Condensed Consolidated Interim Financial Statements of

Posera Ltd.

(Unaudited)
Three and Six months ended June 30, 2019 and 2018

Posera Ltd.

Condensed Interim Consolidated Statements of Financial Position

As at June 30, 2019 and December 31, 2018

(unaudited)

(in Canadian dollars)

		June 30, 2019		December 31, 2018
ASSETS (Notes 12 and 14)				
CURRENT				
Cash and cash equivalents	$	4,813,088	$	6,413,647
Accounts receivable		1,241,901		1,307,288
Current portion of lease and other receivables		-		2,839
Inventory		196,188		253,293
Note receivable (Note 9)		1,621,797		1,703,191
Investment credits receivable - refundable (Note 4)		240,383		470,301
Prepaid expenses and deposits		139,672		196,981
		8,253,029		**10,347,540**
NON-CURRENT				
Property, plant and equipment (Note 5)		69,729		86,898
Deposit on leased premises		43,279		43,278
Right of use assets (Note 15)		154,065		-
Investment tax credits receivable - non-refundable (Note 4)		599,820		603,653
Deferred income tax assets		283,871		176,057
Intangible assets (Note 6)		650,639		728,418
Goodwill (Note 7)		4,080,297		4,229,475
	$	**14,134,729**	**$**	**16,215,319**
LIABILITIES (Notes 8, 12 and 14)				
CURRENT				
Accounts payable and accrued liabilities (Note 12)	$	1,566,111	$	1,991,870
Current portion of vehicle loans and capital leases		6,956		6,853
Current portion of lease liabilities (Note 15)		64,393		-
Income taxes payable (Note 10)		25,968		79,069
Deferred revenue		834,999		526,913
		2,498,427		**2,604,705**
NON-CURRENT				
Lease liabilities (Note 15)		92,324		-
Deferred income tax liability (Note 10)		96,224		164,440
Vehicle loans and capital leases		4,155		7,659
		2,691,130		**2,776,804**
EQUITY				
SHARE CAPITAL (Note 11(a))		62,143,008		62,143,008
CONTRIBUTED SURPLUS (Note 11(b, c))		7,987,958		7,956,123
DEFICIT		(59,342,158)		(57,484,457)
ACCUMULATED OTHER COMPREHENSIVE INCOME		654,791		823,841
		11,443,599		**13,438,515**
	$	**14,134,729**	**$**	**16,215,319**

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

Posera Ltd.

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

For the three-months and six months ended June 30, 2019 and 2018

(unaudited)

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

	Three-months ended June 30			Six-months ended June 30.		
		2019	2018		2019	2018
TOTAL REVENUE (Note 3)	**$**	**2,000,711**	**$ 2,352,937**	**$**	**4,008,228**	**$ 5,095,274**
COST OF SALES (Note 12)						
Cost of inventory		324,752	431,953		693,741	1,262,744
Technology (Note 4)		203,417	295,281		423,573	556,764
Operations and support		642,868	601,464		1,305,247	1,200,591
TOTAL COST OF SALES		**1,171,037**	**1,328,698**		**2,422,561**	**3,020,099**
GROSS PROFIT		**829,674**	**1,024,239**		**1,585,667**	**2,075,175**
OPERATING EXPENSES (Note 12)						
Sales and marketing		575,190	456,466		1,045,996	1,017,784
General and administrative		1,159,072	1,445,701		2,301,762	2,719,066
TOTAL OPERATING EXPENSES		**1,734,262**	**1,902,167**		**3,347,758**	**3,736,850**
		(904,588)	**(877,928)**		**(1,762,091)**	**(1,661,675)**
OTHER (INCOME) LOSS						
Interest expense		2,442	-		5,099	18,878
Realized and unrealized loss (gain) on foreign exchange		39,684	(36,690)		85,040	(99,830)
Interest and other income (Note 9)		(62,254)	(33,023)		(115,698)	(58,210)
Loss on revaluation of financial instruments (Note 9)		175,590	-		175,590	-
TOTAL OTHER LOSS (INCOME)		**155,462**	**(69,713)**		**150,031**	**(139,162)**
NET LOSS BEFORE INCOME TAXES		**(1,060,050)**	**(808,215)**		**(1,912,122)**	**(1,522,513)**
INCOME TAX (RECOVERY) EXPENSE						
Current (Note 10)		3,969	111,577		67,368	309,611
Deferred (Note 10)		(71,855)	(17,354)		(121,789)	(12,604)
NET LOSS	**$**	**(992,164)**	**$ (902,438)**	**$**	**(1,857,701)**	**$ (1,819,520)**
Items that may be reclassified subsequently to net income			-			-
Other comprehensive (loss) gain on foreign translation		(91,281)	25,219		(169,050)	138,193
NET COMPREHENSIVE LOSS	**$**	**(1,083,445)**	**$ (877,219)**	**$**	**(2,026,751)**	**$ (1,681,327)**
BASIC AND DILUTED LOSS PER SHARE (Note 11(d))	$	(0.01)	$ (0.01)	$	(0.02)	$ (0.02)
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES (in 000's)		119,797	119,796		119,797	119,714
DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES (in 000's)		119,797	119,796		119,797	119,714

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

Posera Ltd.

Condensed Interim Consolidated Statements of Changes in Equity

For the three-months and six months ended June 30, 2019 and 2018

(unaudited)

(in Canadian dollars)

	Three-months ended June 30,				Six-months ended June 30,			
		2019		2018		2019		2018
DEFICIT BEGINNING OF PERIOD	$	(58,349,994)	$	(54,582,830)	$	(57,484,457)	$	(53,665,748)
Net loss	$	(992,164)	$	(902,438)		(1,857,701)		(1,819,520)
DEFICIT END OF PERIOD	**$**	**(59,342,158)**	**$**	**(55,485,268)**	**$**	**(59,342,158)**	**$**	**(55,485,268)**
ACCUMULATED OTHER COMPREHENSIVE INCOME BEGINNING OF PERIOD	$	746,072	$	730,141	$	823,841	$	617,167
Other comprehensive (loss) income on foreign translation		(91,281)		25,219		(169,050)		138,193
ACCUMULATED OTHER COMPREHENSIVE INCOME END OF PERIOD	**$**	**654,791**	**$**	**755,360**	**$**	**654,791**	**$**	**755,360**
NET COMPREHENSIVE LOSS	**$**	**(1,083,445)**	**$**	**(877,219)**	**$**	**(2,026,751)**	**$**	**(1,681,327)**
SHARE CAPITAL BEGINNING OF PERIOD	$	62,143,008	$	62,143,008	$	62,143,008	$	61,804,578
Exercise of stock compensation		-		-		-		338,430
SHARE CAPITAL END OF PERIOD [Note 11(a)]	**$**	**62,143,008**	**$**	**62,143,008**	**$**	**62,143,008**	**$**	**62,143,008**
CONTRIBUTED SURPLUS BEGINNING OF PERIOD	$	7,972,289	$	7,869,309	$	7,956,123	$	7,946,279
Exercise of stock options (Note 11 (b, c))		-		-		-		(126,317)
Stock based compensation (Note 11 (b, c))		15,669		42,201		31,835		91,548
CONTRIBUTED SURPLUS END OF PERIOD [Note 11(b, c)]	**$**	**7,987,958**	**$**	**7,911,510**	**$**	**7,987,958**	**$**	**7,911,510**

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

Posera Ltd.

Condensed Interim Consolidated Statements of Cash Flows

For the three-months and six months ended June 30, 2019 and 2018

(unaudited)
(in Canadian dollars)

	Three-months ended June 30		Six-months ended June 30	
	2019	**2018**	**2019**	**2018**
NET (OUTFLOW) INFLOW OF CASH RELATED TO THE FOLLOWING ACTIVITIES				
OPERATING				
Net loss	(992,164)	$ (902,438)	$ (1,857,701)	$ (1,819,520)
Items not affecting cash				
Amortization of property, plant & equipment (Note 5)	18,396	25,683	40,975	50,690
Amortization of intangible assets (Note 6)	32,336	32,190	64,649	64,288
Amortization of right of use assets (Note 15)	17,281	-	33,863	-
Deferred income tax expense (recovery) (Note 10)	(71,855)	(17,354)	(121,789)	(12,604)
Loss allowance (Note 9)	175,590	-	175,590	-
Stock-based compensation expense (Note 11(b,c))	15,669	42,201	31,835	91,548
Interest income (Note 9)	(47,832)	(11,616)	(94,218)	(11,616)
Interest expense (Note 15)	2,442	-	4,996	-
Gain on sale of property, plant and equipment	-	2,069	-	902
Unrealized loss (gain) on foreign exchange	22,235	(21,267)	47,986	(37,327)
	(827,902)	**(850,532)**	**(1,673,814)**	**(1,673,639)**
Changes in working capital items (Note 13)	(49,569)	278,259	326,807	(704,224)
	(877,471)	**(572,273)**	**(1,347,007)**	**(2,377,863)**
FINANCING				
Repayment of vehicle loans and capital leases	(1,603)	(1,799)	(3,401)	(5,475)
Payment of lease liabilities (Note 15)	(18,116)	-	(35,810)	-
	(19,719)	**(1,799)**	**(39,211)**	**206,637**
INVESTING				
Acquisition of property, plant and equipment (Note 5)	(21,398)	(281)	(22,409)	(12,761)
Proceeds on disposition of property, plant and equipment (Note 5)	-	-	-	1,667
Issuance of Note Receivable (Note 9)	-	(1,200,000)	-	(1,200,000)
	(21,398)	**(1,200,281)**	**(22,409)**	**(1,211,094)**
Foreign exchange gain (loss) on net cash and cash equivalents held in a foreign currency	**3,924**	**95,487**	**(191,932)**	**195,920**
NET CASH AND CASH EQUIVALENTS OUTFLOW	**$ (914,664)**	**$ (1,678,866)**	**$ (1,600,559)**	**$ (3,186,400)**
NET CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,727,751	10,646,130	6,413,647	12,153,664
NET CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 4,813,088**	**$ 8,967,264**	**$ 4,813,088**	**$ 8,967,264**
SUPPLEMENTAL OPERATING CASH FLOW INFORMATION				
Interest paid	$ 4,995	$ 47,534	$ 5,099	$ 18,878
Interest received	$ 14,422	2,953	21,480	26,255
Income taxes paid	$ 40,788	15,000	92,788	31,948
Investment credits and investment tax credits receivable received	$ 314,387	-	314,387	386,423

The accompanying notes are an intergral part of these condensed interim 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

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("collectively IFRS") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements prepared in accordance with IFRS. As such, these condensed consolidated interim financial statements should be read in conjunction with the Company's annual financial statements for the year-ended December 31, 2018. These condensed consolidated interim financial statements were approved for issue by the Board of Directors on August 13th, 2019.

The preparation of interim financial statements in conformity with IAS 34 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. These condensed consolidated interim financial statements have been prepared on the historical cost basis.

The accounting policies applied in these condensed consolidated interim financial statements are based on IFRS effective for the year-ending December 31, 2019, as issued and outstanding as of the date the Board of Directors approved these statements. The accounting policies followed in these condensed consolidated interim financial statements are consistent with those applied in the Company's annual consolidated financial statements for the year-ended December 31, 2018, except as described below.

The results for the three and six-months ended June 30, 2019 are not necessarily indicative of the results to be expected for the full year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation

These condensed consolidated interim 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").

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.

Changes in accounting policies

The Company has adopted IFRS 16 *Leases* from January 1, 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are recognized in the opening balance sheet on January 1, 2019.

Adjustments recognized on adoption of IFRS 16

On adoption of IFRS 16, the Company recognized lease liabilities in relation to the leases which had been previously classified as "operating leases" under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5.95%.

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Consolidated Statement of Financial Position as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

From January 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment such as photocopiers.

The Company has elected not to recognise right-of-use assets and lease liabilities for the short-term leases that have a lease term of 12 months or less from January 1, 2019 and the leases with low-values. These lease payments have been treated as expenses directly over the remaining lease periods.

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

- right-of-use assets increase by $179,928
- lease liabilities increase by $179,928

Practical expedients applied

In applying IFRS 16 for the first time, Posera has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(in Canadian dollars, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company's leasing activities and how these are accounted for;

Posera leases various offices, warehouses and vehicles. Rental contracts are typically made for fixed periods of 2 to 5 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. Until the 2018 financial year, leases were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. See Note 15 to these Condensed Consolidated Interim Financial Statements for the disclosure of the Company's right of use assets and leased liabilities.

3. REVENUE

Revenue from Contracts with Customers

	Three-months ended June 30, 2019	Three-months ended June 30, 2018	Six-months ended June 30, 2019	Six-months ended June 30, 2018
POS - Software	$ 698,042	$ 797,821	$ 1,306,707	$ 1,486,126
POS – Hardware	494,750	707,145	1,106,699	1,821,326
Support and Maintenance	628,935	664,185	1,226,585	1,271,030
Professional Services	13,462	33,100	32,528	219,878
Transactional Processing	165,522	150,686	335,709	296,914
Total Revenue	**$ 2,000,711**	**$ 2,352,937**	**$ 4,008,228**	**$ 5,095,274**

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

(in Canadian dollars, except as noted)

3. REVENUE (continued)

Timing of Revenue Recognition

	Three-months ended June 30, 2019	Three-months ended June 30, 2018	Six-months ended June 30, 2019	Six-months ended June 30, 2018
Revenue from products and services transferred at a point in time [(i)]	$ 1,358,314	$ 1,691,446	$ 2,749,115	$ 3,640,161
Revenue from products and services transferred over time [(ii, iii)]	642,397	661,490	1,259,113	1,455,114
Total Revenue	**$ 2,000,711**	**$ 2,352,937**	**$ 4,008,228**	**$ 5,095,274**

(i) Primarily revenue from POS – Software, Hardware and Transactional Processing
(ii) Primarily revenue from Support and Maintenance and Professional Services
(iii) $111,233 and $396,736, (June 30, 2018 - $130,458 and $554,473) of contract revenue during the three and six-months ended June 30, 2019 relates to the recognition of deferred revenue as at December 31, 2018 and 2017 respectively.

Geography of Revenue [(iv)]

	Three-months ended June 30, 2019	Three-months ended June 30, 2018	Six-months ended June 30, 2019	Six-months ended June 30, 2018
North America	$ 1,430,183	$ 1,795,891	$ 2,814,211	$ 4,122,665
Rest of World	570,527	557,046	1,194,017	972,609
Total Revenue	**$ 2,000,711**	**$ 2,352,937**	**$ 4,008,228**	**$ 5,095,274**

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

Determining the Transaction Price

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

(in Canadian dollars, except as noted)

4. INVESTMENT CREDITS AND INVESTMENT TAX CREDITS RECEIVABLE

Investment tax credits related to Scientific Research and Experimental Design and investment credits related to Electronic Business, were recorded in the condensed consolidated interim statements of operations as a reduction in technology expenses in the amount of $52,993 and $91,780 during the three and six-months ended June 30, 2019 (2018 - $61,850 and $119,648) respectively. As of June 30, 2019, a subsidiary of the Company has refundable investment tax credits receivable totaling $240,383 (December 31, 2018 - $470,301), and non-refundable investment credits receivable totaling $599,820 (December 31, 2018 - $603,653) which expire according to the schedule below:

	June 30, 2019	December 31, 2018
2031	$ 94,032	$ 113,573
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	31,294
2038	31,416	31,416
2039	15,708	-
Total	**$ 599,820**	**$ 603,653**

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.

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

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

	Cost	Accumulated amortization and impairment	Net book value
Balance - December 31, 2018	**$ 692,948**	**$ 606,050**	**$ 86,898**
Amortization of PP&E	-	40,975	(40,975)
Additions of PP&E	22,409	-	22,409
Translation adjustment	(3,577)	(4,974)	1,397
Balance – June 30, 2019	**$ 711,780**	**$ 642,051**	**$ 69,729**

6. INTANGIBLE ASSETS

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

	Cost	Accumulated amortization and impairment	Net book value
Balance - December 31, 2018	**$ 7,387,220**	**$ 6,658,802**	**$ 728,418**
Amortization	-	64,649	(64,649)
Translation adjustment	(208,863)	(195,733)	(13,130)
Balance – June 30, 2019	**$ 7,178,357**	**$ 6,527,718**	**$ 650,639**

(in Canadian dollars, except as noted)

7. GOODWILL

Reconciliation of Goodwill	
	Net Book Value
Balance – December 31, 2018	**$ 4,229,475**
Translation adjustment	(149,178)
Balance – June 30, 2019	**$ 4,080,297**

8. BANK INDEBTEDNESS

As at June 30, 2019, the Company through its subsidiary Posera Software, has drawn upon its revolving line of credit of $Nil (December 31, 2018 - $Nil), up to an available amount of $200,000 (December 31, 2018 - $200,000). This facility bears interest at the Canadian bank prime rate plus 2.50%, with an effective interest rate of 6.45% (June 30, 2018 – 6.20%). Additionally, the facility has a first ranking $1,000,000 (December 31, 2018 - $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.

(in Canadian dollars, except as noted)

9. 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 condensed consolidated interim 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.

Reconciliation of Note Receivable	June 30, 2019	December 31, 2018
Loan Receivable	$ 2,389,545	$ 2,295,349
Loss Allowance	(767,748)	(592,158)
Total Loan Receivable	**$ 1,621,797**	**$ 1,703,191**

For the three and six-months ended June 30, 2019, the Company recorded interest income of $47,831 and $94,218 (2018 - $Nil and $Nil) related to the note receivable.

During the three and six-months ended June 30, 2019 the Company applied a $175,590 and $175,590 (2018 - $Nil and $Nil) loss allowance related to the outstanding note receivable. 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 and the Company revised its estimates from December 31, 2018 and March 31, 2019, resulting in $175,590 of additional loss allowance being applied during the three and six-months ended June 30, 2019. As at June 30, 2019, the full balance of $2,389,545 is owing and is secured by certain assets of the borrower.

10. INCOME TAXES

Income tax expense has been recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year for each taxable entity, less a valuation adjustment in instances where it was not probable that any deferred income tax assets would be realized. The estimated average annual rate used for the three and six-months ended June 30, 2019 and 2018, by taxable entity, ranged from 0% to 33%. Certain investment tax credits were netted against the expenses which were incurred to earn the credits, see Note 4.

(in Canadian dollars, except as noted)

11. 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 December 31, 2018 and June 30, 2019	**119,796,878**	**62,143,008**

(b) Stock options and stock-based compensation

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 Shares 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 not reapproved on June 26, 2019 as part of the Company’s annual general meeting, therefore the Company is not in a position to Grant additional options under the Plan, whereas Issued and Outstanding options are remain exercisable. The Plan was enacted to encourage ownership of the Company's Common Shares by its key officers and directors, employees and consultants.

(in Canadian dollars, except as noted)

11. SHARE CAPITAL (*continued*)

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

	June 30, 2019	
	Number Outstanding	Weighted Average Exercise Price
Options outstanding, beginning of the period	8,443,250	$ 0.18
Forfeited and expired	(1,548,500)	0.26
Options outstanding, end of the period	**6,894,750**	**$ 0.16**
Options exercisable, end of the period	**5,558,500**	**$ 0.16**

The following table summarizes information about options outstanding as at;

June 30, 2019

	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	836,000	2.00	0.125	574,750	0.125
0.15	2,823,750	2.87	0.15	2,161,250	0.15
0.17	3,085,000	2.49	0.17	2,672,500	0.17
0.20	150,000	2.36	0.20	150,000	0.20
	6,894,750	**2.58**	**$0.16**	**5,558,500**	**$0.16**

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**

Of the options outstanding as at June 30, 2019, 1,735,000 (December 31, 2018 – 1,735,000) options with an exercise price ranging from $0.15 to $0.17 (December 31, 2018 – $0.15 to $0.17), are consultant compensation options.

(in Canadian dollars, except as noted)

11. SHARE CAPITAL (*continued*)

For the three and six-months ended June 30, 2019, the Company recognized an expense of $15,669 and $31,835 (June 30, 2018 – $42,201 and $91,548) respectively 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 that respective period. The Company did not have any grant of options during the comparative reporting periods.

(c) Contributed Surplus

The following is a continuity schedule of contributed surplus.

Balance December 31, 2018	**$ 7,956,123**
Stock based compensation	31,835
Balance June 30, 2019	**$ 7,987,958**

(d) 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 with anti-dilutive impact
Stock and consultant compensation options	Note 11(b)	Note 11(b)	6,894,750	-	5,558,500

(in Canadian dollars, except as noted)

12. RELATED PARTY TRANSACTIONS

During the three and six-months ended June 30, 2019, the Company received legal fees and disbursement invoices totaling $nil and $46,215 (2018 - $136,950 and $201,168), from a law firm, which a former director of Posera is a partner. On March 29, 2019 this director resigned from the Posera Board of Directors and therefore has since ceased being a related party. As at the day of resignation, March 29, 2019, the Company had a payable position of $612,938 (December 31, 2018 - $333,709) 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 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 June 30, 2019, the Company has a note receivable with a principal balance of $2,389,545 and a book value of $1,621,797 (December 31, 2018 - $1,703,191) outstanding with DLT Labs. See Note 9 for further details on the loan arrangement which was entered and recorded at the exchange amount in these condensed consolidated interim financial statements.

On March 29, 2019 the Company appointed Mr. Akash Sahai to its Board of Directors. Posera conducted business with a Company controlled by Mr. Sahai whereby he charged fees in relation to his role as Posera's Executive Vice President of Strategy and Business Development. During the three and six-months ended June 30, 2019, the Company incurred fees for services rendered by Mr. Sahai from the Company he controls in the amount of $75,000 and $200,000 (three and six-months ended June 30, 2018 - $75,000 and $200,000). All transactions have been recorded at the exchange amount. As at June 30, 2019, the Company is in a payable position of $8,247 (December 31, 2018 - $nil) which will be 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:

	Three-months ended June 30, 2019	Three-months ended June 30, 2018	Six-months ended June 30, 2019	Six-months ended June 30, 2018
Salaries and short-term employee benefits	$ 337,137	$ 395,987	$ 564,254	$ 674,775
Share-based payments	11,116	20,933	18,478	44,775
Total	**$ 348,253**	**$ 416,920**	**$ 582,732**	**$ 719,550**

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.

(in Canadian dollars, except as noted)

13. CHANGES IN WORKING CAPITAL ITEMS

	Three-months June 30, 2019	Three-months June 30, 2018	Six-months June 30, 2019	Six-months June 30, 2018
Accounts receivable	$ 44,607	$ (138,508)	$ 128,892	$ 219,412
Investment tax credits and investment credits receivable	261,483	363,588	222,699	357,038
Income taxes payable	(104,078)	(80,630)	(44,440)	55,202
Inventory	(8,789)	(16,475)	47,650	244,527
Prepaid expenses and deposits	4,923	72,442	55,377	40,084
Accounts payable and accrued liabilities	(543,826)	44,813	(401,055)	(1,592,859)
Deferred revenue	296,111	33,029	317,684	(27,628)
Total	**$ (49,569)**	**$ 278,259**	**$ 326,807**	**$ (704,224)**

14. FINANCIAL INSTRUMENTS

The fair values of the financial assets and liabilities, excluding the notes payable approximate their carrying value at June 30, 2019 and December 31, 2018.

The Company's financial instruments have been summarized below:

	June 30, 2019	December 31, 2018
Financial assets at amortized cost	$ 8,516,989	$ 10,500,919
Financial liabilities at amortized cost	1,577,222	2,006,382

(in Canadian dollars, except as noted)

15. RIGHT OF USE ASSETS AND LEASED LIABILITIES

The following is a reconciliation for the leased asset and leased liability for the three and six-months ended and as at June 30, 2019:

Right of use asset	Leased office space and equipment	Vehicles	Total
Balance as at January 1, 2019	**$ 169,930**	**$ 9,998**	**$ 179,928**
Additions	10,939	-	10,939
Depreciation charge	(30,114)	(3,749)	(33,863)
Translation adjustment	(2,939)	-	(2,939)
Balance as at June 30, 2019	**$ 147,816**	**$ 6,249**	**$ 154,065**

Leased liabilities	Leased office space and equipment	Vehicles	Total
Balance as at January 1, 2019	**$ 169,930**	**$ 9,998**	**$ 179,928**
Additions	10,939	-	10,939
Lease payments	(31,920)	(3,890)	(35,810)
Interest expenses	4,763	233	4,996
Translation adjustment	(3,336)	-	(3,336)
Balance as at June 30, 2019	**$ 150,376**	**$ 6,341**	**$ 156,717**
Current			**$ 64,393**
Non-current			**$ 92,324**

- *During the three and six-months ended June 30, 2019, the Company expensed $73,368 and $147,486 to the Condensed Interim Consolidated Statements of Operations and Comprehensive Loss for low dollar value and short-term leases.*

Maturity analysis - contractual undiscounted cash flows	
2019	$ 36,234
2020	68,113
2021	58,824
2022	2,753
2023	1,575
Total undiscounted lease payments as at June 30, 2019	**$ 167,499**