Unaudited Condensed Consolidated Interim Financial Statements of

Stampede Drilling Inc.

For the three and nine months ended September 30, 2019 and 2018

(Expressed in Canadian Dollars)

Notice of No Auditor Review of Unaudited Condensed Consolidated Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Stampede Drilling Inc. (the “Corporation”) have been prepared by and are the responsibility of the Corporation’s management. The Corporation’s independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity’s auditor.

Stampede Drilling Inc.

Condensed Consolidated Statements of Financial Position

(Stated in thousands of Canadian dollars)	Note	September 30, 2019	December 31, 2018
		$	**$**
Assets			
Current Assets			
Cash and cash equivalents		384	115
Restricted cash		-	100
Trade and other receivables	10	6,509	5,234
Prepaid expenses and deposits		113	187
		7,006	5,636
Non-Current Assets			
Property and equipment	5	42,856	40,338
Right-of-use assets	6	842	-
Goodwill		461	461
Total Non-Current Assets		44,159	40,799
Total Assets		51,165	46,435
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	10	4,676	4,200
Operating loan	8	6,472	3,492
Lease liabilities - current portion	7	281	-
Total Current Liabilities		11,429	7,692
Non-Current Liabilities			
Lease liabilities - non-current portion	7	576	-
Convertible debentures		2,502	2,422
Total Non-Current Liabilities		3,078	2,422
Total Liabilities		14,507	10,114
Shareholders' Equity			
Share capital		62,175	62,054
Contributed surplus		3,664	3,357
Equity component of convertible debentures		265	265
Accumulated other comprehensive income		893	893
Accumulated deficit		(30,339)	(30,248)
Total Equity		36,658	36,321
Total Liabilities and Equity		51,165	46,435

See accompanying notes to these condensed consolidated financial statements

Stampede Drilling Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)

		Three months ended September 30,		Nine months ended September 30,	
(Stated in thousands of Canadian dollars, except per share amounts)	Note	2019	2018[(1)]	2019	2018[(1)]
		$	**$**	**$**	**$**
Revenue		5,910	3,068	16,992	10,003
Cost of sales:					
Direct operating expenses		4,120	2,199	10,911	6,810
Depreciation of property and equipment	5	1,059	626	3,002	1,548
		5,179	2,825	13,913	8,358
Income from operations		731	243	3,079	1,645
Expenses					
Administrative		447	320	1,264	609
Salaries and benefits		661	398	1,758	945
Share based payments	9	104	38	378	38
Depreciation of right-of-use assets	6	72	-	289	-
Impairment of assets		-	-	-	-
		1,284	756	3,689	1,592
Net income (loss) before interest and other income (expense)		(553)	(513)	(610)	53
Gain from disposition of property and equipment		-	-	-	172
Gain from equipment lost in hole		-	-	15	-
Finance costs	11	(173)	(96)	(500)	(293)
Other income		9	2	104	-
Foreign exchange loss		12	-	(6)	1
Transaction costs		-	(46)	(146)	(539)
Net income (loss) from continuing operations		(705)	(653)	(1,143)	(606)
Net income (loss) from discontinued operations	4	(19)	(252)	1,052	(1,519)
Net income (loss)		(724)	(905)	(91)	(2,125)
Other comprehensive income (loss)					
Items that may be subsequently reclassified to profit or (loss):					
Foreign currency translation adjustment		-	-	-	9
Total comprehensive income (loss) from continuing operations		(705)	(653)	(1,143)	(597)
Total comprehensive income (loss) from discontinued operations		(19)	(252)	1,052	(1,519)
Total comprehensive income (loss)		(724)	(905)	(91)	(2,116)
Basic loss per share from continuing operations		($0.01)	($0.01)	($0.01)	($0.01)
Diluted loss per share from continuing operations		($0.01)	($0.01)	($0.01)	($0.01)

(1) -The comparative period has been restated to reflect discontinued operations as discussed in Note 4.

See accompanying notes to these condensed consolidated financial statements

Stampede Drilling Inc.

Condensed Consolidated Statements of Changes in Equity
(Stated in thousands of Canadian dollars)

	Share Capital		Employee Benefit Reserve	Equity Component of Convertible Debenture	Accumulated Other Comprehensive Income	Deficit	Total Equity
	Shares (,000's)	Amount $	$	$	$	$	$
Balance as at January 1, 2018	123,079	58,448	3,150	265	884	(26,030)	36,717
Share based payments expense	-	-	199	-	-	-	199
Issuance of Agent options	-	-	-	-	-	-	-
Stock options exercised	273	46	-	-	-	-	46
Stock option value of exercised options	-	36	(36)	-	-	-	-
Common Shares issued - D2 acquisition	6,667	3,000	-	-	-	-	3,000
Common Shares issued - Red Dog acquisition	1,573	519	-	-	-	-	519
Comprehensive loss for the period	-	-	-	-	9	(2,125)	(2,116)
January 1, 2018 increase in estimated credit loss resulting from the implementation of IFRS 9	-	-	-	-	-	(94)	(94)
Balance as at September 30, 2018	**131,592**	**62,049**	**3,313**	**265**	**893**	**(28,249)**	**38,271**
Balance as at January 1, 2019	131,615	62,054	3,357	265	893	(30,248)	36,321
Share based payments expense	-	-	363	-	-	-	363
Stock options exercised	406	65	-	-	-	-	65
Stock option value of exercised options	-	56	(56)	-	-	-	-
Comprehensive income for the period	-	-	-	-	-	(91)	(91)
Balance as at September 30, 2019	**132,021**	**62,175**	**3,664**	**265**	**893**	**(30,339)**	**36,658**

See accompanying notes to these condensed consolidated financial statements

Stampede Drilling Inc.
Condensed Consolidated Statements of Cash Flows

(Stated in thousands of Canadian dollars)	Note	For the three months ended, September 30, 2019	2018[1]	For the nine months ended, September 30, 2019	2018[1]
		$	$	$	$
Cash flows from the following activities:					
Operating activities					
Net income (loss) from continuing operations		(705)	(653)	(1,143)	(606)
Adjustments for:					
Share based payments		104	38	378	38
Depreciation	5,6	1,131	626	3,291	1,548
Gain on disposition of property and equipment		-	-	-	(172)
Gain on equipment lost in hole		-	-	(15)	-
Finance costs	11	173	96	500	293
Interest paid		(147)	(65)	(421)	(195)
Changes in non-cash working capital items	12	(2,070)	(748)	(795)	401
Net operating cash flow - continuing operations		(1,514)	(706)	1,795	1,307
Net operating cash flow - discontinued operations		(18)	304	(443)	(372)
Net cash flows from operating activities		(1,532)	(402)	1,352	935
Financing activities					
Proceeds from (repayment of) operating loan		2,684	655	2,980	655
Stock options exercised		27	13	65	46
Finance lease principle payments	7	(68)	-	(267)	-
Net financing cash flows - continuing operations		2,643	668	2,778	701
Net financing cash flows - discontinued operations	4	-		-	-
Net cash flows from (used in) financing activities		2,643	668	2,778	701
Investing activities					
Additions to property and equipment	5	(3,060)	(2,260)	(7,285)	(14,540)
Proceeds from the disposition of property and equipment		-	-	-	402
Cash paid for D2 acquisition		-	-	-	(523)
Proceeds from short term investments - restricted cash		-	-	100	-
Proceeds from equipment lost in hole		-	-	194	-
Changes in non-cash working capital balances	12	2,000	-	1,311	-
Net investing cash flows - continuing operations		(1,060)	(2,260)	(5,680)	(14,661)
Net investing cash flows - discontinued operations		-	(104)	1,817	753
Net cash flows used in investing activities		(1,060)	(2,364)	(3,863)	(13,908)
Change in cash and cash equivalents		51	(2,098)	267	(12,272)
Effect of foreign exchange rate changes on cash		1	-	2	10
Cash and cash equivalents, beginning of period		332	4,971	115	15,135
Cash and cash equivalents, end of the period		384	2,873	384	2,873
Supplementary cash flow disclosure information:					
Interest paid during the period		147	65	421	195
Interest received during the period		-	-	-	27

[1] -The comparative period has been restated to reflect discontinued operations as discussed in Note 4.

See accompanying notes to these condensed consolidated financial statements

1. REPORTING ENTITY

Stampede Drilling Inc. (the "Corporation") was incorporated pursuant to the provisions of the Canada Business Corporations Act on January 7, 2011 and maintains its head office at Bow Valley Square IV, 250 – 6th Ave SW 22nd Floor, Calgary, AB, T2P 3H7. The Corporation is a publicly traded company listed on the TSX Venture Exchange under the symbol "SDI". The Corporation offers oilfield services to the oil and natural gas industry in the Western Canadian Sedimentary Basin ("WCSB").

Effective May 29, 2019, the Corporation obtained shareholder approval to change its name from MATRRIX Energy Technologies Inc. to Stampede Drilling Inc.

The consolidated financial statements of the Corporation are comprised of the Corporation and its wholly owned subsidiary Stampede Drilling (US) Inc.

2. BASIS OF PREPARATION

Statement of compliance

These condensed consolidated interim financial statements were prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations by the International Financial Reporting Interpretations Committee (IFRIC). They should be read in conjunction with the audited annual financial statements for the year ended December 31, 2018. Unless otherwise noted, the Corporation has consistently applied the same accounting policies throughout all periods presented, as if these policies were always in effect.

These consolidated financial statements have been prepared on the historical cost basis, except as disclosed in the significant accounting policies in Note 3, and are presented in Canadian dollars, which is the Corporation's functional and reporting currency. The Corporation's US subsidiary uses US dollars as its functional currency.

These consolidated financial statements were approved and authorized for issue by the Corporation's Board of Directors on November 6, 2019.

An assessment or comparison of the Corporation's quarterly results, at any given time, requires consideration of crude oil and natural gas commodity prices and the seasonal nature of the oil and gas industry in North America. Commodity prices ultimately drive the level of exploration and development activities carried out by the Corporation's customers and associated demand for the oilfield services provided by the Corporation. Results are impacted by the gain or loss of key customers. As contracts are short-term in nature, gains or losses of key customers can fluctuate on a quarterly basis. From a seasonality perspective, the Corporation operates all its drilling rigs in western Canada; therefore, operations are impacted by weather and seasonal factors. The winter season, which incorporates the first quarter, is generally a higher activity period as oil and gas companies take advantage of frozen ground conditions to move heavy equipment and operate in regions which might otherwise be inaccessible due to ground conditions during warmer periods. The second quarter normally encompasses a slow period in Canada referred to as spring break-up. During this period, melting conditions result in temporary municipal road bans that effectively prohibit the movement of drilling rigs and other heavy equipment. The third and fourth quarters in western Canada are usually representative of average activity levels.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Assets held for sale and discontinued operations

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable, and the asset is available for immediate sale in its present condition.

Non-current assets and disposal groups are classified and presented as discontinued operations if the assets or disposal groups are disposed of or classified as held for sale and:

- the assets or disposal groups are a major line of business or geographical area of operations;
- the assets or disposal groups are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- the assets or disposal groups are a subsidiary acquired solely for the purpose of resale.

(In thousands of Canadian dollars except for per share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The assets or disposal groups that meet these criteria are measured at the lower of the carrying amount and fair value less cost of disposal, with impairments recognized in the consolidated statement of comprehensive income (loss). An impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to dispose. Non-current assets held for sale are presented separately in current assets and liabilities within the consolidated statements of financial position. Assets held for sale are not depreciated, depleted or amortized. The comparative period consolidated statement of financial position is not restated.

The results of discontinued operations are shown separately in the consolidated statements of comprehensive income (loss) and consolidated statements of cash flows and comparative figures are restated.

(b) Changes to accounting policies

Adoption of IFRS 16

Effective January 1, 2019, the Corporation adopted IFRS 16 - Leases using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information and applies the standard prospectively.

The Corporation is using the following practical expedients permitted under the new standard:

- Applying a single discount rate to a portfolio of leases with similar characteristics; and
- Accounting for lease payments as an expense and not recognizing a right-of-use asset if the underlying asset is of a low dollar value (less than $5).

The impacts of the adoption of IFRS 16 as at January 1, 2019 are as follows:

	As reported at December 31, 2018	Effect of adopting IFRS 16 - Leases	Restated balance at January 1, 2019
Assets			
Non-Current Assets			
Right-of-use assets	-	1,589	1,589
Total Assets	-	**1,589**	**1,589**
Liabilities			
Current Liabilities			
Lease liabilities - current portion	-	508	508
	-	508	508
Non-current liabilities			
Lease liabilities	-	1,081	1,081
	-	1,081	1,081
Total Liabilities	**-**	**1,589**	**1,589**

Lease liabilities

On adoption of IFRS 16, the Corporation recognized lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17. Under the new standard, these leases have been measured at the present value of the remaining lease payments, including extension options where applicable, discounted using the Corporation’s incremental borrowing rate at January 1, 2019 of 4.8%. Low-value leases were excluded. Total lease liabilities of $1,589 were recorded as at January 1, 2019, of which $508 was the current portion.

Right-of-use assets

The associated right-of-use assets were measured at the amount equal to the lease liabilities on January 1, 2019.

(In thousands of Canadian dollars except for per share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Sublease contracts

On transition, the Corporation reassessed the classification of its sublease contracts previously classified as operating leases under IAS 17. The Corporation concluded that the leases did not transfer substantially all of the risks and rewards incidental to ownership of the underlying assets and identified the leases as operating leases. The Corporation accounts for its interests in the head leases as right-of-use assets and the subleases as operating leases.

For the nine months ended September 30, 2019, the Corporation recorded other income from sublease contracts of $96 (2018 - $nil).

Reconciliation of commitments to lease liability

The following reconciles the commitments at December 31, 2018 to the Corporation's lease liabilities at January 1, 2019:

	January 1, 2019
Operating lease commitments at December 31, 2018	957
Sublease contracts	162
Operating costs	(98)
Option to exercise lease extension	740
Gross lease liabilities at January 1, 2019	1,761
Effect of discounting	(172)
Lease liabilities at January 1, 2019	1,589

Update to significant accounting policies

The following accounting policy is applicable from January 1, 2019:

Leases

At inception, the Corporation assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. The Corporation allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Leases under which the Corporation is a lessee are recognized as a right-of-use asset and a corresponding lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, initial direct costs incurred, estimated costs to restore the underlying asset, and any lease incentives received.

The right-of-use asset is depreciated on a straight-line basis over the estimated useful life of the asset or the lease term, whichever is shorter.

The lease liability includes the net present value of fixed payments, variable lease payments arising from a change in an index or rate, amounts expected to be payable under a residual value guarantee, the exercise price of a purchase option if the Corporation is reasonably certain to exercise that option, lease payments in an optional renewal period if the Corporation is reasonably certain to exercise an extension option, and penalties for terminating the lease, unless there is reasonable certainty that the Corporation will not terminate the lease early. These payments are discounted using the Corporation's incremental borrowing rate when the rate implicit in the lease is not available. The lease payments are allocated between the liability and finance costs which are charged to net earnings over the lease term.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee, or if there is a change in the assessment of whether the Corporation will exercise a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use assets or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(In thousands of Canadian dollars except for per share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases that have terms of less than one year or leases on which the underlying asset is of low value are recognized as an expense in profit or loss on a straight-line basis over the lease term.

As a lessor, the Corporation assesses at inception whether a lease is a finance or operating lease. Where the Corporation transfers substantially all of the risk and rewards incidental to ownership of the underlying asset, the lease is classified as a finance lease and the Corporation recognizes a receivable at an amount equal to the net investment in the lease, which is the present value of the aggregate of lease payments receivable. If substantially all the risks and rewards of ownership of the asset are not transferred, the lease is classified as an operating lease and the Corporation recognizes the lease payments received on a straight-line basis over the lease term as other income.

4. DISCONTINUED OPERATIONS AND DISPOSAL

On April 3, 2019, the Corporation announced the discontinuation of its directional drilling division. As part of this process, the Corporation presented the results of the directional drilling operations using the guidance under "IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations", as discontinued operations on the condensed consolidated statements of comprehensive income (loss) and the condensed consolidated statements of cash flows for the current and comparative periods.

During the second quarter, the Corporation disposed of its directional drilling assets to an independent, third-party purchaser. In accordance with the disposal, property and equipment with a net book value of $908 was sold on May 27, 2019 for gross proceeds of $1,500 which resulted in recognition of a gain on disposition of $576, which was classified within discontinued operations.

The following sets forth the operating results from discontinued operations for the three and nine months ended September 30, 2019 and 2018:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenue	-	1,717	1,837	4,304
Cost of sales:				
Direct operating expenses	-	1,340	963	3,538
Depreciation of property and equipment	-	214	-	822
	-	1,554	963	4,360
Income (loss) from operations	-	163	874	(56)
Expenses				
Administrative expenses	-	162	107	848
Salaries, benefits, and severance	19	209	644	1,195
Share based payments	-	14	(15)	161
Depreciation	-	-	-	1
	19	385	736	2,205
Net income (loss) before interest and other income	(19)	(222)	138	(2,261)
Gain from disposition of property and equipment	-	-	576	140
Gain from equipment lost in hole	-	-	307	634
Other income	-	-	-	27
Foreign exchange gain (loss)	-	(30)	31	(59)
Non-recurring restructuring charges	-	-	-	-
Net Income (loss) - discontinued operations	(19)	(252)	1,052	(1,519)
Basic income (loss) per share from discontinued operations	$0.00	$0.00	$0.01	($0.01)
Diluted income (loss) per share from discontinued operations	$0.00	$0.00	$0.00	($0.01)

(In thousands of Canadian dollars except for per share amounts)

5. PROPERTY AND EQUIPMENT

	Rigs and related equipment	Directional drilling and related equipment	Machinery and other equipment	Office furniture and equipment	Total
Cost					
Balance at December 31, 2018	41,267	23,587	1,493	93	66,440
Additions	7,216	-	67	2	7,285
Reimbursement of Capital	(651)	-	-	-	(651)
Disposals and transfers	(194)	(23,587)	(590)	(93)	(24,464)
Balance at September 30, 2019	47,638	-	970	2	48,610
Accumulated depreciation and impairment					
Balance at December 31, 2018	2,622	22,860	527	93	26,102
Depreciation for the period	2,901	-	100	1	3,002
Disposals and transfers	(15)	(22,860)	(382)	(93)	(23,350)
Balance at September 30, 2019	5,508	-	245	1	5,754
Carrying amounts					
Balance at December 31, 2018	38,645	727	966	-	40,338
Balance at September 30, 2019	42,130	-	725	1	42,856

Included in property and equipment at September 30, 2019 are assets under construction of $2,170 (December 31, 2018 - $1,894) which will not be depreciated until put into service.

6. RIGHT-OF-USE ASSETS

	Total
Cost	
Balance at January 1, 2019 (Note 3)	1,589
Disposal	(530)
Balance at September 30, 2019	1,059
Accumulated depreciation	
Balance at January 1, 2019 (Note 3)	-
Depreciation	289
Disposal	(72)
Balance at September 30, 2019	217
Carrying amounts	
Balance at January 1, 2019	1,589
Balance at September 30, 2019	842

As part of the disposal transaction (note 4), right of use assets previously used by the directional drilling division were assigned to the purchaser, with the purchaser assuming all rights and obligations under the lease.

(In thousands of Canadian dollars except for per share amounts)

7. LEASE LIABILITIES

The Corporation incurs lease payments related to corporate and field offices, entered into in coordination with specific business requirements which includes the assessment of the appropriate duration of the related leased assets. The Corporation has recognized lease liabilities measured at the present value of the remaining lease payments, except for leases of low-value assets which have been charged to direct operating and administrative expenses in the condensed consolidated statements of operations.

	September 30, 2019
Balance at January 1, 2019 (Note 3)	1,589
Interest expense	46
Disposal	(465)
Lease payments	(313)
Balance at September 30, 2019	857
Less: current portion	281
Ending balance - non-current portion	576

As part of the disposal transaction (note 4), lease liabilities related to right of use assets previously used by the directional drilling division were assigned to the purchaser, with the purchaser assuming all rights and obligations under the lease.

8. LOANS & BORROWINGS

On December 20, 2018, the Corporation established a new demand operating revolving loan facility (the "Operating Loan") with a Canadian chartered bank (the "Bank"). Effective May 15, 2019, the Operating Loan is subject to a maximum of $15,000 and is comprised of the following margin requirements:

(i) 75% of Acceptable Receivables from Non-Investment Grade Customers; plus
(ii) 85% of Acceptable Receivables from Investment Grade Customers and Major Customers; plus
(iii) 50% of the net orderly liquidation value of capital assets and equipment; less
(iv) Potential Prior Ranking Claims; less Accounts Receivables of the Corporation that have been sold or factored, whether to the Bank or another third party.

The Operating Loan bears interest at the Bank's prime rate plus 85 basis points and is secured by a general first ranking security agreement on all assets, property, and undertakings of the Corporation.

The Operating Loan is subject to the following financial covenants (compared to actual calculation at period end):

	Covenant	September 30, 2019
Interest Coverage Ratio (1)	3.00:1.00 or more	9.11:1.00
Net Funded Debt to EBITDA Ratio (2)	3.00:1.00 or less	1.40:1.00

(1) Interest Coverage is calculated as the ratio of EBITDA as at such date to interest expense for the 12 months ending as at such date.
(2) Net Funded Debt to EBITDA is calculated as total interest-bearing indebtedness on a consolidated basis excluding cash and cash equivalents held by the Bank and loans which have been subordinated and postponed in favour of the Bank to EBITDA.

For the purposes of the Operating Loan, EBITDA is calculated, on a trailing twelve-month basis, as net income plus interest expense, income taxes, depreciation and amortization, other non-cash charges, transaction costs not to exceed $1,500, cash dividends, and losses attributable to minority equity investments, less EBITDA attributable to the directional drilling division assets disposed of during the discontinuation of that division, non-cash gains, and income attributable to minority equity investments.

As at September 30, 2019, $6,472 was drawn on the Operating Loan (December 31, 2018 - $3,492) and the Corporation was in compliance with all covenants related to its operating loan facility.

(In thousands of Canadian dollars except for per share amounts)

9. STOCK BASED COMPENSATION

Stock options

The Corporation has adopted an incentive stock option plan, which provides that the Board of Directors of the Corporation from time to time, at its discretion, and in accordance with the TSX Venture Exchange requirements, grant to directors, officers, employees and consultants to the Corporation, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares.

The options are exercisable for a period of up to five years from the date of grant. Vesting terms are determined at the time of grant by the Board of Directors. The options granted up to June 30, 2017 for directors, officers, employees, and consultants have a vesting period of one third a year from the date of grant, another one third two years from the date of grant and the remaining third vesting three years from the date of grant. Once vested, the options can be exercised and have an expiration date a year from the vesting date. The options granted subsequent to December 3, 2017 carry a five-year term and are subject to vesting one quarter on each of the first, second, third and fourth anniversaries of the date of the grant or carry a five-year term and are subject to vesting as to one quarter on the day of the grant and one quarter on each of the first, second and third anniversaries of the date of the grant.

A summary of the Corporation's outstanding stock options as at September 30, 2019 and the changes for the period ended, is as follows:

Stock Options	Outstanding	Weighted Average Exercise Price
Outstanding at December 31, 2018	2,660	$ 0.28
Options granted to employees and directors	4,435	$ 0.19
Options exercised	(406)	$ 0.16
Options expired	(155)	$ 0.33
Options forfeited	(418)	$ 0.25
Outstanding at September 30, 2019	6,116	$ 0.22

Share-based payments

For the three and nine month periods ended September 30, 2019, the Corporation recorded share-based payment expense from continuing operations of $104 and $378 respectively (2018 - $nil). The following assumptions were used for the Black-Scholes valuation of stock options:

	2019	2018
Risk-free interest rate range	1.45% - 1.59%	2.02% - 2.18%
Expected term	5.0 years	5.0 years
Annualized volatility	139%	139% - 143%
Dividend rate	0.00%	0.00%
Forfeiture rate	10.00%	10.00%
Average fair value per option granted	$0.19	$0.30

The expected volatility is determined based on weighted average historic prices for the Corporation's common shares.

(In thousands of Canadian dollars except for per share amounts)

10. FINANCIAL INSTRUMENTS

Capital management

The Corporation's objective when managing capital is to safeguard its ability to continue as a going concern so that it can provide adequate returns for shareholders. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Corporation's management to sustain future development of the business. The Corporation defines capital as share capital, convertible debentures and working capital, which was $60,490 at September 30, 2019 (December 31, 2018 – $62,685).

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

Credit risk

The adoption of IFRS 9 requires an entity to estimate its expected credit loss for all trade accounts receivable even when they are not past due based on the expectation that certain receivables will be uncollectible. Based on the Corporation's assessment, an increase in the allowance for doubtful accounts was recorded, using the lifetime expected credit loss model. The expected credit loss rates are based on actual credit loss experience since inception.

The loss allowance provision for trade accounts receivable as at September 30, 2019 reconciles to the opening loss allowance provision as follows:

	2019
At December 31, 2018	81
Increase in credit loss allowance	8
As at September 30, 2019	89

Credit risk arises from the potential that one or more counterparties fail to meet their obligations. The Corporation is normally exposed to credit risk through its accounts receivable balances. The Corporation manages credit risk by assessing the creditworthiness of its customers before providing services and on an ongoing basis, as well as monitoring the amount and age of balances outstanding. The Corporation views credit risks on its accounts receivable as normal for the industry.

Substantially all of the Corporation's cash and cash equivalents are held by high credit quality financial institutions.

During the nine months ended September 30, 2019, the Corporation had three customers that comprised 35%, 17%, and 12% of total revenue, compared to three customers that comprised 49%, 25%, and 10% of total revenue in the nine months ended September 30, 2018. For the accounts receivable balances outstanding at September 30, 2019, the Corporation had four customers that comprised 18%, 12%, 12% and 10% of the total balance as compared to three customers that comprised 29%, 15%, and 12% of the total balance at September 30, 2018.

The Corporation's trade and other receivables aging is as follows:

	September 30, 2019	December 31, 2018
Within 30 days	4,051	2,333
31 to 60 days	1,593	1,977
61 to 90 days	736	1,005
Over 90 days	218	-
Allowance for doubtful accounts	(89)	(81)
Accounts receivable	6,509	5,234

(In thousands of Canadian dollars except for per share amounts)

10. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

The Corporation's objective in managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due by maintaining sufficient cash to settle current liabilities and meet its anticipated working capital requirements. As at September 30, 2019, the Corporation had negative working capital of $4,452 (December 31, 2018 - $2,056). The Corporation's principal sources of liquidity are operating cash flows and its operating loan. The Corporation monitors its liquidity position on an ongoing basis and manages liquidity risk by regularly evaluating capital and operating budgets, forecasting cash flows and maintaining a sufficient credit facility to meet financing requirements.

The Corporation's trade and accrued payables were as follows:

	September 30, 2019	December 31, 2018
Accounts payable	3,701	2,678
Accrued liabilities	975	1,522
	4,676	4,200

Depending on the credit terms of the trade payable, interest will be charged after a predetermined number of days from the date of the invoice. The Corporation has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest Rate Risk

The Corporation is exposed to interest rate fluctuations on its operating loan facility which bears interest at floating market rates. For the nine months ended September 30, 2019, if the prime interest rate increased/decreased by 1%, with all other variables held constant, the Corporation's net income would have increased/decreased $65. The Corporation has not entered into any interest rate swaps or other financial arrangements that mitigate the Corporation's exposure to interest rate fluctuations.

b) Foreign Currency Risk

The Corporation is exposed to foreign currency fluctuations on its financial instruments in relation to its U.S. dollar-denominated cash, accounts receivable and accounts payable. The Corporation monitors its foreign currency exposure and attempts to minimize the effect of fluctuations in the U.S. dollar by maintaining appropriate levels of cash and accounts receivable to offset corresponding U.S. dollar denominated accounts payable.

c) Fair Value

The Corporation uses the following hierarchy for determining and disclosing the fair value of financial instruments depending on the observable nature of inputs employed in the measurement:

Level 1: fair value measurements are based on unadjusted quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is considered to be a market where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices. Level 2 valuations are based on inputs including quoted forward prices, time value, volatility factors and broker quotes that can be observed or corroborated in the market for the entire duration of the derivative instrument.

(In thousands of Canadian dollars except for per share amounts)

10. FINANCIAL INSTRUMENTS (continued)

Level 3: fair value measurements are based on unobservable information or where the observable data does not support a significant portion of the instrument's fair value.

The carrying amount of cash and cash equivalents, trade and other receivables, operating line, and accounts payable and accrued liabilities approximates their fair value due to their short-term nature. At September 30, 2019, the Corporation valued its cash and cash equivalents using Level 1 inputs. The Corporation does not have any Level 2 instruments. The fair value of the convertible debentures liability was recorded based on an estimated fair value interest rate and is considered a Level 3 fair value instrument.

As the debentures have not traded, the fair value of the debentures is $2,612 as at September 30, 2019 (December 31, 2018 - $2,612), based on the purchase price of $1 per debenture.

11. FINANCE COSTS

Finance costs recognized in the consolidated statements of comprehensive income (loss) are comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Interest on lease liabilities	11	-	46	-
Interest on operating loan	70	-	179	-
Interest on convertible debentures	66	65	196	195
Accretion on debentures	26	31	79	98
Finance costs	173	96	500	293

12. SUPPLEMENTAL CASH FLOW INFORMATION

The following is a summary of net change in non-cash working capital items for the periods ended September 30, 2019 and 2018:

	Three months ended, September 30,		Nine months ended, September 30,	
	2019	2018	2019	2018
	$	$	$	$
Changes in non-cash working capital items:				
Trade and other receivables	(1,731)	(847)	(907)	303
Inventory	-	-	-	(16)
Prepaid expenses and deposits	(21)	(39)	45	11
Accounts payable and accrued liabilities	1,682	138	1,378	103
Total	(70)	(748)	516	401
Relating to:				
Operating activities	(2,070)	(748)	(795)	401
Investing activities	2,000	-	1,311	-
Total	(70)	(748)	516	401

(In thousands of Canadian dollars except for per share amounts)

13. COMMITMENTS

The following table reflects the Corporation's commitments as of September 30, 2019:

(000's CAD $)	2019	2020	2021	2022	2023	2024
Operating loan	6,472		-	-	-	-
Convertible debenture repayment	-	2,612	-	-	-	-
Convertible debenture interest	66	218	-	-	-	-
Lease obligations	76	277	126	132	139	121
Trade and other payables	4,676	-	-	-	-	-
Total	11,290	3,107	126	132	139	121

As of September 30, 2019, the Corporation has committed $1,500 related to maintenance capital.