BLUERUSH INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED OCTOBER 31, 2019 AND 2018
(Presented in Canadian Dollars)
(Unaudited)

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FOR THE THREE MONTHS ENDED OCTOBER 31, 2019 AND 2018

CONTENTS

(Unaudited)

BLUERUSH INC.

NOTICE TO READER

Responsibility for Financial Statements

The accompanying unaudited condensed consolidated interim financial statements ("the financial statements") of BlueRush Inc. (the "Company") and its subsidiary as at and for the three months ended October 31, 2019 and 2018 have been prepared by the Company's management in accordance with International Financial Reporting Standards applicable to the financial statements (see note 2 to the financial statements). Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

Auditors' Involvement

MNP LLP, the external auditors of the Company, have not audited or performed review procedures applicable to auditor review of these financial statements as at and for the three months ended October 31, 2019 and 2018 nor have they conducted any procedures with respect to the supplementary financial schedules herein.

BLUERUSH INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION AS OF OCTOBER 31, 2019 AND JULY 31, 2019

(Presented in Canadian Dollars)

	Note	October 31, 2019 (Unaudited)	July 31, 2019 (Audited)
ASSETS			
Current Assets			
Cash		$ 2,263,183	$ 887,833
Short term investments	4	16,711	34,296
Accounts receivable		319,618	455,312
Prepaids and other assets		35,935	34,291
Investment tax credits refundable		167,863	248,777
Unbilled revenue		16,983	29,666
Work in process		-	2,591
Total Current Assets		2,820,293	1,692,766
Non-Current Assets			
Equipment	5	58,877	60,388
Right-of-use assets	6	346,462	-
Intangibles	7	163,669	237,687
Total Assets		$ 3,389,301	$ 1,990,841
LIABILITIES AND DEFICIT			
Current Liabilities			
Accounts payable and accrued liabilities	8	$ 849,542	$ 757,008
Short term debt	9	165,500	284,020
Contract liabilities	10	1,340,433	1,493,227
Term loans - current portion	11	257,304	410,921
Current portion of lease liabilities	12	107,655	-
Total Current Liabilities		2,720,434	2,945,176
Non-Current Liabilities			
Term loans	11	245,091	144,219
Lease liabilities	12	244,407	-
Convertible debentures	13	1,766,909	1,693,191
Deferred taxes		87,993	94,051
Total Liabilities		5,064,834	4,876,637
Deficit			
Share capital		3,116,294	2,804,938
Contributed surplus		1,935,913	2,054,753
Deficit		(6,727,740)	(7,745,487)
Total Deficit		(1,675,533)	(2,885,796)
Total Liabilities and Deficit		$ 3,389,301	$ 1,990,841

* The Company retrospectively applied IFRS 16 "Leases" using the modified retrospective method. Under this method, the comparative information is not restated. See note 3.

Approved on Behalf of the Board

(Signed) - "*Larry Lubin*", Director

(Signed) - "*Paul G. Smith*", Director

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

BLUERUSH INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
FOR THE THREE MONTHS ENDED OCTOBER 31, 2019 AND 2018
(Presented in Canadian Dollars)
(Unaudited)

	Note	2019	2018
REVENUE			
Subscriptions and support		$ 267,164	$ 64,611
Services		527,524	525,055
Interest		6,169	5,116
		800,857	594,782
COST OF SALES			
Subscriptions and support	17	83,724	37,150
Services	17	289,548	263,725
		373,272	300,875
GROSS PROFIT		427,585	293,907
EXPENSES			
Sales and marketing	17	685,110	465,118
General and administrative	17	395,288	405,926
Research and development	17	371,028	104,634
Interest and bank charges		98,336	17,292
Share-based payments	15	50,061	99,479
Depreciation of equipment and right-of-use assets	5, 6	35,918	3,342
Amortization of intangible assets	7	20,997	20,997
Total Expenses		1,656,738	1,116,788
LOSS FROM OPERATIONS BEFORE TAXES		(1,229,153)	(822,881)
Deferred income taxes		6,058	-
LOSS FROM CONTINUING OPERATIONS		(1,223,095)	(822,881)
DISCONTINUED OPERATIONS			
Income (loss) from discontinued operations	18	24,637	(37,225)
Gain on sale of asset	18	2,216,205	-
INCOME (LOSS) FROM DISCONTINUED OPERATIONS		2,240,842	(37,225)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)		$ 1,017,747	$ (860,106)
INCOME (LOSS) PER WEIGHTED NUMBER OF SHARES OUTSTANDING - BASIC AND DILUTED:			
CONTINUING OPERATIONS		$ (0.016)	$ (0.011)
DISCONTINUED OPERATIONS		$ 0.029	$ (0.001)
CONTINUING AND DISCONTINUED OPERATIONS		$ 0.013	$ (0.012)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC AND DILUTED		76,786,499	74,356,070

* The Company retrospectively applied IFRS 16 "Leases" using the modified retrospective method. Under this method, the comparative information is not restated. See note 3.

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

BLUERUSH INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
FOR THE THREE MONTHS ENDED OCTOBER 31, 2019 AND 2018
(Presented in Canadian Dollars)
(Unaudited)

	Note	Common Shares		Share Capital		Contributed Surplus		Deficit		Total Equity (Deficit)
Balance - August 1, 2018		74,012,314	$	2,737,973	$	1,293,813	$	(3,904,561)	$	127,225
Exercise of warrants	14, 16	665,571		47,256		(13,977)		-		33,279
Share based payments	15	-		-		99,479		-		99,479
Equity portion of convertible debentures	13	-		-		380,104		-		380,104
Transaction costs related to convertible debentures	13	-		-		(5,403)		-		(5,403)
Net loss		-		-		-		(860,106)		(860,106)
Balance - October 31, 2018		74,677,885	$	2,785,229	$	1,754,016	$	(4,764,667)	$	(225,422)
Balance - August 1, 2019		75,251,848		2,804,938		2,054,753		(7,745,487)		(2,885,796)
Common shares issued	14	470,085		35,471		(35,471)		-		-
Exercise of warrants	14, 16	2,644,309		202,081		(59,626)		-		142,455
Warrants expired	16	-		73,804		(73,804)		-		-
Share-based payments	15	-		-		50,061		-		50,061
Net income		-		-		-		1,017,747		1,017,747
Balance - October 31, 2019		78,366,242	$	3,116,294	$	1,935,913	$	(6,727,740)	$	(1,675,533)

* The Company retrospectively applied IFRS 16 "Leases" using the modified retrospective method. Under this method, the comparative information is not restated. See note 3.

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

BLUERUSH INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED OCTOBER 31, 2019 AND 2018
(Presented in Canadian Dollars)
(Unaudited)

	Note		2019		2018
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss) and comprehensive income (loss)		$	1,017,747	$	(860,106)
Items not requiring an outlay of cash:					
Depreciation of equipment and right-of-use assets	5, 6		35,918		3,342
Amortization of intangibles	7, 18		23,486		28,465
Share-based payments	15		50,061		99,479
Unrealized gain on foreign exchange			(3,697)		(5,474)
Accretion and accrued interest			83,408		1,755
Gain on sale of asset	18		(2,216,205)		-
Deferred income taxes			(6,058)		-
Changes in non-cash working capital:					
Accounts receivable			135,694		(640,585)
Prepaids and other assets			(1,644)		8,206
Work in process			2,591		-
Unbilled revenue			12,683		11,640
Investment tax credits refundable			80,914		67,845
Accounts payable and accrued liabilities			92,535		295,745
Contract liabilities			(152,794)		795,528
NET CASH USED IN OPERATING ACTIVITIES			(845,361)		(194,160)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of short term debt	9		(118,520)		-
Repayment of lease liabilities	12		(34,189)		-
Proceeds from exercise of warrants	14, 16		142,455		33,279
Proceeds from convertible debentures, net of transaction costs			-		1,978,402
Repayment of term loans	11		(54,501)		(70,839)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES			(64,755)		1,940,842
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds on disposal of asset, less transaction costs	18		2,266,737		-
Redemptions (purchases) of short term investments			17,585		(33,790)
Purchase of equipment	5		(2,553)		(6,686)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES			2,281,769		(40,476)
NET INCREASE IN CASH			1,371,653		1,706,206
EFFECT OF EXCHANGE RATE CHANGES ON CASH			3,697		4,676
CASH, BEGINNING OF PERIOD			887,833		787,830
CASH, END OF PERIOD		$	2,263,183	$	2,498,712
SUPPLEMENTAL CASH FLOW INFORMATION:					
Interest paid		$	14,927	$	15,537
Income taxes paid		$	-	$	-

* The Company retrospectively applied IFRS 16 "Leases" using the modified retrospective method. Under this method, the comparative information is not restated. See note 3.

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

1. NATURE OF BUSINESS

BlueRush Inc. ("BlueRush" or the "Company"), through its wholly owned subsidiary, BlueRush Digital Media Corp., offers a Software as a Service ("SaaS") based marketing and sales enablement platform that enables organizations to achieve greater engagement with their customers. The Company was incorporated on April 6, 2004 in the Province of Ontario. The Company is listed on the TSX Venture Exchange under the symbol "BTV" and is headquartered at 75 Sherbourne Street in Toronto, Canada.

2. BASIS OF PREPARATION

Statement of Compliance

These condensed consolidated interim financial statements ("financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB").

These financial statements should be read in conjunction with the Company's 2019 annual financial statements.

These financial statements were authorized by the Board of Directors on December 18, 2019.

Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis except for financial instruments classified as fair value through profit or loss, which are stated at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Functional and Presentation Currency

The functional and presentation currency of the Company and its subsidiary is the Canadian dollar.

Basis of Consolidation

These consolidated financial statements include the accounts of BlueRush and its wholly-owned subsidiary, BlueRush Digital Media Corp. All intercompany accounts and transactions have been eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES

Adoption of New and Amended Standards

(a) IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16 which supersedes IAS 17 Leases, as well as several interpretations of leases. IFRS 16 eliminates the classification of leases by a lessee between operating and finance leases and introduces a single, on-balance sheet accounting model for lessees. As a result, the Company has recognized right-of-use ("ROU") assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. The details of this change in accounting policy are disclosed below.

Leases

The Company recognizes an ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company has applied judgment to determine the lease term for lease contracts which include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and ROU assets recognized.

Leases with a term less than twelve months or of low value are expensed as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transition and adoption

The Company adopted IFRS 16 in its unaudited condensed consolidated interim financial statements for the period beginning August 1, 2019, using the modified retrospective approach under which the cumulative effect of initial application is recognized in retained earnings at August 1, 2019. Accordingly, the prior period financial information has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

The Company has available the following practical expedients as permitted under the new IFRS 16 standard:

i) Leases with a remaining lease term of fewer than twelve months can be classified as short-term leases.

ii) Leases of low dollar value continue to be expensed as incurred.

As a result of initially applying IFRS 16, the Company has no short-term or low dollar value leases as of August 1, 2019. In relation to the leases that were previously classified as operating leases, related to the Company's lease of its office spaces in Toronto and Montreal. The Company would recognize lease liabilities of $378,316 as at August 1, 2019, which were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate. The associated ROU assets were measured at the lease liability amount on August 1, 2019 resulting in no adjustment to the opening balance of retained earnings.

In relation to those leases under IFRS 16 above, the Company has recognized $346,462 of ROU assets, net of accumulated depreciation, and $352,062 of lease liabilities as of October 31, 2019. During the three months ended October 31, 2019, the Company has recognized $31,854 of depreciation expense and $7,935 of interest expense from these leases, instead of operating lease expense.

4. SHORT TERM INVESTMENTS

Short term investments consist of Guaranteed Investment Certificates ("GICs") in the amount of $16,711, consisting of $16,550 principal plus accrued interest of $161 (July 31, 2019 - $34,296, consisting of $33,790 principal plus accrued interest of $506) which bear interest at an annual interest rate of 2% and mature on October 31, 2020. The GICs were obtained as letters of credit for financing received as discussed in note 9.

(Presented in Canadian Dollars)

5. EQUIPMENT

The components of equipment are as follows as of October 31, 2019:

Cost		Furniture and Fixtures		Computer Equipment		Total
Opening balance - August 1, 2019	$	88,806	$	150,763	$	239,569
Additions		-		2,553		2,553
Disposals		-		-		-
Closing balance - October 31, 2019	$	88,806	$	153,316	$	242,122

Accumulated Depreciation		Furniture and Fixtures		Computer Equipment		Total
Opening balance - August 1, 2019	$	66,376	$	112,805	$	179,181
Depreciation		1,121		2,943		4,064
Closing balance - October 31, 2019	$	67,497	$	115,748	$	183,245

Carrying Value		Furniture and Fixtures		Computer Equipment		Total
Balance - August 1, 2019	$	22,430	$	37,958	$	60,388
Balance - October 31, 2019	$	21,309	$	37,568	$	58,877

6. RIGHT-OF-USE ASSETS

The components of right-of-use assets are as follows as of October 31, 2019:

Cost or Deemed Cost		Building
Right-of-use assets on transition to IFRS 16 - August 1, 2019	$	378,316
Additions		-
Closing balance - October 31, 2019	$	378,316

Accumulated Depreciation		Total
Opening balance - August 1, 2019	$	-
Depreciation		31,854
Closing balance - October 31, 2019	$	31,854

(Presented in Canadian Dollars)

6. RIGHT-OF-USE ASSETS (Continued)

Carrying Value		**Total**
Balance - August 1, 2019	$	378,316
Balance - October 31, 2019	$	346,462

As a result of initially applying IFRS 16, the Company recognized right-of-use assets of $378,316 as of August 1, 2019. Depreciation expense of $31,854 was recognized from these leases during the three months ended October 31, 2019. Refer to note 3 for further details regarding the impact of the adoption of IFRS 16.

7. INTANGIBLES

The components of internally generated intangible assets are as follows as of October 31, 2019:

Cost		
Opening balance - August 1, 2019	$	569,292
Additions		-
Disposals		(149,369)
Closing balance - October 31, 2019	$	419,923

Accumulated Amortization		
Opening balance - August 1, 2019	$	331,605
Amortization		20,997
Disposals		(96,348)
Closing balance - October 31, 2019	$	256,254

Carrying Value		
Balance - August 1, 2019	$	237,687
Balance - October 31, 2019	$	163,669

(Presented in Canadian Dollars)

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

	October 31, 2019	July 31, 2019
Trade accounts payable	$ 373,697	$ 172,682
Accrued liabilities	117,514	187,253
Accrued vacation payable and other employee benefits	204,364	196,305
Government remittances payable	(13,134)	18,032
Customer deposits	167,101	182,736
	$ 849,542	$ 757,008

9. SHORT TERM DEBT

During the year ended July 31, 2019, the Company received approval for new bridge loans from Investissement Quebec ("IQ") of up to $337,900 by way of two separate loans based on the Company's eligibility of their 2018 and 2019 Scientific Research and Experimental Development ("SRED") claims ($172,400 and $165,500, respectively). The Company received total advances from IQ in the amount of $284,020, being $118,520 for the 2018 SRED claim and $165,500 for the 2019 SRED claim. The loans will be used to fund working capital requirements and are secured against the expected refundable portion of the Company's fiscal 2018 and 2019 SRED claims. The loans bear interest at prime rate plus 2.25% per annum, where prime rate is the rate used by the majority of six Canadian Chartered banks as chosen by IQ.

The loans are repayable on the earlier of the following dates:

- the date the Company files its corporate income tax return and the SRED claim is deducted from income taxes payable at that time;
- the date the Company is required to file its corporate income tax return if the return is not filed;
- the date a refund is received from the relevant authorities regarding the refundable SRED claims; or
- January 31, 2020 with respect to the 2018 advances and January 31, 2021 with respect to the 2019 advances.

(Presented in Canadian Dollars)

9. SHORT TERM DEBT (Continued)

The loans are secured granting IQ a senior-ranking hypotech in the amount of $337,900 and an additional hypotech in the amount of $67,580 (being $34,480 related to the 2018 SRED claim advances and $33,100 related to the 2019 SRED claim advances) charging the universality of the Company's present and future claims and accounts receivable, giving priority to the Company's present and future tax credits. In addition, the Company must maintain an irrevocable standby letter of credit in favour of IQ representing an amount of 10% of the loans guaranteeing all the Company's obligations under the loans, with maturity dates of February 21, 2020 for the 2018 SRED claim advances and February 19, 2021 for the 2019 SRED claim advances. As discussed in note 4, the Company has secured letters of credit totalling $16,550 (July 31, 2019 - $33,790, representing $17,240 and $16,550 for the 2018 and 2019 advances, respectively) with one year GICs at 2%. The 2019 SRED GIC of $16,550 matures on October 31, 2020 and the 2018 SRED GIC of $17,240 was redeemed during the three months ended October 31, 2019. The Company will renew the GICs to maintain them in accordance with the required maturity dates of the advances.

During the three months ended October 31, 2019, the Company repaid the full amount of the fiscal 2018 SRED advances to IQ in the amount of $118,520.

10. CONTRACT LIABILITIES

The following table represents changes in contract liabilities for the three months ended October 31, 2019:

Balance, August 1, 2019	$	1,493,227
Invoiced during the period, excluding amount recognized as revenue		641,895
Amount recognized as revenue		(794,689)
Balance, October 31, 2019	$	1,340,433

(Presented in Canadian Dollars)

11. TERM LOANS

	October 31, 2019	July 31, 2019
Investissement Quebec (i)	$ 333,320	$ 383,321
Business Development Bank of Canada (ii)	178,520	183,020
	511,840	566,341
Transaction costs	(9,445)	(11,201)
Current portion	(257,304)	(410,921)
	$ 245,091	$ 144,219

(i) In June and July 2015 the Company received a term loan from Investissement Quebec ("IQ") in the amount of $1,000,000 to fund working capital needs. The term loan is interest-bearing at prime rate plus 3.15% per annum. Interest only payments were required until June 2016 (12 months), thereafter monthly principal payments of $16,665 plus interest are due until May 2021 (59 months), with the final payment of $16,765 due June 2021. The loan is secured by a universal mortgage on all present and future assets, including a first ranking on tax credits. Two current directors / officers of the Company have personally guaranteed a total of $50,000 of the loan. In addition, the Company is required to maintain two financial covenants relating to this term loan. As of July 31, 2019, the Company was offside on both financial covenants. The Company obtained a waiver of these financial covenants from IQ such that the term loan did not become payable on demand and the terms of the loan remained unchanged as at and subsequent to July 31, 2019. The waiver was received during the three months ended October 31, 2019. Since the waiver was received after the year ended July 31, 2019, the current portion was presented as long-term as of July 31, 2019. As of October 31, 2019, the current portion is classified according to its principal scheduled repayment terms.

(Presented in Canadian Dollars)

11. TERM LOANS (Continued)

(ii) In July 2015, the Company received a term loan from the Business Development Bank of Canada ("BDC") in the amount of $250,000 to fund working capital needs. The term loan is interest-bearing at BDC's Floating Base Rate plus 2.5% per annum. The first monthly principal payment of $4,560 plus interest was paid in July 2016, thereafter monthly principal payments of $4,160 plus interest were paid until January 2019. In February 2019, the Company renegotiated the payment terms of the remaining balance of $120,640. Monthly principal payments of $1,000 plus interest are due from February 2019 to July 2020, thereafter monthly principal payments of $9,300 plus interest are due until May 2021, with the final payment of $9,640 due in June 2021. Two current directors / officers of the Company have personally guaranteed 64% of the outstanding balance of the loan, and the Company has guaranteed the full amount of the outstanding commitment of the loan. In October 2016, the Company received an additional $100,000, less transactions costs of $2,000, with the same terms and conditions stated above except the first monthly principal payment of $2,060 plus interest was paid in September 2017, thereafter monthly principal payments of $1,660 plus interest were paid until January 2019. In February 2019, the Company renegotiated the payment terms of the remaining balance of $71,380. Monthly principal payments of $500 plus interest are due from February 2019 to January 2020, thereafter monthly principal payments of $2,100 plus interest are due until July 2022, with the final payment of $2,380 due in August 2022.

Principal scheduled repayments under the term loans are due as follows:

2020 (Nine months)	$	173,103
2021		311,157
2022		25,200
2023		2,380
Thereafter		-
	$	511,840

12. LEASE LIABILITIES

As a result of initially applying IFRS 16, the Company recognized lease liabilities of $378,316 as of August 1, 2019 with $133,909 classified as current portion and $244,407 as non-current lease liabilities. Interest expense of $7,935 was recognized from these leases during the three months ended October 31, 2019. Refer to note 3 for further details regarding the impact of the adoption of IFRS 16.

(Presented in Canadian Dollars)

12. LEASE LIABILITIES (Continued)

	October 31, 2019	July 31, 2019
Lease liabilities on transition to IFRS 16 - August 1, 2019	$ 378,316	$ -
Interest payable on lease liabilities	7,935	-
Repayments during the period	(34,189)	-
	352,062	-
Current portion	(107,655)	-
	$ 244,407	$ -

The following table presents the contractual undiscounted cash flows for lease obligations as of October 31, 2019:

Less than one year	$ 141,354
Two to five years	254,061
More than five years	-
	$ 395,415

13. CONVERTIBLE DEBENTURES

	October 31, 2019	July 31, 2019
Principal amount	$ 2,000,000	$ 2,000,000
Equity component on initial recognition	(500,347)	(500,347)
Accretion	92,740	69,022
Transaction costs	(25,484)	(25,484)
Accrued interest	200,000	150,000
	$ 1,766,909	$ 1,693,191

13. CONVERTIBLE DEBENTURES (Continued)

On October 31, 2018, the Company issued convertible debentures (the "Debentures") for total gross proceeds of $2,000,000. The Debentures have the following terms:

- Mature on October 31, 2023.
- Bear interest at 10% per annum and will be payable quarterly starting in year two being January 31, 2020. The Company has the option to pay all or a portion of interest in kind by way of common shares in the Company at a deemed price equal to the volume-weighted average trading price of the common shares for the period of ten (10) days prior to the interest payment date. In the event the Company elects to convert accrued interest into common shares, the interest rate for the amount to be converted into common shares shall be based on 12%. Accrued interest for year one will be paid on the maturity date.
- In the event the volume-weighted average trading price of the common shares is greater than $0.25 for 20 consecutive trading days at any time following October 31, 2019, the Company shall have the option to invite holders of Debentures to convert the then outstanding principal of the Debentures into Common Shares at $0.105 per share (the "Conversion Price"). In the event a holder does not elect to convert the Conversion Price shall increase to $0.15. Subject to the foregoing, the principal of the Debentures may be converted at any time in whole or in part at the holder's option into common shares at the Conversion Price in effect at such time. On the maturity date, the principal of the Debentures may be converted in whole or in part at the Company's option into common shares at the Conversion Price in effect at such time.
- The principal of the Debentures are redeemable in whole or part by the Company at any time following twelve (12) months from the closing date plus a 25% premium on the principal.

The conversion feature of the Debentures meets the fixed for fixed criteria and should therefore be presented as an equity instrument in accordance with IAS 32. The debt component of the Debentures was measured at fair value on initial recognition. To determine the initial amount of the respective debt and equity components of the Debentures issued, the carrying amount of the financial liability was first calculated by discounting the stream of future principal and interest payments at the rate of interest prevailing at the date of issue for instruments of similar term and risk. The debt component was then deducted from the total carrying amount of the compound instrument to derive the equity component. The debt component was assigned a value of $1,499,653 and the equity component was assigned a value of $500,347 (less deferred income taxes of $120,243). The debt component is subsequently accounted for at amortized cost using the effective interest rate method at a rate of 6.15%. Transaction costs for the three months ended October 31, 2018 of $21,598 were paid related to the Debentures of which $16,195 was deducted from the value of the debt component and $5,403 was deducted from the residual value of the equity component.

(Presented in Canadian Dollars)

13. CONVERTIBLE DEBENTURES (Continued)

Scheduled interest payments under the Debentures are due as follows:

2020	150,000
2021	200,000
2022	200,000
2023	200,000
Thereafter	250,000
	$ 1,000,000

14. SHARE CAPITAL

The Company has authorized an unlimited number of common shares and has 78,366,242 common shares issued and outstanding as at October 31, 2019 (75,251,848 as at July 31, 2019).

During the three months ended October 31, 2019, warrant holders exercised 2,059,169 warrants at $0.05 for total gross proceeds of $102,958 and 585,140 warrants at $0.0675 for total gross proceeds of $39,497. In addition, 470,085 common shares were issued for warrants exercised prior to July 31, 2019 but not issued until August 2019, with a corresponding transfer of $35,471 related to this exercise from contributed surplus to share capital.

For the three months ended October 31, 2018 warrant holders exercised 665,571 warrants at $0.05 for total gross proceeds of $33,279.

(Presented in Canadian Dollars)

15. SHARE-BASED PAYMENTS

A summary of the status of the Company's stock options as at October 31, 2019 and 2018 and changes during the three months then ended is presented below:

	Three months ended October 31, 2019		Three months ended October 31, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding - beginning of period	12,830,000	$ 0.12	10,875,000	$ 0.12
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	(116,670)	0.20	-	-
Outstanding - end of period	12,713,330	$ 0.12	10,875,000	$ 0.12
Exercisable - end of period	9,307,900	$ 0.12	6,625,000	$ 0.12

The weighted average remaining contractual life of stock options as of October 31, 2019 is 3.34 years (July 31, 2019 - 3.57 years).

The Company had the following stock options outstanding as of October 31, 2019:

Number of Options Outstanding	Number of Options Exercisable	Exercise Price $	Expiry Date	Remaining Life (Years)
1,000,000	1,000,000	0.15	May 10, 2022	2.53
3,500,000	3,500,000	0.10	December 11, 2022	3.12
1,500,000	1,062,500	0.17	January 29, 2023	3.25
1,750,000	1,187,494	0.125	March 1, 2023	3.33
1,750,000	1,750,000	0.12	March 6, 2023	3.35
1,000,000	458,331	0.10	July 30, 2023	3.75
50,000	22,913	0.15	November 15, 2023	4.04
83,330	83,330	0.20	November 15, 2020	1.04
280,000	210,000	0.105	December 14, 2020	1.12
500,000	-	0.08	February 1, 2024	4.26
1,300,000	33,332	0.085	June 12, 2024	4.62
12,713,330	9,307,900			

(Presented in Canadian Dollars)

15.SHARE-BASED PAYMENTS (Continued)

Share-based payments for all vested options for the three months ended October 31, 2019 was $50,061 (three months ended October 31, 2018 - $99,479), which was credited to contributed surplus and expensed to share-based payments.

16.SHARE PURCHASE WARRANTS

During the three months ended October 31, 2019, warrant holders exercised 2,059,169 warrants at $0.05 for total gross proceeds of $102,958 and 585,140 warrants at $0.0675 for total gross proceeds of $39,497. As a result, $59,626 was transferred from contributed surplus to share capital representing the relative fair value of these warrants exercised into common shares, net of transaction costs. The weighted average market price of warrants exercised on the date of issuance was $0.08.

During the three months ended October 31, 2018, warrant holders exercised 665,571 warrants at $0.05 for total gross proceeds of $33,279. As a result, $13,977 was transferred from contributed surplus to share capital representing the relative fair value of these warrants exercised into common shares, net of transaction costs. The weighted average market price of warrants exercised on the date of issuance was $0.11.

During the three months ended October 31, 2019, 1,919,044 warrants at $0.05 and 1,196,580 warrants at $0.0675 expired. As a result, the value of these warrants of $73,804 was transferred from contributed surplus to share capital.

A summary of the status of the Company's warrants as at October 31, 2019 and 2018 and changes during the three months then ended is presented below:

	Three months ended October 31, 2019		Three months ended October 31, 2018	
	Number of Warrants	**Weighted Average Exercise Price**	**Number of Warrants**	**Weighted Average Exercise Price**
Outstanding - beginning of period	6,129,933	$ 0.058	7,469,552	$ 0.054
Granted	-	-	-	-
Exercised	(2,644,309)	0.054	(665,571)	0.054
Expired	(3,115,624)	0.057	-	-
Outstanding - end of period	370,000	$ 0.102	6,803,981	$ 0.054

(Presented in Canadian Dollars)

16.SHARE PURCHASE WARRANTS (Continued)

The Company had the following warrants outstanding as at October 31, 2019:

Number of Warrants Outstanding	Number of Warrants Exercisable	Exercise Price $	Expiry Date	Remaining Life (Years)
320,000	320,000	0.1050	November 14, 2020	1.04
50,000	50,000	0.0850	May 15, 2021	1.54
370,000	370,000			

17.EXPENSES BY NATURE

Cost of Sales - Subscriptions and Support

The components of cost of sales - subscription and support are as follows:

	Three months ended October 31, 2019	Three months ended October 31, 2018
Salaries and benefits	$ 60,146	$ 3,370
Hosting expense	23,465	33,219
Subcontracting	113	561
	$ 83,724	$ 37,150

Cost of Sales - Services

The components of cost of sales - services are as follows:

	Three months ended October 31, 2019	Three months ended October 31, 2018
Subcontracting	$ 171,863	$ 71,022
Salaries and benefits	107,607	171,532
Other production costs	10,078	21,171
	$ 289,548	$ 263,725

(Presented in Canadian Dollars)

17. EXPENSES BY NATURE (Continued)

Sales and Marketing Expenses

The components of sales and marketing expenses are as follows:

	Three months ended October 31, 2019	Three months ended October 31, 2018
Salaries and benefits	$ 480,358	$ 331,131
Advertising and promotion	137,865	80,036
Travel	54,997	41,982
Meals and entertainment	9,490	11,969
Consulting fees	2,400	-
	$ 685,110	$ 465,118

General and Administrative Expenses

The components of general and administrative expenses are as follows:

	Three months ended October 31, 2019	Three months ended October 31, 2018
Salaries and benefits	$ 245,524	$ 162,274
Computer and software	52,554	27,907
Consulting fees	20,160	41,000
Professional fees	19,626	91,083
Rent and occupancy costs	18,801	58,752
Stock exchange expense	16,889	1,810
Telecommunications	9,142	12,846
Other office and administrative	8,869	9,842
Insurance	6,377	5,639
Training and recruitment	1,038	61
Foreign exchange	(3,692)	(5,288)
	$ 395,288	$ 405,926

(Presented in Canadian Dollars)

17.EXPENSES BY NATURE (Continued)

Research and Development Expenses

The components of research and development expenses are as follows:

	Three months ended October 31, 2019	Three months ended October 31, 2018
Salaries and benefits	$ 286,347	$ 96,855
Subcontracting	99,142	7,779
Other government grants	(14,461)	-
	$ 371,028	$ 104,634

18.GAIN ON SALE OF ASSET AND DISCONTINUED OPERATIONS

Description

On August 21, 2019, the board of directors approved a strategic plan to sell the technology and source code for its DigitalReach platform and Broadridge's Smart Advisor application. On September 4, 2019, the Company sold the technology and source code for its DigitalReach platform and Broadridge's Smart Advisor application to Broadridge Financial Solutions, Inc. (NYSE: BR), a global Fintech leader and leading provider of investor communications and technology-driven solutions to banks, broker-dealers, asset and wealth managers and corporate issuers, for $2,300,000 in cash. The disposition has been approved by the TSX Venture Exchange.

The strategic transaction enables the Company to heighten the focus on the core IndiVideo platform and provides the organization with greater financial flexibility to support sales, marketing and product development. The sale of the DigitalReach platform and Smart Advisor application to an industry leader like Broadridge demonstrates the Company's ability to develop value-enhancing technology solutions to meet the evolving customer service needs of leading financial service companies.

The associated intangible assets were consequently reclassified as available-for-sale on August 21, 2019, and subsequently the carrying value was deducted from the net sale proceeds on September 4, 2019.

18.GAIN ON SALE OF ASSET AND DISCONTINUED OPERATIONS (Continued)

The gain on sale of asset is calculated as follows:

		2019
Cash proceeds	$	2,300,000
Transaction costs		(33,263)
Net sale proceeds		2,266,737
Carrying value of intangible assets		(50,532)
Gain on sale of asset	$	2,216,205

Presentation and Restatement of Prior Periods

The operations of DigitalReach and Smart Advisor have been removed from continuing operations and are presented as discontinued operations in the consolidated statement of net income (loss) and comprehensive income (loss) for the current and prior period. The consolidated statement of cash flows includes the discontinued operations. Financial information relating to the discontinued operations for the period to the date of disposal is set out below.

(Presented in Canadian Dollars)

18.GAIN ON SALE OF ASSET AND DISCONTINUED OPERATIONS (Continued)

The financial performance presented are for the periods August 1, 2019 to September 4, 2019 for the three months ended October 31, 2019 and 2018. The results of discontinued operations that have been restated are as follows:

	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018
REVENUE		
Subscriptions and support	$ 83,801	$ 208,665
Services	-	67,888
	83,801	276,553
COST OF SALES		
Subscriptions and support	3,346	19,487
Services	8,664	120,132
	12,010	139,619
GROSS PROFIT	71,791	136,934
EXPENSES		
Research and development	35,015	160,857
General and administrative	7,367	-
Sales and marketing	2,283	5,834
Amortization of intangible assets	2,489	7,468
Total expenses	47,154	174,159
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	$ 24,637	$ (37,225)

(Presented in Canadian Dollars)

19. RELATED PARTY TRANSACTIONS

All transactions with related parties have occurred in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Key management personnel are defined as those individuals having authority and responsibility for planning, directing and controlling the activities of the Company. The Company's related party transactions for the three months ended October 31, 2019, were all paid to key management personnel and were as follows:

	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018
Salaries and benefits	$ 400,700	$ 190,750
Professional fees	-	12,500
Share-based payments (i)	31,697	16,354
	$ 432,397	$ 219,604

i) Share-based payments for officers/directors is comprised of the vested value of stock options expensed during the three months ended October 31, 2019 and 2018.

20. FINANCIAL INSTRUMENTS

Credit Risk

BlueRush is exposed to credit risk on its trade accounts receivable. Credit risk is minimized by ensuring the creditworthiness of the entities with which it carries on business. The Company's clients predominantly consist of financial institutions and large public companies, many of whom are repeat clients and have long term relationships with the Company. Management regularly reviews the credit terms and collectibility of accounts and for the three months ended October 31, 2019 has recorded a provision for Expected Credit Losses ("ECLs") of $3,818 (July 31, 2019 - $3,929).

(Presented in Canadian Dollars)

20.FINANCIAL INSTRUMENTS (Continued)

Credit Risk (Continued)

An analysis of the credit quality of the Company's trade receivables is as follows:

	ECL %	October 31, 2019	July 31, 2019
Current	0.3%	$ 277,535	$ 178,995
Over 30 days past due	1.0%	14,350	250,624
Over 60 days past due	2.5%	17,250	22,640
Over 90 days past due	5.0%	14,301	6,982
Less: Provision for ECLs		(3,818)	(3,929)
		$ 319,618	$ 455,312

Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they become due. The Company is exposed to liquidity risk on accounts payable to its suppliers, which arise in the normal course of operations and are due in less than one year, on its term loans which are repayable in various monthly instalments as discussed in note 11, and on its convertible debentures which requires quarterly interest payments and which principal is due on October 31, 2023 as discussed in note 13. The Company manages liquidity risk by continuously monitoring actual and forecasted cash flows and budgets on all contracts, while maintaining adequate working capital on hand to meet its future obligations. As of October 31, 2019, the Company had cash on hand of $2,263,183 and accounts receivable of $319,618 to meet working capital requirements.

Management expects that its capital resources will be sufficient to fund its ongoing liabilities as they come due.

Market Risk

The Company is exposed to risks from changes in foreign exchange rates and interest rates that affect its financial liabilities, financial assets and future transactions.

Currency Risk

The Company is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales and purchases are denominated and the respective functional currency of the Company. The functional currency of the Company is Canadian dollar (CAD). The currencies in which transactions are primarily denominated are Canadian or US dollars (USD).

20.FINANCIAL INSTRUMENTS (Continued)

Currency Risk (Continued)

In respect of monetary assets and liabilities denominated in foreign currencies, the Company policy is to ensure that the net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rate when necessary to address short-term imbalances and business needs.

As at October 31, 2019, net cash, accounts receivable and payable of $901,194, shown in USD and converted into CAD at the period end exchange rate of 1.316 (July 31, 2019 - 1.315). For the three months ended October 31, 2019, the Company recognized a gain on foreign exchange of $3,692 (three months ended October 31, 2018 - gain of $5,288) as a result of appreciation of the USD.

Exposure to Currency Risk

			October 31, 2019		July 31, 2019
Cash	USD	$	774,004	$	438,524
Trade receivables			159,982		127,140
Trade payables			(32,792)		(24,570)
Net statement of financial position exposure	USD	$	901,194	$	541,094
Average USD to CAD exchange rate		$	1.324	$	1.323
Spot rate USD to CAD exchange rate		$	1.316	$	1.315

Sensitivity Analysis

A reasonably possible (strengthening) weakening of the CAD against the USD on October 31, 2019 and July 31, 2019 would have affected the measurement of financial instruments denominated in foreign currency and affected profit or loss by the amount shown below. The potential effect of a 5% increase or decrease in net exposure due to the USD transactions would result in an increase or decrease in net earnings of approximately $59,299 (July 31, 2019 - $35,571). This analysis assumes that all other variables such as economic factors and interest rate, remain unchanged and ignores any impact of future sales and purchases.

(Presented in Canadian Dollars)

20.FINANCIAL INSTRUMENTS (Continued)

Sensitivity Analysis (Continued)

	October 31, 2019 (spot rate)		July 31, 2019 (spot rate)	
	Strengthening	Weakening	Strengthening	Weakening
USD (5% movement)	$ 1.38	$ 1.25	$ 1.38	$ 1.25
USD (10% movement)	1.45	1.18	1.51	1.12
Impact: Profit and Loss				
USD (5% movement)	59,299	(59,299)	35,571	(35,571)
USD (10% movement)	$ 118,597	$ (118,597)	$ 106,714	$ (106,714)

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk arising from fluctuations in interest rates on its term loans and convertible debentures.

Fair Value

As at October 31, 2019, the carrying value and fair value amounts of the Company's financial instruments are approximately the same. The Company does not believe there would be any material movements as a result of changes in interest rates or foreign exchange rates.

Financial instruments measured at fair value on the statement of financial position are categorized into levels of the fair value hierarchy. The Company only has one financial instrument measured at fair value, cash, which is categorized into Level 1.

21.SUBSEQUENT EVENTS

Issuance of Stock Options

On November 8, 2019, the Company granted 425,000 stock options to employees and a consultant of the Company at an exercise price equal to the closing price of the common shares of the Corporation on the TSX Venture Exchange on the date hereof and expiring five years from the date of grant. The options vest 1/3 after 12 months and then monthly for the following 24 months and become effective only upon any necessary shareholder or regulatory approval having been obtained and upon delivery of an option certificate to the Optionee by the Company.