POSERA

Consolidated Financial Statements of

Posera Ltd.

Years ended December 31, 2018 and 2017

Management's Responsibility for the Consolidated Financial Statements

The management of Posera Ltd. is responsible for the preparation of all information included in the accompanying audited consolidated financial statements. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, and necessarily include some amounts that are based on management's best estimates and judgments. Financial information included elsewhere in this annual report is consistent with that in the consolidated financial statements.

Management maintains a system of internal accounting controls to provide reasonable assurance that the consolidated financial statements are accurate and reliable and that the assets are safeguarded from loss or unauthorized use.

The Company's external auditors, appointed by shareholders, have prepared their report, which outlines the scope of their examination and expresses their opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for assuring that management fulfills its financial reporting responsibilities. The Audit Committee is composed of independent directors who are not employees of the Company.

The Audit Committee meets periodically with management and with the auditors to review and to discuss accounting policy, auditing and financial reporting matters. The Committee reports its findings to the Board of Directors for their consideration in reviewing and approving the consolidated financial statements for issuance to shareholders.

Signed "Dan Poirier"
Dan Poirier – Chief Executive Officer

Signed "Kevin Mills"
Kevin Mills – Chief Financial Officer

March 26, 2019

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Independent auditor's report

To the Shareholders of Posera Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Posera Ltd. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017;
- the consolidated statements of operations and comprehensive (loss) income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis. We obtained Management's Discussion and Analysis prior to the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Scott Gilfillan.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Ontario
March 26, 2019

Posera Ltd.

Consolidated Statements of Financial Position

As at December 31, 2018 and December 31, 2017
(in Canadian dollars)

		December 31, 2018		December 31, 2017
ASSETS (Note 19 and 20)				
CURRENT				
Cash and cash equivalents (Note 5)	$	6,413,647	$	11,766,994
Cash and cash equivalents - restricted cash (Note 5)		-		386,671
Accounts receivable		1,307,288		1,580,659
Current portion of lease and other receivables		2,839		31,804
Inventory (Note 7)		253,293		638,847
Note receivable (Note 14)		1,703,191		-
Investment credits receivable - refundable (Note 6)		470,301		678,801
Prepaid expenses and deposits		196,981		141,776
		10,347,540		**15,225,552**
NON-CURRENT				
Property, plant and equipment (Note 8)		86,898		198,031
Deposit on leased premises		43,278		45,560
Lease and other receivables		-		3,011
Investment tax credits receivable - non-refundable (Note 6)		603,653		862,469
Deferred income tax assets (Note 16)		176,057		5,294
Intangible assets (Note 9)		728,418		835,343
Goodwill (Note 10)		4,229,475		3,934,613
	$	**16,215,319**	**$**	**21,109,873**
LIABILITIES (Note 11, 19 and 20)				
CURRENT				
Accounts payable and accrued liabilities (Note 12, 18)	$	1,991,870	$	2,575,926
Transaction payable (Note 5)		-		386,671
Current portion of vehicle loans (Note 15)		6,853		9,000
Income taxes payable (Note 16)		79,069		262,855
Deferred revenue		526,913		1,158,631
		2,604,705		**4,393,083**
NON-CURRENT				
Deferred income tax liability (Note 16)		164,440		-
Vehicle loans (Note 15)		7,659		14,512
		2,776,804		**4,407,595**
EQUITY				
SHARE CAPITAL (Note 17(a))		62,143,008		61,804,578
CONTRIBUTED SURPLUS (Note 17(b, c))		7,956,123		7,946,279
DEFICIT		(57,484,457)		(53,665,746)
ACCUMULATED OTHER COMPREHENSIVE INCOME		823,841		617,167
		13,438,515		**16,702,278**
	$	**16,215,319**	**$**	**21,109,873**

APPROVED BY THE BOARD

Signed "Tom McCole" Director

Signed "Michael Brown" Director

The accompanying notes are an intergral part of these consolidated financial statements

Commitments [Note 20(b)]

Posera Ltd.

Consolidated Statements of Operations and Comprehensive (Loss) Income

For the years-ended December 31, 2018 and 2017

(in Canadian dollars, except for number of common shares)

		Year ended December 31		
		2018		**2017**
TOTAL REVENUE (Note 4, 24)	**$**	**9,984,120**	**$**	**10,674,447**
COST OF SALES (Note 18, 21)				
Cost of inventory (Note 7)		2,238,248		2,173,352
Technology (Note 6)		1,051,145		1,416,029
Operations and support		2,233,963		2,765,911
TOTAL COST OF SALES		**5,523,356**		**6,355,292**
GROSS PROFIT		**4,460,764**		**4,319,155**
OPERATING EXPENSES (Note 18, 21)				
Sales and marketing		1,871,514		2,350,951
General and administrative		5,707,733		5,077,611
Restructuring costs (Note 13)		-		(375,000)
TOTAL OPERATING EXPENSES		**7,579,247**		**7,053,562**
		(3,118,483)		**(2,734,407)**
OTHER EXPENSES (INCOME)				
Interest expense (income) (11, 13 and 15)		18,878		(142)
Realized and unrealized (gain) loss on foreign exchange		(198,666)		177,265
Interest and other income (Note 14)		(175,180)		(37,714)
Loss allowance (Note 14)		592,158		-
TOTAL OTHER EXPENSES (INCOME)		**237,190**		**139,409**
NET LOSS BEFORE INCOME TAXES FROM CONTINUING OPERATIONS		**(3,355,673)**		**(2,873,816)**
INCOME TAX EXPENSE (RECOVERY)				
Current (Note 16)		237,670		336,662
Deferred (Note 16)		225,366		(359,037)
NET LOSS FROM CONTINUING OPERATIONS	**$**	**(3,818,709)**	**$**	**(2,851,441)**
Gain on disposition of subsidiary (net of tax) (Note 24)		-		10,912,935
Loss from discontinued operations (net of tax) (Note 24)		-		(1,881,926)
NET (LOSS) INCOME	**$**	**(3,818,709)**	**$**	**6,179,568**
Items that may be reclassified subsequently to net income				
Other comprehensive gain (loss) on foreign translation		206,674		(110,306)
NET COMPREHENSIVE (LOSS) INCOME	**$**	**(3,612,035)**	**$**	**6,069,262**
BASIC AND DILUTED (LOSS) INCOME PER SHARE (Note 17(d))	$	(0.03)	$	0.06
BASIC AND DILUTED LOSS PER SHARE FROM CONTINUING OPERATIONS SHARE (Note 17(d))	$	(0.03)	$	(0.03)
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES (in 000's) [Note 17(d)]		119,755		103,333
DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES (in 000's) [Note 17(d)]		119,755		112,120

The accompanying notes are an intergral part of these consolidated financial statements

Posera Ltd.

Consolidated Statements of Changes in Equity

For the years-ended December 31, 2018 and 2017
(in Canadian dollars)

		Year ended December 31, 2018		2017
DEFICIT BEGINNING OF YEAR	$	(53,665,746)	$	(59,845,314)
Net (loss) income		(3,818,709)		6,179,568
DEFICIT END OF YEAR	**$**	**(57,484,457)**	**$**	**(53,665,746)**
ACCUMULATED OTHER COMPREHENSIVE INCOME BEGINNING OF YEAR	$	617,167	$	727,473
Other comprehensive (loss) income on foreign translation		206,674		(110,306)
ACCUMULATED OTHER COMPREHENSIVE INCOME END OF YEAR	**$**	**823,841**	**$**	**617,167**
NET COMPREHENSIVE (LOSS) INCOME	**$**	**(3,612,035)**	**$**	**6,069,262**
SHARE CAPITAL BEGINNING OF YEAR	$	61,804,578	$	56,882,021
Issued for cash consideration (Note 17a)		-		5,109,891
Issuance costs - Cash (Notes 17a)		-		(216,189)
Issued for exercise of stock options (Note 17 a, b, c)		338,430		28,855
SHARE CAPITAL END OF YEAR [Note 17(a)]	**$**	**62,143,008**	**$**	**61,804,578**
CONTRIBUTED SURPLUS BEGINNING OF YEAR	$	7,946,279	$	7,494,531
Expiry of warrants		-		80,133
Exercise of stock options (Note 17(c))		(126,318)		(10,543)
Stock based compensation (Note 17(b, c))		136,162		382,158
CONTRIBUTED SURPLUS END OF YEAR [Note 17(b, c)]	**$**	**7,956,123**	**$**	**7,946,279**
WARRANTS BEGINNING OF YEAR	$	-	$	80,133
Expiry of warrants		-		(80,133)
WARRANTS END OF YEAR	**$**	**-**	**$**	**-**

The accompanying notes are an intergral part of these consolidated financial statements

Posera Ltd.

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(in Canadian dollars)

	Twelve-months ended December 31	
	2018	**2017**
NET (OUTFLOW) INFLOW OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net income (loss)	$ (3,818,709)	$ 6,179,568
Items not affecting cash		
Amortization of property, plant & equipment (Note 8)	98,463	105,901
Amortization of intangible assets (Note 9)	128,753	524,520
Deferred income tax expense (recovery) (Note 16)	225,366	(359,037)
Stock-based compensation expense (Note 17(b,c))	136,162	382,158
Interest accretion	-	6,311
Interest income (Note 14)	(95,350)	-
(Gain) on sale of Fingerprints assets (Note 24)	-	(10,912,935)
(Gain) on reversal of impairment (Note 24)	-	(88,527)
Loss allowance (Note 14)	592,158	-
Loss (gain) on sale of property, plant and equipment (Note 8)	37,335	(8,250)
Unrealized (gain) on foreign exchange	(52,350)	(2,129)
	(2,748,172)	**(4,172,420)**
Changes in working capital items (Note 23)	(1,010,910)	78,289
	(3,759,082)	**(4,094,131)**
FINANCING		
Proceeds from issuance of Common Shares [Note 17(a)]	-	5,109,891
Issuance costs paid for Common Shares [Note 17(a)]	-	(216,189)
Repayment of vehicle loans and capital leases (Note 15)	(9,000)	(30,546)
Proceeds from vehicle loans (Note 15)	-	81,107
Proceeds from the exercise of stock options [Notes 17(a, b, c)]	212,114	28,856
Repayment of notes payable	-	(1,500,000)
	203,114	**3,473,119**
INVESTING		
Proceeds from the disposition of Fingerprints (Note 24)	-	12,089,529
Disposition of BizPro and A&A assets	-	(19,999)
Acquisition of property, plant and equipment (Note 8)	(36,011)	(141,106)
Proceeds on disposition of property, plant and equipment (Note 8)	11,519	-
Issuance of note receivable (Note 14)	(2,200,000)	-
Receipt of note receivable	-	480,000
	(2,224,492)	**12,408,424**
Foreign exchange gain (loss) on net cash and cash equivalents held in a foreign currency	**40,442**	**(40,791)**
NET CASH AND CASH EQUIVALENTS (OUTFLOW) INFLOW	**$ (5,740,018)**	**$ 11,746,621**
NET CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,153,665	407,044
NET CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 6,413,647**	**$ 12,153,665**
FOR THE PURPOSE OF THIS STATEMENT, NET CASH AND CASH EQUIVALENTS COMPRISE THE FOLLOWING		
Cash equivalents	6,413,647	11,766,994
Cash equivalents - restricted cash (Note 5)	-	386,671
Cash and cash equivalents	**$ 6,413,647**	**$ 12,153,665**
SUPPLEMENTAL OPERATING CASH FLOW INFORMATION		
Interest paid	$ 35,016	$ 285,516
Interest received	80,017	37,714
Income taxes paid	215,510	(102,925)
Investment credits and investment tax credits receivable received	386,423	239,513

The accompanying notes are an intergral part of these consolidated financial statements

1. DESCRIPTION OF BUSINESS

Posera Ltd. ("Posera", or the "Company"), is domiciled in Canada and is in the business of managing merchant transactions with consumers and facilitating payments emphasizing transaction speed, simplicity and accuracy. Posera develops and deploys touch screen point-of-sale ("POS") system software and associated enterprise management tools and has developed and deployed numerous POS applications. Posera also provides system hardware integration services, merchant staff training, system installation services, and post-sale software and hardware support services. Posera licenses, distributes and markets its hospitality POS software, known as Maitre'D, throughout the Americas, Europe & Asia. Finally, the Company offers agnostic POS and payments integration applications.

Posera was founded in 2001 and is headquartered at 341 Talbot Street, in London, Canada N6A 2R5. The Company's common shares ("Common Shares") are listed on the Toronto Stock Exchange under the symbol "PAY".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation in accordance with IFRS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (collectively "IFRS"). These consolidated financial statements were approved by the Board of Directors on March 26, 2019. These consolidated financial statements have been prepared on the historical cost basis.

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The Company adopted IFRS 15 - Revenue from Contracts with Customers and IFRS 9 - Financial Instruments, effective January 1, 2018 with no impact to the measurement of revenue in the consolidated financial statements.

Consolidation

These consolidated financial statements include the accounts of Posera Ltd. and its wholly owned subsidiaries. These subsidiaries are Posera Inc. and its subsidiaries: Posera France SAS; Posera Europe Ltd.; Posera Software Inc.; and Posera USA Inc. (collectively referred to as "Posera Inc."); and HDX Payment Processing Ltd. ("HDX-PP").

A&A Point of Sale Solutions Inc. was amalgamated with Posera Ltd. on January 1, 2017.

The assets of the FingerPrints business and Posera-HDX Scheduler are included as discontinued operations in the consolidated financial statements of the Company up until the date of its disposal on September 14, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries are those entities (including special purpose entities) over which the Company has the power to govern financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained and are de-consolidated from the date that control ceases. Intercompany transactions, balances, income and expenditures, and gains and losses are eliminated.

Presentation Currency

These consolidated financial statements are presented in Canadian Dollars ("CAD").

Foreign Currency Translation

The functional currencies of all consolidated entities are CAD, with the exception of certain subsidiaries, which have functional currencies of the United States Dollar ("USD") (Posera Inc. and Posera USA Inc.), the Great British Pound ("GBP") (Posera Europe Ltd.), and the Euro ("EUR") (Posera France SAS). The Company translates the assets and liabilities of consolidated entities with differing functional currencies to CAD at the rate of exchange prevailing at the statement of financial position date and revenues and expenses of those operations using the average rates of exchange during the period. Gains and losses resulting from this translation are recorded in accumulated other comprehensive (loss) income, in the period in which they arise.

Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entities' functional currency are recognized in the consolidated statements of operations, except for gains and losses resulting from intercompany balances included in the net investment in foreign operations, for which foreign exchange gains and losses are recorded in accumulated other comprehensive (loss) income.

Financial assets and liabilities

(i) Classification

From January 1, 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the assets. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of the financial assets carried at FVPL are expensed in profit or loss.

Debt Instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Impairment

From January 1, 2018, the Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applied the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

(v) Accounting policies applied until December 31, 2017

The Company has applied IFRS 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

Classification

Until December 31, 2017, the Company classified its financial assets in the following categories:

- Financial assets at fair value through profit or loss,
- Loans and receivables,
- Held-to-maturity investments, and
- Available-for-sale financial assets.

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

Subsequent measurement

The measurement at initial recognition did not change on adoption of IFRS 9, see description above.

Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were carried at amortised cost using the effective interest method.

Details on how the fair value of financial instruments is determined are disclosed in Note 19.

Impairment

The Company assessed at the end of each reporting period whether there was objective evidence that a financial asset or Company of financial assets was impaired. A financial asset or a Company of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or Company of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets carried at amortised cost

For loans and receivables, the amount of the loss was carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discontinued at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Company could observable market price.

If, in a subsequent period, the amount of the impairment loss decreased, and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss was recognized in profit or loss. Impairment testing of trade receivables is described in the Financial Risk Factors Note 20.

Assets classified as available-for-sale

If there was objective evidence of impairment for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss was removed from equity and recognised in profit or loss. Impairment losses on equity instruments that were recognised in profit or loss were not reversed through profit or loss in a subsequent period. If the fair value of a debt instrument classified as available-for-sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss.

Cash and cash equivalents

Cash and cash equivalents consist primarily of demand accounts on deposit at financial institutions and short-term liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less loss allowance. See Note 19 for further information about the group's accounting for trade receivables and for a description of the group's impairment policies.

Inventory

Inventory consists of point-of-sale equipment for resale and service parts, which are required to fulfill Posera's contractual obligations and have been valued at the lower of average cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventory cost is substantially comprised of the costs paid to purchase equipment. Inventory also consists of software licenses which are held by the Company for resale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment tax credits

Investment tax credits are earned as a result of incurring qualifying research and development expenditures and are accounted for using the cost reduction method. Under this method, investment tax credits are treated as a reduction of the cost of the acquired assets or of the related expenses in the period that the credits become available, there is reasonable assurance that the conditions for their receipt will be complied with and that the credits, refundable and non-refundable, will be received and it is probable that they will be realized.

Long-lived assets - property plant and equipment

Property, plant and equipment ("PP&E") are carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of PP&E consists of the purchase price, and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use.

Depreciation is provided at rates calculated to write off the cost of PP&E, less their estimated residual value, using the straight-line method, as follows:

Office furniture and fixtures	5 years
Computer equipment	3 years
Vehicles	5 years
Leasehold improvements	Life of the lease

An item of PP&E 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 the consolidated statements of operations.

Repairs and maintenance costs are charged to the statement of operations during the period in which they are incurred. Residual values, method of amortization and useful lives of the assets are reviewed at least annually and adjusted if appropriate.

Long-lived assets - Intangible assets

Intangible assets acquired individually are initially recognized and measured at fair value, and subsequently at their initial fair values, less accumulated amortization and impairment. The fair value of a group of intangible assets acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their fair values at the time of acquisition. Where intangible assets are acquired in a transaction that does not constitute a business combination, the cost of the group is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets with finite useful lives are amortized on a straight-line basis over their useful lives. The estimated useful lives of intangible assets, are as follows:

Technology Assets	5.5 - 10 years
Non-Competition Agreements	1 year
Revenue Sharing Agreement	3 years
Trade Names	20 years
Customer Relationships	7.5 - 10 years
Development Backlog	0.5 years
Computer software	3 years

The method of amortization and useful lives of the assets are reviewed at least annually and adjusted if appropriate.

Long-lived assets - Goodwill

Goodwill is not amortized but is instead tested for impairment annually or more frequently, if events or changes in circumstances indicate that the asset might be impaired.

Cash-generating units (“CGUs”)

For the purposes of measuring recoverable amounts, assets are grouped at the lowest-level for which there are largely independent cash inflows. Goodwill acquired in a business combination is allocated to each of the Company’s CGUs, or; groups of CGUs, that is expected to benefit from the synergies of the combination. Each of the Company’s CGUs to which goodwill is allocated represents the lowest level within the Company at which goodwill is monitored for internal management purposes; and is not larger than an operating segment. The Company has determined that the CGUs of the Company are the Indirect POS CGU and the Payments Middleware CGU. In fiscal 2017 the Company divested of the Direct POS CGU.

Long-lived Assets – Impairment

At each financial reporting date, the carrying amounts of the Company’s long-lived assets (or CGUs) are reviewed to determine whether there is any indication that those assets (or CGUs) are impaired. If any such indication exists, the recoverable amount of the asset (or CGU) is estimated in order to determine the extent of the impairment, if any. For long-lived assets (or CGUs) not subject to amortization, the recoverable amount of the asset (or CGU) is estimated at least annually; or more frequently if there are any indications of potential impairment. Indicators of potential impairment may include but are not necessarily limited to: unanticipated competition; loss of a significant customer; significant deterioration of margin; changes in the regulatory or legal framework in which the Company operates; or product discontinuance.

The recoverable amount of an asset or CGU is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount and the impairment loss is recognized in the Statements of Operations for the period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If a CGU is impaired, the impairment is allocated first to Goodwill, with the remainder allocated rateably to the remaining long-lived assets based upon the relative carrying values. Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. Goodwill impairment losses are not subsequently reversed. A reversal of an impairment loss is recognized immediately in the consolidated statements of operations.

Lease inducements

Lease inducements represent funds provided by the landlord for property improvements and rent-free periods, if any. Lease inducements are amortized on a straight-line basis over the term of the leases and the amortization is recorded as a reduction in rent expense.

Deferred revenue

Deferred revenue is comprised primarily of fees received for warranty for hardware and support for point-of-sale solutions in advance of providing the services covered therein.

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the Consolidated Statement of Operations except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities as well as for the benefits of losses available to be carried forward for tax purposes. Deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financing - Transaction Costs

Incremental costs incurred in respect of raising capital or debt are charged against the equity or debt proceeds raised, unless the instrument to which the transaction costs relate is classified as fair value through profit and loss in which case the incremental costs are expensed in the Consolidated Statements of Operations immediately.

Equity - Share-based payments

The Company's stock-based compensation plan is described in Note 17(b). The share option plan allows Company employees and directors to acquire shares of the Company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and each tranche is recognized on a straight-line basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted, the estimated volatility, estimated risk-free rate and estimated forfeitures. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Where the Company issues share-based payments to non-employees for services or assets, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless the fair value of the goods or services received cannot be estimated reliably, in which case the Company measures the goods or services received indirectly by reference to the fair value of the equity instruments granted.

Revenue recognition

The accounting policies for the Company's revenue from contracts with customers are explained in Note 4.

Cost of sales

Cost of sales includes the cost of inventory utilized in the period, depreciation, amortization, impairments, salaries, and other expenditures, which directly relate to the revenue recognized.

Earnings (Loss) per share

The Company presents basic and diluted earnings (loss) per share data for its Common Shares, calculated by dividing the net income (loss) of the Company by the weighted average number of Common Shares outstanding during the period. Additionally, the Company presents basic and diluted earnings (loss) per share for continuing operations, calculated by dividing the net income (loss) from continuing operations of the Company by the weighted average number of Common Shares outstanding during the period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets and Disposal Groups Held for Sale or Distribution

Non-current assets, or significant disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Company's accounting policies. Thereafter the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on re-measurement are recognised in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Once classified as held for sale or distribution, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

Discontinued Operations

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative Consolidated Statements of Operations and Comprehensive (Loss) Income is re-presented in a format as if the operation had been discontinued from the start of the comparative period.

The Company presents the Results from Discontinued Operations as one net amount on the Consolidated Statements of Operations and Comprehensive (Loss) Income.

Critical accounting judgments

The following are the significant accounting judgments that were made in the preparation of the financial statements.

a. <u>Cash-generating units ("CGU"s)</u>

   In testing for impairment of certain assets that do not have independent cash inflows, the Company is required to group non-goodwill long-lived assets into CGUs which is the lowest level of assets that produce cash inflows which are independent of other assets.

   Goodwill is allocated to each CGU, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which goodwill is monitored for internal management purposes and is not larger than an operating segment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Functional currency of consolidated entities.

Under IFRS, each consolidated entity must determine its own functional currency, which becomes the currency that entity measures its results and financial position in. In determining the functional currencies of consolidated entities, the Company considered many factors, including the currency that mainly influences sales prices for goods and services, the currency of the country whose competitive forces and regulations mainly determine the sales prices, and the currency that mainly influences labour material and other costs for each consolidated entity.

c. Discontinued operations

The Company has multiple integrated business units and as a result of the disposal of the FingerPrints business, the Company re-presented the comparative Consolidated Statements of Operations and Comprehensive (Loss) Income. The Company, on a best efforts basis, separated the revenues and costs directly attributable to the FingerPrints business to discontinued operations.

Critical accounting estimates

Preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies. Additionally, these estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The following are the estimates that are subject to significant estimate and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities:

a. *Intangible asset – December 31, 2018 - $728,418 (December 31, 2017 - $835,343) and Goodwill – December 31, 2018 - $4,229,475 (December 31, 2017 - $3,934,613), and related Goodwill and Intangible assets impairments for the years ended December 31, 2018 - $Nil and $Nil respectively (December 31, 2017 - ($88,527) and ($17,548) respectively)*
   - Critical estimates relate to the valuation of intangible assets and goodwill acquired in business combinations and the potential or actual impairment of intangible assets and goodwill as part of the CGU impairment testing. See detailed disclosure surrounding acquisitions and disposals in Note 3, and sensitivities on impairment estimates in Note 10.

b. *Useful life and amortization of intangible assets*
   - See detailed disclosure of intangible asset useful lives in Note 2 above. A decrease of the average useful lives of intangible assets by 1 year, would increase amortization expense in the year by $28,000 (2017 - $42,000)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. *Investment Tax Credits Receivable – non-refundable – December 31, 2018 - $603,653 (December 31, 2017 - $862,469) and related investment tax (expense) recovery for the years ended December 31, 2018 – $136,018 [December 31, 2017 - $27,902]*

- Management estimates that the non-refundable Investment Tax Credits receivable will be recoverable before expiry. See detailed disclosure surrounding the expiry dates for non-refundable Investment Tax Credits Receivable in Note 6. The Company's taxable income would need to decrease by more than 70% for the non-refundable Investment Tax Credits to expire before use, giving management comfort that the asset does represent real future value to the Company.

d. *Note Receivable Loss Allowance – December 31, 2018 - $592,158 (December 31, 2017 - $nil)*

- As the note receivable is more than 30 days past due, management has estimated credit losses using a probability weighted default model. The inputs used in the model were based on management's best estimates of credit risk and the likelihood of default by the borrower. If the probability weighted default model increased the probability of no repayment by 5% the loss allowance would increase by $115,872. The Company has estimated a loss allowance for the note receivable as disclosed in the Note Receivable Note 14.

IFRS Policy Standards Issued and Applicable from January 1, 2018

i) In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduced new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 waseffective for annual periods beginning on or after January 1, 2018. The Company did not early adopt this standard. The Company has retrospectively applied the treatment for IFRS 9 but has not included comparative information prior to fiscal 2018. The new standard did not result in a material impact for the Company upon adoption on January 1, 2018.

Additionally, the new impairment model required the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under IAS 39. The impairment model applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The implementation of this new standard has not resulted in a material impact on the loss allowance for trade creditors.

The newly adopted standard also introduced expanded disclosure requirements and changes in presentation. The additional disclosures have been reflected in these Consolidated Annual Financial Statements for the Company.

ii) In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which established a single comprehensive model of accounting for revenue arising from contracts with customers that an entity will apply to determine the measurement of revenue and timing of when it is recognized. IFRS 15 has now superseded the current revenue recognition guidance, which was found across several standards and interpretations including IAS 11, Construction Contracts and IAS 18, Revenue. The core principles of IFRS 15 are that an entity is to recognize revenue to

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

depict the transfer of promised goods and services to customers in an amount that reflects the amount an entity expects to be entitled in exchange for those goods and services. The newly adopted standard has also resulted in enhanced disclosures about revenue that have resulted in the Company providing more comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with its customers. The Company has analyzed its customer relationships to implement IFRS 15. This standard was applicable for annual periods beginning on January 1, 2018 and the Company implemented using the modified retrospective approach as of January 1, 2018. The modified retrospective approach allows the cumulative impact of the adoption to be recognized in retained earnings as of January 1, 2018 and that comparatives will not be restated. Based on the Company's implementation of IFRS 15, the new standard did not materially impact on the Company's Consolidated Annual Financial Statements and revenue recognition policies.

IFRS Standards Issued but not yet Effective

Standards issued but not yet effective or amended up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company has determined not to early adopt any standards at this time.

On January 13, 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"), which requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the above recognition requirements and may continue to be treated as operating leases.

Lessors will continue with a dual lease classification model. Classification will determine how and when a lessor will recognize lease revenue, and what assets would be recorded.

IFRS 16 is effective for years beginning on or after January 1, 2019 and may be applied retrospectively or using a modified retrospective approach. The Company has selected to use the modified retrospective approach which does not require restatement of prior period financial information as the cumulative effect of applying the standard to prior periods is recorded as an adjustment to opening retained earnings. On initial adoption, management has elected to use the following practical expedients permitted under the standard:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases;
- Account for lease payments as an expense and not recognize a right-of-use ("ROU") asset if the underlying asset is of low dollar value;
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease; and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

On adoption of IFRS 16, the Company will recognize lease liabilities in relation to leases under the principles of the new standard measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate as at January 1, 2019. The associated ROU assets will be measured at the amount equal to the lease liability on January 1, 2019.

Adoption of the new standard will result in the recognition of additional lease liabilities and right to use ("RTU") assets of approximately $182,800 and $182,800, respectively. Management has identified RTU assets and lease liabilities primarily related to office space and vehicles.

The impact on the Consolidated Statement of Operations will be as follows:

- Lower general and administrative expenses;
- Higher finance expenses due to the interest recognized on the lease obligations; and Higher depreciation expense related to the ROU assets.

3. ACQUISITIONS AND DIVESTITURES

During the year ended December 31, 2018

Nil

During the year ended December 31, 2017

During the fiscal year-ended December 31, 2017, the Company sold its FingerPrints business, which allowed the Company to focus its resources and capital investment on its Maitre'D, Kitchen Display Systems ("KDS") and SecureTablePay product offerings.

On September 14, 2017, the Company completed the sale of FingerPrints, to SICOM Systems Canada Inc. ("SICOM"). Consideration for the sale of FingerPrints comprised of a cash payment of $12.2 million, which was adjusted by a working capital deficit of $110,471 post-closing. The gain on the FingerPrints transaction was $10,912,935, representing the purchase price less an adjustment for working capital $110,471, less the write down on all other non-current assets of $189,737 and less transaction costs of $986,857. The proceeds of sale exceeded the carrying amount of the related net assets, and, accordingly, no impairment losses were recognized on the reclassification of FingerPrints as held for sale. Further details of the FingerPrints divestiture was included in Note 24 of these Consolidated Financial Statements.

(in Canadian dollars, except as noted)

4. REVENUE

Revenue from Contracts with Customers

		Year-ended December 31, 2018
POS - Software	$	3,027,794
POS – Hardware		3,301,210
Support and Maintenance		2,722,817
Professional Services		308,119
Transactional Processing		624,180
Total Revenue	**$**	**9,984,120**

The Company disaggregates revenue into categories which represent its principal performance obligations and the most significant revenue streams, and consequently are considered the most relevant revenue information for management to consider in evaluating performance.

Performance Obligations

	Nature of Performance Obligations
POS – Software	Right to use software
POS – Hardware	Delivery, shipment or installation of POS hardware
Support and Maintenance	Fulfillment of service and support contract
Professional Services	Fulfillment of professional services
Transactional Processing	Processing of transactions

Timing of Revenue Recognition

		Year-ended December 31, 2018
Revenue from products and services transferred at a point in time *(i)*	$	6,953,184
Revenue from products and services transferred over time *(ii)*		3,030,936
Total Revenue	**$**	**9,984,120**

(i) Primarily revenue from POS – Software, Hardware and Transactional Processing
(ii) Primarily revenue from Support and Maintenance and Professional Services
(iii) $1,102,924 of contract revenue during the year-ended relates to the recognition of deferred revenue as at December 31, 2017.

Geography of Revenue *(iii)*

		Year-ended December 31, 2018
North America	$	7,907,115
Rest of World		2,077,005
Total Revenue	**$**	**9,984,120**

(iv) Revenue breakdown by geography represents sales recorded by Posera's legal entities within the identified territories.

4. REVENUE (continued)

Payment Terms

Payments are received from customers on a continuous basis. POS – Hardware and Software customers typically pay an upfront deposit with the balance due after deployment has been completed. Support and Maintenance payments are typically received in advance of the contract commencement date. Professional Services payments are received continuously throughout the contract term or upon the completion of the contract. Transactional Processing payments are received monthly from processing partners.

Contract Assets

The Company has applied the optional exception to expense incremental costs associated with a contract which would otherwise have been capitalized and amortized over a period of one year or less.

Significant Judgements Made to Recognize Revenue

Revenue recognition

Revenue from contracts with customers is recognized when the customer obtains control of the promised asset and the Company satisfies its performance obligation. The Company offers certain arrangements whereby a customer can purchase products and services together. Where such arrangements exist, revenue is allocated to each performance obligation based on the relative fair value of the performance obligations. The fair values of each performance obligation are determined by current market prices of these performance obligations when sold separately.

Performance Obligations Satisfied Over Time

For support and maintenance contracts, the Company recognizes revenue over time. This method is the most accurate representation of the Company's progress toward fulfilling its performance obligations. The Company's performance obligation is satisfied equally throughout the term of the contract as support and maintenance services are available to customers during this period.

For professional services contracts, the Company recognises revenue on a percentage of completion basis based on the time spent on a specific project. This method is the most accurate representation of the Company's progress toward fulfilling its performance obligation. The Company's performance obligation is satisfied as time is spent on the contracted development project.

Significant Judgements Made for Performance Obligations Satisfied at A Point In Time

Revenues from Hardware, Software and Transactional Processing are recognized upon the fulfillment of the performance obligation as described above. Software revenues are generally recorded when customers are provided license keys to use the software, as the intellectual property exists in terms of form and function. At the time of fulfilling the performance obligation, customers have direct use of, and can obtain substantially all the remaining benefits from the license at the point in time the license transfers.

(in Canadian dollars, except as noted)

4. REVENUE (continued)

Determining the Transaction Price

All transaction prices are determined through negotiations with customers based on market rates.

5. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Cash and Cash equivalents is comprised of the following:

	December 31, 2018	December 31, 2017
Posera Ltd. cash and cash equivalents	$ 6,413,647	$ 11,766,994
Add: Restricted Cash	-	386,671
Total cash and cash equivalents and restricted cash	**$ 6,413,647**	**$ 12,153,665**

Upon the closing of the FingerPrints transaction in September 2017 as disclosed in this note and Note 24, the Company entered into a transitional services agreement whereby the Company agreed to provide services to the buyer of FingerPrints, SICOM Systems Canada Inc. (“SICOM”) in order to provide a seamless transition of the FingerPrints business. This relationship resulted in the Company holding cash for the benefit of SICOM, which the Company had recorded as Restricted Cash on the Consolidated Statements of Financial Position. The transitional services agreement is complete and the balance as at December 31, 2018 is $Nil (2017 - $386,671). The Company had an equal and offsetting payable, separately presented as a transaction payable on the Consolidated Statements of Financial Position as at 2017.

(in Canadian dollars, except as noted)

6. INVESTMENT TAX CREDITS REFUNDABLE AND NON-REFUNDABLE

Investment tax credits related to Scientific Research and Experimental Design and investment credits related to Electronic Business, were recorded in the consolidated statements of operations as a reduction in technology expenses in the amount of $388,913 during the year ended December 31, 2018 (2017 - $314,037). As of December 31, 2018, a subsidiary of the Company has refundable investment tax credits receivable totaling $470,301 (December 31, 2016 - $678,801), and non-refundable investment credits receivable totaling $603,653 (December 31, 2017 - $862,469) which expire according to the schedule below:

	December 31, 2018		December 31, 2017	
2030	$	-	$	91,229
2031		113,573		288,103
2032		327,736		327,736
2033		31,284		31,284
2034		23,135		23,135
2035		20,983		20,983
2036		24,232		24,232
2037		31,294		55,767
2038		31,416		-
Total	**$**	**603,653**	**$**	**862,469**

In order to receive the investment credits and investment tax credits receivable the Company must file its tax returns no later than 18 months after the period to which the claim relates.

7. INVENTORY

	December 31, 2018		December 31, 2017	
Inventory held for resale	$	251,730	$	635,572
Inventory held as service stock		1,563		3,275
Total	**$**	**253,293**	**$**	**638,847**

For the year ended December 31, 2018, the Company expensed $2,238,248 (2017 - $2,173,352) related to inventory consumed. Throughout the fiscal year, the Company assesses the carrying amount of inventory on hand and determines if any inventory needs to be written-down to net realizable value. For the year ended December 31, 2018 the Company wrote inventory down by $21,730 (2017 - $102,293).

(in Canadian dollars, except as noted)

8. PROPERTY PLANT AND EQUIPMENT ("PP&E")

	Cost	Accumulated amortization and impairment	Net book value
Office furniture and fixtures	$ 90,458	$ 38,920	$ 51,538
Computer equipment	541,334	459,750	81,584
Vehicles	54,568	34,721	19,847
Leasehold improvements	74,050	28,988	45,062
Balance - December 31, 2017	**$ 760,410**	**$ 562,379**	**$ 198,031**
Office furniture and fixtures	$ 22,638	$ 22,638	$ -
Computer equipment	578,980	521,759	57,221
Vehicles	29,556	17,288	12,269
Leasehold improvements	61,774	44,365	17,409
Balance - December 31, 2018	**$ 692,948**	**$ 606,050**	**$ 86,898**

The following is a reconciliation of the net book value for PP&E:

	Cost	Accumulated amortization and impairment	Net book value
Balance - December 31, 2016	**$ 1,004,363**	**$ 750,320**	**$ 254,043**
Acquisition of PP&E	141,106	-	141,106
Amortization of PP&E	-	105,901	(105,901)
Disposition of FingerPrints (Note 24)	(173,741)	(90,859)	(82,882)
Disposition of PP&E	(213,511)	(204,889)	(8,622)
Translation adjustment	2,193	1,906	287
Balance - December 31, 2017	**$ 760,410**	**$ 562,379**	**$ 198,031**
Acquisition of PP&E	36,011	-	36,011
Amortization of PP&E	-	98,463	(98,463)
Disposition of PP&E	(105,451)	(56,597)	(48,854)
Translation adjustment	1,978	1,805	173
Balance - December 31, 2018	**$ 692,948**	**$ 606,050**	**$ 86,898**

(in Canadian dollars, except as noted)

9. INTANGIBLE ASSETS

	Cost	Accumulated amortization and impairment	Net book value
Technology assets	$ 2,383,659	$ 2,189,373	$ 194,285
Trade name	641,406	245,872	395,534
Customer relationships	3,003,409	2,757,886	245,523
Non-compete agreements	185,407	185,407	-
Revenue sharing agreement	743,666	743,666	-
Development backlog	50,000	50,000	-
Computer software	24,590	24,590	-
Balance - December 31, 2017	**$ 7,032,137**	**$ 6,196,794**	**$ 835,343**
Technology assets	$ 2,562,357	$ 2,416,660	$ 145,697
Trade name	673,922	292,033	381,889
Customer relationships	3,147,278	2,946,446	200,832
Non-compete agreements	185,407	185,407	-
Revenue sharing agreement	743,666	743,666	-
Development backlog	50,000	50,000	-
Computer software	24,590	24,590	-
Balance - December 31, 2018	**$ 7,387,220**	**$ 6,658,802**	**$ 728,418**

The following is a reconciliation of the net book value for Intangible Assets:

	Cost	Accumulated amortization and impairment	Net book value
Balance - December 31, 2016	**$ 14,317,408**	**$ 12,860,802**	**$ 1,456,606**
Amortization	-	524,520	(524,520)
Disposition (Note 24)	(7,064,315)	(6,894,578)	(169,737)
Reversal of Impairment (Note 24)	-	(88,527)	88,527
Translation adjustment	(220,955)	(205,422)	(15,533)
Balance - December 31, 2017	**$ 7,032,138**	**$ 6,196,795**	**$ 835,343**
Amortization	-	128,753	(128,753)
Translation adjustment	355,082	333,254	21,828
Balance - December 31, 2018	**$ 7,387,220**	**$ 6,658,802**	**$ 728,418**

(in Canadian dollars, except as noted)

10. GOODWILL

(a) Goodwill by CGU

	Net Book Value Before Impairment	Impairment Loss	Net Book Value
Indirect POS CGU	$ 3,666,829	$ -	$ 3,666,829
Payments Middleware CGU	562,646	-	562,646
Balance – December 31, 2018	**$ 4,229,475**	**$ -**	**$ 4,229,475**

	Net Book Value Before Impairment	Impairment Loss	Net Book Value
Direct POS CGU	$ 17,548	$ (17,548)	$ -
Indirect POS CGU	3,371,967	-	3,371,967
Payments Middleware CGU	562,646	-	562,646
Balance – December 31, 2017	**$ 3,952,161**	**$ (17,548)**	**$ 3,934,613**

(b) Reconciliation of Goodwill

	Net Book Value
Balance – December 31, 2016	**$ 4,189,233**
Impairment [Note 10(c)]	(17,548)
Translation adjustment	(237,072)
Balance – December 31, 2017	**$ 3,934,613**
Translation adjustment	294,862
Balance – December 31, 2018	**$ 4,229,475**

10. GOODWILL (*continued*)

(c) Key Assumptions

The following key assumptions were used in calculating the higher of value in use and fair value less costs to sell by CGU as at December 31, 2018, the date of the Company's impairment testing:

	Indirect POS CGU	Payments Middleware CGU
Terminal earnings growth rate (i)	0%	0%
After-tax discount rate (ii)	15%	15%
Residual multiple (iii)	N/A	N/A

(i) Earnings were extrapolated using a constant growth rate, which does not exceed the long-term average growth rate for the industry.

(ii) The discount rate was estimated based upon industry average after-tax weighted cost of capital, adjusted for the specific risks of the CGU.

For the Indirect POS CGU, the higher of value-in-use and fair value less costs to sell exceeded the carrying value by $2,900,000. For the Payments Middleware POS CGU, the higher of value-in-use and fair value less costs to sell exceeded the carrying value by $2,900,000. See below for the resulting impairment, by CGU, if any, as a result of the specified change to the key assumptions above, in isolation.

Change	Indirect POS CGU	Payments Middleware CGU
Reduction of 2% (i)	$Nil	$Nil
Increase of 1% (ii)	$Nil	$Nil

(in Canadian dollars, except as noted)

11. BANK INDEBTEDNESS

As at December 31, 2018, the Company through its subsidiary Posera Software, has drawn upon its revolving line of credit of $Nil (2017 - $Nil), up to an available amount of $200,000 (2017 - $200,000) as an operating credit line. This facility bear interest at the Canadian bank prime rate plus 2.00%, with an effective interest rate of 5.95% (2017 – 5.20%). Additionally, the facility has a first ranking $1,000,000 (December 31, 2017 - $1,000,000) moving hypothec on the assets of Posera Software Inc. Posera Software Inc. must maintain minimum non-IFRS measures including Working Capital, Earnings Before Interest Taxes Depreciation and Amortization ("EBITDA"), Shareholders' Equity and Debt ratios.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2018	December 31, 2017
Trade payables (Note 18)	$ 795,376	$ 832,152
Accrued charges	1,196,494	1,743,774
Total accounts payable and accrued liabilities	**$ 1,991,870**	**$ 2,575,926**

13. PROVISIONS

	Provision for income tax and information return penalties	Provision for restructuring obligations	Total
Balance – January 1, 2017	**$ 294,841**	**$ 375,000**	**$ 669,841**
Addition	-	-	-
Payment rendered (ii)	(23,725)	-	(23,725)
Reduction (ii)	(269,653)	(375,000)	(644,653)
Translation	(1,463)	-	(1,463)
Balance – December 31, 2017 and 2018	**$ -**	**$ -**	**$ -**

(i) During the years-ended December 31, 2012 and December 31, 2016, the Company became aware that certain income tax and information returns were past-due, which may be subject to certain penalties provided by legislation, the amount and timing of which was not certain. The Company, during the year-ended December 31, 2017 received a ruling regarding the income tax penalties and interest included as a provision. The tax authorities ruled to abate $269,653 in interest and penalties previously assessed and included as a provision by the Company. Additionally, during 2017, the Company rendered payment to the tax authorities in the amount of $23,725 resulting in a $nil and $nil balance owing as at December 31, 2018 and 2017 respectively.

(ii) During the year-ended December 31, 2015, the Company assessed a provision in relation to certain restructuring obligations, the amount and timing of which was not certain. During the year-ended December 31, 2017, the Company assessed that there was no further obligation related to this provision and it was reversed on the Consolidated Statement of Operations and Comprehensive (Loss) Income.

(in Canadian dollars, except as noted)

14. NOTE RECEIVABLE

On April 27, 2018, the Company provided a secured credit facility loan, with a maximum principal amount of $1,600,000, to be made available to the DLT Labs Inc. (the "borrower"), who was a related party at the time of signing, in monthly tranches not to exceed $400,000 per month at an interest rate of 8.00% per annum which was due at the earlier of October 31, 2018 and the closing of any alternative financing completed by the borrower, and remains unpaid as of the date of these Consolidated Financial Statements. On August 1, 2018 and August 17, 2018, the Company amended the original terms of the secured credit loan facility thereby increasing the maximum principal amount loaned to DLT under the facility to $1,700,000 and $2,200,000 respectively.

		Carrying Value
Reconciliation of Note Receivable	December 31, 2018	December 31, 2017
Loan Receivable	$ 2,295,349	$ -
Loss Allowance (Note 20)	(592,158)	-
Total Loan Receivable	**$ 1,703,191**	**$ -**

For the year-ended December 31, 2018, the Company recorded interest income of $95,349 (2017 - $Nil) related to the note receivable.

At December 31, 2018 the Company applied a $592,158 (2017 - $nil) loss allowance related to the outstanding note receivable, as the note receivable was more than 30 days past due. Management has estimated credit losses using a probability weighted default model. The inputs used in the model were based on management's best estimates of the credit risk and the likelihood of default by the borrower. The Company's accounting policies require a periodic estimation of credit losses. The full balance of $2,295,439 is owing and is secured by certain assets of the borrower.

15. VEHICLE LOANS

Posera uses vehicles in order to perform aspects of its business. Commitments for future payments of principal and interest on vehicle loans and capital leases are as follows:

Year	December 31, 2018	December 31, 2017
2018	$ -	$ 9,542
2019	7,194	7,194
2020	7,194	7,194
2021	599	599
	14,987	24,529
Less: Interest	(475)	(1,017)
	$ 14,512	**$ 23,512**
Short-Term Portion	6,853	9,000
Long-Term Portion	**$ 7,659**	**$ 14,512**

The Company makes monthly loan and capital lease payments of $599 (2017 - $1,069), which includes interest payments. The security provided for the loans and capital leases is the acquired vehicle related to that specific loan. Interest expense of $542 (2017 - $1,807) related to vehicle loans and capital leases was recorded in the Consolidated Statements of Operations.

(in Canadian dollars, except as noted)

16. INCOME TAXES

Certain investment tax credits were netted against the expenses which were incurred to earn the credits, see Note 6. Deferred income tax assets are recorded to the extent it is probable that the Company will be able to recover such deferred income tax assets.

Deferred tax items recognized in net income were distributed as follows:

	December 31, 2018	December 31, 2017
Deferred tax expense (recovery) originated in current year	$ 225,366	$ (162,272)
Recognition of previously unrecognized deferred taxes (recovery)	-	(196,765)
Total	**$ 225,366**	**$ (359,037)**

A reconciliation of the deferred income tax assets and liabilities is as follows:

	Tax losses & SRED expenditure	Investment tax credits	Intangible assets	Convertible Debenture	Other	Total
Balance – December 31, 2016	**$ 594,640**	**$ (417,000)**	**$ (198,000)**	**$ (2,000)**	**$ 3,000**	**$ (19,360)**
Deferred income tax recovery (expense)	583,990	3,000	(651,200)	2,000	94,240	32,030
FingerPrints disposition (Note 24)	(755,000)	-	765,000	-	(10,000)	-
Exchange differences	22,664	-	(30,800)	-	760	(7,376)
Balance – December 31, 2017	**$ 446,294**	**$ (414,000)**	**$ (115,000)**	**$ -**	**$ 88,000**	**$ 5,294**
Deferred income tax recovery (expense)	(95,677)	88,000	42,000	-	(27,000)	7,323
Exchange differences	(1,000)	-	-	-	-	(1,000)
Balance – December 31, 2018	**$ 349,617**	**$ (326,000)**	**$ (73,000)**	**$ -**	**$ 61,000**	**$ 11,617**

A reconciliation of deferred tax liabilities and assets to the statement of financial position is as follows:

	December 31, 2018	December 31, 2017
Deferred income tax liabilities to be settled after the next fiscal year	$ (164,440)	$ -
Deferred income tax assets to be settled after the next fiscal year	176,057	5,294
Total	**$ 11,617**	**$ 5,294**

(in Canadian dollars, except as noted)

16. INCOME TAXES (*continued*)

A reconciliation between the Company's statutory and effective tax rate for the years-ended December 31, 2018 and 2017 is as follows:

	2018	**2017**
Tax recovery at statutory rate of parent	26.50%	26.50%
Effect of foreign operations	(2.60)	(0.47)
Weighted average statutory tax rate	**23.90**	**26.03**
Permanent differences	(10.14)	(48.50)
Effect on deferred tax expense from changes in tax rates	-	(0.04)
Filing adjustments	2.12	(0.11)
Non-capital losses (incurred) / applied	0.25	16.79
Recognition of previously unrecognized deferred tax assets	-	1.81
Investment tax credits and deductible temporary differences	(23.33)	-
Estimated effect of US tax reform	(5.81)	3.60
Other	(0.78)	-
	(13.79)%	**(0.41)%**

The weighted average statutory tax rate was 23.90% (2017 – 26.03%) which reflects the lower tax rate in jurisdictions outside of Canada.

Non-capital losses

No deferred tax has been recorded in respect to investments in foreign subsidiaries, as there are no anticipated distributions or transactions in the foreseeable future. The Company has not recognized a deferred tax asset relating to a temporary difference related to intangible assets. In addition, the Company has non-capital losses available for carry-forward to reduce future years' income for tax purposes, which, if unused, will expire as follows in the respective jurisdictions:

	December 31, 2018	
	Canada	France
2026	$ 2,000	$ -
2029	8,000	-
2030	99,000	-
2032	545,000	-
2033	637,000	-
2034	550,000	59,000
2035	1,950,000	22,000
2036	3,106,000	55,000
2037	5,042,000	56,000
2038	3,375,000	-
	$ 15,314,000	**$ 192,000**

(in Canadian dollars, except as noted)

16. INCOME TAXES (*continued*)

December 31, 2017	Canada	France
2026	$ 2,000	$ -
2029	8,000	-
2030	99,000	-
2032	545,000	-
2033	637,000	-
2034	550,000	73,000
2035	1,950,000	30,000
2036	3,106,000	53,000
2037	5,117,000	58,000
	$ 12,014,000	**$ 214,000**

During the third quarter of 2018, the Company finalized its 2017 US tax return, which included a calculation of the transition tax related to the "Tax Cuts and Jobs Act" in the United States ("US"), commonly referred to as "US tax reform" or the "Act", which was enacted by the US on December 22, 2017. As disclosed in the notes to the 2017 annual consolidated financial statements, the Company had previously provided a current tax expense of $293,444, with a deferred tax expense recovery of $98,356 during the fourth quarter of 2017, representing a net tax expenses of $195,088 in respect of this US tax reform.

Upon finalizing the 2017 US tax return during the three-months ended September 30, 2018, it was determined that $nil tax was owing in respect to the US transition tax, as the Company was able to utilize tax loss carry forwards and foreign tax credits to offset amounts that would otherwise have been payable. During the three-months ended September 30, 2018, the Company reversed all amounts that were previously captured in the Company's current tax and deferred tax expense line item on the Condensed Interim Consolidated Statements of Operations and Comprehensive Loss related to this US tax reform.

(in Canadian dollars, except as noted)

17. SHARE CAPITAL

(a) Authorized and issued

Authorized

An unlimited number of voting common shares with no par value.

Common Shares Issued		Number of Common Shares	$
Balance – January 1, 2017		**75,837,705**	**56,882,021**
Issued for cash consideration	(i, ii)	42,582,423	5,109,891
Issuance costs – cash	(i, ii)	-	(216,189)
Exercise of options		126,250	28,855
Balance – December 31, 2017		**118,546,378**	**61,804,578**
Exercise of options		1,250,500	338,430
Balance – December 31, 2018		**119,796,878**	**62,143,008**

(i) On January 20, 2017, the Company issued a total of 18,899,997 Common Shares at a price of $0.12 per Common Share for gross proceeds of $2,268,000 (the "Offering"). Posera paid finder's fees in the aggregated amount of $71,098 in connection with certain subscriptions for Common Shares, representing 6.0% of the gross proceeds of such subscriptions.

(ii) On August 4, 2017 and August 9, 2017, the Company issued 19,932,426 and 3,750,000 respectively for a total of 23,682,426 Common Shares at a price of $0.12 per Common Share for gross proceeds of $2,841,891 (the "Offering"). Posera paid finder's fees in the aggregated amount of $35,729 in connection with certain subscriptions for Common Shares, representing 6.0% of the gross proceeds of such subscriptions.

(in Canadian dollars, except as noted)

17. SHARE CAPITAL (*continued*)

(b) Stock options

On September 20, 2011, the shareholders of the Company approved a its stock option plan (the “Plan”). The Plan has a rolling maximum number of Common Shares that may be issued upon the exercise of stock options but shall not exceed 15% of the issued and outstanding Common Shares at the time of grant as approved at the June 29, 2016 annual general meeting of shareholders. Prior to the amendment to the plan approved on June 29, 2016, the rolling maximum number of Common Share shall not have exceeded 10% of the issued and outstanding Common Shares. Any increase in the total number of issued and outstanding Common Shares will result in an increase in the available number of options issuable under the Plan, and any exercises of options will make new grants available under the Plan. Options under the Plan vest over various periods from the date of the granting of the option. All options granted under the Plan that have not been exercised within ten years of the grant will expire, subject to earlier termination if the optionee ceases to be an officer, director, employee or consultant of the Company. The Plan was established on July 31, 2007, reapproved on June 18, 2014 and June 29, 2016. The Plan was enacted to encourage ownership of the Company's Common Shares by its key officers and directors, employees and consultants.

The following is a summary of the stock options granted and changes for the years then ended.

	December 31, 2018		December 31, 2017	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Options outstanding, beginning of the year	**9,776,750**	**$ 0.17**	**6,842,156**	**$ 0.21**
Granted	-	-	5,712,000	0.16
Exercised	(1,250,500)	0.17	(126,250)	0.16
Forfeited and expired	(83,000)	0.14	(2,651,156)	0.23
Options outstanding, end of the year	**8,443,250**	**$ 0.18**	**9,776,750**	**$ 0.17**
Options exercisable, end of the year	**6,617,313**	**$ 0.18**	**6,179,010**	**$ 0.19**

(in Canadian dollars, except as noted)

17. SHARE CAPITAL (*continued*)

The following table summarizes information about options outstanding as at:

December 31, 2018

	Options outstanding			Options exercisable	
Exercise Price ($)	Number of options outstanding	Weighted average life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
0.125	882,500	2.50	0.125	551,563	0.125
0.15	3,375,750	3.32	0.15	2,665,750	0.15
0.17	3,085,000	2.99	0.17	2,260,000	0.17
0.20	150,000	2.86	0.20	150,000	0.20
0.32	990,000	0.30	0.32	990,000	0.32
	8,443,250	**2.75**	**$0.18**	**6,617,313**	**$0.18**

December 31, 2017

	Options outstanding			Options exercisable	
Exercise Price ($)	Number of options outstanding	Weighted average life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
0.125	936,000	3.50	0.125	351,000	0.125
0.15	3,375,750	4.32	0.15	1,600,510	0.15
0.17	4,325,000	3.84	0.17	3,087,500	0.17
0.20	150,000	3.86	0.20	150,000	0.20
0.32	990,000	1.30	0.32	990,000	0.32
	9,776,750	**3.72**	**$0.17**	**6,179,010**	**$0.19**

Of the options outstanding as at December 31, 2018, 1,735,000 (2017 – 2,975,000) options with an exercise price ranging from $0.15 to $0.17 (2016 – $0.15 to $0.17), are consultant compensation options.

For the year ended December 31, 2018, the Company recognized an expense of $136,162 (2017 – $382,158) for the vesting of options issued to directors, officers, and employees, which is included in Operating Expenses.

The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for options granted in the respective period ended:

	Year ended December 31, 2017
Risk-free rate of return	1.50%
Expected volatility(*i*)	71%
Dividend yield	-%
Weighted average expected life	5 years
Estimated forfeiture rate	0 - 10%

(i) The Company estimated the expected volatility on the date of grant through reference to the historical volatility of the Company's shares over a similar period.

17. SHARE CAPITAL (*continued*)

(c) Contributed Surplus

The following is a continuity schedule of contributed surplus.

Balance January 1, 2017	**$ 7,494,531**
Stock based compensation	382,158
Warrant expiry	80,133
Exercise of options	(10,543)
Balance December 31, 2017	**$ 7,946,279**
Stock based compensation	136,162
Exercise of options	(126,318)
Balance December 31, 2018	**$ 7,956,123**

(d) Earnings (Loss) per share

The Company uses the treasury stock method of calculating the dilutive effect of options and warrants on loss per share. Stock options, consultant compensation options, warrants and convertible debentures are only included in the dilution calculation if the exercise price is below the average market price for the period. The following is a summary of stock options, broker compensation options, convertible debenture and warrants:

	Exercise price	Expiry	Number issued and outstanding	Number exercisable with dilutive impact	Number exercisable out-of-the money
Stock and consultant compensation options	Note 17(b)	Note 17(b)	8,443,250	nil	6,617,313

A reconciliation of basic to dilutive weighted average number of shares follows:

(in 000's)	December 31, 2018	December 31, 2017
Basic weighted average number of shares	119,755	103,333
Dilutive impact of in-the-money options	-	8,787
Dilutive weighted average number of shares	**119,755**	**112,120**

18. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2018, the Company received legal fees and disbursement invoices totaling $599,835 (2017 - $251,148), from a law firm, which a director of Posera is a partner. As at December 31, 2018, the Company has a payable position of $333,709 (December 31, 2017 - $11,046) which will be settled between the related parties in the normal course of business.

On April 27, 2018 the Company established a $1.6 million secured bridge credit facility with DLT Labs Inc. ("DLT Labs"). Mr. Loudon Owen, former Executive Chairman of Posera (resigned from Posera on May 22, 2018) is a director and shareholder of DLT Labs. The board of directors of Posera

(in Canadian dollars, except as noted)

18. RELATED PARTY TRANSACTIONS *(continued)*

established a special committee of independent directors comprised of Messrs. Nordholm (former Chairman), Brown and Figueira to oversee the Company's relationship with DLT Labs and to make recommendations to the board of directors concerning any potential transactions between Posera and DLT Labs. The terms of the credit facility for DLT Labs were negotiated under the supervision of, and reviewed and approved by, the special committee. On August 1, 2018 and August 17, 2018, the Company amended the original terms of the secured credit loan facility by increasing the maximum principal amount available to DLT under the facility to $1,700,000 and $2,200,000 respectively. As at December 31, 2018, the Company has a note receivable of $2,295,349 (December 31, 2017- $nil) outstanding with DLT Labs. See Note 14 for further details on the loan arrangement which was entered and recorded at the exchange amount in these interim financial statements.

Posera conducted business with a company controlled by the former Executive Chairman of Posera, Mr. Owen. In fiscal year 2017, the Company incurred transaction costs related to the sale of the FingerPrints business in the amount of $660,000. The transaction costs that were charged to the Company comprised of services including counterparty identification, negotiation, structuring, financial analytics, facility costs, management oversight and administrative related services. This transaction was recorded at the exchange amount. As at December 31, 2018, the Company was in a payable position of $nil (December 31, 2017- $603,500) which was settled between the related parties in the normal course of business.

Compensation of key management

Compensation awarded to key management includes the Company's directors, and members of the Executive team, which include the Executive Chairman, Chief Executive Officer, President, Chief Financial Officer, Chief Operating Officer and Senior Vice-President of Corporate Development, is as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Salaries and short-term employee benefits – continuing operations(i)	1,037,406	$ 1,110,970
Share-based compensation	64,374	214,729
Total	**$ 1,101,780**	**$ 1,325,699**
Salaries and short-term employee benefits – gain on disposition of subsidiary(i)	-	95,000
Salaries and short-term employee benefits – discontinued operations(ii)	-	110,000
Total Presented in Continuing Operations	**$ 1,101,780**	**$ 1,120,699**

(i) Of the $95,000 included in salaries and short-term employee benefits – gain on disposition of subsidiary, $95,000 was paid to the executives during the year-ended December 31, 2017.

(ii) Of the $110,000 included in salaries and short-term employee benefits – discontinued operations, the entire amount was accrued and paid during fiscal 2018.

The salaries and short-term employee benefits are expensed as incurred, whereas the share-based payments are recorded at the date of grant and expensed over the vesting period to the Consolidated Statements of Operations and Comprehensive (Loss) Income.

(in Canadian dollars, except as noted)

19. FINANCIAL INSTRUMENTS

The fair values of the financial assets and liabilities, excluding the notes payable approximate their carrying value at December 31, 2018 and December 31, 2017.

The Company's financial instruments have been summarized below:

	December 31, 2018	December 31, 2017
Financial assets at amortized cost	$ 10,500,919	$ 15,310,409
Financial liabilities at amortized cost	2,006,382	2,986,109

The following provides the fair value hierarchy for the financial instrument's measurement subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company has not reclassified financial instruments between levels of the fair value hierarchy in fiscal 2018 and 2017.

20. FINANCIAL RISK FACTORS

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

a) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and, accounts receivable in the aggregate amount of $7,720,935 as at December 31, 2018 (2017 - $13,734,324). Cash and cash equivalents are held with certain Canadian, US and European financial institutions with high credit worthiness. The Company has adopted a credit policy under which the balance of new customers are analyzed individually for creditworthiness before the Company's standard payment terms and conditions are offered. The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company's customers are primarily located in Canada, the United States, France and the United Kingdom. The Company has no significant concentration of receivables, which would result in unusual credit risk exposure. As at December 31, 2018, trade receivables of $947,194 (December 31, 2017 - $1,109,779) were current and not impaired, $296,563 (December 31, 2017 - $362,660) were past due but not impaired and $63,523 (December 31, 2017 - $108,220) were impaired.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on historical credit losses experienced over the last two years. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. On that basis the loss allowance rate for trade receivables was determined to be between 1.7% for current outstanding balances and 42.5% for balances greater than 90 days.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's history, existing market conditions as well as forward-looking estimates at the end of each reporting period. See the sensitivity of the significant judgement in Note 2.

(in Canadian dollars, except as noted)

20. FINANCIAL RISK FACTORS *(continued)*

The following table summarizes the changes in the allowance for doubtful accounts for trade receivables:

	December 31, 2018	December 31, 2017
Balance – Beginning of year	**$ 108,220**	**$ 140,825**
Receivables written off as uncollectible	(91,902)	(129,355)
Net provision for impairment	45,813	96,872
Translation adjustment	1,392	(122)
Balance – End of year	**$ 63,523**	**$ 108,220**
Accounts receivable – gross	**1,370,811**	**1,688,879**
Accounts receivable – net	**$ 1,307,288**	**$ 1,580,659**

All of the Company's debt investments are recorded at amortized cost and the Company recognized a loss allowance associated with the debt investment during the 2018 fiscal year-ended. Management considered the credit risk associated with the debt investment when assessing the loss allowance. In determining the probability weighted default model, management considered a range of scenarios including the full repayment of the note and the potential of default. Management has assigned probabilities to each scenario based on its best estimates and considerations around the valuation of the collateral security in place for the note. Additionally, the Company has included the administrative costs required to administer the collection if the note were in default. The Company's credit risk attributable to the note receivable in the aggregate amount of $2,295,349 as at December 31, 2018 (2017 - $Nil) for which the Company has recorded past due loss allowance of $592,158 (December 31, 2017 – $Nil).

No financial assets are past due except for trade and note receivables.

b) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet financial obligations when due through periodic monitoring of working capital balances.

As at December 31, 2018, the Company had a cash balance, inclusive of restricted cash, of $6,413,647 (2017 - $12,153,665), and other current assets of $3,933,893 (2017 - $3,028,792) to settle current liabilities of $2,604,705 (2017 - $4,393,083). All the Company's current financial liabilities have contractual maturities that range between 30 and 90 days and are subject to normal trade terms excluding vehicle loans disclosed separately in Note 15.

(in Canadian dollars, except as noted)

20. FINANCIAL RISK FACTORS *(continued)*

The following are the commitments to be settled in cash. The amounts presented represent the future undiscounted principal and interest cash flows, and therefore do not equate to the carrying amounts on the Consolidated Statement of Financial Position.

	2019	2020	2021	2022	2023 and thereafter	Total
Accounts payable and accrued liabilities (Note 12)	1,991,870	-	-	-	-	1,991,870
Vehicle loans (Note 15)	6,853	7,061	598	-	-	14,512
Income taxes payable (Note 16)	53,071	-	-	-	-	53,071
Operating leases	232,926	4,881	2,100	2,100	1,925	243,932
Total	**$ 2,284,720**	**$ 11,942**	**$ 2,698**	**$ 2,100**	**$ 1,925**	**$ 2,303,385**

c) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign currency risk.

i) Interest rate risk

The Company has cash balances and interest-bearing debt. The Company holds cash and cash equivalents in deposit with certain Canadian, US and European financial institutions. The Company also holds notes payable, with largely fixed interest rates. The Corporation is sensitive to changes in the prevailing interest rates through interest income earned on its cash balance and interest paid on its notes payable. Interest rate risk is low as the interest rates on the Company's cash balances and notes payable are largely fixed.

ii) Foreign currency risk

The Company operates internationally and therefore, foreign exchange risk exposures arise from transactions denominated in a foreign currency. The foreign exchange risk arises primarily with respect to the USD, GBP and the Euro.

A $0.05 strengthening of the CAD dollar compared to the USD, holding all other variables constant, would decrease net income by $60,000 (December 31, 2017 - $30,000 decrease), and increase comprehensive income by $124,000 (December 31, 2017 - $147,000 increase). The Company has elected to not actively manage this exposure at this time.

A $0.05 strengthening of the CAD dollar compared to the GBP pound, holding all other variables constant, would decrease net income by $2,000 (December 31, 2017 - $7,000 decrease), and decrease comprehensive income by $20,000 (December 31, 2017 - $18,000 decrease). The Company has elected to not actively manage this exposure at this time.

A $0.05 strengthening of the CAD dollar compared to the EUR euro, holding all other variables constant, would increase net income by $2,000 (December 31, 2017 - $4,000 increase), and decrease comprehensive income by $1,000 (December 31, 2017 - $3,000 decrease). The Company has elected to not actively manage this exposure at this time.

(in Canadian dollars, except as noted)

21. EXPENDITURES BY NATURE FOR CONTINUING OPERATIONS

The following is a reconciliation of expenditures by function to expenditures by nature:

Presentation by Nature	December 31, 2018	December 31, 2017
Salaries, wages and other employee benefits (Note 6)	$ 6,441,555	$ 6,923,839
Changes in inventories of finished goods (Note 7)	2,238,248	2,173,352
Amortization (Notes 8 and 9)	227,216	630,421
Professional and regulatory fees	2,028,543	1,360,152
Travel, vehicle and meals and entertainment	446,142	600,767
Rent	543,392	586,607
Office and utilities	551,717	511,913
Advertising and promotion	235,087	174,295
Outside service	(74,451)	23,452
Insurance	86,197	91,865
Bad debt expense and write-offs	103,545	134,910
Stock-based compensation [Note 17(b,c)]	136,162	382,158
Other expenditures	139,250	(184,877)
Total	**$ 13,102,603**	**$ 13,408,854**
Presentation by Function		
Cost of inventory	$ 2,238,248	$ 2,173,352
Technology	1,051,145	1,416,029
Operations and support	2,233,963	2,765,911
Sales and marketing	1,871,514	2,350,951
General and administrative	5,707,733	5,077,611
Restructuring costs	-	(375,000)
Total	**$ 13, 102,603**	**$ 13,408,854**

(in Canadian dollars, except as noted)

22. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may issue new shares, sell assets to reduce debt or issue new debt.

The Company monitors capital on the basis of the debt to equity ratio, which is a non-IFRS measure. This ratio is calculated as total debt divided by total equity. Total debt is calculated as the sum of bank indebtedness, and current and long-term notes payable and vehicle loans as shown in the consolidated statements of financial position. Total equity is the equity of the Company in the consolidated statements of financial position. As disclosed in Note 11, the Company is subject to certain externally imposed capital covenants related to bank indebtedness.

The debt to equity ratios as at December 31, 2018 and December 31, 2017 were as follows:

	December 31, 2018	December 31, 2017
Total Debt		
Vehicle loans and capital leases	$ 14,512	$ 23,512
Total Debt	**$ 14,512**	**$ 23,512**
Equity		
Equity	$ 13,438,515	$ 16,702,278
Total Equity	**$ 13,438,515**	**$ 16,702,278**
Debt to Equity Ratio	**0.1%**	**0.1%**

23. CHANGES IN WORKING CAPITAL ITEMS

	December 31, 2018	December 31, 2017
Accounts receivable	$ 307,612	$ 310,718
Investment tax credits and investment credits receivable - refundable and non-refundable (Note 6)	391,275	(172,130)
Income taxes payable (Note 16)	(229,743)	587,218
Lease and other receivables	-	393
Inventory (Note 7)	427,613	(126,678)
Prepaid expenses and deposits	(53,575)	79,977
Accounts payable and accrued liabilities (Note 12)	(766,387)	(1,320,118)
Transaction payable	(386,671)	386,671
Provisions (Note 13)	-	(375,000)
Deferred revenue	(701,034)	707,238
Total	**$ (1,010,910)**	**$ 78,289**

(in Canadian dollars, except as noted)

24. DISPOSITION OF FINGERPRINTS AND DISCONTINUED OPERATIONS

During the year-ended December 31, 2017, the Company sold its FingerPrints business, which allows the Company to focus its resources and capital investment on its Maitre'D, Kitchen Display Systems ("KDS") and SecureTablePay product offerings.

As at August 10, 2017 the FingerPrints assets were recorded as a discontinued operation being held for sale. On September 14, 2017, the Company completed the sale of FingerPrints, to SICOM Systems Canada Inc. ("SICOM"). Consideration for the sale of FingerPrints comprised of a cash payment of $12.2 million, which was adjusted by a working capital deficit adjustment of $110,471 post-closing. The gain on the FingerPrints transaction was $10,912,935, representing the purchase price less an adjustment for working capital $110,471, less the write down on all other non-current assets of $189,737 and less transaction costs of $986,857. The proceeds of sale exceeded the carrying amount of the related net assets, and, accordingly, no impairment losses were recognized on the reclassification of FingerPrints as held for sale.

As at September 14, 2017, the date of disposition, the disposal group comprised $192,192 of Net Assets, as detailed below:

	Assets		Liabilities
Accounts receivable	1,028,319		
Other receivables	12,122		
Inventory	648,196	Accounts payable and	
Deposits on leased premises	11,870	accrued liabilities	390,051
Property plant and equipment	82,882	Deferred revenue	1,289,061
Intangible assets	169,737	Vehicle loans	82,095
Total assets disposed	**$ 1,953,399**	**Total liabilities disposed**	**$ 1,761,207**

During the year-ended December 31, 2018, the Company recorded a gain on the disposal of FingerPrints of $nil (2017 - $10,912,935). The gain on the disposal is net of tax of $nil (2017 - $nil) and net of costs related to the transaction of $nil (2017 - $986,857). FingerPrints has been presented as a discontinued operation, separate from continuing operations, in the Consolidated Statements of Operations and Comprehensive Loss during the years-ended December 31, 2017 respective prior comparative periods.

During the year-ended December 31, 2018, the Company assessed a reversal of impairment of $nil (2017 - $88,527) related to Intangible assets of the FingerPrints business. The reversal occurred as the assets had previously been impaired due to downward revisions to the recoverable amount of these assets. As the Company disposed of the assets of the FingerPrints business for a gain, a revision to the recoverable amount was applied to reverse the impairment of FingerPrints intangible assets that was previously recognized. The reversal of the impairment was limited to the carrying amount for the assets that would have been recorded had no impairment previously been recognized.

(in Canadian dollars, except as noted)

24. DISPOSITION OF FINGERPRINTS AND DISCONTINUED OPERATIONS *(continued)*

The results of the discontinued operation, which are presented as one net amount on the Consolidated Statements of Operations and Comprehensive Loss during the periods are summarized below:

	Year-Ended December 31, 2018	Year-Ended December 31, 2017[i]
Revenue	$ -	$ 4,664,022
Cost of inventory	-	1,856,651
Technology	-	447,061
Operations and support	-	2,530,634
Total Cost of Sales	**-**	**4,834,346**
Gross Profit	**-**	**(170,324)**
Sales and marketing	-	906,894
General and administrative	-	893,236
Restructuring costs	-	-
Total Operating expenses	**-**	**1,800,129**
Interest expense	-	-
Net Income / (loss) before income taxes from discontinued operations	**-**	**(1,970,453)**
Gain on reversal of impairment	-	88,527
Deferred tax recovery	-	-
Net Income / (loss) from discontinued operations	**-**	**(1,881,926)**

(i) FingerPrints Statement of Operations and Comprehensive Loss results from January 1, 2017 until the date of disposition, being September 14, 2017.