

# **Wi2Wi Corporation**

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## **Condensed Consolidated Interim Financial Statements** (Unaudited, expressed in US Dollars)

Three and Six Month Period June 30, 2019 and June 30, 2018

### **Notice to Reader**

These condensed consolidated interim financial statements of Wi2Wi Corporation for the six months ended June 30, 2019 have been prepared by Management and were authorized for issue in accordance with a resolution of the Board of directors on August 21, 2019. Wi2Wi Corporation's independent auditor has not performed a review of these condensed consolidated interim financial statements, in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entities auditors.

Toronto, Canada  
August 21, 2019

# Wi2Wi Corporation

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**Wi2Wi Corporation**  
**Unaudited Condensed Consolidated Interim Statements of Financial Position**  
*(In thousands of U.S. dollars)*

	June 30, 2019	December 31, 2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 1,526	\$ 2,070
Restricted cash (Note 18)	500	500
Trade accounts receivable (Note 7)	1,532	1,411
Inventories (Note 8)	2,832	2,946
Investment in Legend Oil and Gas Ltd.	13	11
Right-To-Use assets (Note 5)	467	-
Prepaid expenses and other current assets	180	192
Total current assets	7,050	7,130
<b>Property and Equipment, Net (Note 9)</b>	1,170	1,242
<b>Total Assets</b>	\$ 8,220	\$ 8,372
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 461	\$ 675
Accrued liabilities (Notes 11 and 12)	1,064	1,205
Total current liabilities	1,525	1,880
Warrant liability (Note 14)	144	144
<b>Total Liabilities</b>	1,669	2,024
<b>Shareholders' Equity</b>		
Common shares – no par value (Note 13)	28,653	28,653
Contributed surplus (Note 14)	3,935	3,871
Accumulated other comprehensive loss	(2)	(2)
Accumulated deficit	(26,035)	(26,174)
Total shareholders' equity	6,551	6,348
<b>Total Liabilities and Shareholders' Equity</b>	\$ 8,220	\$ 8,372

*See accompanying notes to consolidated financial statements.*

Approved on behalf of the Board of Directors:

/s/ Zachariah Mathews, CEO and Director

/s/ Dawn Leeder, CFO

**Wi2Wi Corporation**  
**Unaudited Consolidated Interim Statements of Income**  
*(In thousands of U.S. dollars, except net income per share)*

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Revenues</b>	\$ 2,922	\$ 2,437	\$ 5,398	\$ 4,860
<b>Cost of revenues</b>	2,066	1,732	3,834	3,456
<b>Gross profit</b>	856	705	1,564	1,404
<b>Operating expenses (Note 15)</b>				
Research and development	171	174	342	381
Selling, general and administrative	551	520	1,076	996
Changes in fair value of investment in Legend Oil and Gas	6	(4)	-	6
<b>Total operating expenses</b>	728	690	1,418	1,383
<b>Income (loss) from operations</b>	128	15	146	21
Other Income (Expense)	(4)	(6)	(7)	(7)
Interest Income (Expense)	-	-	-	-
<b>Income before income taxes</b>	124	9	139	14
Provision for income tax	-	-	-	-
<b>Net Income and comprehensive income</b>	\$ 124	\$ 9	\$ 139	\$ 14
<b>Net Income per share, basic and diluted (Note 13)</b>	\$ 0.000	\$ 0.000	\$ 0.000	\$ 0.000

*See accompanying notes to consolidated financial statements.*

**Wi2Wi Corporation**  
**Consolidated Statements of Changes in Shareholders' Equity**  
*(In thousands of U.S. dollars, except per share data)*

	Common Shares		Contributed Surplus	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount				
<b>Balances, January 1, 2017</b>	<b>133,027,744</b>	<b>\$ 28,317</b>	<b>\$ 3,783</b>	<b>\$ -</b>	<b>\$ (26,453)</b>	<b>\$ 5,647</b>
Share-based compensation expense	-	-	48	-	-	48
Issuance of common shares in private placement (Note 14)	12,499,674	185	-	-	-	185
Net comprehensive income	-	-	-	(6)	136	130
<b>Balances, December 31, 2017</b>	<b>145,527,418</b>	<b>\$ 28,502</b>	<b>\$ 3,831</b>	<b>\$ (6)</b>	<b>\$ (26,317)</b>	<b>\$ 6,010</b>
Share-based compensation expense	-	-	28	-	-	28
Common shares issued for cash on exercise of warrants (Note 15)	136,000	12	-	-	-	12
Net comprehensive income	-	-	-	2	14	16
<b>Balances, June 30, 2018</b>	<b>145,663,418</b>	<b>\$ 28,514</b>	<b>\$ 3,859</b>	<b>\$ (4)</b>	<b>\$ (26,303)</b>	<b>\$ 6,066</b>
Share-based compensation expense	1,348,337	132	12	-	-	144
Common shares issued for cash on exercise of warrants (Note 15)	89,000	7	-	-	-	7
Net comprehensive income	-	-	-	2	129	131
<b>Balances, December 31, 2018</b>	<b>147,100,755</b>	<b>\$ 28,653</b>	<b>\$ 3,871</b>	<b>\$ (2)</b>	<b>\$ (26,174)</b>	<b>\$ 6,348</b>
Share-based compensation expense	-	-	64	-	-	64
Net comprehensive income	-	-	-	-	139	139
<b>Balances, June 30, 2019</b>	<b>147,100,755</b>	<b>\$ 28,653</b>	<b>\$ 3,935</b>	<b>\$ (2)</b>	<b>\$ (26,159)</b>	<b>\$ 6,551</b>

*See accompanying notes to consolidated financial statements*

**Wi2Wi Corporation**  
**Unaudited Consolidated Interim Statements of Cash Flows**  
*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Cash Flows from Operating Activities</b>				
Net income	\$ 124	\$ 9	\$ 139	\$ 14
Adjustments for non-cash items:				
Depreciation and amortization	233	63	468	126
Share-based compensation	39	13	64	28
Changes in fair of investment in Legend Oil and Gas	4	(4)	(2)	7
Changes in in non-cash working capital:				
Trade accounts receivable	(17)	(27)	(121)	291
Inventories	233	(101)	114	(18)
Right-To-Use assets	-	-	(812)	-
Prepaid expenses and other current assets	28	22	12	(50)
Accounts payable	(283)	(87)	(214)	(215)
Accrued liabilities	(676)	211	(141)	192
<b>Net Cash Provided by Operating Activities</b>	<b>(315)</b>	<b>99</b>	<b>(493)</b>	<b>375</b>
<b>Cash Flows from Investing Activity</b>				
Additions to property and equipment	(45)	(6)	(51)	(23)
<b>Net Cash Used in Investing Activity</b>	<b>(45)</b>	<b>(6)</b>	<b>(51)</b>	<b>(23)</b>
<b>Cash Flows from Financing Activities</b>				
Issuance of common shares on exercise of warrants	-	-	-	12
<b>Net Cash Provided by Financing Activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12</b>
<b>Effects of exchange rate changes on cash and cash equivalents</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>2</b>
<b>Net Increase in Cash</b>	<b>(360)</b>	<b>95</b>	<b>(544)</b>	<b>366</b>
<b>Cash, beginning of period</b>	<b>1,886</b>	<b>1,922</b>	<b>2,070</b>	<b>1,651</b>
<b>Cash, at end of period</b>	<b>\$ 1,526</b>	<b>\$ 2,017</b>	<b>\$ 1,526</b>	<b>\$ 2,017</b>

*See accompanying notes to consolidated financial statements.*

# Wi2Wi Corporation

## Notes to Unaudited Condensed Consolidated Interim Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

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### 1. Nature and Description of the Company

Sargeant Bay Capital, Inc., a Canadian entity, was incorporated pursuant to the Canada Business Corporations Act on July 9, 2004. On December 12, 2005, Sargeant Bay Capital, Inc. changed its name to Wi2Wi Corporation and became the legal parent of its wholly owned operating subsidiary, Wi2Wi Inc., a Delaware company, through a reverse takeover transaction. Wi2Wi Inc., headquartered in San Jose, California, was incorporated on April 29, 2005 and was mainly inactive until it acquired the original equipment manufacturing (OEM) products division of Actiontec Electronics on October 1, 2005.

Wi2Wi is a vertically integrated manufacturer providing wireless connectivity solutions, precision timing devices, frequency control products and microwave filters to the global market addressing various applications in the market segments; Internet of Things (IoT), Industrial Internet of Things (IoT/M2M/Industry 4.0), Avionics, Space, Military and Industrial. The Company shares trade on the TSX Venture Exchange under the symbol "YTY".

On February 4, 2016, Wi2Wi LLC was organized in the State of Wisconsin, a wholly owned subsidiary of Wi2Wi Inc. to conduct all or a portion of the Company's business in the State of Wisconsin.

On June 3, 2016, WI2WI (India) PRIVATE LIMITED was incorporated in India, as a wholly owned subsidiary of Wi2Wi, Inc. This is an engineering office for the wireless connectivity products, which works on developing new products.

### 2. Basis of Preparation

The consolidated financial statements are presented in U.S. dollars and all values are rounded to the nearest thousand dollars except where otherwise indicated. The consolidated financial statements have been prepared on an accrual basis except for cash flow information, and are based on historical costs except for certain financial instruments, which are measured at fair value.

#### ***Statement of Compliance and Authorization***

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under IAS 34, Interim Financial Reporting (IAS 34) as issued by the International Accounting Standards Board (IASB). These unaudited condensed consolidated interim financial statements do not include all the information and notes required by IFRS for annual financial statements and, therefore, should be read in conjunction with the audited consolidated financial statements and notes for the Company's year ended December 31, 2018, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

The unaudited condensed consolidated interim financial statements include the financial statements of Wi2Wi Corporation and its wholly owned subsidiaries, Wi2Wi Inc., Wi2Wi LLC and Wi2Wi (India) PRIVATE LIMITED. All intercompany balances and transactions have been eliminated on consolidation.

The Company operates as one segment. Substantially all assets of the Company are located in the United States.

#### **Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements**

These condensed consolidated interim financial statements of Wi2Wi Corporation for the six months ended June 30, 2019 have been prepared by Management and were authorized for issue in accordance with a resolution of the Board of Directors on August 21, 2019. Wi2Wi Corporation's independent auditor has not performed a review of these condensed consolidated interim financial statements, in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entities auditors.

**Wi2Wi Corporation**  
**Notes to Unaudited Condensed Consolidated Interim Financial Statements**  
*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

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**3. Capital Management**

The Company considers the items included in the consolidated statements of changes in shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements. There have been no changes in the Company's definition of capital or capital management objectives during the six months ended June 30, 2019, and 2018.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

**4. Significant Accounting Policies**

**Restricted Cash**

As part of the collateral for a credit facility discussed in Note 18, the Company was required to deposit \$500 in a restricted account with the bank to repay any borrowings under the Facility. The cash collateral will be returned to the Company once certain financial covenants are met for the \$2 million revolving facility, or when the facility terminates in May 2020. The cash in the restricted account is interest bearing.

**Trade Accounts Receivable**

Management estimates a provision for impairment for collectability related to its trade accounts receivable balances. This provision is based on the customer relationships, the aging and turnover of trade accounts receivable, credit worthiness of customers, credit concentrations and payment history. Management's estimates include providing for 100% of specific customer balances when it is deemed probable that the balance is uncollectable. Credit terms to customers vary between net 30 days and net 120 days. Although management monitors collections and credit worthiness, the inability of a particular customer to pay its debts could impact collectability of receivables and could have an impact on future revenues if the customer is unable to arrange other financing. Management does not believe these conditions are reasonably likely to have a material impact on the collectability of its receivables or future revenues. Recoveries of accounts receivables previously written off are recorded when received. Accounts receivable are stated net of the provision for impairment.

**Inventories**

Inventories are recorded at the lower of average cost (first in first out method) or net realizable value. Cost is determined on a weighted average basis and includes all costs of purchase, costs of conversion (direct costs and an allocation of fixed and variable production overheads) and other costs incurred in bringing the inventory to their present location and condition. Net realizable value is the estimated selling price less estimated costs to complete. As a supplier of system in package and modular products, inventory cost consists of amounts paid to the Company's contract manufacturers for product that is drop shipped to customers or shipped to the Company. Charges for excess and obsolete inventory are recorded based on inventory age, shipment history and forecasted demand. The markets that the Company serves can be volatile and actual results may vary from the Company's forecast or other assumptions, potentially impacting the Company's inventory valuation and resulting in material effects on its gross margin. The Company sells product directly to end customers as well as through distributors.



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**Property and Equipment**

Property and equipment is stated at cost less accumulated depreciation, amortization and impairment losses. Depreciation and amortization are computed using the straight line method over estimated useful lives of:

- Three years for computer equipment and software;
- Five years for furniture and fixtures;
- Five to ten years for machinery and equipment;
- Over the term of lease or estimated useful life of leaseholds, whichever is shorter.

Useful lives and amortization methods are reviewed annually.

**Impairment of Non-Financial Assets**

Non-financial assets to be held and used by the Company are reviewed for possible impairment annually, and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, the Company must estimate the difference between the carrying amount of the asset and the recoverable amount. If the carrying amount exceeds the recoverable amount, the difference is recognized as an impairment loss. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Impairment charges can be subsequently reversed if they no longer exist but cannot exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized in the prior years. No impairment charges have been recorded for any of the periods presented.

**Financial Instruments**

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statement of financial position when the Company becomes a party to the financial instrument or derivative contract.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories i) those to be measured subsequently at fair value through profit or loss (FVTPL); ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI); and iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent

# Wi2Wi Corporation

## Notes to Unaudited Condensed Consolidated Interim Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

### Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportable forward-looking information. For trade accounts receivable, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade accounts receivable.

Evidence of impairment may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

The Company's financial instruments are accounted for as follows under IFRS 9:

	<b>Classification</b>	<b>Measurement</b>
Cash and restricted cash	Amortized cost	Amortized cost
Trade accounts receivable	Amortized cost	Amortized cost
Investment in Legend Oil and Gas	FVTPL	Fair value
Accounts payable	Amortized cost	Amortized cost
Accrued liabilities	Amortized cost	Amortized cost
Warrant liability	FVTPL	Fair value

### **Income Taxes**

The Company applies the asset and liability approach to recording current and deferred taxes. Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. Deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognized to the extent that the realization of the related tax benefit through future taxable income is probable. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that includes the enacted or substantively enacted date.

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## Notes to Unaudited Condensed Consolidated Interim Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

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Management periodically reviews the Company's provision for income taxes and deferred tax assets and liabilities to determine whether the overall tax estimates are reasonable. When management performs its assessments, it may be determined that an adjustment is required. These adjustments, if required, may have a material impact on the Company's consolidated financial position and profit or loss.

### Foreign Currency

The Company's presentation currency is the US dollar. The functional currency of the Company's self-sustaining foreign subsidiaries, Wi2Wi Inc. and Wi2Wi LLC are their local currency of US dollars. The functional currency of WI2WI (India) PRIVATE LIMITED foreign subsidiary is its local currency of Rupees. The functional currency of Wi2Wi Corporation is its local currency of Canadian dollars.

#### Foreign currency translation, transactions in other than the functional currency

Foreign currency transactions are translated into the entity's functional currency using the exchange rates prevailing at the dates of the transactions. As at a reporting date, assets and liabilities denominated in a foreign currency are translated into the functional currency, as follows:

- Foreign currency monetary items are translated using the spot exchange rate in effect at the reporting date; and
- Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate(s) in effect as at the date(s) on which fair value was determined.

Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation as at a reporting date of assets and liabilities denominated in foreign currencies are reflected in profit or loss. There were no significant gains or losses arising from transactions denominated in currencies other than the functional currency for the six months ended June 30, 2019 and 2018.

#### Foreign currency translation, non-USD functional currency entities

For the preparation of these consolidated financial statements, all assets and liabilities are translated into the presentation currency of U.S. dollars ("USD") using the foreign exchange rate in effect as at the reporting date with Net and comprehensive income (loss) accounts translated using the average exchange rate for the reporting or applicable period. Translation adjustments arising from changes in exchange rates are reported as a component of other comprehensive income and form part of the cumulative translation account in shareholders' equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation account related to that foreign operation is reclassified to profit or loss as part of the profit or loss on disposal.

### Revenue Recognition

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for promised goods or services. The Company's performance obligations are satisfied at a point in time.

The Company generally has one performance obligation in its arrangements involving the sale of frequency control and connectivity products. When the terms of a contract include the transfer of multiple products, each distinct product is identified as a separate performance obligation. Generally, satisfaction occurs when control of the promised goods is transferred to the customer in exchange for consideration in an amount for which the Company expects to be entitled. Generally, control is transferred when legal title of the asset moves from the Company to the customer. We sell our products to a customer based on a purchase order, and the shipping terms per each individual order are primarily used to satisfy the single performance obligation. However, in order to determine control has transferred to the customer, the Company also considers:

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- when the Company has a present right to payment for the goods;
- when the Company has transferred physical possession of the goods to the customer;
- when the customer has the significant risks and rewards of ownership of the goods;
- when the customer has accepted the goods.

Significant Judgments

Certain of the Company's shipments include a limited return for which the Company recognizes revenue net of expected returns. A few distributors have stock rotation rights and have 60 days after a 12-month period to return inventory, at the Company's approval, from the first order placed for any new product. Returned product has historically been insignificant.

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing to customers and these timing differences result in contract assets or contract liabilities (deferred revenue) on the Company's consolidated statements of financial position. The Company records a contract asset when revenue is recognized prior to invoicing, or deferred revenue when revenue is recognized subsequent to invoicing. Contract assets are recorded in prepaid expenses and other current assets on the consolidated statements of financial position and are \$9 and \$9 as of June 30, 2019 and December 31, 2018, respectively. Deferred revenues are recorded in accrued liabilities on the consolidated statements of financial position and are \$25 and \$25 as of June 30, 2019 and December 31, 2018, respectively.

Disaggregated Revenue

We disaggregate our revenue from contracts with customers by product family and geographical areas as we believe it best depicts how the nature, timing and uncertainty of our revenue and cash flows are affected by economic factors. See details in the table below.

<b>For the six months ended June 30,</b>	<b>2019</b>	<b>2018</b>
<b>Product Family</b>		
Frequency Control	\$ 5,245	\$ 4,672
Connectivity	153	188
	\$ 5,398	\$ 4,860
<b>For the six months ended June 30,</b>	<b>2019</b>	<b>2018</b>
<b>Geographical Area</b>		
United States	\$ 4,341	\$ 4,122
Foreign Countries	1,057	738
	\$ 5,398	\$ 4,860

**Wi2Wi Corporation**  
**Notes to Unaudited Condensed Consolidated Interim Financial Statements**  
*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

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**Research and Development**

Research costs are expensed, and development costs are capitalized as an asset if certain criteria are satisfied. The development costs incurred in the six months ended June 30, 2019 and 2018, respectively, did not satisfy the criteria and therefore were expensed.

**Share-Based Payments**

The Company has a stock option plan and issues stock options to directors, employees and other service providers. The fair value of options granted to employees, including directors, is measured at the grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period, based on the best available estimate of the number of stock options expected to vest. Estimates are subsequently revised, if there is any indication that the number of stock options expected to vest differs from previous estimates. All share-based remuneration is recognized as an expense in profit or loss with a corresponding credit to contributed surplus. Upon exercise of stock options, the proceeds received net of any directly attributable transaction costs and the amount originally credited to contributed surplus are allocated to share capital. Where equity instruments are granted to persons other than employees, profit or loss is charged with the fair value of goods and services received. When the value of the goods or services cannot be specifically identified, they are measured at the fair value of the share-based payment.

Effective May 2017 the Company has a Restricted Share Unit Plan which was established as a method by which equity-based incentives may be awarded to the directors, officers and employees of, and consultants to, the Company to recognize and reward their significant contributions to the long-term success of the Company and to align their interests more closely with the shareholders of the Company.

The fair value of the Restricted Share Units ("RSUs") are measured at fair value at the date of grant and are expensed as compensation costs over the vesting period with a corresponding increase in contributed surplus. Fair value is determined as the average of the highest and lowest selling price of the Company's common stock on the day the RSUs are issued. Upon vesting of the RSUs the amount originally credited to contributed surplus is allocated to share capital.

**Product Warranty**

The Company offers a standard one-year product replacement warranty on its connectivity solutions. The Company assesses the level and materiality of return authorizations and determines the estimated returns for defective products at the time revenue is recognized. On occasion, management may determine to accept product returns beyond the standard one-year warranty period. In those instances, the Company accrues for the estimated cost at the time the decision to accept the return is made. As a consequence of the Company's standardized manufacturing processes and product testing procedures, returns of defective product are infrequent and the quantities have not been significant. Accordingly, historical warranty costs have not been material. Actual claim costs may differ from management's estimates. There was no accrual for warranty costs at June 30, 2019 or 2018.

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*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

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**5. New Accounting Policies**

***New standards and interpretations adopted:***

In 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers." The new accounting standard requires an entity to apply a five step model to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, as well as, a cohesive set of disclosure requirements that result in an entity providing comprehensive information about the nature, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard became effective for reporting periods beginning on or after January 1, 2018. The Company adopted IFRS 15 using the modified retrospective adoption method, with the effect of initially applying this standard recognized at January 1, 2018. The adoption of IFRS 15 did not have a significant impact on the Company's consolidated financial statements and there were no adjustments required to be recognized at January 1, 2018. In accordance with the requirements of IFRS 15, the Company has disclosed the revenue recognition accounting policy in Note 4.

In 2014, the IASB issued IFRS 9 - Financial Instruments, which replaces the earlier versions of IFRS 9 (2009, 2010, and 2013) and completes the IASB's project to replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 includes a logical model for classification and measurement of financial assets; a single, forward-looking 'expected credit loss' impairment model and a substantially reformed approach to hedge accounting to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. In accordance with the requirements of IFRS 9, the Company has disclosed the financial instrument accounting policy in Note 4. Adoption of this standard did not have a material effect on the consolidated financial statements.

In 2016, the IASB issued IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration ("IFRIC 22"), which provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. The Company's adoption of this standard on a prospective basis did not have a material effect.

In 2016, the IASB issued the final amendments to IFRS 2, Share-based Payments ("IFRS 2") that clarify the classification and measurement of share-based transactions, consisting of: accounting for cash-settled share-based payment transactions that include a performance condition; classification of share-based payment transactions with net settlement features; accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company's adoption of this standard on a prospective basis did not have a material effect.

***New standards and interpretations adopted January 1, 2019:***

Except as noted below, none of the new standards, interpretations and amendments, other than IFRS 16 "Leases" effective for the first time from January 1, 2019, are expected to have a material effect on the consolidated financial statements.

In 2016, IASB issued IFRS 16, "Leases", which specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard will be mandatory for annual periods beginning on or after January 1, 2019.

# Wi2Wi Corporation

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The Company has elected to apply IFRS 16 using the Modified Retrospective Approach. Under this approach, the comparative information will not be restated and the cumulative effect of initially applying the IFRS 16 will be recognized in retained earnings at the date of initial application.

The Company will use the following practical expedients permitted by the standard:

- the use of the modified retrospective approach with no restatement of prior periods. For contracts previously classified as operating leases, the Company has elected for the right-of-use asset to equal the lease liability, adjusted for any prepaid amount; and
- the election not to recognize leases for which the underlying asset is of low value.

### ***New standards and interpretations not yet adopted:***

On June 7, 2017, the IASB issued IFRIC Interpretation 23, Uncertainty over Income Tax Treatments. The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation is applicable for annual periods beginning on or after June 1, 2019. Earlier adoption is permitted. The interpretation requires an entity to:

- contemplate whether uncertain tax treatment should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty; and
- measure a tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the amount payable (recoverable).

## **6. Critical Accounting Estimates and Judgments**

The Company makes certain estimates and assumptions regarding the future. Estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### **Inventories**

Inventories are recorded at the lower of average cost (first in first out method) or net realizable value. Charges for excess and obsolete inventory are recorded based on inventory age, shipment history and forecasted demand. The Company's business is subject to technology changes which may cause selling prices to change rapidly. Moreover, the markets that the Company serves can be volatile and actual results may vary from the Company's forecast or other assumptions, potentially impacting the Company's inventory valuation and resulting in material effects on its profit or loss.

### **Useful Lives of Depreciable Assets**

Management reviews the useful lives of property and equipment at each reporting date based on the expected utility of the assets to the Company. Actual results, however, may vary due to technical obsolescence. Details of the property and equipment useful lives are provided in Note 4.

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**Income Taxes**

The Company is subject to income tax in several jurisdictions and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The Company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

**7. Trade Accounts Receivable**

Trade accounts receivable are recorded at the invoiced amount and do not bear interest.

	June 30, 2019	December 31, 2018
Trade accounts receivable	\$ 1,570	\$ 1,449
Less provision for impairment of trade receivables	(38)	(38)
Trade receivables - net	\$ 1,532	\$ 1,411

**8. Inventories**

Inventories consist of:

	June 30, 2019	December 31, 2018
Raw materials	\$ 1,739	\$ 1,688
WIP Inventory	226	397
Finished goods	867	861
Total	\$ 2,832	\$ 2,946

For the six months ended June 30, 2019, inventories recognized as an expense in cost of sales amounted to \$1,705 (2018 - \$1,417). During the period, inventories were reviewed for obsolescence as part of ongoing operations. As at June 30, 2019, the obsolescence provision against inventories totaled \$833 (2018 - \$833).



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**9. Property and Equipment, Net**

	<b>Machinery and Equipment</b>	<b>Computer Equipment and Software</b>	<b>Furniture and Fixtures</b>	<b>Leaseholds</b>	<b>Total</b>
<b>Cost</b>					
At December 31, 2017	\$ 2,165	\$ 203	\$ 89	\$ 105	\$ 2,562
Additions	62	2	-	10	74
At December 31, 2018	\$ 2,227	\$ 205	\$ 89	\$ 115	\$ 2,636
Additions	22	4	-	25	51
At June 30, 2019	\$ 2,249	\$ 209	\$ 89	\$ 140	\$ 2,687
<b>Accumulated Depreciation</b>					
Balance, December 31, 2017	\$ 870	\$ 156	\$ 83	\$ 34	\$ 1,143
Additions	201	24	2	24	251
Balance, December 31, 2018	\$ 1,071	\$ 180	\$ 85	\$ 58	\$ 1,394
Additions	100	10	1	11	123
At June 30, 2019	\$ 1,171	\$ 190	\$ 86	\$ 69	\$ 1,517
<b>Net Book Value</b>					
At December 31, 2018	\$ 1,156	\$ 25	\$ 4	\$ 57	\$ 1,242
At June 30, 2019	\$ 1,078	\$ 19	\$ 3	\$ 71	\$ 1,170

**10. Related Parties**

There are not any related party financing activities in the fiscal year of 2018 and in the current fiscal year.

**11. Accrued Liabilities**

Accrued liabilities consist of:

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
Accrued compensation	\$ 234	\$ 172
Accrual for legal proceedings (Note 12)	145	742
Operating lease liability (Note 5)	451	-
Other accrued expenses	234	291
	<b>\$ 1,064</b>	<b>\$ 1,205</b>

**12. Legal Proceedings**

***Accrual for Legal Proceedings and Settlement***

A former Company executive (Plaintiff) has asserted a claim of CAD\$4.4 million against four former directors of the Company (defendants) for damages incurred as a result of the claimed lost value of Plaintiff's investment which he was unable to realize because of the defendants' conduct. Judgment was rendered on January 28, 2014 by Quebec Superior Court of Justice. Two former directors were found to have benefited from the "oppressive conduct" and ordered to pay CAD\$648 plus interest and additional indemnity as of July 6, 2010. The action against the other two former directors was dismissed. An appeal from the judgment had been filed with Quebec Court of Appeal to overturn the judgment and dismiss the action as a whole, but the appeal was denied. A former director then sought leave to appeal to the Supreme Court of Canada with such leave granted on April 7, 2016.

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Canada Business Corporation Act (124 (1) & (3)) essentially provides that the corporation may indemnify a director or former director if he acted in honesty, in good faith, and in the best interest of the corporation. When the three conditions are not met, a corporation is prohibited from indemnifying the director or former director notwithstanding what the by-laws, indemnity agreement or other contractual undertaking may provide. This rule is confirmed by at least two recent judgments from the Court of Appeal of Ontario, (*White v. Hollinger Inc.*, 2006 and *Cytrynbaum v. Look Communication Inc.*, 2013). On July 13, 2017 the Supreme Court of Canada dismissed the appeal and confirmed the judgments of the Quebec Court of Appeal and of the Quebec Superior Court of Justice.

The Company has received legal advice to the effect that, in certain circumstances specifically when a director has benefitted personally, that the Company may not have an obligation to indemnify the director. Based on the legal advice received, the Company decided not to indemnify the former directors and reduced the accrual for legal proceedings from \$781 to \$131 at December 31, 2017. An additional \$705 was accrued for at December 31, 2018 due to current legal settlement. The additional amount was reserved to cover future legal expenses respecting this matter.

On February 7, 2018 the Company was served with a Notice of Garnishment by the former Company executive who had secured the judgment in the Quebec proceeding. The former Company executive claimed that the Company was under an obligation to indemnify one of the directors for the amounts of the Quebec judgment and, effectively, that the Company should be ordered to pay this indemnity amount to the benefit of the former executive.

On October 25, 2018, The Ontario Superior Court ruled in favor of the former Company Executive in the garnishment proceedings against Wi2Wi. It ordered the Company to pay the sum of CAD\$962 (approximately \$705USD) plus accrued interest of CAD\$8 (approximately \$6USD) to the Sheriff in the City of Toronto pursuant to the notice of garnishment (the **Ontario Court Decision**). An order for legal costs, to be quantified was also made. It is expected this will be less than CAD\$20 (approximately \$15USD).

The Company has notified its insurers of the Ontario Court Decision and the insurer has denied the liability. The insurer had previously denied liability for this matter.

The Company and the plaintiff have reached a settlement agreement and the Company has announced the settlement on May 23, 2019. As part of the settlement, the Company has paid a lump sum of CAD\$500 and issued 4,000,000 common shares from treasury at a deemed price of CAD0.075 per common shares. The settlement of cash payment resulted in negative cash flow for the six months period ended June 30, 2019.

From time to time, third parties have asserted, and may in the future assert claims against the Company related to disputes in the normal course of business. At this time, there are no such claims against the Company which are expected to be material to the Company's results of operations or financial condition.

### 13. Share Capital

#### Common Shares

The authorized capital stock of the Company consists of an unlimited number of common shares. Holders of common shares are entitled to one vote for each share held on all matters submitted to a vote of shareholders.

#### Per Share Calculation

The basic and diluted income per share has been calculated based on 147,100,755 and 159,375,429 weighted average shares outstanding, respectively, for the six months ended June 30, 2019. The basic and diluted per share

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has been calculated based on 145,663,418 and 158,027,092 weighted average shares outstanding for the six months ended June 30, 2018.

**Financing Activities**

There are not any financing activities in the fiscal year of 2018 and in the current fiscal year.

**14. Share-Based Payments and Warrants**

**Stock Option Plan**

At June 30, 2019, the Company had only one stock option plan, the Wi2Wi Corporation Stock Option Plan (the Plan).

Options are granted at an exercise price not less than the fair value of the Company's shares at the date of grant. Options granted to employees, directors, officers and certain consultants have an expiration date that is up to 10 years from the grant date, generally vest over periods of up to 48 months as determined by the Board of Directors.

The following table summarizes the stock options:

	Options	Weighted Average Exercise Price
<b>Options outstanding at December 31, 2017</b>	4,485,567	\$ 0.15
Options forfeited or expired	(109,588)	0.23
Options granted	-	-
<b>Options outstanding at December 31, 2018</b>	4,376,979	\$ 0.14
Options forfeited or expired <sup>1</sup>	(1,500,000)	0.16
Options granted <sup>2</sup>	1,000,000	0.06
<b>Options outstanding at June 30, 2019</b>	3,876,979	\$ 0.11

1. Certain of these stock options, issued in Canadian dollars, were converted to US\$ at the March 31, 2019 exchange rate of 1.33495.

2. Certain of these stock options, issued in Canadian dollars, were converted to US\$ at the June 30, 2019 exchange rate of 1.31255.

The following table summarizes stock options outstanding and exercisable as of June 30, 2019:

Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Options Exercisable
0.13 <sup>1</sup>	2,271,500	2.66	2,271,500
0.15 <sup>2</sup>	600,000	0.97	600,000
0.06 <sup>3</sup>	1,000,000	7.00	1,000,000
0.46	5,479	2.23	5,479
	3,876,979	3.52	3,876,979

1. These stock options have an exercise price of CAD \$0.17 and have been converted to US\$ at the June 30, 2019 exchange rate of 1.31255 for disclosure purposes here.

2. These stock options have an exercise price of CAD \$0.195 and have been converted to US\$ at the June 30, 2019 exchange rate of 1.31255 for disclosure purposes here.

3. These stock options have an exercise price of CAD \$0.075 and have been converted to US\$ at the June 30, 2019 exchange rate of 1.31255 for disclosure purposes here.

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The fair value of each employee option is estimated on the date of grant using the Black-Scholes option pricing model and expensed using the graded vesting method over the related service period. The Company estimates its expected stock price volatility using an average historical volatility of a group of similar publicly traded companies over a period equal to the expected term of options granted. The Company estimates the expected term of options granted as being the time from grant to vest plus the midpoint of the time from vest to option expiration. The risk-free interest rate for periods within the contractual life of the option is based on U.S. Treasury zero-coupon rates for the expected term of the option.

Share-based compensation expense related to stock options and RSU's is charged to selling, general and administrative, as follows:

June 30,	2019	2018
Selling, general and administrative	\$ 50	\$ 28
	\$ 50	\$ 28

**Restricted Share Units (RSU's)**

At June 30, 2019, the Company had the Wi2Wi Corporation Restricted Share Unit Plan.

The following table summarizes the RSU's issued by the Company:

	RSU's	Weighted Average Grant Date Fair Value
<b>RSU's outstanding at December 31, 2017</b>	1,808,350	\$ 0.09
RSU's vested	(1,348,337)	0.09
RSU's issued	2,005,884	0.12
RSU's forfeited	(306,669)	0.12
<b>RSU's outstanding at December 31, 2018</b>	2,159,228	\$ 0.11
RSU's vested	(977,652)	0.11
<b>RSU's outstanding at June 30, 2019</b>	1,181,576	\$ 0.11

RSUs are measured at fair value at the date of grant and are expensed over the vesting period with a corresponding increase in contributed surplus. Fair value of an RSU is determined as the average of the highest and lowest selling price of the Company's stock on the RSU grant date.

**Warrants**

The following table summarizes the warrants issued by the Company as of June 30, 2019:

	Warrants	Weighted Average Exercise Price
<b>Warrants outstanding at December 31, 2017</b>	12,664,056	\$ 0.09
Warrants expired <sup>1</sup>	(164,382)	0.46
Warrants exercised <sup>2</sup>	(136,000)	0.09
Warrants exercised <sup>3</sup>	(89,000)	0.09
<b>Warrants outstanding at December 31, 2018</b>	12,274,674	0.09
<b>Warrants outstanding at June 30, 2019</b>	12,274,674	\$ 0.08

1. The exercise price of these warrants was USD \$0.46.

2. The exercise price of these warrants was CAD \$0.11, which is converted to US\$ at the March 31, 2018 of 1.29 exchange rate for presentation in this table.

3. The exercise price of these warrants was CAD \$0.11, which is converted to US\$ at the September 30, 2018 of 1.29 exchange rate for presentation in this table.

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In April 2017, the Company issued 12,499,674 warrants, with an exercise price of CAD \$0.11 (\$0.09), in connection with a private placement, as discussed in Note 13. The warrants are fully vested. The warrants include a feature in which the exercise price would be adjusted in the event of a down round financing and the warrants are therefore accounted for as liabilities. The Company determined the warrants had a fair value of CAD \$451 (\$337), which is a fair value of CAD \$.04 (USD\$.03) per warrant, at the issuance date and has revalued the warrant liability to fair value at each reporting period thereafter. The warrant liability fair value is CAD \$197 (\$144) at June 30, 2019 and CAD \$197 (\$144) at December 31, 2018.

The Company used the Monte Carlo model, which is a scenario analysis tool that allows dynamic modeling of financial instruments, to determine the fair value of the warrants. At December 31, 2017 the Company used assumptions related to the stock price (CAD\$.17), time to expiration (4.25 years), volatility (52.1%), and risk free interest rate (1.7%), as well as considerations regarding any future events that may trigger the warrant exercise price adjustment. At December 31, 2018 the Company used assumptions related to the stock price (CAD \$.07), time to expiration (3.26 years), volatility (49.1%), and risk free interest rate (2.5%), as well as considerations regarding any future events that may trigger the warrant exercise price adjustment.

The change in warrant liability fair value between December 31, 2017 and December 31, 2018 of CAD \$889 (\$ 722) is recorded as warrant liability revaluation in profit or loss. The warrant liability is included as a non-current liability in the consolidated statement of financial position, based on the expiry date of the warrants.

The remaining outstanding warrants are accounted for as equity instruments. 164,382 expired unexercised in February 2018, 136,000 were exercised in March 2018, and 89,000 were exercised in July 2018.

Summarized information about warrants as of June 30, 2019 is as follows:

<b>Exercise Prices</b>	<b>Warrants Outstanding</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Warrants Exercisable</b>
\$0.08	12,274,674	2.76	12,274,674

<b>15. Expenses by Nature</b>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Research and Development</b>				
Compensation	\$ 119	\$ 131	\$ 241	\$ 269
Other costs	<u>52</u>	<u>43</u>	<u>101</u>	<u>112</u>
<b>Total research and development</b>	<b>\$ 171</b>	<b>\$ 174</b>	<b>\$ 342</b>	<b>\$ 381</b>
<b>Selling, General and Administrative Expenses</b>				
Compensation	\$ 280	\$ 243	\$ 556	\$ 509
Depreciation and amortization	56	14	113	29
Facility related expenses	13	55	25	110
Professional and consulting services	23	73	82	83
Other costs	<u>179</u>	<u>135</u>	<u>300</u>	<u>265</u>
<b>Total selling, general and administrative</b>	<b>\$ 551</b>	<b>\$ 520</b>	<b>\$ 1,076</b>	<b>\$ 996</b>

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**16. Business Risks and Concentrations**

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

**Liquidity Risk**

Liquidity risk is the risk that the Company is not able to meet its financial obligations when they fall due. The company does not believe it has significant liquidity risk. In April 2017, the Company completed a unit private placement financing for CAD \$700, which was approximately \$522. As of June 30, 2019, the Company did not have any debt outstanding and reported cash inflows from operations.

**Credit Risk**

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Credit risk arises on cash and restricted cash, and trade accounts receivable. The Company believes it has no significant credit risk with respect to cash and restricted cash balances which are maintained with national banks. The maximum exposure is equal to the carrying amount of these financial assets.

The Company had significant exposure to several customers as of June 30, 2019 and December 31, 2018 as follows:

Customer	June 30, 2019		December 31, 2018	
	Revenue %	AR %	Revenue %	AR %
A	14%	11%	13%	14%
B	13%	9%	17%	10%
C	9%	16%	13%	14%

The Company has \$80 and \$92 in outstanding receivables over 90 days at June 30, 2019 and December 31, 2018, respectively.

**Market risk**

Market risk is the risk that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The company believes it has no significant market risk.

**Interest rate risk**

Interest rate risk is the risk from the company's exposure to increases and decreases in financial instrument values caused by fluctuations in interest rates. The Company has cash and restricted cash balances. The interest earned approximates fair value rates, and the Company is not at a significant risk to fluctuating interest rates as it does not have any interest-bearing debt.

**Foreign currency risk**

The company is exposed to minimal foreign currency risk due to the infrequency of transactions in currencies other than the US dollar. The company does not use derivatives to hedge against this risk. At June 30, 2019 had accounts payable and accrued liabilities of CDN\$190 (2018- CDN \$178).

**Price risk**

The Company is not exposed to material price risk with respect to commodity or equity prices, other than the warrant liability (note 14).

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**17. Fair Value of Financial Assets and Liabilities**

The Company's financial instruments at June 30, 2019 include cash, restricted cash, trade accounts receivable, Investment in Legend Oil and Gas Ltd., accounts payable, accrued liabilities and warrant liability. The carrying amounts of cash, restricted cash, trade accounts receivable and accounts payable approximate their fair value amounts due to the relatively short periods to maturity of these items or because they are receivable or payable on demand. The investment in Legend Oil and Gas Ltd., and the warrant liability are reported at their fair values.

When applicable, the Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

**Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and

**Level 3:** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The investment in Legend Oil and Gas Ltd. is a level 1 valuation, the fair value of the warrant liability has been determined using a level 3 technique, since recognition. There were no transfers into or out of level 3.

**18. Credit Facility**

On March 18, 2016 the Company entered into a \$ 2 million revolving credit facility ("Facility") with Wells Fargo Bank, National Association ("Wells Fargo"). Under the agreement, the Company is required to deposit \$500 with Wells Fargo to serve as collateral for the Facility, and that \$500 is presented as restricted cash on the consolidated statements of financial position. Borrowings up to \$500 are available until the Company meets two financial covenants (defined below), fully collateralized by the deposit. Once the financial covenants are met and the Company chooses to use the revolving credit facility, the collateral of \$500 will be returned to the Company. From that point, borrowings are limited based on a percentage of trade accounts receivable and inventories. The financial covenants were met at the end of each quarter of 2018. The financial covenants have been met at June 30, 2019, but the Company has chosen not to use the \$2 million revolving credit facility at this time.

The restricted cash of \$500 is shown as a separate line item on the statement of financial position.

The interest on the Facility is LIBOR plus 3%, with an annual standby charge of 0.25%, charged quarterly. The Company has granted a security interest to Wells Fargo on all the property of the Company. Interest only payments are due monthly with the principal due at maturity, which will be May 31, 2020.

There have been no borrowings as of June 30, 2019.

Financial covenants:

- (a) Statement of financial position leverage of less than or equal to 3, defined as total liabilities divided by tangible net worth tested on a quarterly basis.
- (b) Minimum net income greater than one dollar, tested on a quarterly basis on a rolling twelve-month basis.

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**19. Key Management Personnel Compensation**

The remuneration of key management personnel of the Corporation, includes both members of the Board of Directors and leadership team, which includes the CEO and CFO, is set out below in aggregate:

For six months ended June 30,	2019	2018
Officer compensation	\$ 154	\$ 148
Share based compensation	22	17
Benefits and other personnel costs	18	16
Share based compensation former directors	-	34
Travel expenses former directors	-	6
Travel expenses current directors	10	-
	<b>\$ 204</b>	<b>\$ 221</b>

**20. Subsequent events**

As part of the legal settlement, the Company issued 4,000,000 common shares from treasury at a deemed price of CAD0.075 per common shares in July 2019. (See note 12).