended		Nine months ended	
		September 30	September 30	September 30	September 30
	Notes	2018	2017	2018	2017
Revenues		**$2,408,303**	$2,202,564	**$6,632,091**	$4,911,073
Cost of sales		**795,501**	776,192	**2,172,376**	1,648,754
Gross profit		**1,612,802**	1,426,372	**4,459,715**	3,262,319
Advertising and promotion		**18,142**	18,160	**232,831**	53,297
Business fees and licenses		**80,337**	40,919	**168,088**	116,402
Consulting		**139,018**	73,538	**364,136**	132,849
Employee salaries and benefits		**1,049,759**	874,239	**3,118,745**	2,250,164
Insurance		**34,355**	22,230	**60,534**	41,576
Maintenance and repairs		**21,948**	33,368	**99,118**	73,810
Office and general		**26,819**	18,818	**59,379**	34,775
Professional fees		**118,254**	40,102	**269,555**	135,359
Rent		**133,693**	118,282	**388,188**	282,463
Supplies		**25,011**	14,495	**63,630**	38,494
Telecommunication		**20,676**	10,737	**53,090**	22,175
Travel		**9,337**	10,998	**42,928**	27,094
Amortization - intangibles	6	**98,400**	56,687	**275,200**	130,568
Depreciation - property and equipment	5	**23,853**	20,791	**73,745**	53,325
Share based compensation		**19,464**	-	**208,809**	200,000
		1,819,066	1,353,364	**5,477,976**	3,592,351
Net loss from operations		**(206,264)**	73,008	**(1,018,261)**	(330,032)
Amortization - financing fees		**102,236**	59,265	**379,821**	108,814
Finance expense		**135,242**	163,182	**376,590**	435,421
		237,478	222,447	**756,411**	544,235
Net loss and comprehensive loss		**$(443,742)**	$(149,439)	**$(1,774,672)**	$(874,267)

Basic and diluted loss per share	**$(0.02)**	$(0.01)	**$(0.07)**	$(0.04)
Basic and diluted weighted average number of common shares outstanding	**26,871,297**	22,796,827	**26,351,835**	21,413,200

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

KONTROL ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)
AS AT
(In Canadian dollars)

	Number of Shares	Common Shares	Obligation to Issue Shares	Contributed Surplus	Deficit	Total Equity
As at December 31, 2016	19,525,168	$ 1,311,067	$ 120,000	$ 229,000	$ (762,703)	$ 897,364
Shares to acquire Efficiency Engineering	1,210,816	900,000	-	-	-	900,000
Shares to debenture holders	204,500	142,798	-	-	-	142,798
Private placement, net	2,812,523	1,698,939	-	-	-	1,698,939
Shares for debt extinguishment	100,477	62,000	-	-	-	62,000
Exercise of warrants	800,000	232,500	-	-	-	232,500
Performance shares	200,000	160,000	-	-	-	160,000
Stock options grant	-	-	-	28,000	-	28,000
Net loss for the period	-	-	-	-	(874,267)	(874,267)
As at September 30, 2017	24,853,484	$ 4,507,304	$ 120,000	$ 257,000	$ (1,636,970)	$ 3,247,334

	Number of Shares	Common Shares	Obligation to Issue Shares	Contributed Surplus	Deficit	Total Equity
As at December 31, 2017	24,996,084	$ 4,462,970	$ 120,000	$ 257,000	$ (2,073,468)	$ 2,766,502
Shares to debenture holders (Note 13)	401,892	335,633	-	-	-	335,633
Exercise of warrants (Note 19)	1,240,457	990,008	-	-	-	990,008
Stock options grant (Note 17 & 18)	-		-	208,809	-	208,809
Stock options exercise	115,000	90,750	-	(16,000)	-	74,750
Share issuance costs	-	(24,353)	-	-	-	(24,353)
Treasury	(77,000)	(57,144)			-	(57,144)
Obligation to issue - prior acquisition	600,000	120,000	(120,000)		-	-
Shares for debt	5,000	-	-	-	-	-
Net loss for the period	-	-	-	-	(1,774,672)	(1,774,672)
As at September 30, 2018	27,281,433	$ 5,917,864	$ -	$ 449,809	$ (3,848,140)	$ 2,519,533

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

KONTROL ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW
(UNAUDITED)
(in Canadian dollars)

	Nine months ended September 30 2018	Nine months ended September 30 2017
Operating activities		
Net loss	$(1,774,672)	$(874,267)
Non-cash items		
Amortization and depreciation	728,766	292,707
Share based compensation	208,809	200,000
Non-cash working capital items		
Accounts receivable	(645,634)	243,219
Work-in-progress	(3,252)	(64,393)
Prepaid expenses	33,210	(116,064)
Accounts payable and accrued liabilities	173,270	95,367
Deferred revenue	(144,935)	-
Cash flows used in operating activities	(1,424,438)	(223,431)
Investing activities		
Additions to property and equipment	(65,074)	(1,492)
Additions to product development	(189,003)	(106,513)
Cash acquired from acquisitions	449,330	208,327
Cash paid in respect of acquisitions	(3,015,000)	(4,921,359)
Cash flows used in investing activities	(2,819,747)	(4,821,037)
Financing activities		
Proceeds from operating line	152,180	-
Payment of promissory note	(157,650)	(150,000)
Payment of loan from shareholder	(70,000)	-
Payment of due to shareholder	(65,000)	(50,196)
Payment of term loan	(117,256)	-
Proceeds from debenture, net	1,308,376	1,998,291
Proceeds from debt financing, net	1,866,606	3,850,000
Repayment of debt financing	-	(2,145,057)
Proceeds from stock option exercise	74,750	-
Proceeds from exercise of warrants	990,008	232,500
Proceeds from shares issuance, net	200,000	1,698,939
Payment of share issue costs	(24,353)	-
Repurchase of common shares	(57,144)	-
Cash flows from financing activities	4,100,517	5,434,477
Net increase in cash	(143,668)	390,009
Cash at beginning of period	675,594	227,003
Cash at end of period	$531,926	$617,012

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

1. NATURE OF OPERATIONS

Kontrol Energy Corp. ("Kontrol" or the "Company") is incorporated under the laws of the Province of British Columbia and its common shares are listed in the Canadian Securities Exchange ("CSE"). The Company is a provider of energy efficiency solutions to commercial energy consumers. Through a disciplined mergers and acquisition strategy, combined with a growing technology platform, Kontrol's market-based energy solutions are designed to reduce its customers overall cost of energy while providing a corresponding reduction in Green House Gas (GHG) emissions. Management of the Company considers there to be one operating segment being the provision of energy compliance and consulting services. All of the Company's operations are in Canada. The address of the Company's head office is 180 Jardin Drive, Unit 9, Vaughan, ON, L4K 1X8.

2. BASIS OF PRESENTATION

Statement of Compliance

The Company's condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

These condensed interim consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2017. The accounting policies and methods of computation followed in the preparation of these condensed interim consolidated financial statements are consistent with those used in the preparation of the most recent annual audited consolidated financial statements.

The condensed interim consolidated financial statements are presented in Canadian dollars which is the currency of the primary economic environment in which the Company operates in.

The condensed interim consolidated financial statements have been prepared on a historical cost basis.

Basis of Presentation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Details of the Company's subsidiaries are as follows:

On June 30, 2016 the Company acquired 100% of Kontrol Technologies Inc., a company incorporated in Ontario. This entity and its parent company's activities are designed for commercial building applications and include deep energy retrofits, distributed power generation, conservation solutions, and energy audits.

On February 10, 2017 the Company acquired 100% of ORTECH Consulting Inc. ("ORTECH"), a company incorporated in Ontario. ORTECH is an engineering consulting firm specializing in Green House Gas reporting, air quality testing, emission testing and renewable energy/power consulting.

On August 4, 2017 the Company acquired 100% of Efficiency Engineering Inc. ("EE Inc."), a company incorporated in Ontario. EE Inc. provides engineering services to industrial, municipal and commercial building owners across Canada.

On September 20, 2018, the Company acquired 100% of CEM Specialties Inc. ("CEMSI"), a company incorporated in Ontario. CEMSI provides the Canadian and US market with value added solutions for continuous emissions and process monitoring applications.

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are summarized below and have been applied consistently across all periods presented.

Basis of Consolidation

The condensed interim consolidated financial statements incorporate the financial statements of the Company and its subsidiaries after intercompany balances and transactions have been eliminated. Subsidiaries are consolidated from the date that control is obtained and deconsolidated on the date control ceases. The acquisition method is used to account for the acquisition of a subsidiary from an unrelated party at the date that control is obtained, with the difference between the consideration transferred and the fair value of the subsidiary's net identifiable assets acquired recorded as goodwill. Acquisition related costs are recognized in profit and loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash

Cash includes cash on hand, bank balances and short-term deposits with original maturities of three months and less held with banks.

Property and Equipment

Property and Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using the declining balance method.

The cost of an item consists of the purchase price, plus any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

An item is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive loss.

Where an item comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Expenditures incurred to replace a component of an item that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Depreciation – Property and Equipment

Laboratory and other equipment	Declining balance	20%
Computer equipment	Declining balance	25%
Office equipment	Declining balance	20%
Vehicles	Declining balance	20%
Computer software	Straight-line	5 years
Leasehold improvements	Declining balance	20%
Radio equipment	Declining balance	20%

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic life on a straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive loss when the asset is derecognized.

Development costs are recognized as an intangible asset when the Company can demonstrate all the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following initial recognition of the development costs as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Development costs are amortized on a straight-line basis over a period of 5 years or are expensed immediately if capitalized projects are not completed.

Amortization - Intangibles

Customer Relationships	Straight-line	15 years
Brand Names	Straight-line	10 years
Intellectual Property	Straight-line	15 years
Certifications and Patents	Straight-line	3 years

Business combinations

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.
When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively,

with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39 Financial Instruments: recognition and measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Where goodwill forms part of a cash-generating unit and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation and the portion of the cash-generating unit retained.

Impairment

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired.

If such evidence exists, the Company recognizes an impairment loss for financial assets. The carrying amount of the asset is reduced by this amount either directly or indirectly using an allowance account.

The carrying amount of long-lived non-financial assets, including intangible assets, property and equipment, is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets with indefinite lives and intangible assets not yet put into use are evaluated for impairment at least annually. Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the carrying value may not be recoverable.

Impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell or its value in use. The fair value less costs to sell calculation is based on available data from observable market prices, less incremental costs. The value in use calculation is based on a discounted cash flow model. These calculations require the use of estimates and forecasts of future cash flows. Qualitative factors, including market size and market growth trends, strength of customer demand and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. A change in any of the significant assumptions of estimates used to evaluate the underlying assets could result in a material change to the results of operations. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed, to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment had been recognized. Write-downs as a result of impairment are recognized in the consolidated statement of comprehensive loss.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

Warrants

The Company issues share purchase warrants as part of private placement units as well as to brokers as part of their finder's fees. The use of Warrants has been an effective means of attracting investors and overall capital raising efforts. Their inclusion in any private placement is evaluated by management based on the circumstances of each financing transaction.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in a private placement to be the more easily measurable component and the common shares are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded in a separate component of equity to the extent that they do not meet the definition of a financial liability or financial asset.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with a transaction will flow to the Company, and when the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding trade discounts, volume rebates, and amounts collected on behalf of third parties.

Revenue from the sale of goods is recognised when the goods are delivered, and titles have passed.
Revenue from a contract to provide installation, compliance and consulting services are recognised as services are performed by reference to the stage of completion. The Company measures the stage of completion based on the costs incurred to date compared to the total estimated costs for the project. Fees received in advance are deferred and recognized as income when the service is performed. Revenues relating to services performed but not billed are recognized to the extent they are collectible from the customer and are treated as work-in-progress.

Share-based payments

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve (contributed surplus). The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Income taxes

Income tax on the loss for the periods presented comprises current and deferred tax. Income tax is recognized in the loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Income tax provisions are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, a provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in income in the period in which the change occurs.

Deferred tax assets or liabilities arising from temporary differences between the tax and accounting values of assets and liabilities, are recorded based on tax rates expected to be substantially enacted when these differences are reversed. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recovered. This involves an assessment of when those deferred tax assets are likely to be realized, and a judgment as to whether there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as in the amounts recognized in income in the period in which the change occurs.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income both in the period of change, which would include any impact on cumulative provisions, and in future periods.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating policy decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Loss per share

The Company presents basic and diluted loss per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding, adjusted for own shares held and for the effects of all potential dilutive common shares related to outstanding stock options and warrants issued by the Company.

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Financial assets are initially measured at fair value, plus transactions costs, except for those financial assets classified as fair value through profit or loss, which are initially measured at fair value. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for selling or repurchasing it in the near term. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in the consolidated statement of comprehensive loss. The Company's cash has been classified as fair value through profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized costs using the effective interest rate method, less any impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. The Company's accounts receivable, prepaid expenses and work- in-progress have been classified as loans and receivables.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the consolidated statement of comprehensive loss. No financial assets have been classified as held-to-maturity.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the consolidated statement of comprehensive loss. No financial assets have been classified as available-for-sale.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial assets are derecognized when the Company's contractual rights to the cash flows from the respective assets have expired or have been transferred and the Company has neither exposure to the risks inherent in those assets nor entitlement to rewards from them.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for selling or repurchasing it in the near term. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in the consolidated statement of comprehensive loss. No financial liabilities have been classified as fair value through profit or loss.

Other financial liabilities - This category includes amounts operating line, due to shareholder, accounts payable and accrued liabilities, promissory note, holdback payable, loan from shareholder, debentures and term loans which are initially measured at fair value, net of transactions costs, and subsequently measured at amortized cost using the effective interest rate method.

Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as at the date of the consolidated financial statements. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues, and expenses. Management uses various factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes differ from these estimates under different assumptions and conditions.

The most significant judgments applying to the Company's condensed interim consolidated financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty.

  These financial statements have been prepared based on the going concern assumption, which assumes the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. In assessing whether this assumption is appropriate, management considers all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The assessment is based upon planned actions that may or may not occur for a number of reasons including the Company's own resources and external market conditions.

- Impairment of non-financial assets. Non-financial assets include property and equipment and intangible assets. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate;

- Assessing the stage of completion on revenue contracts; and

- The classification of financial instruments.

Key sources of estimation uncertainty include:

- The determination of deferred taxes;

- The measurement of the value of intangibles and goodwill;

- Allowance for doubtful accounts. The Company makes an assessment of whether accounts receivable is collectible from customers. Accordingly, we establish an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer credit-worthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected;

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

- Useful lives of intangible assets. The Company estimates the useful lives of intangibles assets over the period in which it expects to obtain economic benefits from the intangible asset. The estimated useful lives of intangible assets are reviewed periodically by management for a change in circumstances which could lead to a change in the useful lives of intangible assets;

- Share-based payment transactions and warrants. The Company measures the cost of equity-settled transactions with employees and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield of the share option and forfeiture rate. Similar calculations are made in order to value warrants. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates; and

- Fair value of financial instruments. The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. The Company uses consistent valuation methodologies by third party experts to determine the fair value of financial assets and liabilities such as those acquired in business combinations. Determining the fair value of intangible assets acquired in asset purchases requires management to make assumptions and estimates about future events.

New standards

IAS 7 *Statement of Cash Flows* has been revised to incorporate amendments issued by the IASB in January 2016. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017. This application of this amendment had no impact on the Company.

Accounting Standards Issued

IFRS 9 *Financial Instruments* was issued in final form in July 2014 by the IASB and will replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however early adoption is permitted. The classification of financial assets and liabilities and subsequent measurement is not expected to change under the new standard. The Company is currently evaluating the impact of the new standard on the consolidated financial statements.

IFRS 15 *Revenue from Contracts* with Customers. In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact if the new standard on the consolidated financial statements.

IFRS 16 *Leases* replaces IAS 17, Leases. The new model requires the recognition of almost all lease contracts on a lessee's statement of financial position as a lease liability reflecting future lease payments and a "right-of-use asset" with exception for certain short-term leases and leases of low-value assets. In addition, the lease payments are required to be presented on the statement of cash flow within the operating and financing activities for the interest and principal portions, respectively. IFRS 16 is effective for annual period beginning on or after January 1, 2019, with early adoption permitted if IFRS 15, Revenue of Contracts with Customers, is also applied. The Company is currently evaluating the impact if the new standard on the consolidated financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration 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 interpretation applies for annual reporting periods beginning on or after January 1, 2018. The Company is currently evaluating the impact if the new standard on the consolidated financial statements.

IFRIC 23 Uncertainty over income tax treatments 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. The Company is currently evaluating the impact if the new standard on the consolidated financial statements.

4. BUSINESS ACQUISITIONS IN FISCAL YEARS 2018 AND 2017

AQUISITION OF CEM Specialties Inc.

On September 20, 2018, the Company completed its acquisition of CEM Specialties Inc. ("CEMSI"). With more than 25 years of operating history, CEMSI provides the Canadian and US market with value added solutions for continuous emissions and process monitoring applications. The Company acquired 100% of the issued and outstanding shares of CEMSI. The acquisition of CEMSI was accounted for using the acquisition method for business combinations. The net assets of CEMSI are included at their fair value.

Net assets acquired	
Cash	$449,330
Accounts receivable	1,089,717
Work-in-progress and inventory	225,336
Prepaid expenses	34,792
Property and equipment	73,503
Customer relationships	855,000
Brand names	112,394
Goodwill*	1,277,547
Accounts payable and accrued liabilities	(767,619)
	$3,350,000
Consideration	
Cash	$2,265,000
Vendor take back	502,500
Holdback payable**	582,500
	$3,350,000

*The excess of consideration over the identifiable net assets is allocated to Goodwill.
**Holdback is to secure any indemnifications of Vendors; payable 15 months after acquisition date.
Final working capital balances to be settled in Q4 2018 and the purchase price adjusted accordingly.

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits due to the reputation of CEMSI and credibility it has established in the Canadian and U.S. market for providing continuous emissions monitoring services. The consideration paid relate to combined synergies, related mainly to revenue growth. The goodwill is not deductible for income tax purposes.

The useful life of the customer relationships is 15 years. Brand names have a useful life of 10 years.

AQUISITION OF EFFICIENCY ENGINEERING INC.

On August 4, 2017, the Company completed its acquisition of Efficiency Engineering Inc. ("EE Inc."). EE Inc. has been operating for more than 20 years and provides engineering services to industrial, municipal and commercial building owners across Canada. The Company acquired 100% of the issued and outstanding shares of EE Inc. The acquisition of EE Inc. was accounted for using the acquisition method for business combinations. The net assets of EE Inc. are included at their fair value.

Net assets acquired	
Cash	$187,310
Accounts receivable	779,508
Work-in-progress	103,693
Term deposit and prepaid expenses	70,882
Property and equipment	55,832
Customer relationships	558,000
Brand names	83,000
Goodwill*	830,362
Accounts payable and accrued liabilities	(64,890)
Deferred income taxes	(165,474)
Promissory note payable	(407,650)
	$2,030,573
Consideration	
Cash	$634,184
1,210,816 Common shares	756,000
Holdback payable**	640,389
	$2,030,573

*The excess of consideration over the identifiable net assets is allocated to Goodwill.
**Holdback is to secure any indemnifications of Vendors; payable 15 months after acquisition date.

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits due to the reputation of Energy Efficiency and credibility it has established in the Ontario market for providing quality energy consulting services. The consideration paid relate to combined synergies, related mainly to revenue growth. The goodwill is not deductible for income tax purposes.

The useful life of the customer relationships is 15 years. Brand names have a useful life of 10 years.

AQUISITION OF ORTECH CONSULTING INC.

On February 10, 2017, the Company completed its acquisition of Ortech Consulting Inc. ("ORTECH"). ORTECH is an engineering consulting firm specializing in Green House Gas (GHG) reporting, air quality testing, emission testing and renewable energy/power consulting. The Company acquired 100% of the issued and outstanding shares of ORTECH. The acquisition of ORTECH was accounted for using the acquisition method for business combinations. The net assets of ORTECH are included at their fair value.

Net assets acquired	
Cash	$21,017
Accounts receivable	420,430
Work-in-progress and other assets	231,389
Property and equipment	397,829
Customer relationships	1,960,000
Brand names	173,000
Goodwill*	2,242,799
Accounts payable and accrued liabilities	(444,241)
Deferred revenue	(112,420)

Deferred income taxes	(602,628)
	$4,287,175
Consideration	
Cash	$4,287,175

*The excess of consideration over the identifiable net assets is allocated to Goodwill.

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits due to the reputation of ORTECH and credibility it has established in the Ontario market for providing quality emissions testing and compliance services. The consideration paid relate to combined synergies, related mainly to revenue growth. The goodwill is not deductible for income tax purposes.

The useful life of the customer relationships is 15 years.

5. PROPERTY AND EQUIPMENT

Cost	Office Equipment	Lab & Other Equipment	Computer Equipment	Vehicles	Computer Software	Leasehold mprovement	Radio Equipment	Total
Balance at January 1, 2018	411,087	1,023,752	537,676	293,879	271,365	83,342	3,336	2,624,437
Acquisitions	122,027	105,780	328,520	61,048	162,593	65,215	-	845,183
Additions	1,601	46,421	17,052	-	-	-	-	65,074
Balance at Sept 30, 2018	534,715	1,175,953	883,248	354,927	433,958	148,557	3,336	3,534,694
Accumulated amortization								
Balance at January 1, 2018	332,813	835,895	494,045	253,425	236,986	71,379	2,912	2,227,455
Acquisitions	121,165	77,935	227,986	41,130	158,809	54,656	-	681,681
Depreciation	11,579	30,931	14,894	6,284	8,092	1,901	64	73,745
Balance at Sept 30, 2018	465,557	944,761	736,925	300,839	403,887	127,936	2,976	2,982,881
Carrying value								
At September 30, 2018	69,158	231,192	146,323	54,088	30,071	20,621	360	551,813
At December 31, 2017	78,274	187,857	43,631	40,454	34,379	11,963	424	396,982

The Company recorded property and equipment as part of the acquisitions of CEMSI (see Note 4).

On April 30, 2018, the Company acquired computer equipment and intangibles from MCW Dimax Ltd. The purchased assets are used to obtain data by monitoring building HVAC systems through software and cloud solutions technology. The aggregate purchase price was $1,000,000, of which the Company paid $750,000 in cash on closing, with an additional $250,000 payable in 2018, subject to any reductions under the agreement.

6. GOODWILL AND INTANGIBLE ASSETS

Cost	**Goodwill**	**Product Development**	**Brand Names**	**Customer Relationships**	**Intellectual Property**	**Certifications and Patents**	**Total**
Balance at January 1, 2018	3,244,313	114,944	256,000	3,176,275	640,000	160,000	7,591,532
Acquisitions	1,277,547		112,394	1,765,000	-	-	3,154,941
Additions		189,003	-	-	-	-	189,003
Balance at Sept 30, 2018	4,521,860	303,947	368,394	4,941,275	640,000	160,000	10,935,476
Accumulated amortization							
Balance at January 1, 2018	-	-	16,433	172,661	39,112	47,110	275,316
Amortization	-	-	19,200	184,000	33,000	39,000	275,200
Balance at Sept 30, 2018	-	-	35,633	356,661	72,112	86,110	550,516
Carrying value							
At September 30, 2018	4,521,860	303,947	332,761	4,584,614	567,888	73,890	$10,384,960
At December 31, 2017	3,244,313	114,944	239,567	3,003,614	600,888	112,890	$7,316,216

Product development costs relate to the development of the Company's next generation Energy Management System (EMS). The new EMS will include a robust Internet of Things (IOT) upgrade to allow device to device communication, device to Cloud communication and device to smart phone communication.

The Company recorded goodwill and intangible assets as part of the acquisition of CEMSI (see Note 4).

See (Note 5) for information relating to purchase of assets from MCW Dimax Ltd. on April 30, 2018.

7. LONG-TERM INVESTMENT

On October 5, 2015, a consulting agreement with Ghana Energy One ("project") was assigned to Kontrol Energy Group Inc. (formerly Nuvo Energy Grid Inc.), which entitles the Company to have a 4% interest in the project. The project is approximately 157 Megawatts in total size and is to be in the Ashanti region of Ghana. The project is in the final stages of development and is anticipated to begin construction in 2018. The project will have a long-term Power Purchase Agreement (PPA) with the Government of Ghana for a period of 20 years. The balance $1 (2017: $1) is a nominal value to represent the investment.

8. OPERATING LINE

	September 30, 2018	December 31, 2017
Operating Line	$627,180	$475,000

Operating line facilities are with two financial institutions.

Facility I: Capacity of $400,000. Bank Prime rate plus 1.50% per annum. Drawdowns as required; repayment on demand. General security agreement issued on all assets of Efficiency Engineering Inc.

Facility II: Capacity of $500,000. Bank Prime rate plus 1.75% per annum. Drawdowns as required; repayment on demand. General security agreement issued on all assets of ORTECH Consulting Inc. The Company has provided a Guarantee over ORTECH Consulting Inc.'s borrowing under this facility. Also see financial covenants noted in the Term Loan in connection with this same financial institution (Note 14).

9. PROMISSORY NOTE PAYABLE

Promissory note payable was unsecured and interest bearing at a rate of 1% per month. The note was repaid in full during the first quarter of 2018.

10. DUE TO SHAREHOLDER

Due to shareholder is unsecured, non-interest bearing and due on demand. This amount is related to the acquisition of Kontrol Technologies Inc.

11. LOAN FROM SHAREHOLDER

Loan from shareholder was unsecured, interest bearing at 3% per annum and due on demand. The note was repaid in full during the first quarter of 2018.

12. HOLDBACKS PAYABLE AND VENDOR TAKE BACK

Holdbacks payable are to secure any indemnifications of Vendors in connection with acquisitions and asset purchases. Holdbacks payable as at September 30, 2018 are $1,472,889.

The Vendor take back amount as at September 30, 2018 is $502,500. This indebtedness relates to the CEMSI acquisition and is in the form of a promissory note with subordinated security, due September 20, 2019 and interest accruing at a rate of 6% per annum until the principal is repaid in full.

13. DEBENTURES

	September 30, 2018	December 31, 2017
Debentures, at face value	5,845,000	4,322,000
Deferred financing cost and unamortized discount	(586,329)	(615,892)
	$5,258,671	$3,706,108

Debenture offering – 2016
The Debentures bear interest at a rate of 8% per annum, payable quarterly in arrears and will mature on October 31, 2019. The Debentures are non-convertible and non-redeemable. The Debenture Offering is up to $5,300,000 of units at a price of $1,000 per unit, each unit to be comprised of one 8% unsecured non-convertible debenture and 100 common shares of the Company ("Debenture units"). The 2016 Debenture Offering was fully subscribed and closed during the first quarter of 2018.

Securities offering – 2018
The Securities offering is up to $5,000,000 of units at a price of $1,000 per unit, each unit consisting of a $750 Debenture, 300 common shares, and 150 common share purchase warrants ("Units"). The Debentures bear interest at a rate of 7% per annum, payable monthly and will mature on April 25, 2021. The Debentures are non-convertible and non-redeemable

Commissions paid to registered securities dealers to effect sales of the offerings and professional fees relating to preparation of the offerings is recorded as a reduction of the Debenture amount and amortized over the term of the Debenture. The common shares included in the 2016 offering are fair valued at the time of each Debenture closing and recorded as a reduction of the Debenture amount and amortized over the term of the Debenture.

14. TERM LOAN

	September 30, 2018	December 31, 2017
Term loan	382,744	500,000
Less: Current portion	(162,000)	(157,477)
	$220,744	$342,523

A term loan of $500,000 was taken out in the fourth quarter of 2017. Interest is payable at Bank Prime rate plus 2.40% until December 5, 2018 at which time the loan is to be renewed and the interest rate may be adjusted. The repayment term of the loan is 36 months, regardless of potential adjustments made to the interest rate. The blended principal and interest repayment plus mandatory repayment is linked to ORTECH Consulting Inc.'s cash flow. In addition, a general security agreement was issued on all assets of ORTECH Consulting Inc. The Company has provided a guarantee over ORTECH Consulting Inc.'s borrowing under this facility. ORTECH Consulting Inc.'s financial covenants under this facility include the following: (i) Debt service coverage ratio on a rolling four quarters basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not less than 1.25:1; and (ii) a ratio of funded debt to EBITDA, calculated on a rolling four quarter basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not greater than 3:1.

15. DEBT FINANCING

	September 30, 2018	December 31, 2017
Debt financing	1,925,000	-
Deferred financing cost	(58,394)	-
	$1,866,606	-

In connection with the acquisition of CEMSI, the Company closed on a $2 Million bridge debt financing. The bridge debt financing has a term of one year with an option to renew for an additional period. The outstanding principal amount of the debt bears interest at a rate per annum equal to 15%. Payments are interest only on a monthly basis and the outstanding principal is due on the maturity date. The debt is secured by general security agreements, shares pledge and guarantee. Fees recorded as a reduction of the debt and will be amortized over the term of the financing. CEMSI financial covenants under this debt financing include the following: (i) a ratio of EBITDA to interest expense calculated on a rolling four quarters basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not less than 1.50:1; and (ii) a ratio of funded debt to EBITDA, calculated on a rolling four quarter basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not greater than 5:1.

16. COMMON STOCK

The Company is authorized to issue an unlimited number of common shares.

During the nine months ended September 30, 2018, 401,892 shares were issued to Debenture Unit holders. These common shares were valued at $335,633 (see Note 13).

During the nine months ended September 30, 2018, 1,240,457 warrants were exercised resulting in proceeds of $990,008.

During the nine months ended September 30, 2018, 115,000 stock options were exercised resulting in proceeds of $74,750.

During the nine months ended September 30, 2018, 77,000 shares were repurchased under the Company's normal course issuer bid and were valued at $57,144.

During the nine months ended September 30, 2018, 600,000 shares were issued to satisfy the Obligation to issue in respect of the Kontrol Technologies Inc. acquisition of 2016.

17. CONTRIBUTED SURPLUS

Stock options outstanding as at September 30, 2018 are 1,553,665.

During the nine months ended September 30, 2018, 1,013,665 options were granted. The term of these options ranges from two to five years. The vesting period of these options ranges from one to three years.

The weighted average grant date fair value of $0.29 was estimated using the Black Scholes option pricing model. The Company recorded a stock option expense of $208,809 during the nine months ended September 30, 2018.

During the nine months ended September 30, 2018, 115,000 stock options were exercised.

18. STOCK OPTIONS

The Company has established a stock option plan for directors, employees, and consultants. Under the Company's stock option plan, the exercise price of each option is determined by the Board, subject to the Discounted Market Price policies of the CSE. The aggregate number of common shares issuable pursuant to options granted under the plan is10% of the Company's issued common shares. The board of directors has the exclusive power over the granting of options and their vesting and cancellation provisions.

The following is a summary of the changes in the Company's stock option plan for the nine months ended September 30, 2018:

Options Outstanding	September 30, 2018		December 31, 2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Opening	1,850,000	$0.67	1,655,000	$0.65
Granted	1,013,665	$0.84	195,000	$0.80
Exercised	(115,000)	$0.65	-	-
Forfeited	(1,195,000)	$0.65	-	-
Closing	1,553,665	$0.80	1,850,000	$0.67

Black-Scholes assumptions	September 30, 2018
Exercise price	$0.60 - $1.50
Risk-free interest rate	1.0%
Expected life	2 years - 5 years
Expected volatility	46%
Expected dividend yield	0%
Weighted average grant date fair value per option	$0.29

Volatility is calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public. The expected life in years represents the time that the options granted are expected to be outstanding. The risk-free rate is based on zero coupon

Canada government bonds with a remaining term equal to the expected life of the options.

19. WARRANTS

Warrants outstanding as at September 30, 2018 are 1,455,192.

During the nine months ended September 30, 2018, 1,240,457 warrants were exercised resulting in proceeds of $990,008.

During the nine months ended September 30, 2018, the Company issued 253,360 warrants relating to Finder fees in connection with capital raising efforts.

During the nine months ended September 30, 2018, the Company issued 156,652 warrants relating to the Securities offering (see Note 13).

During the nine months ended September 30, 2018, the Company issued a total of 1,000,000 warrants to the Vendor and lenders in connection with the acquisition of CEMSI.

During the nine months ended September 30, 2018 a total of 651,292 warrants had expired.

20. COMMITMENT

The future minimum commercial lease payments relating to office premises are as follows:

2018	$359,000
2019	$426,500
2020	$427,500
2021	$427,500
2022	$427,500
2023	$376,500
2024	$47,000

21. RELATED PARTY TRANSACTIONS

Related Party Balances

	September 30, 2018	December 31, 2017
Due to shareholder (see Note 10)	65,000	130,000

Key Management Compensation

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Salaries and benefits	325,350	325,350
Consulting	15,000	50,000

Share based compensation	10,333	181,000
	$350,683	$556,350

Salaries and benefits paid to Key Management includes all Officers of the Company.
Consulting fees were paid to a Director of the Company.
Share based compensation relates to options granted to Key Management and Directors.

22. FINANCIAL INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, and market risk.

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to the liquidity of its cash and accounts receivable. The Company limits exposure to credit risk by maintaining its cash with a large Canadian financial institution. To mitigate credit risk with respect to accounts receivable the Company subjects all major customer accounts to its credit evaluation process. The Company's maximum exposure to credit risk is the carrying value of cash held with financial institutions and accounts receivable. Allowance for doubtful accounts as at September 30, 2018 is $13,554 (December 31, 2017 - $1,554).

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital to meet short-term business requirements after taking into account cash flow from operations, the Company's holdings of cash, and the available credit facilities. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within the current operating period.

(c) Market risk

Market risks to which the Company is exposed include unfavorable movement in interest rates. As at September 30, 2018, the Company holds the majority of its cash in secure, Canadian dollar-denominated deposits. Consequently, its exposure to these risks has been significantly reduced, but as the Company redeploys its cash, exposure to these risks may increase. The objective of the Company is to mitigate exposure to these risks while maximizing returns.

(d) Interest rate risk

As at September 30, 2018, the Company's Operating Line and Term Loan are subject to varying rates with the financial institution's prime rate and are subject to cash flow risks. The Company monitors its exposure to interest rates and has not entered into any derivative contracts to mitigate this risk. Based on the outstanding credit facilities, a 1% increase in interest rates for the Company would decrease year to date 2018 net income before tax by approximately $7,500.

Fair Value

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities:

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company has no financial instruments recorded at level 3 fair value at September 30, 2018 and December 31, 2017.

As at September 30, 2018, both the carrying and fair value amounts of all the Company's financial instruments are approximately equivalent.

23. MANAGEMENT OF CAPITAL RISK

The Company considers items included in shareholders' equity as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustment to it considering changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

To facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

To maximize the ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition selected with regard to the expected timing of expenditures from continuing operations. The Company's approach to managing capital remains unchanged from the year ended December 31, 2017.