BLUERUSH INC.

(formerly BlueRush Media Group Corp.)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JULY 31, 2018 AND 2017
(Presented in Canadian Dollars)

BLUERUSH INC. (formerly BlueRush Media Group Corp.)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JULY 31, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of BlueRush Inc. (Formerly BlueRush Media Group Corp.)

We have audited the accompanying consolidated financial statements of BlueRush Inc. and its subsidiary, which comprise the consolidated statements of financial position at July 31, 2018 and July 31, 2017 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended July 31, 2018 and July 31, 2017 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of BlueRush Inc., and its subsidiary, as at July 31, 2018 and July 31, 2017 and its financial performance and its cash flows for the years ended July 31, 2018 and July 31, 2017 in accordance with International Financial Reporting Standards.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
November 27, 2018
Toronto, Ontario

BLUERUSH INC. (formerly BlueRush Media Group Corp.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JULY 31, 2018 AND 2017
(Presented in Canadian Dollars)

	Note	2018	2017
ASSETS			
Current Assets			
Cash		$ 787,830	$ 1,005,383
Accounts receivable		408,827	632,697
Prepaids and other assets		33,449	28,025
Investment tax credits refundable	14	398,032	227,896
Unbilled revenue	3	11,640	30,685
Work in process	3	-	5,984
Total Current Assets		1,639,778	1,930,670
Non-Current Assets			
Equipment	4	44,731	29,929
Intangibles	5	351,547	535,278
Total Assets		$ 2,036,056	$ 2,495,877
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	6	$ 668,711	$ 591,928
Deferred revenue	3	350,503	164,248
Term loans - current portion	7	653,165	268,584
Total Current Liabilities		1,672,379	1,024,760
Non-Current Liabilities			
Term loans	7	142,256	788,400
Deferred taxes	14	94,196	125,913
Total Liabilities		1,908,831	1,939,073
Commitments	8		
Equity			
Share capital		2,737,973	774,883
Contributed surplus		1,293,813	336,551
Deficit		(3,904,561)	(554,630)
Total Equity		127,225	556,804
Total Liabilities and Equity		$ 2,036,056	$ 2,495,877

Approved on Behalf of the Board

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

(Signed) - "*John Eckert*", Director

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

BLUERUSH INC. **(formerly BlueRush Media Group Corp.)**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED JULY 31, 2018 AND 2017
(Presented in Canadian Dollars)

	Note	2018	2017
REVENUE			
Subscriptions and support		$ 1,043,581	$ 1,034,296
Services		1,978,408	2,214,969
Interest		13,421	8,692
		3,035,410	3,257,957
COST OF SALES			
Subscriptions and support	12	410,297	581,258
Services	12	1,114,732	1,273,682
		1,525,029	1,854,940
GROSS PROFIT		1,510,381	1,403,017
EXPENSES			
Sales and marketing	12	1,616,482	459,432
General and administrative	12	1,138,832	1,075,921
Research and development	12	961,351	712,796
Share-based payments	10	800,091	-
Amortization of intangible assets	5	183,731	126,074
Restructuring costs	13	103,847	-
Interest and bank charges		76,934	116,272
Amortization of equipment	4	10,761	9,517
Derecognition of investment tax credits recoverable	14	-	530,783
Total Expenses		4,892,029	3,030,795
LOSS BEFORE TAXES		(3,381,648)	(1,627,778)
Deferred income taxes (recovery)	14	(31,717)	8,895
NET LOSS AND COMPREHENSIVE LOSS		$ (3,349,931)	$ (1,636,673)
LOSS PER WEIGHTED NUMBER OF SHARES OUTSTANDING - BASIC AND DILUTED		$ (0.06)	$ (0.05)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC AND DILUTED		55,131,088	32,593,000

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

BLUERUSH INC. **(formerly BlueRush Media Group Corp.)**
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED JULY 31, 2018 AND 2017
(Presented in Canadian Dollars)

	Note	Common Shares	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total Equity
Balance - August 1, 2016		32,593,000	$ 774,883	$ 336,551	$ 1,082,043	$ 2,193,477
Net loss		-	-	-	(1,636,673)	(1,636,673)
Balance - July 31, 2017		32,593,000	$ 774,883	$ 336,551	$ (554,630)	$ 556,804
Common shares and warrants issued in private placement	9	24,444,433	1,300,000	-	-	1,300,000
Warrants reallocation	11	-	(544,444)	544,444	-	-
Exercise of warrants	9, 11	16,974,881	1,244,022	(350,176)	-	893,846
Transaction costs	9	-	(36,488)	(37,097)	-	(73,585)
Share-based payments	10	-	-	800,091	-	800,091
Net loss		-	-	-	(3,349,931)	(3,349,931)
Balance - July 31, 2018		74,012,314	$ 2,737,973	$ 1,293,813	$ (3,904,561)	$ 127,225

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

BLUERUSH INC. (formerly BlueRush Media Group Corp.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JULY 31, 2018 AND 2017
(Presented in Canadian Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (3,349,931)	$ (1,636,673)
Items not requiring an outlay of cash:		
Amortization of equipment	10,761	9,517
Amortization of intangibles	183,731	126,074
Share-based payments	800,091	-
Term loan transaction cost accretion	7,022	6,622
Unrealized (gain) loss on foreign exchange	(18,882)	50,360
Derecognition of investment tax credits recoverable	-	530,783
Deferred income taxes	(31,717)	8,895
Changes in non-cash working capital:		
Accounts receivable	223,579	100,546
Prepaids and other assets	(5,424)	(4,963)
Work in process	5,984	(5,984)
Unbilled revenue	19,045	(11,172)
Investment tax credits refundable	(170,136)	210,417
Accounts payable and accrued liabilities	76,782	(94,771)
Deferred revenue	186,256	(38,764)
NET CASH USED IN OPERATING ACTIVITIES	(2,062,839)	(749,113)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from common shares issued in private placement, net of transaction costs and warrants exercised	2,120,261	-
Proceeds from term loans, net of transaction costs	-	98,000
Repayment of term loans	(268,584)	(249,924)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,851,677	(151,924)
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures to develop internally generated intangibles	-	(117,930)
Expenditures recovered to develop internally generated intangibles	-	9,600
Purchase of equipment	(25,563)	(3,323)
NET CASH USED IN INVESTING ACTIVITIES	(25,563)	(111,653)
NET DECREASE IN CASH	(236,725)	(1,012,690)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	19,172	(50,063)
CASH, BEGINNING OF YEAR	1,005,383	2,068,136
CASH, END OF YEAR	$ 787,830	$ 1,005,383
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 69,912	$ 88,250
Income taxes paid	$ -	$ -

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

1. NATURE OF BUSINESS

BlueRush Inc. (formerly BlueRush Media Group Corp., "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. On April 27, 2018, the Company changed its name from BlueRush Media Group Corp. to BlueRush Inc.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The Board of Directors approved these consolidated financial statements for issue on November 27, 2018.

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 in full on consolidation.

Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in the Company's functional currency by applying the exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange in effect at the statement of financial position date and any gains or losses are recognized in the consolidated statement of comprehensive loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets

Expenditures related to research activities are recognized as an expense in the period in which they are incurred. An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, the entity can demonstrate all of the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

(b) its intention to complete the intangible asset and use or sell it;

(c) its ability to use or sell the intangible asset;

(d) how the intangible asset will generate probable future economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs are capitalized once the above criteria are met. Where no internally generated intangible asset can be recognized, development expenditures are expensed in the period in which they are incurred. Expenditures recovered related to internally developed intangible assets are deducted from the capitalized development costs in the period in which they are recovered.

After initial recognition, internally generated intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Once an internally generated intangible asset becomes available for use, expenditures are no longer capitalized to the intangible. Internally generated intangible assets that are available for use are amortized on a straight-line basis over their estimated useful life of five years, and an impairment loss is recognized in profit or loss when their recoverable amount is less than their net carrying amount. Internally generated intangible assets that are under development are not amortized and are reviewed for impairment annually by comparing the carrying amount with its recoverable amount. An impairment loss is recognized in profit or loss when the recoverable amount is less than the net carrying amount.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases are classified as operating leases when the Company does not receive / take on substantially all the risks and rewards incidental to ownership. Lease payments under these operating leases are recognized on a straight-line basis over the lease term.

Operating lease payments (less any incentive from the lessor) are expensed on a straight-line over the lease term.

Share-Based Payments

The Company operates a stock option plan as part of its compensation of directors, officers or employees. The fair value of stock options for each vesting period is determined using the Black-Scholes option pricing model and is recorded over the vesting period as an increase in stock-based compensation expense and contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the exercise of stock options, the proceeds received by the Company and the related contributed surplus are recorded as an increase in capital stock. In the event that the vested stock options expire, previously recognized stock-based compensation is not reversed. In the event that stock options are forfeited, previously recognized stock-based compensation associated with the unvested portion of the stock options forfeited is reversed.

The fair value of share-based payment transactions to non-employees and other share-based payments are based on the fair value of the goods or services received. If the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the good or services.

Revenue Recognition

Services

The Company generates revenue from the creation of rich media marketing solutions. Each project requires a technological, graphical and consultative component.

The Company recognizes services revenue on a percentage of completion basis. The Company estimates the percentage of completion of services revenue based on the proportion of total project contract costs incurred for work performed at the statement of financial position date to the estimated total project contract costs to complete the project.

There could be differences between the timing of billings and the amount of work completed at a point in time. Work performed on services where revenue recognized exceeds the amount billed to customers is recognized as unbilled revenue. Billings which exceed revenue recognized are recognized as deferred revenue.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Subscriptions and Support

The Company also generates revenue for providing web and rich media hosting to clients. This revenue is subject to a fixed contract rate, with the exception of fees charged for excess bandwidth usage. Revenue is recognized once the hosting and any excess bandwidth usage services have been completed and when collection is reasonably assured.

The Company also generates subscription revenue from the use of its products. Subscription revenue is subject to a fixed contract rate and is either billed up front or billed monthly. Revenue is recognized on a straight-line basis over the subscription term and when collection is reasonably assured.

Interest

Interest income is accounted for on an accrual basis using the effective interest method.

Earnings (Loss) Per Share

Basic earnings (loss) per common share is determined by dividing net earnings (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated by adjusting the the weighted average number of shares outstanding, adjusted for any of its own shares held, for the effects of all dilutive potential common shares, which are comprised of outstanding warrants and vested stock options. Diluted earnings (loss) per common share assumes that any proceeds received from in-the-money options and warrants would be used to buy common shares at the average market price for the period.

Equipment

Equipment is recorded at cost and is amortized over its estimated useful lives, at the following annual rates and methods:

Computer equipment	30% declining balance
Furniture and fixtures	20% declining balance

Impairment of Long-Lived Assets

At the end of each reporting date, the carrying amounts of the Company's long-lived assets, which are comprised of equipment and internally generated intangible assets that are available for use, are reviewed to determine whether there is any indication that those assets may be impaired. If such impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets (Continued)

The carrying amount of the Company's internally generated intangible assets that are under development are required to be reviewed for impairment annually by comparing the carrying amount with its recoverable amount.

Impairment is determined for an individual asset unless the asset does not generate cash inflows that are independent of those generated from other assets or group of assets, in which case the individual assets are grouped together into cash generating units ("CGUs") for impairment purposes. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in net earnings (loss) for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying value if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in net earnings (loss).

Investment Tax Credits

An estimate of investment tax credits ("ITC") on scientific research and experimental development ("SRED") expenditures is recorded in the year the expenditures are incurred provided there is reasonable assurance that the ITC will be recovered or realized. The expenditures are reduced by the amount of the estimated investment tax credit. SRED ITCs include refundable and non-refundable tax credits. Refundable ITCs are refunded to the Company once assessed by the Canada Revenue Agency, which is generally within a year from applying for the ITC. Unused non-refundable ITCs are carried forward to reduce taxes payable of future years, and expire 20 years from the year they were granted.

Income Taxes

Income tax expense is comprised of current and deferred tax. Income tax is recognized in net earnings (loss) except to the extent that it relates to items in equity, in which case it is recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

Deferred taxes are recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the date of the statement of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not recognize that excess.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Warrants

The Company follows the relative fair value method with respect to the measurement of common shares and warrants issued as private placement units. The proceeds from the issuance of units are allocated between share capital and warrants. The warrant component is recorded in contributed surplus. Unit proceeds are allocated to common shares and warrants using the Black-Scholes option pricing model and the share price at the time of financing. If and when the warrants are exercised, consideration paid by the warrant holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. Upon expiration of warrants, the amount applicable to expired warrants is left in contributed surplus.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition. Measurements in subsequent periods depends upon the financial instrument classification.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

The Company has classified its financial instruments as follows:

Instruments	Classification	Measurement Basis
Cash	Fair value through profit or loss ("FVTPL")	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Term loans	Other financial liabilities	Amortized cost

Financial assets and liabilities classified as FVTPL are measured at their fair value at each reporting date with unrealized gains and losses recognized in net earnings (loss).

Financial assets classified as loans and receivables and financial liabilities classified as other financial liabilities are measured at amortized cost using the effective interest method.

Transaction costs in respect of financial assets and liabilities which are FVTPL are recognized in net earnings (loss) immediately. Transaction costs in respect of loans and receivables and other financial liabilities are included in the initial fair value measurement of the financial instruments.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Financial Instruments - Fair Value Hierarchy

The Company has a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Company's investments. The hierarchy of inputs is summarized below:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is one in which transactions for the assets occur with sufficient frequency and volume to provide pricing information on an ongoing basis (the Company has included cash under this category);

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability; and

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments - Fair Value Hierarchy (Continued)

Level 3 - inputs for the asset or liability that are not based on observable market data.

The classification of a financial instrument in the fair value hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at each year end date. It is determined that financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of other receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of comprehensive income for the year.

Restructuring Costs

Restructuring costs are recognized as liabilities in the period when they are incurred and are measured at their fair value. For such recognition to occur, management, with the appropriate level of authority, must have approved and committed to a firm plan and appropriate communication to those affected must have occurred. Restructuring cost provisions may require an estimation of costs such as severance and termination benefits.

Restructuring cost provisions are reviewed at each balance sheet date and changes in estimates are reflected in the consolidated statement of comprehensive loss in the reporting periods in which the re-measurements occurred.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical Accounting Estimates and Judgments

Preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the period. Although these estimates and assumptions are based on management's best knowledge of current events, actual results may be different.

Certain estimates depend on subjective or complex judgments about matters that may be uncertain and changes in these estimates could materially impact the financial statements.

The key sources of estimation uncertainty at statement of financial position date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year, are discussed below:

Revenue Recognition - Services

Revenue from services is recognized based on the proportion of total project contract costs incurred for work performed at the statement of financial position date compared to the estimated total project contract costs to complete the project. Management is required to make judgmental estimates on the total project contract costs to complete the project. These judgments will affect the amount of revenue recognized as well as the reported amounts of unbilled revenue and deferred revenue.

Multiple Element - Allocation of Revenue

As the Company enters into transactions that represent multiple element arrangements, estimates are made to determine how consideration is allocated to the separate units of accounting or elements on a relative fair value basis. Changes in the estimates will impact the revenue recognized in the year.

Allowance for Doubtful Accounts

Accounts receivable are reviewed for collectibility on a monthly basis. Management is required to estimate whether a receivable balance is collectable based on their relationship with the client and knowledge of the client's financial position. These estimates will affect the reported amounts of accounts receivable and bad debts expense.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical Accounting Estimates and Judgments (Continued)

Investment Tax Credits Recoverable and Deferred Tax Assets

Investment tax credits are claimed on the Company's research and development activities and are based on a percentage of employee wages. Management is required to make judgments of the amount of investment tax credits that the Company will be able to claim. In order to make this estimate, management utilizes a specialist consultant to prepare the appropriate claim forms. These judgments will affect the reported amounts of investment tax credits refundable, intangible assets and salaries and wages expense. Management also exercises judgment in the utilization of non-refundable ITCs recorded as an asset which have not yet been applied to reduce taxes payable and in determining the portion of ITCs the Company expects will be received within one year of the statement of financial position date.

The Company estimates the probability that taxable profits will be available to offset against deductible temporary differences which give rise to deferred tax assets and the utilization of non-refundable ITCs. The ultimate realization of the deferred tax assets and non-refundable ITCs is dependent on the generation of future taxable income during the year in which the temporary differences and non-refundable ITCs are deductible.

Capitalization of Development Costs

Management exercises judgment when establishing whether the criteria under IAS 38, Intangible Assets, for development costs have been met, specifically the technical feasibility of the products in development and the ability to generate probable economic future benefits.

Impairment of Intangibles

Intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount or if the intangibles are not yet in use. The recoverable amount is determined with reference to the fair value of the intangibles less costs of disposal or the value-in-use calculations. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where recoverable amount is determined to be less than the carrying amount, an impairment loss may arise. Management exercises significant judgment and assumptions when determining the recoverable amount of intangibles.

Share-Based Payments and Warrants

Share-Based payments and warrants are calculated utilizing the Black-Scholes option pricing model to determine the value of options and warrants as of their grant date. Management is required to estimate the volatility of the price of its shares, the amount of future dividends that will be paid, the market's risk-free interest rate, the expected life of the options and warrants, and the expected forfeiture rate for options. These estimates will affect the reported amount of share-based payments and warrants in contributed surplus.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical Accounting Estimates and Judgments (Continued)

Going concern

Management assesses the Company's ability to continue as a going concern at each reporting date, using all quantitative and qualitative information available. This assessment, by its nature, relies on estimates of future cash flows and other future events, whose subsequent changes would materially impact the validity of such an assessment.

Adoption of Amended Standards and Interpretations

The Company adopted the following amended standards on August 1, 2017:

(a) IAS 7, Statement of Cash Flows ("IAS 7")

IAS 7 was amended in January 2016 to clarify that disclosures shall be provided that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

(b) IAS 12 Income Taxes ("IAS 12")

IAS 12 was amended in January 2016 to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deduction resulting from the reversal of deductible temporary differences.

The adoption of these amendments did not have a significant impact on the consolidated financial statements.

Accounting Standards Not Yet Effective

The following are significant IFRS changes that have been issued by the IASB, which may affect the Company, but are not yet effective:

(a) IFRS 2, Share-based Payment ("IFRS 2")

IFRS 2 was amended in June 2016, clarifying the accounting for certain types of share-based payment transactions. The amendments provide requirements on accounting for the effects of vesting and non-vesting conditions of cash-settled share-based payments, withholding tax obligations for share-based payments with a net settlement feature, and when a modification to the terms of a share-based payment changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for year ends beginning on or after January 1, 2018. Earlier adoption is permitted.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards Not Yet Effective (Continued)

(b) IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 was issued in November 2009 as the first step in its project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2018, with early adoption permitted.

(c) IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after January 1, 2018, with early adoption permitted.

(d) IFRS 16, Leases ("IFRS 16")

IFRS 16 was issued in January 2016, and replaces IAS 17, Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Certain leases will be exempt from these requirements. The most significant effect expected of the new requirements will be an increase in lease assets and financial liabilities for lessees with material off-balance sheet leases. IFRS 16 is required for annual periods beginning on or after January 1, 2019 with early adoption permitted.

(e) IFRIC 22 – Foreign Currency Transactions and Advance Consideration ("IFRIC 22")

IFRIC 22 was issued in December 2016 and addresses foreign currency transactions or parts of transactions where there is consideration that is denominated in a foreign currency; a prepaid asset or deferred income liability is recognised in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepaid asset or deferred income liability is non-monetary. The interpretation committee concluded that the date of the transaction, for purposes of determining the exchange rate, is the date of initial recognition of the non-monetary prepaid asset or deferred income liability. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

(f) IFRIC 23 – Uncertainty over Income Tax Treatments ("IFRIC 23")

IFRIC 23 was issued by the IASB on June 7, 2017. IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual period beginning on or after January 1, 2019. Earlier application is permitted.

(Presented in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards Not Yet Effective (Continued)

For IFRS 15, the Company is currently reviewing its contracts to determine if there will be any material impact. The Company is in the process of assessing the impact that other new standards and amendments to standards will have on its consolidated financial statements and has not early adopted any of the new requirements.

3. CONTRACT COSTS AND REVENUES

	2018	2017
Costs incurred on contracts in progress	$ 93,675	$ 382,787
Profits recognized on contracts in progress	172,899	153,559
Progress billings	(605,437)	(663,925)
	(338,863)	(127,579)
Presented as:		
Work in process	-	5,984
Unbilled revenue	11,640	30,685
Deferred revenue	$ (350,503)	$ (164,248)

4. EQUIPMENT

The components of equipment are as follows as of July 31, 2018:

Cost	Furniture and Fixtures	Computer Equipment	Total
Opening balance - August 1, 2017	$ 69,681	$ 112,493	$ 182,174
Additions	6,575	18,988	25,563
Disposals	-	-	-
Closing balance - July 31, 2018	$ 76,256	$ 131,481	$ 207,737

Accumulated Amortization	Furniture and Fixtures	Computer Equipment	Total
Opening balance - August 1, 2017	$ 59,878	$ 92,367	$ 152,245
Amortization	2,459	8,302	10,761
Closing balance - July 31, 2018	$ 62,337	$ 100,669	$ 163,006

(Presented in Canadian Dollars)

4. EQUIPMENT (Continued)

Carrying Value	Furniture and Fixtures		Computer Equipment		Total	
Balance - August 1, 2017	$	9,803	$	20,126	$	29,929
Balance - July 31, 2018	$	13,919	$	30,812	$	44,731

As of July 31, 2017:

Cost	Furniture and Fixtures		Computer Equipment		Total	
Opening balance - August 1, 2016	$	69,681	$	109,170	$	178,851
Additions		-		3,323		3,323
Disposals		-		-		-
Closing balance - July 31, 2017	$	69,681	$	112,493	$	182,174

Accumulated Amortization	Furniture and Fixtures		Computer Equipment		Total	
Opening balance - August 1, 2016	$	57,645	$	85,083	$	142,728
Amortization		2,233		7,284		9,517
Closing balance - July 31, 2017	$	59,878	$	92,367	$	152,245

Carrying Value	Furniture and Fixtures		Computer Equipment		Total	
Balance - August 1, 2016	$	12,036	$	24,087	$	36,123
Balance - July 31, 2017	$	9,803	$	20,126	$	29,929

5. INTANGIBLES

The components of internally generated intangible assets are as follows as of July 31, 2018:

Cost	Available for Use		Under Development		Total	
Opening balance - August 1, 2017	$	713,857	$	-	$	713,857
Additions		-		-		-
Disposals		(144,565)		-		(144,565)
Closing balance - July 31, 2018	$	569,292	$	-	$	569,292

(Presented in Canadian Dollars)

5. INTANGIBLES (Continued)

Accumulated Amortization						
Opening balance - August 1, 2017	$	178,579	$	-	$	178,579
Amortization		183,731		-		183,731
Disposals		(144,565)		-		(144,565)
Closing balance - July 31, 2018	$	217,745	$	-	$	217,745

Carrying Value						
Balance - August 1, 2017	$	535,278	$	-	$	535,278
Balance - July 31, 2018	$	351,547	$	-	$	351,547

The components of internally generated intangible assets are as follows as of July 31, 2017:

Cost		**Available for Use**		**Under Development**		**Total**
Opening balance - August 1, 2016	$	293,934	$	337,528	$	631,462
Additions		-		117,930		117,930
Recoveries of expenditures (including SRED)		-		(35,535)		(35,535)
Intangibles available for use (i)		419,923		(419,923)		-
Disposals		-		-		-
Closing balance - July 31, 2017	$	713,857	$	-	$	713,857

Accumulated Amortization						
Opening balance - August 1, 2016	$	52,505	$	-	$	52,505
Amortization		126,074		-		126,074
Closing balance - July 31, 2017	$	178,579	$	-	$	178,579

Carrying Value						
Balance - August 1, 2016	$	241,429	$	337,528	$	578,957
Balance - July 31, 2017	$	535,278	$	-	$	535,278

(Presented in Canadian Dollars)

5. INTANGIBLES (Continued)

(i) Balance relates to cost incurred on intangible assets under development which are now available for use.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

		2018		2017
Trade accounts payable	$	79,152	$	64,291
Accrued liabilities		204,919		132,008
Accrued vacation pay and other employee benefits		195,814		132,645
Government remittances payable		32,426		52,984
Customer deposits		156,400		210,000
	$	668,711	$	591,928

7. TERM LOANS

		2018		2017
Investissement Quebec (i)	$	583,325	$	783,329
Business Development Bank of Canada (ii)		226,940		295,520
Transaction costs		(14,844)		(21,865)
		795,421		1,056,984
Current portion		(653,165)		(268,584)
	$	142,256	$	788,400

(Presented in Canadian Dollars)

7. TERM LOANS (Continued)

(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. Transaction costs have been deducted from the loan and will be amortized using the effective interest method over the term of the loan. During the year ended July 31, 2018, the Company amortized $7,022 (2017 - $6,622) of transaction costs, recorded in interest and bank charges. In addition, the Company is required to maintain two financial covenants relating to this term loan. As of July 31, 2018, the Company is offside on both financial covenants. As of July 31, 2017, the Company was offside on one of the 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, 2018 and 2017. However, since the waiver was received subsequent to July 31, 2018, the long-term portion of this loan is classifed in the current portion.

(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 are due until June 2021 (59 months). 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 is due in September 2017, thereafter monthly principal payments of $1,660 plus interest are due until August 2022 (59 months).

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

2019		269,844
2020		269,844
2021		248,997
2022		21,580
	$	810,265

(Presented in Canadian Dollars)

8. COMMITMENTS

The Company has the following non-cancellable lease commitments for premises:

Less than one year	$	117,684
Two to five years		325,318
More than five years		-
	$	443,002

9. SHARE CAPITAL

The Company has authorized an unlimited number of common shares and has 74,012,314 (2017 - 32,593,000) common shares issued and outstanding.

On October 19, 2017, the Company closed a non-brokered private placement and issued:

- 19,999,992 units at a price of $0.05 per unit for gross proceeds of $1,000,000. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to acquire a common share at a price of $0.05 for a period of 24 months from the date of issuance.

- 4,444,441 units at a price of $0.0675 per unit for gross proceeds of $300,000. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to acquire a common share at a price of $0.0675 for a period of 24 months from the date of issuance.

The value of the warrants was estimated at $544,444 using the relative fair value approach, as discussed in note 11, and was reallocated from share capital to contributed surplus.

Transaction costs of $73,585 were incurred related to the above private placement where $36,488 was deducted from share capital and $37,097 was deducted from contributed surplus relating to the warrants.

During the year ended July 31, 2018, warrant holders exercised 14,397,630 warrants at $0.05 and 2,577,251 warrants at $0.0675 for total gross proceeds of $893,846.

(Presented in Canadian Dollars)

10.SHARE-BASED PAYMENTS

The Company grants stock options to eligible directors, officers, key employees and consultants under its stock option plan to enable them to purchase common shares of the Company. Under the terms of the plan, the number of common shares which may be issued pursuant to the exercise of options granted under the plan may not exceed 20% (2017 - 20%) of the number of common shares outstanding at the time of grant. As at July 31, 2018, the maximum number of common shares available under the plan was 14,802,463 of which 3,927,463 remained available for grant thereunder.

The exercise price of an option granted under the plan cannot be less than the closing price of the common shares on the last day on which the common shares trade prior to the grant date of the option. An individual can receive grants of no more than 5% of the outstanding shares of the Company on a yearly basis and options are exercisable over a period not exceeding ten years. Options vest according to the discretion of the board which range from immediate to five years.

A summary of the status of the Company's stock options as at July 31, 2018 and 2017 and changes during the years then ended is presented below:

	2018		2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding - beginning of year	1,375,000	$ 0.15	1,875,000	$ 0.15
Granted	9,500,000	0.12	-	-
Exercised	-	-	-	-
Expired	-	-	(500,000)	0.15
Outstanding - end of year	10,875,000	$ 0.12	1,375,000	$ 0.15
Exercisable - end of year	6,625,000	$ 0.12	1,375,000	$ 0.15

The weighted average remaining contractual life of stock options as of July 31, 2018 is 4.44 years (2017 - 4.78 years).

(Presented in Canadian Dollars)

10.SHARE-BASED PAYMENTS (Continued)

The Company had the following stock options outstanding as of July 31, 2018:

Number of Options Outstanding	Number of Options Exercisable	Exercise Price $	Expiry Date	Remaining Life (Years)
1,375,000	1,375,000	0.15	May 10, 2022	3.78
3,500,000	3,500,000	0.10	December 11, 2022	4.37
1,500,000	-	0.17	January 29, 2023	4.50
1,750,000	-	0.125	March 1, 2023	4.59
1,750,000	1,750,000	0.12	March 6, 2023	4.60
1,000,000	-	0.10	July 30, 2023	5.00
10,875,000	6,625,000			

On December 11, 2017, the Company granted 3,500,000 stock options to certain officers and directors. Each stock option is exercisable into common shares of the Company at an exercise price of $0.10 and vest immediately. The options expire in five years from the date of grant and are subject to a four month hold.

On January 29, 2018, the Company granted 1,500,000 stock options to an employee of the Company. Each stock option is exercisable into common shares of the Company at an exercise price of $0.17. 500,000 options vest on January 29, 2019 and thereafter 62,500 options vest monthly until May 2020. The options expire in five years from the date of grant.

On March 1, 2018, the Company granted 1,500,000 stock options to employees of the Company. Each stock option is exercisable into common shares of the Company at an exercise price of $0.125. 500,000 options vest on March 1, 2019 and thereafter 62,500 options vest monthly until July 2020. The options expire in five years from the date of grant.

On March 1, 2018, the Company granted 250,000 stock options to an employee of the Company. Each stock option is exercisable into common shares of the Company at an exercise price of $0.125. These options vest on March 1, 2019. The options expire in five years from the date of grant.

On March 6, 2018, the Company granted 1,750,000 stock options to a director of the Company. Each stock option is exercisable into common shares of the Company at an exercise price of $0.12 and vest immediately. The options expire in five years from the date of grant and are subject to a four month hold.

On July 30, 2018, the Company granted 1,000,000 stock options to an employee of the Company. Each stock option is exercisable into common shares of the Company at an exercise price of $0.10. 333,333 options vest on July 30, 2019 and thereafter 41,666 options vest monthly until November 2020. The options expire in five years from the date of grant.

10.SHARE-BASED PAYMENTS (Continued)

The estimated fair value of the stock options granted was estimated at values between $0.09 to $0.18 by using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility between 133% to 154%; risk free interest rate between 1.67% to 2.19%; forfeiture rate of 0%, share price between $0.10 to $0.19; and expected life of five years.

The total value of options granted under the Company's option plan for the year ended July 31, 2018 was $1,167,934 (2017 - $Nil). The weighted average grant date fair value of options granted during the year ended July 31, 2018 was $0.12 (2017 - $Nil).

Share-based payments for all vested options for the year ended July 31, 2018 was $800,091 (2017 - $Nil), which was credited to contributed surplus and expensed to share-based payments.

11.SHARE PURCHASE WARRANTS

On October 19, 2017 the Company issued 19,999,992 units at a price of $0.05 per unit for gross proceeds of $1,000,000. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to acquire a common share at a price of $0.05 for a period of 24 months from the date of issuance. The fair value of these warrants, as of the grant date, was estimated to be $420,000 using the relative fair value approach. The relative fair value was estimated with inputs included in the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility of 122%; market price of $0.10; risk free interest rate of 1.49%; and expected life of two years.

On October 19, 2017 the Company issued 4,444,441 units at a price of $0.0675 per unit for gross proceeds of $300,000. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to acquire a common share at a price of $0.0675 for a period of 24 months from the date of issuance. The fair value of these warrants, as of the grant date, was estimated to be $124,444 using the relative fair value approach. The relative fair value was estimated with inputs included in the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility of 122%; market price of $0.10; risk free interest rate of 1.49%; and expected life of two years.

During the year ended July 31, 2018, warrant holders exercised 14,397,630 warrants at $0.05 and 2,577,251 warrants at $0.0675 for total gross proceeds of $893,846. As a result, $350,176 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 of warrants exercised on the date of issuance was $0.12.

(Presented in Canadian Dollars)

11.SHARE PURCHASE WARRANTS (Continued)

A summary of the status of the Company's warrants as at July 31, 2018 and 2017 and changes during the years then ended is presented below:

	2018		2017	
	Number of Warrants	**Weighted Average Exercise Price**	**Number of Warrants**	**Weighted Average Exercise Price**
Outstanding - beginning of year	-	$ -	-	$ -
Granted	24,444,433	0.054	-	-
Exercised	(16,974,881)	0.054	-	-
Expired	-	-	-	-
Outstanding - end of year	7,469,552	$ 0.054	-	$ -

The Company had the following warrants outstanding as at July 31, 2018:

Number of Warrants Outstanding	Number of Warrants Exercisable	Exercise Price $	Expiry Date	Remaining Life (Years)
5,602,362	5,602,362	0.05	October 19, 2019	1.22
1,867,190	1,867,190	0.0675	October 19, 2019	1.22
7,469,552	7,469,552			

12.EXPENSES BY NATURE

Cost of Sales - Subscriptions and Support

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

	2018	2017
Hosting expense	$ 176,368	$ 182,132
Salaries and benefits	126,634	199,947
Consulting fees	107,295	199,179
	$ 410,297	$ 581,258

(Presented in Canadian Dollars)

12.EXPENSES BY NATURE (Continued)

Cost of Sales - Services

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

	2018	2017
Salaries and benefits	$ 868,064	$ 869,911
Consulting fees	175,989	234,592
Other production costs	56,818	121,304
Camera and teleprompter	10,023	45,976
Talent	3,838	1,899
	$ 1,114,732	$ 1,273,682

General and Administrative Expenses

The components of general and administrative expenses are as follows:

	2018	2017
Salaries and benefits	$ 377,830	$ 435,303
Rent and occupancy costs	212,523	200,952
Professional fees	192,574	119,024
Consulting fees	161,799	106,208
Computer and software	73,216	46,684
Telecommunications	56,524	45,400
Other office and administrative	52,427	42,602
Insurance	21,558	18,513
Stock exchange expense	8,451	11,382
Training and recruitment	3,337	2,648
Foreign exchange (gain) loss	(21,407)	47,205
	$ 1,138,832	$ 1,075,921

Research and Development Expenses

The components of research and development expenses are as follows:

	2018	2017
Salaries and benefits	$ 1,006,723	$ 792,099
Consulting fees	169,381	122,658
ITC claims	(214,753)	(201,961)
	$ 961,351	$ 712,796

(Presented in Canadian Dollars)

12.EXPENSES BY NATURE (Continued)

Sales and Marketing Expenses

The components of sales and marketing expenses are as follows:

	2018	2017
Salaries and benefits	$ 885,812	$ 84,674
Advertising and promotion	424,759	82,112
Consulting fees	166,347	174,312
Travel	114,115	97,885
Meals and entertainment	25,449	20,449
	$ 1,616,482	$ 459,432

13.RESTRUCTURING COSTS

Restructuring costs were recorded for the year ended July 31, 2018 of $103,847 (2017 - $Nil) and primarily consist of employee-related charges. The employee-related charges consisted of termination and related costs in connection with headcount reductions. The headcount reductions were implemented to improve operational efficiency.

14.INCOME TAXES

The following table reconciles income taxes calculated at the applicable tax rates of 25.54% (2017 - 25.54%) with the income tax expense in the consolidated financial statements. The applicable tax rate is based on the weighted Federal, Ontario and Quebec statutory rates.

	2018	2017
Income tax expense at statutory tax rate	$ (863,673)	$ (415,735)
Permanent differences	207,593	10,771
Tax on benefit of investment tax credits and other	(29,938)	3,755
Change in deferred tax assets not recognized	654,301	410,104
	$ (31,717)	$ 8,895

(Presented in Canadian Dollars)

14. INCOME TAXES (Continued)

The Company claims research and development ("R&D") deductions and related ITCs for tax purposes based on management's interpretation of the applicable legislation in the Income Tax Act of Canada. These claims are subject to audit by the Canada Revenue Agency ("CRA") and Revenue Quebec and any adjustments that results could affect ITCs recorded in the consolidated financial statements. In the opinion of management, the treatment of R&D for income tax purposes is appropriate. During the year, the Company recognized $229,285 (2017 - $227,893) of ITCs which were presented as a reduction of R&D expense. As a result of an audit conducted by Revenue Quebec, a portion of the fiscal 2017 SRED claim was reduced in the current year by $82,376 and was netted with the current year SRED claim. The Company expects to receive the remaining fiscal 2017 Quebec SRED claim of $100,903 subsequent to the year end. The Company expects to recover $398,032 (2017 - $227,896) of refundable ITCs within the next fiscal year and $Nil (2017 - $Nil) of unused non-refundable ITCs in subsequent years. Due to the uncertainty of realizing non-refundable ITCs, the Company has not recognized the non-refundable ITCs. These non-refundable ITCs will not be recognized until it is probable that they will be realized by the Company.

The Company has also applied for Ontario Interactive Digital Media Tax Credits ("OIDMTC") for the 2013 to 2015 fiscal years, which amount to $43,668, $67,844 and $49,906, respectively. The 2013 and 2015 claims are still under review by CRA and the 2014 claim was approved and received in August 2018. For the year ended July 31, 2018, the Company recorded OIDMTC income of $67,844 (2017 - $Nil) representing the 2014 claim which was received in August 2018 and presented as a reduction of R&D expense. Given the uncertainty of the amounts to be approved by CRA, the 2013 and 2015 claims they will not be recognized in the consolidated financial statements until they have been officially approved by CRA.

As at July 31, 2018, the Company has unused non-refundable ITCs of $1,020,990 which are available to reduce future taxes payable. These non-refundable ITCs expire as follows:

	Federal	Ontario	Total
2031 (i)	$ 5,576	$ -	$ 5,576
2032 (i)	85,050	-	85,050
2033 (i)	128,021	9,650	137,671
2034 (i)	167,842	24,739	192,581
2035 (i)	89,699	20,206	109,905
2036 (ii)	116,292	22,987	139,279
2037 (ii)	124,332	17,958	142,290
2038 (ii)	179,959	28,679	208,638
	$ 896,771	$ 124,219	$ 1,020,990

(i) These non-refundable ITC's in the amount of $530,783 were derecognized in the prior year consolidated financial statements due to the uncertainty of realizing them in future years.

(Presented in Canadian Dollars)

14. INCOME TAXES (Continued)

(ii) These non-refundable ITC's were not recognized in the current and prior year consolidated financial statements due to the uncertainty of realizing them in future years.

Deferred Income Taxes

The temporary differences that give rise to deferred income tax assets and liabilities are presented below at the expected future tax rate of 25.54% (2017 - 25.54%):

		2018		2017
Non-capital losses available for carry-forward	$	1,008,863	$	410,104
Equipment		6,695		3,947
Intangibles		(88,308)		(136,710)
Transaction costs		13,237		(1,798)
Federal and provincial ITCs		23,468		8,648
		963,955		284,191
Deferred tax assets not recognized		(1,058,151)		(410,104)
Deferred tax liability	$	(94,196)	$	(125,913)

As at July 31, 2018, the Company has income tax losses which are available to reduce future taxable income. These losses expire as follows:

		Federal and Ontario		Quebec
2034 (i)		336,954		730,292
2035 (i)		170		-
2036 (i)		194,552		540,210
2037 (ii)		980,016		980,015
2038 (ii)		2,325,040		1,731,665
	$	3,836,732	$	3,982,182

(i) These non-capital losses were derecognized in the prior year consolidated financial statements due to the uncertainty of realizing them in future years.

(ii) These non-capital losses were not recognized in the current and prior year consolidated financial statements due to the uncertainty of realizing them in future years.

(Presented in Canadian Dollars)

15.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 for the year ended July 31, 2018, were all paid to key management personnel and were as follows:

		2018		**2017**
Salaries and benefits	$	487,226	$	311,411
Professional fees		50,000		50,000
Consulting fees		73,846		15,000
Transaction costs		14,000		-
Capitalized to intangible assets		-		31,230
Stock-based compensation (i)		647,985		-
	$	1,273,057	$	407,641

i) Stock based compensation for officers/directors is comprised of the vested value of stock options granted during the year.

16.FINANCIAL INSTRUMENTS

Credit Risk

BlueRush is exposed to credit risk on its trade accounts receivable. Credit risk is minimized by ensuring the credit worthiness 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 year ended July 31, 2018 has recorded a bad debts expense of $Nil (2017 - $Nil).

As at July 31, 2018, approximately 69% (2017 - 60%) of the Company's accounts receivable are due from four significant customers, each of which individually made up more than 10% of the Company's sales.

16.FINANCIAL INSTRUMENTS (Continued)

Credit Risk (Continued)

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

	2018	2017
Current	$ 323,191	$ 379,097
Past due less than 90 days	62,286	222,202
Past due greater than 90 days	23,350	31,398
Less: Allowance for doubtful accounts	-	-
	$ 408,827	$ 632,697

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 and on its term loans which are repayable in 60 monthly instalments of approximately $16,665 and $4,160 beginning in July 2016 and $1,660 beginning in September 2017. 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 July 31, 2018, the Company had cash on hand of $787,830 and accounts receivable of $408,827 to meet working capital requirements.

Management expects that its capital resources will be sufficient to fund its ongoing liabilities as they come due. As discussed in note 19, the Company received financing subsequent to the year end to meet working capital requirements.

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

Foreign currency risk arises from fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. Consequently, some assets, liabilities, revenues and purchases are exposed to foreign exchange fluctuations. As at July 31, 2018, cash and accounts receivable of $226,574 and $21,593 (2017 - $704,996 and $5,895), respectively, are shown in US dollars and converted into Canadian dollars at the year end exchange rate of 1.3017 (2017 - 1.2485). For the year ended July 31, 2018, the Company recognized a gain on foreign exchange of $21,407 (2017 - loss of $47,205) as a result of the appreciation/depreciation of the US dollar. The potential effect of a 5% increase or decrease in US currency held by the Company would result in an increase or decrease in net earnings of approximately $12,000 (2017 - $35,000).

(Presented in Canadian Dollars)

16.FINANCIAL INSTRUMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that 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.

Fair Value

As at July 31, 2018, the carrying value and fair value amounts of the Company's financial instruments are approximately the same. Unless otherwise indicated, 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.

17.SEGMENTED INFORMATION

The Company has one operating segment. The Company's sales are to Canadian, US and Chilean customers as follows:

	2018	2017
Canada	$ 2,823,637	$ 2,916,221
US	136,352	341,736
Chile	62,000	-
	$ 3,021,989	$ 3,257,957

18.MANAGEMENT OF CAPITAL

The Company considers share capital, contributed surplus, and retained earnings as capital and manages its capital to meet its funding requirements for ongoing operations. There have been no changes in the Company's objectives towards managing its capital in the year.

The Company includes the following in its capital:

	2018	2017
Share capital	$ 2,737,973	$ 774,883
Contributed surplus	1,293,813	336,551
Deficit	(3,904,561)	(554,630)
	$ 127,225	$ 556,804

18.MANAGEMENT OF CAPITAL (Continued)

The Company's objectives when managing capital are:

(a) To ensure that the Company maintains the level of capital necessary to meet the requirements of its suppliers and its ongoing operations;

(b) To give shareholders sustained growth in value by increasing shareholders' equity; and

(c) To maintain a flexible capital structure which optimises the cost of capital at acceptable levels of risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company maintains or adjusts its capital level to enable it to meet its objectives by:

(a) Providing services to its customers that are profitable to the Company;

(b) Utilizing a line of credit and term loan provided by its bank; and

(c) Raising capital through equity or debt financings.

Other than the financial covenants imposed on the Company's term loans as described in note 7, the Company is not subject to any capital requirements imposed by a regulator. There were no changes in the Company's approach to capital management during the year. To date, the Company has not declared any cash dividends to its shareholders as part of its capital management program. The Company's management is responsible for the management of capital and monitors the Company's use of capital. The Company expects that its current capital resources will be sufficient to discharge its liabilities as at July 31, 2018.

19.SUBSEQUENT EVENTS

Investor Relation Agreements

Subsequent to the year end, the Company entered into an agreement with Bay Street Communications ("BSC") who will provide investor relation services to the Company. Effective November 15, 2018, the Company will pay monthly payments of $4,000 to BSC and will issue 200,000 stock options as detailed below. The term is open-ended and may be terminated by the Company or BSC as any time after six months written notice.

Subsequent to the year end, the Company entered into an agreement with an arm's length consultant who will provide financial, strategic and other advisory services to the Company for a period of two years. The consultant will be compensated with warrants exercisable at $0.105 to purchase up to 600,000 common shares of the Company for a period of two years.

Exercise of Warrants

Subsequent to the year end, warrant holders exercised 1,239,534 warrants at $0.05 for total gross proceeds of $61,977.

19.SUBSEQUENT EVENTS (Continued)

Stock Options Granted

Subsequent to the year end, the Company granted 50,000 stock options to an officer of the Company. Each stock option is exercisable into common shares of the Company at an exercise price of $0.15 and vest monthly over a period of 24 months. The options expire in five years from the date of grant and are subject to a four month hold.

Subsequent to the year end, the Company granted 200,000 stock options to BSC as discussed above. Each stock option is exercisable into common shares of the Company at an exercise price of $0.20 and vest monthly over a period of 24 months. The options expire in five years from the date of grant and are subject to a four month hold.

Convertible Debentures

In October 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.

20. COMPARATIVE FIGURES

Certain 2017 comparative revenue figures have been reclassified to reflect the current year's presentation as follows:

	New Presentation	Former Presentation
Subscriptions and support	$ 1,034,296	$ 1,389,985
Services	2,214,969	1,859,280
	$ 3,249,265	$ 3,249,265