



Smart Employee Benefits Inc.

Unaudited Interim Consolidated Financial Statements

February 28, 2019

Management's Responsibility

To the Shareholders of Smart Employee Benefits Inc.:

Management is responsible for the preparation and presentation of the accompanying unaudited interim consolidated financial statements ("FS"), including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the corresponding Management Discussion and Analysis ("MD&A") is consistent with the FS. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the FS, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information.

The Board of Directors is composed primarily of Directors who are neither Management or employees of the Company. The Board is responsible for overseeing Management in the performance of its financial reporting responsibilities, and for approving the FS and MD&A. The Board fulfills these responsibilities by reviewing the financial information prepared by Management and discussing relevant matters with Management and external auditors. The Board is also responsible for recommending the appointment of the Company's external auditor.

MNP LLP, the independent firm of Chartered Professional Accountants which have been appointed as auditors of the Company's Annual Consolidated Financial Statements, has neither reviewed or audited these FS.

April 29, 2019

"John McKimm"

Chief Executive Officer

"Robert Prentice"

Chief Financial Officer

Smart Employee Benefits Inc.
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Smart Employee Benefits Inc.
Unaudited Interim Consolidated Statements of Financial Position
As at February 28, 2019 and November 30, 2018

	Notes	Feb 28, 2019	Nov 30, 2018
Cash		\$ 440,845	\$ 750,191
Trade receivables	18	15,304,162	16,086,172
Inventories		196,377	199,174
Prepays and deposits		1,113,678	1,284,737
		17,055,062	18,320,274
Assets held for sale	26	10,557,280	10,622,667
Total Current Assets		27,612,342	28,942,941
Long-term prepaids and deposits		573,748	573,748
Notes receivable	20	2,459,401	2,291,271
Equipment	7	775,997	824,380
Software	8	1,653,170	1,648,936
Customer relationships	9	1,465,026	1,705,681
Trade names	10	1,745,500	2,006,000
Goodwill	5	8,118,400	8,118,400
Total Assets		\$ 44,403,584	\$ 46,111,357
Operating loan	11	\$ 6,584,410	\$ 11,567,575
Current portion of term bank loans	11	7,593,750	7,937,500
Accounts payable and other current liabilities	22	23,876,628	19,216,080
Contract liabilities	12	761,482	649,088
Notes payable	15, 20	4,951,191	3,504,760
Equipment leases		67,108	67,108
Royalty advance	25	2,080,000	2,080,000
Current portion of contingent consideration	24	154,690	148,909
Current portion of convertible debt	14	1,594,535	1,561,971
Preferred shares	13	350,000	350,000
		48,013,794	47,082,991
Liabilities directly associated with assets held for sale	26	6,077,158	5,921,434
Total Current Liabilities		54,090,952	53,004,425
Equipment leases		12,427	29,204
Contingent consideration	24	798,438	804,219
Convertible debt	14	496,000	517,000
Notes payable	15	-	1,296,104
Deferred income taxes		121,760	16,245
Total Long-term Liabilities		1,428,625	2,662,772
Share capital	16	33,801,871	33,071,172
Share issue costs	16	(1,681,019)	(1,660,894)
Contributed surplus		9,630,591	9,295,570
Warrants	16	954,419	1,101,290
Options	16	900,113	850,255
Accumulated deficit		(54,625,503)	(51,960,846)
		(11,019,528)	(9,303,453)
Non-controlling interests	5	(96,465)	(252,387)
Total Shareholders' Deficiency		(11,115,993)	(9,555,840)
Total Liabilities and Shareholders' Deficiency		\$ 44,403,584	\$ 46,111,357

Going concern (Note 2), **Commitments** (Note 21), **Subsequent events** (Note 27), **Assets Held for Sale** (Note 26)

Approved on behalf of the Board:

"Stephen Peacock"

Director

"John McKimm"

Director

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

Smart Employee Benefits Inc.

Unaudited Interim Consolidated Statements of Changes in Shareholders' Deficiency

For the three months ended February 28, 2019 and twelve months ended November 30, 2018

	Share Capital		Warrants		Options		Contributed Surplus		Share Issue Costs		Accumulated Deficit		Total Shareholders' (Deficiency) controlling Interests	
	Number	\$	Number	\$	Number	\$	Number	\$	Number	\$	Number	\$	Number	\$
Balances November 30, 2017	160,953,149	\$ 33,007,364	40,024,099	\$ 3,066,483	8,590,000	\$ 618,892	\$ 6,931,277	\$ (1,660,894)	\$ (38,383,061)	\$ 3,580,061	\$ (91,601)			
Adjustment on the initial application of IFRS 9 (note 3)	-	-	-	-	-	-	-	-	-	-	(601,323)	(601,323)	-	-
Balances December 1, 2017	160,953,149	\$ 33,007,364	40,024,099	\$ 3,066,483	8,590,000	\$ 618,892	\$ 6,931,277	\$ (1,660,894)	\$ (38,984,384)	\$ 2,978,738	\$ (91,601)			
Expiration and cancellation of warrants	-	-	(32,065,040)	(1,950,385)	-	-	1,950,385	-	-	-	-	-	-	-
Exercise of warrants	245,000	63,808	(245,000)	(14,808)	-	-	-	-	-	-	-	-	49,000	-
Equity settled share-based compensation	-	-	-	-	7,575,000	570,768	-	-	-	-	-	-	570,768	-
Expiration and cancellation of options	-	-	-	-	(2,850,000)	(339,405)	339,405	-	-	-	-	-	-	-
Issuance of convertible debt	-	-	-	-	-	-	74,503	-	-	-	-	-	74,503	-
Net loss and comprehensive loss for the year	-	-	-	-	-	-	-	-	-	-	(13,137,248)	(13,137,248)	-	-
Net income for the year attributed to non-controlling interest	-	-	-	-	-	-	-	-	-	-	160,786	160,786	(160,786)	-
Balances November 30, 2018	161,198,149	\$ 33,071,172	7,714,059	\$ 1,101,290	13,115,000	\$ 850,255	\$ 9,295,570	\$ (1,660,894)	\$ (51,900,846)	\$ (9,303,453)	\$ (252,387)			
Expiration and cancellation of warrants	-	-	(1,182,000)	(308,721)	-	-	308,721	-	-	-	-	-	-	-
Equity settled share-based compensation	-	-	-	-	-	76,158	-	-	-	-	-	-	76,158	-
Expiration and cancellation of options	-	-	-	-	(200,000)	(26,300)	26,300	-	-	-	-	-	-	-
Exercise of option	1,300	299	-	-	(1,300)	-	-	-	-	-	-	-	299	-
Issuance of equity	4,150,000	730,400	4,150,000	161,850	-	-	-	(20,125)	-	-	-	-	872,125	-
Net loss and comprehensive loss for the year	-	-	-	-	-	-	-	-	-	-	(2,508,735)	(2,508,735)	-	-
Net loss for the year attributed to non-controlling interest	-	-	-	-	-	-	-	-	-	-	(155,922)	(155,922)	155,922	-
Balances February 28, 2019	165,349,449	\$ 33,801,871	10,682,059	\$ 954,419	12,913,700	\$ 900,113	\$ 9,630,591	\$ (1,681,019)	\$ (54,625,503)	\$ (11,019,528)	\$ (96,465)			

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

Smart Employee Benefits Inc.

Unaudited Interim Consolidated Statements of Net Loss and Comprehensive Loss

For the three months ended February 28, 2019 and 2018

	Notes	Dec 1, 2018 to Feb 28, 2019	Dec 1, 2017 to Feb 28, 2018 Restated (note 26)
Revenue	6	\$ 16,506,330	\$ 20,509,710
Cost of revenues			
Compensation		10,684,865	14,213,937
Other costs of revenues		304,784	323,972
		10,989,649	14,537,909
Gross margin		5,516,681	5,971,801
Expenses			
Salaries and other compensation costs	20	4,486,090	4,166,263
Office and general		1,819,528	1,588,170
Professional fees		137,112	200,048
Amortization of intangible assets	8,9,10	597,572	735,455
Depreciation of equipment	7	57,659	60,791
Share-based compensation	16	76,158	99,652
		7,174,119	6,850,379
Loss before the following:		(1,657,438)	(878,578)
Transaction costs		6,437	-
Interest and financing costs		522,369	534,263
Interest accretion	14	9,159	40,976
Net loss before income tax recovery		(2,195,403)	(1,453,817)
Income tax expense	17	556	1,764
Net loss from continuing operations		(2,195,959)	(1,455,581)
Net (loss) income of assets held for sale, net of tax	26	(312,776)	(94,846)
Net loss and comprehensive loss		\$ (2,508,735)	\$ (1,550,427)
Attributed to non-controlling interests		\$ 155,922	\$ 50,560
Attributed to common shareholders		(2,664,657)	(1,600,987)
Net loss and comprehensive loss		\$ (2,508,735)	\$ (1,550,427)
Weighted average number of shares	16	164,934,449	160,953,149
Net loss per common share			
- basic and diluted		\$ (0.02)	\$ (0.01)
Net loss per share - Continuing operations		\$ (0.01)	\$ (0.01)

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

Smart Employee Benefits Inc.
Unaudited Interim Consolidated Statements of Cash Flows
For the three months ended February 2019 and 2018

	Notes	Dec 1, 2018 to Feb 28, 2019	Dec 1, 2017 to Feb 28, 2018
Net loss and comprehensive loss for the year		\$ (2,508,735)	\$ (1,550,427)
Items not affecting cash:			
Amortization of intangible assets	8,9,10	597,572	1,081,955
Depreciation of equipment	7	57,659	67,240
Interest accretion	14	9,159	40,976
Share-based compensation		76,158	99,652
		(1,768,187)	(260,604)
Non-cash working capital	22	6,092,532	(1,704,965)
Cash flows from (used in) operating activities		4,324,345	(1,965,569)
Cash flows used in investing activities			
Advances to notes receivable	20	(208,545)	(96,363)
Purchase of software and development	8	(105,425)	-
Purchase of equipment	7	(14,363)	(32,464)
Cash flows used in investing activities		(328,333)	(128,827)
Cash flows from financing activities			
Repayment of operating loan	11	(4,983,165)	(11,495)
Repayment of term bank loans	11	(343,750)	(343,750)
Proceeds from equity financings, net	16	872,125	-
Proceeds from preferred shares financing	13	-	3,000,000
Exercise of options	16	299	-
Repayment of equipment leases		(16,777)	(9,903)
Repayment of notes payable	15	(44,892)	(90,608)
Repayment of convertible debt	14	(32,805)	(17,075)
Cash flows from financing activities		(4,548,965)	2,527,169
Net (decrease) increase in cash		(552,954)	432,773
Cash, beginning of year		1,385,917	2,735,391
Cash, end of year		\$ 832,963	\$ 3,168,164
Cash		440,845	3,185,115
Cash included in assets held for sale	26	392,119	(16,951)
Total cash		\$ 832,964	\$ 3,168,164

Supplemental Cash Information (Note 22), *Assets Held for Sale* (Note 26)

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

The Company has elected to present a consolidated statement of cash flows that includes an analysis of all cash flows in total – i.e. including both continuing and discontinued operations; amounts related to discontinued operations by operating, investing and financing activities are disclosed in Note 26.

Smart Employee Benefits Inc.
Notes to Unaudited Interim Consolidated Financial Statements
For the three months ended February 28, 2019 and 2018

1. Nature of Operations

Smart Employee Benefits Inc. (the “Company” or “SEB”) is a technology company providing business process automation and outsourcing software, solutions and services to a national and global client base. SEB has a specialized growth focus in cloud enabled SaaS processing solutions for managing employer and government sponsored health benefit plans.

These consolidated financial statements are the consolidated financial statements of SEB and its active subsidiaries as listed by operating segment below:

Company	SEB Ownership
Technology Division	
Inforica Inc. ("Inforica")	50%
Logitek Technology Ltd. ("Logitek")	100%
Maplesoft Group Inc. ("Maplesoft")	100%
SOMOS Consulting Group Ltd. ("SOMOS")	100%
Stroma Service Consulting Inc. ("Stroma")	100%
Benefits Division	
Adeeva Nutritionals Canada Inc. ("Adeeva")	100%
Meschino Health and Wellness Corporation ("Meschino")	75%
SEB Administrative Services Inc. ("SEB Admin")	100%
SEB Analytics Inc. ("SEB Analytics")	50%
SEB Benefits and HR Consulting Inc. ("SEBCON")	50%
SES Benefits Canada Corporation ("SES Ben")	100%
Corporate Division	
Smart Employee Solutions Inc. ("SES")	100%
Assets held for sale	
Paradigm Consulting Group Inc. ("Paradigm")	100%

The Company’s head office is located at 5500 Explorer Drive, 4th Floor, Mississauga, Ontario, L4W 5C7 and its registered and records office address is 295 The West Mall, 6th Floor, Toronto, Ontario, M9C 4Z4.

These unaudited consolidated financial statements were authorized for issuance by the Board of Directors on April 24, 2019.

2. Going Concern

These consolidated financial statements have been prepared on a going concern basis which presumes that the Company will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of its operations.

As of February 28, 2019, the Company had a working capital deficiency of \$26,478,610 (November 30, 2018 -\$24,061,484), and an accumulated deficit of \$54,625,503 (November 30, 2018 - \$51,960,846). The Company incurred a net loss \$2,508,735 during the quarter (net loss of \$1,550,427 for Q1 2018). These conditions raise significant doubt about the ability of the Company to continue as a going concern without additional equity or debt financing. Management of the Company has to date been successful in raising capital through equity and debt financing. On February 28, 2018, the Company issued preferred shares of Paradigm from gross proceeds of \$3,000,000 (Note 13) and on July 26, 2018, the Company issued a note payable for gross proceeds of \$2,000,000. The Company has also signed a letter of intent to sell Paradigm, the cash proceeds from the sale will be used to partially repay debt of approximately \$8.0 million and reduce revolving credit facilities (Note 26). On January 9, 2019, the Company completed an equity issuance for gross proceeds of \$892,250 and engaged Scotia Capital Inc. to evaluate and negotiate investment alternatives including debt or equity financing from potential strategic partners (Note 27). However, there is no assurance that the Company will continue to be successful in raising capital in the future.

These consolidated financial statements do not reflect the adjustments or reclassifications of assets and liabilities which would be necessary if the Company were unable to continue as a going concern. Such adjustments could be material.

3. Significant Accounting Policies

Statement of Compliance

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”), effective for the Company’s reporting for the year ended February 28, 2019. The accounting policies are consistent with those of the previous financial year, except for the adoption of IFRS 15 – Revenue from Contracts with Customers and IFRS 9 - Financial Instruments.

Basis of Measurement

These consolidated financial statements have been prepared on an accrual basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company.

3. Significant Accounting Policies (continued)

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its controlled subsidiaries. The Company is considered to control a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. Where the Company's interest in a subsidiary is less than 100%, the Company recognizes non-controlling interests. All intercompany balances, transactions, income, expenses, profits and losses, including unrealized gains and losses have been eliminated upon consolidation.

Use of Estimates and Judgments

The consolidated financial statements preparation in conformity with IFRS requires Management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Although these estimates are based on Management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where judgments and estimates are significant to these consolidated financial statements include impairment of goodwill and intangible assets, useful lives, purchase price allocation, contingent consideration and royalty accrual, legal provisions, stage of completion, valuation of share-based payments, assets held for sale, credit loss assessment and going concern.

- a) Goodwill is tested for impairment annually or more frequently if there is an indication of impairment. The carrying value of intangible assets with definite lives (software, trade names, intellectual property and customer relationships) is reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired, and an impairment loss is recognized in the consolidated statement of net loss and comprehensive loss. The assessment of fair values requires the use of estimates and assumptions related to future operating performance and discount rates; differences in these estimates and assumptions could have a significant impact on these consolidated financial statements. During the year ended November 30, 2018, the Company recorded a write-down of goodwill and intangibles of \$3,249,945 (2017 - \$nil). As of February 28, 2019, the Company has assessed no further impairment nor have any indicators of further impairment been identified.
- b) Significant judgment is involved in the determination of useful life for the computation of equipment depreciation and intangible assets amortization. No assurance can be given that actual useful lives will not differ significantly from current assumptions.
- c) Determining the allocation of purchase price to business combinations requires each identifiable asset and liability to be measured at the acquisition date's fair value. The excess, if any, of the fair value of consideration over the fair value of the net identifiable assets acquired is recognized as goodwill. The determination of acquisition date's fair values often requires Management to make assumptions and estimates about future events. The assumptions with respect to fair value of intangible assets require a high degree of judgment and include estimates for future operating performance, discount rates, technology migration factors and terminal value rates.
- d) The assessment of fair values of contingent consideration and royalty advance requires the use of estimates and assumptions related to future operating performance and discount rates; differences in these estimates and assumptions could have an impact on the consolidated financial statements.

3. Significant Accounting Policies (continued)

- e) The Company assesses the provision for legal obligations at each reporting period or when new material information becomes available. Legal and contractual matters are subject to interpretation and the Company may engage external advisors to assist with periodic assessments. To the extent that interpretation of legal and contractual matters differs significantly from estimates, the actual judgments and settlement amounts may vary significantly from management's estimates.
- f) The Company measures the stage of completion based on the costs incurred to date compared to the total estimated costs of the project. The total estimated costs require professional judgment and changes to these estimates may affect revenue, contract assets and contract liabilities.
- g) The Company uses Black-Scholes formula to measure the fair values at grant date of the equity-settled share-based payment. Expected volatility has been based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term. The input used to calculate the expected volatility changed from daily stock price to weekly stock price to better reflect the movement of stock price and expected future volatility in Q4, 2018. The Company also estimates the expected forfeiture rates which may vary from management's estimate.
- h) Assets held for sale and discontinued operations – During the year, the Company entered into a letter of intent to sell Paradigm (note 26). The classification of Paradigm as held for sale and discontinued operations involves management's judgment and assessment of the following;
- The Company entered into the letter of intent during Q3, 2018 that will result in the loss of control of Paradigm;
 - The actions to complete the sale are expected to be completed within one year;
 - Paradigm was assessed to be a component that represents a major line of business.
 - Management estimates involved in determination of impairment if the carrying value of the assets held for sale exceed the fair value less cost to sell.
- i) Assessment of expected credit losses on trade receivables and notes receivable under IFRS 9.
- j) Preparation of the consolidated financial statement on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

Business Combinations

A business combination is a transaction or other event in which control over one or more businesses is obtained. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits. A business consists of inputs and processes applied to those inputs that have the ability to create outputs that provide a return to the Company and its shareholders. A business need not include all of the inputs and processes that were used by the acquiree to produce outputs if the business can be integrated with the inputs and processes of the Company to continue to produce outputs. If the integrated set of activities and assets is in the research and development stage, and thus, may not have outputs, the Company considers other factors to determine whether the set of activities and assets is a business.

3. Significant Accounting Policies (continued)

Business acquisitions are accounted for using the acquisition method whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition with the excess of the fair value purchase consideration over such fair value being recorded as goodwill and allocated to cash generating units. Cash generating units are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Non-controlling interest in an acquisition may be measured at either fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's net identifiable assets.

Acquisition related costs are expensed during the period in which they are incurred, except for the cost of debt or equity instruments issued in relation to the acquisition which is included in the carrying amount of the related instrument.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will not exceed one year from the acquisition date.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination.

Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 Financial instruments, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

3. Significant Accounting Policies (continued)

Assets Held for Sale and Discontinued Operations

A discontinued operation is a component of the Company's business, the operations and cash flows of which can be clearly distinguished from the rest of the Company and which represents a separate major line of business or geographic area of operations; is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or investment property which continue to be measured in accordance with the Company's other accounting policies. Impairment losses on initial classification as held-for-sale subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and equipment are no longer amortized or depreciated.

Non-controlling Interest

The Company recognizes any non-controlling interest on an acquisition either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets. Non-controlling interest is proportionately adjusted each reporting period based on the earnings of the individual companies which have a non-controlling interest.

Equipment

The Company records the cost of equipment as assets when purchased. The Company records depreciation of its equipment according to the following rates, which approximate the useful lives of the assets:

Furniture and office equipment	20% straight-line and 20% declining balance
Computer hardware	30% straight-line and 30% declining balance
Leaseholds	20% straight-line and 20% declining balance

The estimated useful life and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Equipment under a finance lease is accounted for at cost. The cost corresponds to the present value of the minimum lease payments. Depreciation is based on the equipment's estimated useful life.

3. Significant Accounting Policies (continued)

Equipment Leases

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the subsidiary is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Intangible Assets

The Company's intangible assets consist of:

- licenced, acquired or developed software;
- brands and trade names acquired through acquisition;
- customer relationships acquired through acquisition; and
- intellectual property acquired through acquisition.

The Company amortizes software over its estimated useful life of 4 to 10 years on a straight-line basis and amortizes the customer relationships, brands, trade names and intellectual property over their estimated useful lives of 5 years on a straight-line basis.

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets acquired through business combinations are initially recognized at fair value, based on an allocation of the purchase price. The intangible assets are amortized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization methods of the intangible assets are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3. Significant Accounting Policies (continued)

Internally generated intangible assets

The Company recognizes expenditures on research activities as an expense in the year in which it incurs the expenditures. It recognizes an internally-generated intangible asset arising from development if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset for use or sale;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditures attributable to the intangible asset during its development.

Impairment of Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU").

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Significant Accounting Policies (continued)

Income Taxes

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Share-based Expense

Share-based expenses for directors, officers, employees and consultants are measured at fair value at the date of grant and recorded as compensation expense in these consolidated financial statements with a corresponding increase in options. The fair value, using the Black-Scholes model, determined at the grant date is expensed over the vesting period based on the Company's estimate of options that will eventually vest. Any consideration paid by directors, officers, employees and consultants on exercise is credited to share capital. Shares are issued from treasury upon the exercise.

Warrants

Warrants that have been issued in combination with common shares are evaluated under IAS 32 - financial Instruments: Presentation. Equity classification applies to instruments where a fixed amount of cash (or liability) denominated in the issuer's functional currency is exchanged for a fixed number of shares.

Warrants that are classified as equity are valued under the Black Scholes Model. If the warrant is exercised the value of the warrants is included in share capital. If a warrant expires, the value of the warrants is included in contributed surplus.

Warrants that are issued in combination with a debt agreement, such as a line of credit are valued under the Black Scholes model. The warrants are classified as a reduction of the associated debt and are amortized on a straight-line basis over the life of the debt agreement.

Loss Per Share

Basic loss per share is calculated by dividing the net loss applicable to common shares by the weighted average number of common shares outstanding for the relevant period.

3. Significant Accounting Policies (continued)

Financial Instruments

IFRS 9 - Financial Instruments was issued by the IASB to establish principles for the financial reporting of financial assets and financial liabilities, including requirements for classification and measurement, impairment, and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The Company has elected not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements.

The adoption of IFRS 9 resulted in changes in accounting policies which are described below.

Classification

Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 approach for the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements. The new model also results in a single impairment model being applied to all financial instruments.

Financial Assets

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (“FVOCI”), and fair value through profit or loss (“FVTPL”).

Financial assets at amortized cost

The Company’s financial assets at amortized cost includes trade receivables and notes receivable. Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated as fair value through profit or loss

For our financial assets designated as FVTPL, we measure the change in fair value attributable to changes in credit risk as the difference between the total change in the fair value of the instrument during the period and the change in fair value calculated using the appropriate risk-free yield curves.

Fair value through other comprehensive loss

Changes in fair value after initial recognition, whether realized or not, are recognized through other comprehensive loss. Income arising in the form of interest, dividends, or similar, is recognized through profit and loss when the right to receive payment is established, the economic benefits will flow to the Company, and the amount can be measured reliably.

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3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on original recognition.

Summary of IFRS 9 Adoption Impact

The following table summarizes the classifications and carrying amounts of the Company's financial instruments as previously established under IAS 39 as at November 30, 2017, and the new IFRS 9 classifications and carrying amounts established as at December 1, 2017.

	IFRS 9		IAS 39	
	Classification	Measurement	Classification	Measurement
Financial Assets				
Cash	Amortized cost	Amortized cost	FVTPL	Fair value
Trade receivables	Amortized cost	Amortized cost	Loans and receivables	Amortized cost
Contract assets	Amortized cost	Amortized cost	Loans and receivables	Amortized cost
Notes receivable	Amortized cost	Amortized cost	Loans and receivables	Amortized cost
Financial Liabilities				
Operating loan	Amortized cost	Amortized cost	Other liabilities	Amortized cost
Term bank loans	Amortized cost	Amortized cost	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost	Other liabilities	Amortized cost
Notes payable	Amortized cost	Amortized cost	Other liabilities	Amortized cost
Equipment leases	Amortized cost	Amortized cost	Other liabilities	Amortized cost
Preferred shares	Amortized cost	Amortized cost	Other liabilities	Amortized cost
Preferred shares - derivative	FVTPL	Fair value	n/a	n/a
Royalty advance	FVTPL	Fair value	FVTPL	Fair value
Contingent consideration	FVTPL	Fair value	FVTPL	Fair value
Convertible debt	Amortized cost	Amortized cost	Other liabilities	Amortized cost

Impairment of Financial Assets

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

The Company recognizes expected credit losses for trade receivables based on the simplified approach under IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Trade receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

For financial assets carried at amortized cost (loans receivable or promissory notes), the Company recognizes loss allowances for expected credit losses (ECLs) on such financial assets measured at amortized cost. ECLs are a probability-weighted estimate of credit losses. The Company applies a three-stage approach to measure ECLs. The Company measures loss allowance at an amount equal to 12 months of expected losses for performing loans receivable if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1) and at an amount equal to lifetime expected losses on loans receivable that have experienced a significant increase in credit risk since origination (Stage 2) and at an amount equal to lifetime expected losses which are credit impaired (Stage 3).

The Company considers a significant increase in credit risk to have occurred if contractual payments are more than 30 days past due and considers the loans receivable to be in default if they are 90 days past due. A significant increase in credit risk or default may have also occurred if there are other qualitative factors (including forward looking information) to consider; such as borrower specific information (i.e. change in credit assessment). Such factors include consideration relating to whether the counterparty is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted, or it is probable the counterparty will enter into bankruptcy or a financial reorganization.

Significant increases in credit risk are assessed based on changes in probability of default of a financial asset subsequent to initial recognition. The Company uses past due information to determine whether credit risk has increased significantly since initial recognition. Financial assets are considered to have experienced a significant increase in credit risk and are reclassified to Stage 2 if a contractual payment is more than 30 days past due as at the reporting date.

The Company defines default as the earlier of when a contractual loan payment is more than 90 days past due or when a loan becomes insolvent as a result of customer bankruptcy. Loans that have experienced a default event are considered to be credit-impaired and are reclassified as Stage 3 loans.

The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

3. Significant Accounting Policies (continued)

Financial Instruments – IAS 39 accounting policy applied prior to December 1, 2017

Fair value through profit or loss

Financial assets at fair value through profit or loss (“FVTPL”) are measured at their fair value with changes in fair value recognized in net profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

IFRS 15 - Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized as follows;

1. Identify the contract with a customer,
2. Identify the performance obligations in the contract,
3. Determine the transaction price, which is the total consideration provided by the customer,
4. Allocate the transaction price among the performance obligations in the contract based on their relative fair values, and
5. Recognize revenue when the relevant criteria are met for each performance obligation.

New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. It applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The standard also provides guidance related to the treatment of contract acquisition costs and fulfillment costs.

3. Significant Accounting Policies (continued)

The Company has adopted IFRS 15 and the related Clarifications to IFRS 15 in its consolidated financial statements for the annual period beginning on December 1, 2017. This guidance was applied using a modified retrospective ('cumulative catch-up') approach.

The Company accounting policy under IFRS 15 is as follows:

Technology Division

- i) Consulting and professional services revenue includes project management consulting, training, information technology staffing and software development. For consulting and professional service contracts billed on a fixed fee basis, revenue is recognized by the stage of completion of the performance obligation determined using the percentage of completion method based either on the achievement of contractually defined milestones or based on labor hours. For consulting and professional services revenue contracts not filled on a fixed fee basis are recognized as those services are provided based on labour hours at specified rates in the contracts.
- ii) Information technology management ("IT management") includes hosting, supply chain transactions, energy information management and software licensing. The related revenue is recognized over the period services are provided and all deliverables and performance obligations are fulfilled.

Benefits Division

- i) Benefits administration: The Company's hosted software-as-a-service ("SaaS") application, which allows customers to use hosted software over the contract period without taking possession of the software, is provided on a subscription basis, and is recognized ratably over the contract period based on the number of users, commencing on the date an executed contract exists and the customer has the right-to-use and access the platform.
- ii) Nutritionals revenue is recognized from the sale of nutritional goods and supplements. Nutritionals revenue is recognized at a point in time when control of the goods is transferred to the customer, generally upon shipment of products.

3. Significant Accounting Policies (continued)

Contract balances

The following table provides information about trade receivables and contract liabilities from contracts with customers.

	<i>February 28, 2019</i>	<i>November 30, 2018</i>
Trade receivable	\$ 15,304,162	\$ 16,086,172
Contract liability	761,482	649,088

The contract assets primarily relate to the Company's effort and cost to set-up and on-board customers to the Company's platform. During the year ended November 30, 2018, there was impairment of contract assets of \$1,316,396 (Note 5). There is no addition in Q1, 2019.

The contract liabilities primarily related to the advance consideration received from customers for annual license fees for software and prepayments, for which revenue is recognized over time or at a later point. This will be recognized as revenue when the Company completes the performance obligations, which is expected to occur over the next year.

4. Future Accounting Standard Changes

In January 2016, the IASB issued IFRS 16, Leases, to set out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease agreement. The standard supersedes IAS 17, Leases, and other leases related interpretations, eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. The standard will be effective on December 1, 2019 for the Company.

The standard permits two possible transition methods for its application: i) retrospectively to each prior reporting period presented or ii) retrospectively with the cumulative effect of initially applying the standard recognized on the date of the initial application (modified retrospective method). The Company plans to adopt IFRS 16 using the modified retrospective method. When the Company is the lessee, it is expected that the application of IFRS 16 will result in on-balance sheet recognition of most of its lease agreements that are currently considered operating leases, which are primarily for the rental of premises. The standard requires a lessee to recognize a "right of use" asset and a corresponding lease liability for substantially all leases, with the exception of leases with terms less than 12 months and leases of low value assets. The Company also expects a decrease of its office and general expense and an increase of its finance costs, amortization and depreciation resulting from the change in the recognition, measurement and presentation of rental expenses.

The Company is still assessing the effect of this new standard and intends to adopt IFRS 16 on its effective date.

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5. Business Combination, Goodwill and Non-Controlling Interest

(a) Goodwill

The carrying amounts of goodwill by CGU were as follows:

	Feb 29, 2019	Nov 30, 2018
Logitek/Inforica	\$ 950,820	\$ 950,820
SOMOS/Maplesoft	6,879,595	6,879,595
Stroma	287,985	287,985
Goodwill from continuing operations	8,118,400	8,118,400
Assets held for sale (1)	4,697,380	4,697,380
	\$ 12,815,780	\$ 12,815,780

(1) Assets held for sale consist of \$4,697,380 in goodwill related to the Paradigm CGU (see note 26)

During the year ended November 30, 2018, the Company recorded a goodwill write-down of \$2,965,444, as the estimated discounted cash flows, based on current contracted revenues, was less than the carry value of the CGUs tested. There is no additional write-down in Q1, 2019. The write-down of goodwill was recorded in write-down of assets on the consolidated statement of net loss and comprehensive loss with the following:

Summary of write-down of assets:

	Note	Feb 28, 2019	Nov 30, 2018
Write-down of goodwill	<i>Note 5</i>	\$ -	\$ 2,965,444
Write-down of intangible assets	<i>Notes 8, 9 and 10</i>	-	284,501
Write-down of contract assets	<i>Note 18</i>	-	1,354,396
Provision for note receivable	<i>Note 20</i>	166,400	2,105,549
		\$ 166,400	6,709,890

5. Business Combination, Goodwill and Non-Controlling Interest (continued)

For the purpose of the annual impairment test, performed as at November 30th, 2018 the Company applied the value in use method in completing its analysis. The value in use is calculated using a five year discounted cash flow model, with terminal value. The Company created a range of outcomes in determining the recoverable amount. The key assumptions used to calculate the value in use are those regarding discount rates, growth rates (revenue) and expected changes in margins. The values of these assumptions reflect past experience. Cash flow projections have been discounted using rate of return derived from the Company's after-tax weighted average cost of capital considering specific risk relating to each CGU. The cash flow forecasts were extrapolated beyond a five-year period using an estimated long-term growth rate of 1.8% (2017 – 1.9%).

Below are the results and key assumptions used in the annual impairment test for each CGU:

Benefits CGU

The Benefits CGU includes Adeeva, Meschino, SEBCON, SEB Admin, SEB Analytics, SEBCON and SES Ben. As a result of this analysis, the Company concluded that the recoverable amount of the CGU was less than the carrying amount as at November 30, 2018. The Company recorded a write down of goodwill of \$901,444 (2017 - \$nil). The Company recorded a write-down of contract assets of \$1,354,396, software of \$255,501, intellectual property of \$5,500, customer relationships of \$8,500, and trade names of \$15,000 as they were determined not to be recoverable.

The key assumptions used in the model are as follows;

- After-tax weighted average cost of capital of 15.8% (2017 – 15.6%)
- Pre-tax discount rate of 21.5% (2017 – 21.2%)
- Revenue growth 6.2% to 7.1% (2017 - 3.6% to 9.4%)

Logitek/Inforica CGU

As a result of this analysis, the Company concluded that the recoverable amount of the CGU was less than the carrying amount as at November 30, 2018. The Company recorded a write-down of goodwill of \$538,000 (2017 - \$nil).

The key assumptions used in the model are as follows;

- After-tax weighted average cost of capital of 17.2% (2017 – 18.1%)
- Pre-tax discount rate of 23.4% (2017 – 24.6%)
- Revenue growth 3% (2017 - 2.5% to 34.6%)

SOMOS/Maplesoft CGU

As a result of this analysis, the Company concluded that the recoverable amount of the CGU was less than the carrying amount as at November 30, 2018. The Company recorded a write-down of goodwill of \$1,447,000 (2017 - \$nil).

The key assumptions used in the model are as follows;

- After-tax weighted average cost of capital of 12.8% (2017 – 13.3%)
- Pre-tax discount rate of 17.4% (2017 – 18.1%)
- Revenue growth 3.0% to 5.0% (2017 - 3.0% to 8.0%)

5. Business Combination, Goodwill and Non-Controlling Interest (continued)

Stroma CGU

As a result of this analysis, the Company concluded that the recoverable amount of the CGU was less than the carrying amount as at November 30, 2018. The Company recorded a write-down of goodwill of \$79,000 (2017 - \$nil).

The key assumptions used in the model are as follows;

- After-tax weighted average cost of capital of 16.4% (2017 – 15.0%)
- Pre-tax discount rate of 22.3% (2017 – 20.4%)
- Revenue growth 3% (2017 - 5.0%)

Paradigm CGU

As at September 18, 2018, Paradigm was classified as assets held for sale (Note 26). Immediately prior to the classification as held for sale, an impairment test was completed. As a result of this analysis, the Company concluded the recoverable amount of the CGU was greater than its carrying amount and no impairment loss has been recognized.

The key assumptions used in the model are as follows;

- After-tax weighted average cost of capital of 22.1% (2017 – 22.0%)
- Pre-tax discount rate of 30.3% (2017 – 30.1%)
- Revenue growth 3% (2017 - 3.0% to 5.0%)

As at November 30, 2018, the fair value less cost to sale of the assets held for sale and liabilities directly associated with assets held for sale was greater than the carrying amount. No write-down has been recognized.

(c) Non-Controlling Interests

Continuity of non-controlling interests as follows:

	Investment	Net income (loss)	Total
Balance, November 30, 2017	\$ (256,534)	\$ 164,933	\$ (91,601)
Net loss attributed to non-controlling interests	-	(160,786)	(160,786)
Balance, November 30, 2018	\$ (256,534)	\$ 4,147	\$ (252,387)
Net income attributed to non-controlling interests	-	155,922	155,922
Balance, February 28, 2019	\$ (256,534)	\$ 160,069	\$ (96,465)

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6. Revenue from Contracts with Customers

Disaggregated revenue information

Set out below is the disaggregation of the Company's revenue from contracts with customers:

	Dec 1, 2018 to Feb 28, 2019	Dec 1, 2017 to Feb 28, 2018
Professional Services	\$ 10,954,058	\$ 13,445,828
IT Management	2,546,450	3,777,362
Benefits Administration	2,773,716	3,045,869
Nutritionals	232,106	240,651
Revenue from continuing operations	\$ 16,506,330	\$ 20,509,710

7. Equipment

	Cost			Accumulated Depreciation			Net Balance	
	Nov 30, 2018	Additions	Feb 28, 2019	Nov 30, 2018	Expense (Disposal)	Feb 28, 2019	Feb 28, 2019	Nov 30, 2018
Furniture and office equipment	\$ 622,608	\$ -	\$ 622,608	\$ 360,067	\$ 14,455	\$ 374,522	\$ 248,086	\$ 262,541
Computer hardware	1,443,476	9,277	1,452,752	944,221	36,411	980,631	472,121	499,255
Leaseholds	159,335	-	159,335	96,751	6,793	103,545	55,790	62,584
Total	\$ 2,225,419	\$ 9,277	\$2,234,695	\$1,401,039	\$ 57,659	\$1,458,699	\$ 775,997	\$ 824,380
Assets held for sale	\$ 387,053	\$ 5,087	\$ 392,139	\$ 308,093	\$ -	\$ 308,093	\$ 84,047	\$ 78,960

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8. Software and Intellectual Property

(a) Software

	Cost			Accumulated Amortization			Net Balance	
	Nov 30, 2018	Additions	Feb 28, 2019	Nov 30, 2018	Expense	Feb 28, 2019	Feb 28, 2019	Nov 30, 2018
Smart Employee Solutions (1)	\$ 500,000	\$ -	\$ 500,000	\$ 383,333	\$ 12,500	\$ 395,833	\$ 104,167	\$ 116,667
SES Benefits (2)	644,350	-	644,350	252,940	16,108	269,048	375,302	391,410
Logitek (3)	875,277	-	875,277	503,485	3,270	506,755	368,522	371,792
Maplesoft	31,493	-	31,493	30,697	90	30,787	706	796
SEB Admin (4)	1,079,145	100,650	1,179,796	310,874	64,449	375,323	804,473	768,271
Total of continued operations	\$ 3,130,265	\$ 100,650	\$ 3,230,916	\$ 1,481,329	\$ 96,417	\$ 1,577,746	\$ 1,653,170	\$ 1,648,936
Assets held for sale	\$ -	\$ 4,775	\$ 4,775	\$ -	\$ -	\$ -	\$ 4,775	\$ -

- 1) A software license which performs the adjudication of health benefit claims (“Adjudication Software”). The license provides (a) a perpetual, irrevocable, transferable and exclusive right to use the Adjudication Software in Canada; and (b) a perpetual, irrevocable, transferable and non-exclusive right to use the Adjudication Software outside Canada. It is being amortized over 10 years on a straight-line basis.
- 2) The Company developed an administrative platform linked to the Adjudication Software to generate additional health benefit processing revenues. It is being amortized over 10 years on a straight-line basis.
- 3) Logitek developed many proprietary pieces of software, particularly in the management of retail supply-chain. They are being amortized over 3 to 10 years on a straight-line basis.
- 4) SEB Admin acquired group benefit administration software as part of the acquisition of the mid-market processing business, with an assigned value of \$330,000, which is being amortized over 5 years. In addition, SEB Admin acquired other software, including a telephone system for the administration of this business. The amount is being amortized over 4 years. SEB Admin also internally developed software and it’s being amortized over 5 years.

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9. Customer Relationships

Customer relationships acquired by the Company have finite useful lives. They are measured at cost less accumulated amortization and any accumulated impairment losses. The Company amortizes the customer relationships over their estimated useful lives of 5 years on a straight-line basis.

Residual values are reviewed at each reporting date and adjusted if appropriate.

	Cost		Accumulated Amortization			Net Balance	
	Nov 30, 2018	Feb 28, 2019	Nov 30, 2018	Expense	Feb 28, 2019	Feb 28, 2019	Nov 30, 2018
Maplesoft	\$ 4,090,000	\$ 4,090,000	\$ 2,454,000	\$ 204,500	\$ 2,658,500	\$ 1,431,500	\$ 1,636,000
Somos	493,306	493,306	489,625	3,155	492,780	526	3,681
Stroma	660,000	660,000	594,000	33,000	627,000	33,000	66,000
Total	\$ 5,243,306	\$ 5,243,306	\$ 3,537,625	\$ 240,655	\$ 3,778,280	\$ 1,465,026	\$ 1,705,681
Assets held for sale	\$ 5,650,000	\$ 5,650,000	\$ 4,237,500	\$ -	\$ 4,237,500	\$ 1,412,500	\$ 1,412,500

10. Trade Names

Trade names acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortization and any accumulated impairment losses. The Company amortizes the trade names over their estimated useful lives of 5 years on a straight-line basis.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

	Cost		Accumulated Amortization			Net Balance	
	Nov 30, 2018	Feb 28, 2019	Nov 30, 2018	Expense	Feb 28, 2019	Feb 28, 2019	Nov 30, 2018
Maplesoft	\$ 4,950,000	\$ 4,950,000	\$ 2,970,000	\$ 247,500	\$ 3,217,500	\$ 1,732,500	\$ 1,980,000
Stroma	260,000	260,000	234,000	13,000	247,000	13,000	26,000
Total	\$ 5,210,000	\$ 5,210,000	\$ 3,204,000	\$ 260,500	\$ 3,464,500	\$ 1,745,500	\$ 2,006,000
Assets held for sale	\$ 1,280,000	\$ 1,280,000	\$ 960,000	\$ -	\$ 960,000	\$ 320,000	\$ 320,000

11. Bank Indebtedness

Technology Division Bank Facilities

On April 20, 2017, the Technology Division of the Company obtained new credit facilities (“Facilities”) from the Bank of Montreal (“the Bank”) to consolidate the Paradigm and Maplesoft facilities and to repay short-term debt and convertible debt (the “Loan Agreements”).

The new Facilities obtained were:

- 1) An operating demand facility of up to \$12,000,000, the amount available determined by the trade receivables of the borrowers. The interest rate is the bank’s prime rate plus 1.5% (February 28, 2019 – 5.45%), payable monthly in arrears;
- 2) A \$5,500,000 term loan facility (Term Loan “A”), which bears interest at the Bank’s prime rate plus 2% (February 28, 2019 – 5.95%), payable monthly in arrears. The principal is being repaid over a 4-year term by equal monthly payments of \$114,583, and an annual payment of up to 25% of the free cash flow of the Technology Division. The loan may be repaid at any time without penalty;
- 3) A \$5,000,000 subordinated 5-year term loan facility (Term Loan “B”). The facility bears interest at 12% per annum (10% of which is calculated and payable monthly and 2% of which is calculated and compounded monthly and is payable on maturity or early repayment). The principal is due on maturity; it may be repaid any time after 24 months without penalty in minimum amounts of \$500,000; and
- 4) A \$75,000 credit card facility.

These Facilities are secured by guarantees of the Company and the material subsidiaries of the Company. The Facilities contain positive, negative and financial covenants, and include other usual and customary terms and conditions.

During the fourth quarter of fiscal 2018 and the first quarter of 2019, the Company did not meet two of its financial covenants with respect to ratios of debt to Adjusted EBITDA.

On March 4, 2019, the Company and the Bank executed a Loan Amendment, Modification and Undertaking Agreement (“Amending Agreement”) whereby the terms of the Loan Agreements were revised. Under the terms of the Amending Agreement the Company acknowledged not meeting a financial covenant and distributing funds within the Company’s subsidiaries contrary to the Loan Agreement provisions. Under the terms of the Amending Agreement the Bank agreed to modify the Loan Agreements such that these actions did not constitute enforceable defaults within the terms of the Loan Agreements.

On April 2, 2019, the Company and the Bank executed an Amendment to the Amending Agreement whereby the Company agreed to deposit in escrow between \$2 million and \$5 million of new capital by April 15, 2019 and the date for completing the repayment of the Facilities through new credit facilities was set for April 30, 2019. As of April 29, 2019, neither the deposit due April 15, 2019 or the Facilities repayment due April 30, 2019 had been completed.

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11. Bank Indebtedness (continued)

While the primary borrower of the bank debt is Paradigm; the funds are used to finance the entire Technology Division. As a result, the bank debt is excluded from the “Liabilities directly associated with assets held for sale” (Note 26).

Operating Loan	Feb 28, 2019	Nov 30, 2018
BMO bank facility	\$ 6,584,410	\$ 11,567,575

Term Loans			Feb 28, 2019	Nov 30, 2018
	'A'	'B'	Total	Total
Current portion	\$ 2,593,750	\$ 5,000,000	\$ 7,593,750	\$ 7,937,500
Non-current portion	-	-	-	-
Total	\$ 2,593,750	\$ 5,000,000	\$ 7,593,750	\$ 7,937,500

During the quarter ended February 28, 2019, the Company repaid \$343,750 of the Term Loans.

12. Contract Liabilities

Contract liabilities is comprised of annual licence fees for software and prepayments. Amounts are recognized as revenue in accordance with the Company’s revenue recognition policy.

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13. Preferred Shares

Maturity Date	Conversion Price		Nov 30, 2018	Accretion expense	Change in fair value	Balance	
						Feb 28, 2019	Nov 30, 2018
(1) 2-Dec-18	N/A	Face value	350,000	-	-	350,000	350,000
Total preferred shares			\$ 350,000	\$ -	\$ -	\$ 350,000	\$ 350,000
(2) 31-May-23	\$ 0.50	Carrying value	2,597,785	-	-	2,597,785	2,597,785
		Derivative liability	401,216	-	-	401,216	401,216
Liabilities directly associated with assets held for sale			\$ 2,999,001	\$ -	\$ -	\$ 2,999,001	\$ 2,999,001

- On December 2, 2013, the Company acquired 50% of Inforica. Inforica had previously issued \$350,000 of preferred shares. The preferred shares are not entitled to any dividends, do not have voting rights and all or a portion of the preferred shares may be redeemed at the original issue price. The preferred shares are retractable by the holder after the fifth anniversary of December 2, 2018 and may be settled in cash upon written notice. Due to the retraction provision by the holder, the preferred shares have been classified as a financial liability on the consolidated financial statements.
- On February 28, 2018, the Company's wholly owned subsidiary, Paradigm, closed a private placement with a major Canadian Investment Fund ("Investor") to issue 3,000,000 preferred shares ("Preferred Shares") at a price of \$1.00 each, pursuant to which it received \$3,000,000 in gross proceeds. The Company incurred \$112,061 in debt issue costs.

Initial allocation of the Paradigm preferred share issuance:

	Note	2018
Face value of preferred shares		\$ 3,000,000
Less: Issue costs		(112,061)
Less: Bonus return	Note 24	(130,148)
Less: Derivative liability		(295,112)
Preferred shares - carrying value		\$ 2,462,679

The Preferred Shares are entitled to a quarterly 8% cumulative dividend and a bonus equal to 20% of the gain in enterprise value of Paradigm ("Bonus Return"), payable at the maturity date of May 31, 2023 ("Maturity").

13. Preferred Shares

The Bonus Return is cancelled, on a pro rata basis, for all Preferred Shares converted into common shares of SEB (“Common Shares”) per the conversion terms noted below. Each Preferred Share (at its issue price) is exchangeable into one Common Share of the Company at \$0.45 per Common Share until November 30, 2019 and at \$0.50 per Common Share at any time after November 30, 2019 until November 30, 2022. Up to \$60,000 of accrued but unpaid dividends may be converted into Common Shares subject to TSX Venture Exchange Approval at the time of such conversion.

The exchange price of the Preferred Shares will be adjusted if SEB issues equity below the exchange price in effect at such time and such dilution exceeds 10% of SEB’s basic share capital of 160,953,149 Common Shares, on the basis of a narrow-based weighted average cost, provided that the adjusted exchange price shall not be less than \$0.25 per Common Share. The conversion feature is valued as a derivative liability at fair value through profit and loss.

In certain circumstances, the Preferred Shares may be redeemed by Paradigm in increments of not less than \$300,000 if the trading price of SEB’s Common Shares closes at higher than \$1.00 per Common Share for 30 consecutive days on TSX Venture Exchange.

If the Preferred Shares have not been redeemed within 90 days after Maturity, the Preferred Shares (including accrued but unpaid dividends and Bonus Return) will convert into a demand secured debenture (“Debenture”) with an interest rate of 15% per annum. In certain circumstances prior to Maturity (including failure to pay dividends for two consecutive quarters, failure to pay the Bonus Return, failure to issue the Common Shares on exchange or a material uncured default under any agreement for the borrowing of money), the face value of the Preferred Shares (including accrued but unpaid dividends and Bonus Return) will convert into the Debenture with an interest rate of 18% per annum.

The Investor is entitled to have one individual appointed to the Board of Directors of Paradigm. Proceeds were used to reduce debt and for working capital purposes.

As at February 28, 2019, the Company had accrued \$180,000 in dividends payable which is recorded in liabilities directly associated with assets held for sale (note 26). For the quarter ended February 28, 2019, the Company paid nil dividends.

Smart Employee Benefits Inc.
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14. Convertible Debt (continued)

Maturity Date	Conversion Price	Face Value of Notes				Feb 28, 2019	Equity Component of Notes	Accounting Value of Notes			
		Nov 30, 2018	Addition	Repayments				Liability at Fair Value	Accreted Interest	Feb 28, 2019	Nov 30, 2018
(1) Dec 31, 2016	\$ 0.30	1,000,000	-	-	1,000,000	-	-	-	1,000,000	1,000,000	
(2) Dec 31, 2016	\$ 0.30	190,000	-	-	190,000	-	-	-	190,000	190,000	
(3) Mar 18, 2019	\$ 0.75	11,805	-	(11,805)	-	-	-	-	-	11,805	
(4) April 25, 2020	\$ 0.50	601,000	-	(21,000)	580,000	(74,502)	505,498	31,344	536,842	548,684	
(5) Interest Accrued		328,482	35,211	-	363,693	-	-	-	363,693	328,482	
Totals		\$ 2,131,287	\$ 35,211	\$ (32,805)	\$ 2,133,693	\$ (74,502)	\$ 505,498	\$ 31,344	\$ 2,090,535	\$ 2,078,971	
Current portion of convertible debt									\$ 1,594,535	\$ 1,561,971	
Long term portion of convertible debt									496,000	517,000	
									\$ 2,090,535	\$ 2,078,971	

1) On May 14, 2013, the Company completed a private placement offering of \$1,025,000 of units ("Units"). Each Unit consisted of a \$1.00 convertible secured promissory note with a term of three years, paying 9.75% interest convertible into the common shares of the Company at \$0.50 per share during the first year, \$0.60 during the second year, and \$0.75 per share during the third year and one common share purchase warrant exercisable at \$0.50 for a period of one year. The Company paid legal fees of \$27,630 and finder's fee of \$60,000. The notes were subscribed to by two Directors of the Company.

In Q3, 2016 the Company extended the maturity date to December 31, 2016. As part of the extension, the interest rate was increased to 12%, the conversion price was amended to \$0.30 per share and the noteholders agreed to waive security against the Company's shares of Banyan Work Health Solutions Inc. and BITS Licensing Inc. During Q1, 2019, nil of the notes were repaid (2016, \$25,000; 2017 \$0; 2018 \$0). Effective January 1, 2017, notes are due on demand.

2) On September 6, 2013, the Company completed a private placement offering of \$250,000 units ("Units"). Each Unit consisted of a \$1.00 convertible secured promissory note maturing on May 13, 2016, paying 9.75% interest convertible into the common shares of the Company at \$0.50 per share until May 13, 2014, \$0.60 per share until May 13, 2015, and \$0.75 per share until May 13, 2016 and one common share purchase warrant exercisable at \$0.50 until May 13, 2014. The Company paid legal fees of \$8,540.

In Q3, 2016 the Company extended the maturity date to December 31, 2016. As part of the extension, the interest rate was increased to 12%, the conversion price was amended to \$0.30 per share and the noteholders agreed to waive security against the Company's shares of Banyan Work Health Solutions Inc. and BITS Licensing Inc. During Q1, 2019, nil of the notes was repaid (2016 \$60,000; 2017 \$0; 2018 \$0). Effective January 1, 2017, notes are due on demand.

14. Convertible Debt (continued)

- 3) On March 1, 2014, the Company closed the acquisition of APS - Antian Professional Services Inc. Part of the purchase price was \$324,482 in promissory notes with blended quarterly payments of \$17,547 over a term of five years. The notes pay 3.0% interest and are convertible into the common shares of the Company at \$0.75 per share until maturity. Repayments have been made in accordance the schedule until Q1, 2019, at which period the balance had been repaid.
- 4) On April 26, 2018, the Company signed a new debenture agreement to replace convertible debt. The Company issued a \$650,000 promissory note with a term of two years. The note pays 5.0% annualized interest on a monthly basis in arrears with a monthly payment of \$7,000 of principal and is convertible into the common shares of the company at \$0.50 per share until maturity.

In arriving at a fair value of the liability component of the convertible debt, the Company used a discount rate of 18% to determine the discounted present value of the debt due at maturity. The equity component of \$74,502, arising from the difference between the coupon and effective interest rate, has been recorded in contributed surplus. The difference between the face value and fair value of the convertible debt is being recorded in net loss and comprehensive loss as accreted interest using the effective interest rate method.

- 5) As at February 28, 2019, the Company has accrued interest of \$363,693 on the convertible debt.

Smart Employee Benefits Inc.
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15. Notes Payable

	Feb 28, 2019	Nov 30, 2018
(1) Advance from Chairman of the Board	\$ 1,000,000	\$ 1,000,000
(2) Loan assumed on Maplesoft acquisition, maturing December 24, 2019 interest rate of 11% per annum	1,283,510	1,296,104
(3) Loan from Investors	2,000,000	2,000,000
Other	5,100	5,100
Accrued interest	662,581	499,660
Notes payable	\$ 4,951,191	\$ 4,800,864
Short-term notes payable	\$ 4,951,191	\$ 3,504,760
Long-term notes payable	-	1,296,104
	\$ 4,951,191	\$ 4,800,864

- 1) The advance from the Chairman of the Board is due on demand and bears interest at 12% per annum. As at February 28, 2019, the Company has accrued interest of \$662,581.
- 2) The Company made repayments of \$44,892 in Q1, 2019. Of this, \$12,595 was applied against principal.
- 3) On July 26, 2018, SEB Administrative Services Inc. (“SEB Admin”) closed a financing arrangement whereby SEB Admin borrowed \$2 million dollars from a consortium of individuals. The initial term was for a period of 6 months, with an option to renew for a further 6 months. The interest rate is 1% per month plus a discount to the loan principal of \$100,000 which has been expensed in the consolidated statement of loss and comprehensive loss. If the loan is renewed after 6 months, a further discount of \$100,000 will be paid. Security for the loan is provided by the assets of SEB Admin, subject to any existing security held on the operating line and term bank loans.

Smart Employee Benefits Inc.
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16. Share Capital

(a) **Authorized**
 Unlimited number of common shares

(b) **Common shares issued and outstanding**

	Number of shares	Amount \$
Balance, November 30, 2017	160,953,149	\$ 33,007,364
Exercise of Warrants on April 19, 2018	105,000	21,000
Exercise of Warrants on November 23, 2018	140,000	28,000
Fair value of Warrants exercised	-	14,808
Balance, November 30, 2018	161,198,149	\$ 33,071,172
Exercise of options on December 4, 2018	1,300	299
Private placement January 9, 2019	4,150,000	892,250
Warrants issued with shares	-	(161,850)
Balance, February 28, 2019	165,349,449	\$ 33,801,871

(c) **Share purchase warrants**

Exercise Note	Price	Expiry	Number of Warrants Outstanding				
			Nov 30, 2018 Outstanding	Issued	Expired	Feb 28, 2019 Outstanding Exercisable	
	\$ 0.20	Dec 6 2018	70,000	-	(70,000)	-	-
	\$ 0.20	Dec 27 2018	21,000	-	(21,000)	-	-
	\$ 0.50	Dec 31 2018	1,000,000	-	(1,000,000)	-	-
	\$ 0.20	Jan 31 2019	91,000	-	(91,000)	-	-
1	\$ 0.20	Apr 3 2019	350,000	-	-	350,000	350,000
1	\$ 0.20	Apr 6 2019	61,250	-	-	61,250	61,250
2	\$ 0.30	Apr 20 2019	342,700	-	-	342,700	342,700
3	\$ 0.30	May 30 2019	4,778,109	-	-	4,778,109	4,778,109
4	\$ 0.50	Dec 1 2020	1,000,000	-	-	1,000,000	750,000
5	\$ 0.30	Jan 9 2021	-	4,150,000	-	4,150,000	4,150,000
			7,714,059	4,150,000	(1,182,000)	10,682,059	10,432,059
Weighted avg exercise price			\$ 0.34	\$ 0.30	\$ (0.45)	\$ 0.31	\$ 0.31

16. Share Capital (continued)

- 1) On October 3, 2017, October 6, 2017, and October 11, 2017 the Company closed Common Share financings for a total of 1,250,000 shares for total proceeds of \$2,000,000, whereby each common share was issued at a price of \$0.16. In addition, 411,250 common shares valued at \$106,925 were issued as payment to finders. As well, finders were issued 411,250 common share purchase warrants valued at \$51,571 exercisable at \$0.20 for a period of 18 months from date of issue.
- 2) On April 20, 2017, the Company acquired from its subsidiary Maplesoft Consulting Inc. a loan payable to a third party in the amount of \$1,371,510. As part of the transaction, the Company issued 342,700 share purchase warrants valued at \$25,565 to the debt-holder. The warrants have a term of 24 months and are exercisable at \$0.30 each.
- 3) On November 30, 2017, the Company closed an equity unit financing at \$0.21 per unit, of 8,970,952 units for gross proceeds of \$1,883,900. The equity units were made up of 8,970,952 shares and 4,485,476 share purchase warrants, exercisable at \$0.30 per share for 18 months from date of issue. The warrants were valued at \$341,345. The Company issued to finders 292,633 shares and 292,633 warrants valued at \$67,306. The warrants were exercisable at \$0.30 per share for 18 months from date of issue.
- 4) On December 1, 2015, as part of the transaction to acquire Maplesoft Group Inc., SEB issued 1,000,000 share purchase warrants to Maplesoft's employees. The warrants have a term of 60 months, vest one-eighth every six months, and are exercisable at \$0.50.
- 5) On January 9, 2019, the Company closed an equity unit financing at \$0.215 per unit, of 4,150,000 units for gross proceeds of \$892,250. The equity units were made up of 4,150,000 shares and 4,150,000 share purchase warrants, exercisable at \$0.30 per share for 24 months from date of issue. The warrants were valued at \$161,850 using the residual pricing model.

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16. Share Capital (continued)

(d) Share purchase options

The SEB stock option plan (the “Plan”) is administered by the Board of Directors of the Company which establishes the exercise prices, vesting conditions and expiry date of the options. The number of common shares reserved for issuance under the Plan at February 28, 2019 is 16,534,944

Note	Exercise Price	Expiry	<u>Nov 30, 2018</u>			<u>Feb 28, 2019</u>	
			Outstanding	Exercised	Expired	Outstanding	Exercisable
	\$ 0.40	Jan 18, 2019	200,000	-	(200,000)	-	-
1	\$ 0.30	Mar 24, 2019	400,000	-	-	400,000	400,000
2	\$ 0.30	Mar 24, 2019	290,000	-	-	290,000	290,000
3	\$ 0.30	Apr 26, 2019	100,000	-	-	100,000	100,000
4	\$ 0.20	May 3, 2019	100,000	-	-	100,000	80,000
5	\$ 0.30	May 3, 2019	300,000	-	-	300,000	225,000
6	\$ 0.30	May 3, 2019	100,000	-	-	100,000	75,000
7	\$ 0.30	May 31, 2019	100,000	-	-	100,000	100,000
8	\$ 0.25	Aug 3, 2019	500,000	-	-	500,000	500,000
9	\$ 0.30	May 3, 2020	500,000	-	-	500,000	500,000
10	\$ 0.30	Aug 3, 2020	600,000	-	-	600,000	600,000
12	\$ 0.20	Aug 3, 2020	700,000	-	-	700,000	700,000
13	\$ 0.24	Nov 2, 2020	500,000	-	-	500,000	375,000
14	\$ 0.24	Nov 2, 2020	400,000	-	-	400,000	250,000
15	\$ 0.23	Mar 3, 2021	500,000	-	-	500,000	200,000
16	\$ 0.23	Mar 3, 2021	6,375,000	(1,300)	-	6,373,700	2,548,700
17	\$ 0.30	Jul 28, 2021	750,000	-	-	750,000	625,000
18	\$ 0.22	Nov 2, 2021	700,000	-	-	700,000	140,000
			13,115,000	(1,300)	(200,000)	12,913,700	7,708,700
	Weighted avg exercise price		\$ 0.25	\$ (0.23)	\$ (0.40)	\$ 0.25	\$ 0.26

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16. Share Capital (continued)

- 1) On March 24, 2016, the Company granted 400,000 options to employees. The options have a 36-month term, vest 20% immediately and 20% every six months and are exercisable at \$0.30 per share.
- 2) On March 24, 2016, the Company granted 290,000 options to employees. The options have a 36-month term, vest 20% immediately and 20% every six months and are exercisable at \$0.30 per share.
- 3) On April 26, 2016, the Company granted 100,000 options to an employee. The options have a 36-month term, vest 20% immediately and 20% every six months and are exercisable at \$0.30 per share.
- 4) On May 3, 2017, the Company granted 100,000 options to a consultant. The options have a 24-month term, vest 25% every six months and are exercisable at \$0.20 per share.
- 5) On May 3, 2017, the Company granted 300,000 options to a consultant. The options have a 24-month term, vest 25% every six months and are exercisable at \$0.30 per share.
- 6) On May 3, 2017, the Company granted 100,000 options to a consultant. The options have a 24-month term, vest 25% every six months and are exercisable at \$0.30 per share.
- 7) On May 31, 2016, the Company granted 100,000 options to an employee. The options have a 36-month term, vest 25% every six months and are exercisable at \$0.30 per share.
- 8) On August 3, 2017 the Company granted 500,000 options to a consultant. The options have a 24-month term, vest 25% immediately and every six months and are exercisable at \$0.25 per share.
- 9) On August 3, 2017, the Company granted 500,000 options to a consultant. The options have a 36-month term, vest 25% immediately and 25% every six months and are exercisable at \$0.30 per share.
- 10) On August 3, 2017, the Company granted 600,000 options to various employees and consultants. The options have a 36-month term, vest 25% immediately, 25% every six months and are exercisable at \$0.30 per share.
- 11) On August 3, 2017, the Company granted 500,000 options to various employees and consultants. The options have a 36-month term, vest 25% every six months and are exercisable at \$0.30 per share. During the fiscal 2018, the 500,000 options were cancelled.
- 12) On August 3, 2017, the Company granted 700,000 options to the Independent Directors. The options have a 36-month term, vest 25% immediately and every six months and are exercisable at \$0.20 per share.
- 13) On November 2, 2017, the Company granted 500,000 options to a consultant. The options have a 36-month term, vest 25% immediately and 25% every six months and are exercisable at \$0.24 per share. All options were cancelled in 2018.

Smart Employee Benefits Inc.
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16. Share Capital (continued)

- 14) On November 2, 2017, the Company granted 500,000 options to various employees. The options have a 36-month term, vest 25% every six months and are exercisable at \$0.24 per share. 100,000 options out of the total were cancelled in 2018 due to employees leaving.
- 15) On March 3, 2018, the Company granted 500,000 options to a consultant. The options have a 36-month term, vest 20% on issue and 20% every six months and are exercisable at \$0.23 per share.
- 16) On March 3, 2018, the Company granted 6,375,000 options to various employees and consultants. The options have a 36-month term, vest 20% on issue and 20% every six months and are exercisable at \$0.23 per share.
- 17) On July 28, 2016, the Company granted 750,000 options to an employee. The options have a 60-month term, vest 125,000 in three months and 125,000 every six months thereafter and are exercisable at \$0.30 per share.
- 18) On November 2, 2018, the Company granted 700,000 options to the independent directors. The options have a 36-month term, vest 20% on issue and 20% every six months and are exercisable at \$0.22 per share.

Share purchase options are valued using the Black-Scholes option pricing model. The assumptions used in valuing the options are as follows:

	For Options Issued in:			
	Fiscal 2019 Q1		Fiscal 2018	
	From	To	From	To
Expected option life	N/A	N/A	2 years	3 years
Risk-free interest rate	N/A	N/A	1.85%	2.36%
Forfeiture rate	N/A	N/A	NIL	NIL
Volatility factor of expected price of the Company's shares	N/A	N/A	44.40%	44.40%

(e) Loss per Share

The weighted average number of common shares outstanding for the quarter ending February 28, 2019 was 164,934,449 (161,017,875 as of November 30, 2018). The dilutive effect of options and warrants outstanding was not included as it would serve to reduce the loss per share reported.

17. Taxes

Estimated income tax expense is \$556 for three months ended February 28, 2019, compared to \$1,764 Q1 2018 for continuing operations.

18. Financial Instruments

Fair Value Measurement of Financial Instruments

The carrying value of cash, trade receivables, contract assets, operating loans, accounts payable and accrued liabilities, equipment leases, term bank loans, royalty advance, notes payable and preferred shares are considered representative of their respective fair values due to the short-term period to maturity. The carrying value of non-current assets approximates its fair value as the interest rates are consistent with the current rates offered by the Company for loans with similar terms.

Non-derivative financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

IFRS 13 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities; (cash is measured within level 1 of the hierarchy);
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) for substantially the full term of the asset or liability; and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data and unobservable inputs supported by little or no market activity.

Credit Risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. For financial assets, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, trade receivables and notes receivables. The maximum exposure of credit risk is generally represented by the carrying amount of these items reported on the consolidated statement of financial position. The Company has trade receivables derived from clients engaged in various industries including governmental agencies, finance, telecommunications, manufacturing and utilities that are not concentrated in any specific industry area. These specific industries may be affected by economic factors that may impact trade receivables. To mitigate this risk the Company reviews the creditworthiness of material new customers, monitors customer payment performance and, where appropriate, reviews the financial condition of existing customers. However, management does not believe that the Company is subject to any significant credit risk in view of the Company's large and diversified client base. Overall, management does not believe that any single industry or geographic region represents a significant credit risk to the Company.

Smart Employee Benefits Inc.
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18. Financial Instruments (continued)

The Company establishes an allowance for expected credit losses that corresponds to the specific credit risk of its customers and economic circumstances. As at February 28, 2019, the allowance for expected credit losses was \$1,100,531 (November 30, 2018 - \$1,100,231). The quantitative information below on trade receivables excludes amounts classified as amortized cost.

The following table sets forth details of the age of trade receivables:

	Feb 28, 2019	Nov 30, 2018	Expected credit loss range
Not past due	\$11,127,577	\$ 12,623,624	0.06% - 1.92%
Past due 31-60 days	\$2,022,922	1,250,737	0.06% - 1.92%
Past due 61-90 days	\$859,213	732,232	0.99% - 2.33%
Past due more than 90 days	\$2,394,982	2,579,810	3.70% - 20.00%
	16,404,693	17,186,403	
Expected credit loss provision	1,100,531	1,100,231	
Trade receivables	\$ 15,304,162	\$ 16,086,172	

The impact of the movement of the expected credit loss provision is shown below:

Balance as at November 30, 2017 under IAS 39	\$ 470,291
Balance as at December 1, 2017 under IFRS 9	\$ 1,071,614
Bad debt expense	5,389
Bad debt recovery	(156,986)
IFRS 9 loss allowance remeasurement	180,214
Balance at November 30, 2018 under IFRS 9	\$ 1,100,231
Bad debt expense	300
Balance at February 28, 2019 under IFRS 9	\$ 1,100,531

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. A portion of the bank facilities bears interest at floating rates and as such is subject to interest rate cash flow risk resulting from market fluctuations in interest rates. A 1% appreciation (depreciation) in the interest rate would result in a change in interest expense of approximately \$91,782 (November 30, 2018 - \$145,051).

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18. Financial Instruments (continued)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations such as accounts payable out of cash. The Company's future liquidity is dependent on factors such as the ability to generate cash from operations and to raise money through debt or equity financing. The Company has disclosed in Note 2 to these consolidated financial statements the existence of circumstances which cast significant doubt on its ability to continue as a going concern.

The following table details the Company's anticipated repayment schedule for its financial liabilities as at February 28, 2019:

	Notes Payable	Convertible Debt (1)	Equipment Leases	Term Bank Loans (2)	Royalty Advance (3)	Total
	(Note 15)	(Note 14)	(Note 18)	(Note 11)	(Note 25)	
Fiscal 2019	3,667,681	1,616,693	50,331	7,593,750	1,626,667	14,555,122
Fiscal 2020	1,283,510	517,000	29,204	-	160,000	1,989,714
Fiscal 2021	-	-	-	-	160,000	160,000
Fiscal 2022	-	-	-	-	133,333	133,333
	\$ 4,951,191	\$ 2,133,693	\$ 79,535	\$ 7,593,750	\$ 2,080,000	\$ 16,838,169

- (1) Face value of convertible debentures.
- (2) Face value of term bank loan. Payments could change according to balance of free cash flow of the year.
- (3) Face value of royalty and bonus fee.

The borrowings of the Company under the debt facility and certain notes are secured by its lenders by a general security agreement ("GSA") over substantially all the assets of the Company. Should the Company not meet its covenants or obligations under these borrowing agreements when due, there is the risk that its lenders may realize on its security and liquidate the assets of the Company.

The future capital requirements of the Company will depend on many factors, including the number and size of acquisitions consummated, rate of growth of its client base, the costs of expanding into new markets, the growth of the market for healthcare services and the costs of administration. In order to meet such capital requirements, the Company may consider additional public or private financing (including the incurrence of debt and the issuance of additional common shares) to fund all or a part of a particular venture, which could entail dilution of current investors' interest in the Company. There can be no assurance that additional funding will be available or, if available, that it will be available on acceptable terms. If adequate funds are not available, the Company may have to reduce substantially or otherwise eliminate certain expenditures. There can be no assurance that the Company will be able to raise additional capital if its capital resources are depleted or exhausted. Further, due to regulatory impediments and lack of investor appetite, the ability of the Company to issue additional common shares or other securities exchangeable for or convertible into common shares to finance acquisitions may be restricted.

Smart Employee Benefits Inc.
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19. Capital Management

The Company's capital consists of share capital, share issue costs, contributed surplus, options and warrants. The Company's capital management objectives are to safeguard its ability to continue as a going concern (see Note 2) and to have sufficient capital to be able to identify, evaluate and then acquire an interest in a business or assets. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares.

20. Related Party Transactions and Balances

Key Management Compensation

Key management personnel of the Company, one acting in the capacity of President, Chief Executive Officer and Chief Information Officer and the other acting in a capacity of Chief Financial Officer, Chief Operating Officer and Corporate Secretary were compensated during the period December 1, 2018 to February 28, 2019 for \$91,500 and \$60,000, respectively (\$91,500 and \$60,000 in Q1, 2018). On March 3, 2018, the Company granted 1,750,000 stock options to the management to buy common stocks. The options have a 36-month term, vest 20% on issue and 20% every six months and are exercisable at \$0.20 per share. The options have a fair value on issuance of \$128,450, which will be recorded in stock-based compensation over the vesting period.

Notes Receivable

Notes receivable consists of loans to the former shareholders of Maplesoft. These individuals continue in their roles as executives of Maplesoft. These loans are secured by the SEB common shares and the contingent consideration for the acquisition of Maplesoft Group Inc. (Note 24). The notes receivable is due on March 31, 2021 and classified as a non-current asset. During the quarter ended February 28, 2019, the Company provided a further advance of \$208,545 and recorded a provision of \$166,400 (November 30, 2018 - \$2,105,549). As at February 28, 2019, there is a balance owing of \$112,078 (\$112,078 at November 30, 2018) from a Director of the Company reclassified from account receivable to Notes receivable.

	Nov 30, 2018	Cash advance	Interest accrual	Receivable provision	Reclassification	Feb 28, 2019
Advance to Maplesoft Shareholders	\$ 4,396,821	\$ 208,545	\$ 13,906	\$ -		\$ 4,619,272
Provision	(2,105,549)	-	-	(166,400)	-	(2,271,949)
Advance to a Director	-	-	-	-	112,078	112,078
Notes receivable	\$ 2,291,272	\$ 208,545	\$ 13,906	\$ (166,400)	\$ 112,078	\$ 2,459,401
Short-Term notes receivable	-	-	-	-	-	-
Long-Term notes receivable	2,291,271	-	-	-	-	2,459,401
	\$ 2,291,271					\$ 2,459,401

Smart Employee Benefits Inc.
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20. Related Party Transactions and Balances (continued)

Notes Payable

Included in notes payable is a \$1,000,000 loan from Chairman of the Board. The note is due on demand and bears interest at 12% per annum (Note 15). For the quarter ended February 28, 2019, the Company recorded \$29,589 in interest expense (Q1 2018 - \$29,260).

Director Fees

Director fees for the Company were \$56,875 for the quarter ended February 28, 2019 (Q1 2018-\$32,250). As at February 28, 2019, the amount remaining unpaid was \$762,580 (November 30, 2018 - \$695,705).

Director/Officer stock-based compensation expense was \$4,975 for the quarter ended February 28, 2019 (Q1 2018 - \$27,182).

21. Commitments

Premise Lease

In addition to the debt repayment discussed in Note 18, as at February 28, 2019, the Company had the following premise lease commitments:

	Assets held for sale		
	Premise leases	Premise leases	Total
Fiscal 2019	\$ 591,558	\$ 254,748	\$ 846,306
Fiscal 2020	2,399,769	337,932	2,737,701
Fiscal 2021	2,411,913	337,932	2,749,845
Fiscal 2022	2,324,340	337,932	2,662,272
Fiscal 2023 and beyond	14,520,271	591,381	15,111,652
Total	\$ 22,247,850	\$ 1,859,925	\$ 24,107,776

Software Licencing Agreement

On July 1, 2011, the Company entered into a license agreement (“License”) with Bevertec, CST Inc. (“Bevertec”) a shareholder of the Company, to acquire from Bevertec the license of a software platform which provides the adjudication of health benefit claims (“Adjudication Software”). The License provides (a) a perpetual, irrevocable, transferable and exclusive right to use the Adjudication Software in Canada; and (b) a perpetual, irrevocable, transferable and non-exclusive right to use the Adjudication Software outside Canada.

The terms of the Licence included an initial payment of \$500,000 and a royalty payment calculated as follows: up to \$0.5 million based on 1% of the first \$50 million of sales revenue; up to \$2 million based on 2% of the next \$100 million in sales revenue; and up to \$5 million based on 3% of the next \$167 million of sales revenue. As of February 28, 2019, no amounts have been paid. The initial license payment is recorded as software and being amortized over 10 years (Note 8).

Smart Employee Benefits Inc.
Notes to Consolidated Financial Statements
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21. Commitments (continued)

Legal Proceedings

In the ordinary course of operating, the Company may from time to time be subject to various claims or possible claims. Management believes that there are no claims or possible claims that if resolved would either individually or collectively result in a material adverse impact on the Company's financial position, results of operations, or cash flows. These matters are inherently uncertain, and management's view of these matters may change in the future.

22. Account Payable, Other Liabilities and Non-Cash Working Capital

The break down of accounts payable and other liabilities for continuing operations is as follows:

	Feb 28, 2019	Nov 30, 2018
Accounts payable and accrued liabilities	\$ 14,104,059	\$ 16,349,531
Net clients liabilities to be settled	9,089,433	1,837,707
Government remittances and current taxes payable	683,136	1,028,842
Total	\$ 23,876,628	\$ 19,216,080

Changes in non-cash working capital (for both continuing and discontinued operations) are as follows:

	Dec 1, 2018 to Feb 28, 2019	Dec 1, 2017 to Feb 28, 2018
Trade receivables	\$ 782,010	\$ 140,257
Inventories	2,797	23,340
Prepays and deposits	171,059	(44,456)
Accounts payable and accrued liabilities	(1,987,264)	(1,718,984)
Net clients liabilities to be settled	7,251,727	167,852
Government remittances and current taxes payable	(345,706)	(272,974)
Contract liabilities	112,394	-
Deferred tax change	105,515	-
Total	\$ 6,092,532	\$ (1,704,965)

Smart Employee Benefits Inc.
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23. Segment Disclosures

The Company organizes its reporting structure into three reportable segments. The reportable segments have been adjusted for significant business acquisitions and different revenue streams. For management purposes, the Company is organized into divisions based on the products and services provided. Management monitors the operating results of each division separately for the purpose of making decisions about resource allocation and performance assessment.

The Company has three reportable segments as follows:

- The Benefits Division provides software solutions, services and products focused on managing group benefit and wellness plans for corporate and government clients.
- The Technology Division provides solutions in the areas of supply chain management, integration and energy, as well as resource provisioning. It also supports the Benefits Division's technical infrastructure.
- The Corporate Office does not represent an operating segment and is included for informational purposes only. Corporate office expenses consist of public company costs, office and administrative costs, as well as salaries, share-based compensation and other expenses pertaining to corporate activities.

As at February 28, 2019

	Benefits	Technology	Corporate	Eliminations	Held by continuing operation	Held for sale	Total
Current Assets	\$ 6,522,249	\$ 20,992,566	\$ 254,534	\$ (10,714,288)	\$ 17,055,062	\$ 4,038,578	\$ 21,093,640
Total Assets	\$ 7,914,603	\$ 35,693,127	\$ 952,862	\$ (10,714,288)	\$ 33,846,304	\$ 10,557,280	\$ 44,403,584
Current Liabilities	\$ 19,229,425	\$ 29,467,770	\$ 10,030,887	\$ (10,714,288)	\$ 48,013,794	\$ 2,659,727	\$ 50,673,521
Total Liabilities	\$ 19,229,425	\$ 29,480,197	\$ 11,447,085	\$ (10,714,288)	\$ 49,442,419	\$ 6,077,158	\$ 55,519,577

As at November 30, 2018

	Benefits	Technology	Corporate	Eliminations	Held by continuing operation	Held for sale	Total
Current Assets	\$ 5,034,383	\$ 19,542,873	\$ 260,954	\$ (6,517,936)	\$ 18,320,274	\$ 4,113,827	\$ 22,434,101
Total Assets	\$ 6,429,609	\$ 34,600,800	\$ 976,217	\$ (6,517,936)	\$ 35,488,690	\$ 10,662,667	\$ 46,151,357
Current Liabilities	\$ 9,852,503	\$ 34,522,796	\$ 9,225,628	\$ (6,517,936)	\$ 47,082,991	\$ 2,922,433	\$ 50,005,424
Total Liabilities	\$ 9,852,503	\$ 34,446,485	\$ 11,964,711	\$ (6,517,936)	\$ 49,745,763	\$ 5,921,434	\$ 55,667,197

Certain items previously reported have been reclassified to conform to the current period's reporting format.

Smart Employee Benefits Inc.
Notes to Consolidated Financial Statements
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23. Segment Disclosures (continued)

For three month ended February 28, 2019							
	Benefits	Technology	Corporate	Eliminations	Continuing operation	Discontinued operation	Total
Revenue	\$ 3,005,821	\$ 14,067,434	\$ -	\$ (566,925)	\$ 16,506,330	\$ 5,604,238	\$ 22,110,568
Cost of revenues							
Compensation	20,433	11,136,470	-	(472,038)	10,684,865	4,497,148	15,182,013
Other costs of revenues	132,090	172,694	-	-	304,784	-	304,784
	152,522	11,309,164	-	(472,038)	10,989,649	4,497,148	15,486,797
Gross margin	2,853,299	2,758,269	-	(94,887)	5,516,681	1,107,090	6,623,771
Expenses							
Salaries and other compensation costs	2,882,842	1,384,146	313,989	(94,887)	4,486,090	490,210	4,976,300
Office and general	987,523	813,049	18,957	-	1,819,528	416,583	2,236,111
Professional fees	15,933	69,402	51,777	-	137,112	144,600	281,712
Amortization of intangible assets	64,463	52,497	480,611	-	597,572	-	597,572
Depreciation of equipment	26,575	30,258	827	-	57,659	-	57,659
Share-based compensation	-	-	76,158	-	76,158	-	76,158
	3,977,336	2,349,351	942,319	(94,887)	7,174,119	1,051,393	8,225,512
Income(loss) before the following:	(1,124,037)	408,918	(942,319)	-	(1,657,438)	55,697	(1,601,741)
Transaction costs	-	-	6,437	-	6,437	91,641	98,078
Interest and financing costs	9,625	328,365	184,380	-	522,369	216,832	739,201
Interest accretion	-	-	9,159	-	9,159	-	9,159
Income tax expense	-	556	-	-	556	60,000	60,556
Net income (loss)	\$ (1,133,662)	\$ 79,997	\$ (1,142,295)	\$ -	\$ (2,195,959)	\$ (312,776)	\$ (2,508,735)

Certain items previously reported have been reclassified to conform to the current period's reporting format.

Smart Employee Benefits Inc.
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23. Segment Disclosures (continued)

For three month ended February 28, 2018							
	Benefits	Technology	Corporate	Eliminations	Continuing operation	Discontinued operation	Total
Revenue	\$ 3,303,314	\$ 18,040,881	\$ -	\$ (834,485)	\$ 20,509,710	\$ 5,000,722	\$ 25,510,432
Cost of revenues							
Compensation	41,100	14,713,864	-	(541,027)	14,213,937	3,989,768	18,203,705
Other costs of revenues	103,878	415,673	-	(195,579)	323,972	-	323,972
	144,979	15,129,537	-	(736,606)	14,537,909	3,989,768	18,527,678
Gross margin	3,158,335	2,911,345	-	(97,879)	5,971,801	1,010,954	6,982,754
Expenses							
Salaries and other compensation costs	2,305,419	1,509,813	448,910	(97,879)	4,166,263	339,337	4,505,600
Office and general	978,826	560,462	48,882	-	1,588,170	347,035	1,935,205
Professional fees	11,829	63,219	125,000	-	200,048	18,891	218,939
Amortization of intangible assets	40,246	7,108	688,101	-	735,455	346,500	1,081,955
Depreciation of equipment	14,685	44,422	1,685	-	60,791	6,449	67,240
Share-based compensation	-	-	99,652	-	99,652	-	99,652
	3,351,005	2,185,024	1,412,230	(97,879)	6,850,379	1,058,212	7,908,591
Income(loss) before the following:	(192,670)	726,321	(1,412,230)	-	(878,578)	(47,258)	(925,837)
Interest and financing costs	86,880	284,198	163,185	-	534,263	47,588	581,851
Interest accretion	-	-	40,976	-	40,976	-	40,976
Income tax expense	-	1,764	-	-	1,764	-	1,764
Net income (loss)	\$ (279,550)	\$ 440,359	\$ (1,616,391)	\$ -	\$ (1,455,581)	\$ (94,846)	\$ (1,550,417)

Certain items previously reported have been reclassified to conform to the current period's reporting format.

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24. Contingent Consideration Payable

	Current	Long term	Feb 28, 2019	Nov 30, 2018
(1) Adeeva acquisition	\$ 154,690	\$ 340,638	\$ 495,328	\$ 495,328
(2) Maplesoft acquisition	-	457,800	457,800	457,800
	\$ 154,690	\$ 798,438	\$ 953,128	\$ 953,128
Current portion of contingent consideration payable			154,690	148,909
Long-term portion of contingent consideration payable			798,438	804,219
			\$ 953,128	\$ 953,128
Assets held for sale:				
(3) Paradigm preferred shares			130,148	130,148
			\$ 130,148	\$ 130,148

- 1) As part of the consideration for the Adeeva acquisition the Company is obligated to pay to the former debtholders of Adeeva a royalty of 1% of Adeeva sales and 3% of Adeeva gross margins to a maximum aggregate payment of \$1,000,000. As of February 28, 2019, \$122,453 has been accrued (2018 - \$116,672). No amounts have been paid as of February 28, 2019. Based on the expected discounted cash flows, the fair value of the remaining contingent liability is estimated to be \$495,328 (November 30, 2018 - \$495,328).
- 2) As part of the consideration for the Maplesoft acquisition the Company agreed to pay to the former shareholders of Maplesoft at the end of five years an amount equal to 15% of the increase in the enterprise value of Maplesoft over that period. Based on the expected discounted cash flows, the fair value of the contingent liability is estimated to be \$457,800 (November 30, 2018 - \$457,800).
- 3) As part of February 28, 2018, private placement transaction, Paradigm agreed to pay to an investor a quarterly 8% cumulative dividend and a bonus, payable at the maturity date of May 31, 2023. The bonus is based on the increase in value of Paradigm over the term of the preferred shares. Based on the expected discounted cash flows, the fair value of the remaining contingent liability is estimated to be \$130,148 (note 26).

25. Royalty Advance

On August 28, 2017, the Company entered into an unsecured Royalty Purchase Agreement. As consideration for the payment of a Royalty Advance in the amount of \$1,600,000, the Company agreed to pay a royalty payment in the first-year equal to 0.3571% of consolidated revenues of the Company (the "Royalty Rate") during each calendar month, payable in arrears and pro-rated for any partial month. \$120,000 towards the royalty payment has been paid as of the quarter end February 28, 2019 (November 30, 2018- \$408,951).

In addition, the Company agreed to pay a minimum bonus fee of \$400,000. The Royalty Advance was not repaid in full prior to the First Anniversary, an automatically increase of 20% is applicable to both the Royalty Rate and the bonus. Based on a discounted probability analysis, the Company has included \$480,000 in its accrued liabilities for the bonus fee.

26. Assets Held for Sale

Description

On December 31, 2014, the Company acquired 100% of the shares of Paradigm Consulting Group Inc. and 100% of the partnership units of PCGI Consulting Services Partnership. The two entities, were subsequently amalgamated into one company, named Paradigm Consulting Group Inc. (“Paradigm”).

On September 18, 2018, the Company signed a Letter of Intent with Golden Opportunities Fund Inc. (“Golden”), managed by Westcap Mgt. Ltd., to sell 100% of Paradigm. The acquirer was anticipated to be Golden in conjunction with Paradigm’s senior management and the purchase price will be shared between the two. The purchase price included a cash amount, cancellation of the \$3.0 million Paradigm preferred shares (owned by Golden), and a working capital adjustment. Closing was targeted for November 30, 2018, subject to final due diligence and regulatory and Board approval. The cash proceeds from the sale were anticipated to be used to partially repay debt of approximately \$8.0 million and reduce revolving credit facilities.

Subsequently, the Letter of Intent was amended such that the net business assets of Paradigm (“Assets”) were to be sold to a Limited Partnership of which the combination of Golden and Paradigm senior management will own 75% and the Company will own 25%. The effective close date was intended to be March 31, 2019 with a physical close date of April 15, 2019. The transaction is expected to be deferred until late April 2019. The price for the Assets is \$10,000,000 with an adjustment for any working capital greater than or less than \$1,500,000 determined on closing.

At September 18, 2018, the operations of Paradigm were classified as “Assets held for Sale” or “Discontinued Operations” by the Company, and the equipment and intangible assets ceased to be depreciated and amortized. The business of Paradigm was previously presented as part of the Technology segment. With Paradigm being classified as Assets held for sale, Paradigm is now separated from the Technology segment in the segment note to the consolidated financial statements and separated into assets held for sale and liabilities directly associated with assets held for sale on the consolidated statement of financial position. The operations of Paradigm have been removed from continuing operations and presented as discontinued operations in the consolidated statement of net loss and comprehensive loss for the current and prior period.

The Company considered the subsidiary to meet the criteria to be classified as assets held for sale during Q4, 2018 for the following reasons:

- Paradigm is available for immediate sale and can be sold to the buyer in its current condition
- The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification
- A potential buyer has been identified and negotiations as at the reporting date are at an advance stage

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26. Assets Held for Sale (continued)

Presentation and Restatement of prior periods

The Company has reclassified the assets liabilities and results of Paradigm in the comparative periods. The operations of Paradigm have been removed from continuing operations and are presented as discontinued operations in the consolidated statement of net loss and comprehensive loss for the current and prior period. The consolidated statement of cash flows includes the discontinued operations. Cash flow information directly related to the discontinued operations is disclosed in this note.

Assets and liabilities of disposal group held for sale

At February 28, 2019, the disposal group was stated at the lower of carrying value and fair value less costs to sell. Goodwill is primarily related to growth expectations, assembled workforce and expected cost synergies. See results of impairment testing in Note 5.

All trade receivables are in the normal course of operations and recorded at fair value.

The major classes of assets and liabilities of Paradigm classified as held for sale, as follows:

	Notes	<i>Feb 28, 2019</i>	<i>Nov 30, 2018</i>
Cash		\$ 392,119	\$ 635,726
Trade receivables		3,548,092	3,427,169
Prepays and deposits		71,349	50,932
WIP		27,018	-
Equipment	7	84,047	78,960
Software	8	4,775	-
Customer relationships	9	1,412,500	1,412,500
Trade names	10	320,000	320,000
Goodwill	5	4,697,380	4,697,380
Assets held for sale		\$ 10,557,280	\$ 10,622,667
Accounts payable and accrued liabilities		\$ 2,529,579	\$ 2,527,932
Contingent consideration payable	24	130,148	130,148
Income taxes payable, government remittances and deferred taxes		418,430	264,353
Preferred shares	13	2,999,001	2,999,001
Liabilities directly associated with assets held for sale		\$ 6,077,158	\$ 5,921,434
Net Assets directly associated with assets held for sale		\$ 4,480,122	\$ 4,701,233

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26. Assets Held for Sale (continued)

Financial performance and cash flow information

	Notes	Dec 1, 2018 to Feb 28, 2019	Dec 1, 2017 to Feb 28, 2018
Revenue		\$ 5,604,238	\$ 5,000,722
Cost of revenues			
Compensation		4,497,148	3,989,768
Gross margin		1,107,090	1,010,954
Expenses			
Salaries and other compensation costs		490,210	339,337
Office and general		416,583	347,035
Professional fees		144,600	18,891
Amortization of intangible assets	8,9,10	-	346,500
Depreciation of equipment	7	-	6,449
		1,051,393	1,058,212
Income (loss) before the following:		55,697	(47,258)
Transaction costs		91,641	-
Interest and financing costs		216,832	47,588
Net loss before income tax		(252,776)	(94,846)
Income tax expense		60,000	-
Net loss and comprehensive loss		\$ (312,776)	\$ (94,846)
Net loss per common share			
- basic and diluted		\$ (0.002)	\$ (0.001)

Included in the above is a corporate management fee and interest allocation of \$363,000 for Q1, 2019 and \$50,916 for Q1 2018. The net impact of the change has been eliminated on the consolidated results.

Smart Employee Benefits Inc.
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26. Assets Held for Sale (continued)

The net cash flows incurred by Paradigm are, as follows:

	Notes	Dec 1, 2018 to Feb 28, 2019	Dec 1, 2017 to Feb 28, 2018
Net loss and comprehensive loss for the year		\$ (312,776)	\$ (94,846)
Items not affecting cash:			
Amortization of intangible assets	8,9,10	-	346,500
Depreciation of equipment	7	-	6,449
		(312,776)	258,103
Non-cash working capital		(12,629)	(1,095,340)
Cash flows used in operating activities		(325,405)	(837,237)
Cash flows used in investing activities			
Purchase of software	8	(4,775)	-
Purchase of fixed assets	7	(5,087)	-
Cash flows used in investing activities		(9,862)	-
Cash flows from(to) financing activities			
Proceeds from preferred shares financing	13	-	3,000,000
Intercompany financing		91,661	(3,016,541)
Cash flows from(to) financing activities		91,661	(16,541)
Net decrease in cash		(243,607)	(853,778)
Cash, beginning of period		635,726	836,827
Cash, end of period		\$ 392,119	\$ (16,951)

27. Subsequent Events

On March 5, 2019, SEB engaged Scotia Capital Inc. to evaluate and negotiate investment alternatives intended to strengthen the Company's balance sheet and position the Company to take advantage of imminent growth opportunities. These alternatives include debt or equity financing from potential strategic partners, some of which already have significant business relationships with the Company. The potential transaction(s) could involve a change of control.