Consolidated Financial Statements of

WORLDPLAY COMMUNICATIONS INC.

And Independent Auditors' Report thereon

Years ended December 31, 2020 and 2019

(Expressed in $USD)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Worldplay Communications Inc.

Opinion

We have audited the consolidated financial statements of Worldplay Communications Inc. which comprise:

- the consolidated balance sheets as at December 31, 2020 and December 31, 2019;
- the consolidated statements of operations and deficit for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019 and its consolidated results of operations and its consolidated cash flows for the years then ended, in accordance with Canadian accounting standards for private enterprises.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Material Uncertainty Related to Going Concern

We draw attention to note 1 in the financial statements, which indicates that the Entity has no history of generating positive cash flows from operations and has an accumulated deficit of $156,304,264 as at year ended December 31, 2020. The Entity's ability to continue as a going concern is dependent upon its ability to raise new capital, secure other forms of financing and achieve a commercial level of sales and profitable operations.

As stated in note 1 in the financial statements, these events or conditions, along with other matters as set forth in note 1 in the financial statements, indicate that a material uncertainty exists leading to significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

Calgary, Alberta
May 27, 2021

WORLDPLAY COMMUNICATIONS INC.

Consolidated Balance Sheets

Years ended December 31, 2020 and 2019
(Expressed in $USD)

	2020	2019
Assets		
Current assets		
Cash	$ 480,697	$ 3,082,455
Accounts receivable	872,133	37,329
Government remittances receivable	–	6,167
Prepaid expenses and deposits	23,770	23,961
	1,376,600	3,149,912
Property and equipment (note 4)	106,091	100,453
	$ 1,482,691	$ 3,250,365
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 305,344	$ 192,410
Government remittances payable	31,595	–
Deferred revenue	15,778	15,948
Simple agreement for future equity (notes 5, 17)	785,423	–
	1,138,140	208,358
Equity to be issued (note 7)	–	5,133
Shareholders' equity		
Common shares (note 6)	117,346,166	117,346,166
Preferred shares (note 6)	16,866,939	16,796,342
Warrants (note 9)	1,127,774	793,545
Contributed surplus (note 10)	21,017,677	20,424,677
Cumulative translation adjustment	290,259	373,347
Deficit	(156,304,264)	(152,697,203)
	344,551	3,036,874
Going concern (note 1)		
Subsequent events (notes 5 and 17))		
Commitments (note 11)		
Contingencies (note 12)		
	$ 1,482,691	$ 3,250,365

See accompanying notes to the consolidated financial statements.

On behalf of the Board

____________________ Director

____________________ Director

WORLDPLAY COMMUNICATIONS INC.

Consolidated Statements of Operations and Deficit

Years ended December 31, 2020 and 2019
(Expressed in $USD)

	2020	2019
Sales:		
Platform and video services	$ 1,050,617	$ 153,272
Cost of goods sold	(54,306)	(49,046)
	996,311	104,226
Expenses:		
General and administrative	1,074,725	1,008,068
Technology and product development	1,715,948	1,512,271
Business development and operations	839,044	456,861
Stock based compensation (notes 6(d), 8, 9(a))	942,229	1,088,274
Foreign exchange loss (gain)	2,356	(118)
Interest expense	2,056	5,197
Interest income	(12,854)	(12,925)
Loss on sale of assets	–	341
Bad debts	12,195	7,625
Depreciation	27,673	33,692
	4,603,372	4,099,286
Net loss	(3,607,061)	(3,995,060)
Deficit, beginning of year	152,697,203	148,702,143
Deficit, end of year	$ 156,304,264	$ 152,697,203

See accompanying notes to consolidated financial statements.

WORLDPLAY COMMUNICATIONS INC.

Consolidated Statements of Cash Flow

Years ended December 31, 2020 and 2019
(Expressed in $USD)

	2020	2019
Cash provided by (used in):		
Operations:		
Net loss	$ (3,607,061)	$ (3,995,060)
Items not involving cash:		
Stock based compensation expense	942,229	1,088,274
Shares issued for service	50,464	–
Unrealized foreign exchange difference	(77,572)	91,693
Loss on sale of assets	–	341
Amortization of lease inducement	–	(6,406)
Depreciation	27,673	33,692
	(2,664,267)	(2,787,466)
Net-changes in non-cash operating working capital:		
Accounts receivable	(834,804)	71,752
Government remittances	37,762	–
Prepaid expenses and deposits	191	(4,946)
Accounts payable and accrued liabilities	112,934	(52,183)
Deferred revenue	(170)	10,699
Continuing operations	(3,348,354)	(2,762,144)
Financing:		
Issuance of SAFE instrument	785,423	–
Issuance of shares net of issue cost	–	5,009,333
Shares to be issued	–	5,133
Repayments of notes payable	–	(101,838)
	785,423	4,912,628
Investments:		
Acquisition of property and equipment	(38,827)	(19,657)
Increase (decrease) in cash	(2,601,758)	2,130,827
Cash, beginning of year	3,082,455	951,628
Cash, end of year	$ 480,697	$ 3,082,455

See accompanying notes to financial statements.

Incorporation and basis of presentation:

Worldplay Communications Inc. (the "Corporation") was incorporated under the Business Corporations Act of Alberta on December 12, 2006. The principal business activities of the Corporation, through its various subsidiaries and affiliated corporations, has been the development and commercialization of video compression technologies. More recently the business has restructured to allow delivery of customized business solutions that power captivating online video experiences for its customers.

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, Worldplay USA Inc. ("Worldplay US"), Worldplay (Canada) Inc. ("WP Canada"), and Worldplay (Barbados) Inc. ("WP Barbados"). The accounts of WP Barbados include the accounts of its wholly-owned subsidiary Worldplay China Inc. ("WP China"). All inter-company transactions and balances have been eliminated.

These consolidated financial statements are presented in United States Dollars except as otherwise indicated for financing units issued in the periods.

1. Going concern:

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations. The Corporation has no history of generating positive cash flow from operations and incurred a net loss of $3,607,061 for the year ended December 31, 2020 (2019 – $3,995,060). As at December 31, 2020, the Corporation has working capital of $238,460 (2019 – $2,941,554) and has an accumulated deficit of $156,304,264 (2019 – $152,697,203). These conditions create material uncertainties that cause significant doubt in relation to the Corporation's ability to continue as a going concern.

Should the Corporation 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. The Corporation's ability to continue as a going concern is dependent upon additional financing and increase in sales to generate positive cash flows from operations sufficient to meet current and future obligations. The Corporation obtains the majority of its financing through debt and equity issuances. There can be no assurance as to the Corporation's ability to raise future financing and continue as a going concern. The application of the going concern concept is dependent upon the ability of the Corporation to raise new capital, or to secure other forms of financing, and its ability to achieve a commercial level of sales and profitable operations. These consolidated financial statements do not include any adjustments that might result should the going concern basis of accounting be inappropriate.

1. Going concern (continued):

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying amount of assets, reported expenses, and the balance sheet classifications used to reflect these on a liquidation basis which could differ from accounting principles applicable to a going concern.

Subsequent to year end, the Corporation realized $3,167,383 from issuing a series of Convertible Debentures at arm's length to investors and certain directors of the Corporation (note 17).

2. Significant accounting policies:

These consolidated financial statements are prepared in accordance with Canadian accounting standards for private enterprises. The Corporation's significant accounting policies are as follows:

(a) Property and equipment:

Property and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the assets using the following methods and annual rates:

Assets	Basis	Rate
Computer equipment	Declining balance	30-50%
Furniture and equipment	Declining balance	20%
Leasehold improvements	Straight line	5 years

(b) Impairment of long-lived assets:

Long-lived assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(c) Leases:

A lease that transfers substantially all the benefits and risks of ownership is classified as a capital lease. At the inception of a capital lease, an asset and a payment obligation is recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair market value. All other leases are accounted for as operating leases and rental payments are expensed as incurred.

2. Significant accounting policies (continued):

(d) Revenue recognition:

The Corporation recognizes revenue as services are performed. Revenue is recognized only when the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Amounts collected in advance of services provided are recorded as deferred revenue.

(e) Intangible assets:

Research activities are expensed as incurred. Development activities are recognized as an asset provided they meet the capitalization criteria, which include the Corporation's ability to demonstrate: technical feasibility of completing the intangible asset so that it will be available for use or sale; the Corporation's intention to complete the asset for use or for sale; the Corporation's ability to use or sell the asset; the adequacy of the Corporation's resources to complete the development; the Corporation's ability to measure reliably the expenditures during the development; and the Corporation's ability to demonstrate that the asset will generate future economic benefits. The assets are amortized on a straight-line basis over their useful lives unless the life is determined to be indefinite.

(f) Government assistance:

Government assistance is recorded as either a reduction in the cost of the applicable assets or as a credit in the statement of earnings as determined by the terms and conditions of the agreement under which the assistance is provided to the Corporation or the nature of the expenditures which give rise to the credit. Government assistance is recorded when the receipt is reasonably assured.

(g) Stock-based compensation:

The Corporation has issued stock-based compensation awards. The Corporation uses the fair value method of accounting for all stock-based compensation. Under this method, all stock options and warrants awarded are measured and recognized based on the fair value of the equity instrument issued. Fair value is determined using the Black Scholes model. Compensation expense is recognized over the period related to the service, usually the vesting period of the equity instrument awarded, and an equal amount is recorded as contributed surplus. Upon exercise of stock options, the amount of compensation expense previously recorded in contributed surplus is moved to share capital.

2. Significant accounting policies (continued):

(h) Income taxes:

The Corporation uses the future income taxes method of accounting for income taxes under which future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities as a result of a change in tax rates is recognized as part of the provision for income taxes in the period that includes the enactment date. When it is not more likely than not, that the future tax asset will be realized, a valuation allowance is provided.

(i) Foreign currency translation:

Foreign transactions of the parent company

The Corporation's functional currency is US dollars. Monetary items denominated in a foreign currency and non-monetary items carried at market are adjusted at the balance sheet date to reflect the exchange rate in effect at that date. Non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at average rates of exchange during the year. Exchange gains and losses are included in the determination of net income for the period.

Foreign operations

Financial statements of self-sustaining foreign operations are translated as follows: assets and liabilities at the exchange rate at the balance sheet date and, revenue and expense at the average rates of exchange in effect for the period. Exchange gains and losses are included in the cumulative translation account in shareholders' equity.

(j) Use of estimates:

The preparation of consolidated financial statements in conformity with accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of expenses during the reported period. Actual results could differ from those estimates.

Significant areas requiring the use of management estimates relate to the useful lives of property and equipment for depreciation purposes and evaluation of their net recoverable amount, the determination of the valuation allowance relating to future income tax assets and the fair values to ascribe to the share transactions. Consequently, actual results could differ from those estimates.

2. Significant accounting policies (continued):

On March 11, 2020, the World Health Organization declared the Coronavirus COVID-19 (COVID-19) outbreak a pandemic. This has resulted in governments worldwide, including the Canadian and Alberta governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, closures of non-essential businesses, and physical distancing, have caused material disruption to businesses resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The Corporation has experienced the following:

- Project delays caused by customer restrictions and their own project delays;
- Travel bans, prohibiting travel for consulting and training activities;
- Reduced demand for consulting services; and
- Eligibility to receive government assistance.

The ultimate duration and magnitude of the impact on the economy and the financial effect on the Corporation's future revenues, operating results and overall financial performance is not known at this time. These impacts may include challenges on the Corporation's ability to, generate revenue and sufficient cashflow, disruptions to its operations, employee impacts from illness, school closures and other communication response measures.

Governments around the world have recognized the serious economic impacts of the spread of COVID-19 and have taken steps to provide various programs to individuals and businesses. During the year, the Corporation qualified under the Canada Temporary Wage Subsidy program ("TWS") program (note 16).

COVID-19 has created many uncertainties with respect to counterparty credit risk, liquidity and the valuation of long-lived assets. At December 31, 2020, management has incorporated the anticipated impact of COVID-19 in estimates and judgments in the preparation of these financial statements to the extent known at this time. Outcomes that are different from assumptions used in estimates could require a material adjustment within the next financial year. Management has assessed the expected impacts of a prolonged downturn on liquidity and will continue to refine its expectations as the effects of the recent global events are better understood.

The Corporation continues to manage liquidity risk by forecasting and assessing cash flow requirements on an ongoing basis (note 1). As at the reporting date, the Corporation continues to meet its contractual obligations within normal payment terms and the Corporation's exposure to credit and liquidity risk remains largely unchanged from the prior year (note 15).

2. Significant accounting policies (continued):

(k) Financial instruments:

(i) Initial measurement:

Financial instruments are measured at fair value on origination or acquisition, adjusted by, in the case of financial instruments that will not be subsequently measured at fair value, financing fees and transaction costs. All other transaction costs are recognized in net income in the period incurred.

When the Corporation issues a financial instrument that contains both a liability and an equity element, it measures the equity component as zero and allocates the entire proceeds to the liability component.

(ii) Subsequent to initial recognition:

Investments in equity instruments that are quoted in an active market and free-standing derivatives that are not designated in a qualifying hedging relationship are measured at fair value without any adjustment for transaction costs that may be incurred on sale or other disposal. Changes in fair value are recognized in net income in the period incurred. Investments in equity instruments that are not quoted in an active market are measured at cost, less any reduction for impairment. Other financial instruments are measured at amortized cost.

(iii) Impairment:

At year-end, the Corporation assesses whether there are any indications that a financial asset measured at cost or amortized cost may be impaired. For purposes of impairment testing, each individually significant asset is assessed individually; the balance of the assets are grouped on the basis of similar credit risk characteristics. When there is an indication of impairment, the Corporation determines whether a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset. When there has been a significant adverse change, the carrying value of the asset is reduced to the highest of:

(i) The present value of expected cash flows

(ii) The amount that could be realized by selling the asset, and

(iii) The amount that could be realized by exercising its right to any collateral held as security

When the extent of impairment decreases and the decrease can be related to an event occurring after the impairment was recognized, the impairment is reversed.

4. Property and equipment:

December 31, 2020	Cost	Accumulated depreciation	Net book value
Computer equipment	$ 881,453	$ 801,409	$ 80,044
Furniture and equipment	139,673	113,626	26,047
Leasehold improvements	100,747	100,747	–
	$ 1,121,873	$ 1,015,782	$ 106,091

December 31, 2019	Cost	Accumulated depreciation	Net book value
Computer equipment	$ 842,625	$ 774,731	$ 67,894
Furniture and equipment	139,673	107,114	32,559
Leasehold improvements	100,747	100,747	–
	$ 1,083,045	$ 982,592	$ 100,453

5. SAFE (Simple Agreement for Future Equity):

On January 14, 2020, the Corporation signed a Simple Agreement for Future Equity (“SAFE Agreement”), with an arm’s length investor (the “Investor”), for a cash payment to the Corporation of $785,423 ($1,000,000 CDN). Under the terms of the SAFE Agreement, the investment will convert to preferred shares with the completion of an equity financing generating gross proceeds to the Corporation for no less than $500,000 (an “Equity Financing”). The conversion price on the issuance of shares under this scenario is at a 75% discount in accordance with terms outlined within the SAFE Agreement. In addition, if the Corporation closes a firm commitment under an initial public offering of its shares or enters into a transaction resulting in a change in control, both of which are subject to Board approval, the Investor may elect to either receive a cash payment equal to the initial investment amount or receive shares, the number of which to be determined in reference to terms outlined in the SAFE Agreement. In the event of a dissolution, the Investor is entitled to a full repayment of the initial investment amount.

On March 5, 2021, the Corporation offered for issuance to accredited investors a series of Convertible Debentures. Pursuant to a subscription agreement and a letter of direction, the SAFE Agreement was converted in its entirety into the offering along with additional new capital by the investor (note 17).

6. Share capital:

(a) Authorized:

An unlimited number of common shares without par value and an unlimited amount of preferred shares, issuable in series.

(b) Common and preferred shares issued and outstanding:

	Common Shares		Preferred Shares	
	Number	Amount	Number	Amount
December 31, 2018	1,767,949	$ 117,174,166	8,885,948	$ 11,775,497
Issued:				
Executive warrants exercised	10,000	172,000	–	–
Preferred shares from equity issued (note 7)	–	–	500	553
Employee shares for services (note 6(d))	–	–	7,400	10,959
CDN $1.00 Unit warrants exercised for cash (note 6(c))	–	–	238,250	267,000
CDN $1.50 Unit warrants exercised for cash (note 6(c))	–	–	1,485,139	2,238,631
Preferred shares for cash (note 6(d))	–	–	1,699,566	2,551,741
Share issue costs	–	–	–	(48,039)
December 31, 2019	1,777,949	117,346,166	12,316,803	16,796,342
Issued:				
Preferred shares from equity issued (note 7)	–	–	3,333	5,133
Employee shares for services (note 6(d))	–	–	34,034	50,464
Executive warrants exercised	–	–	5,000	15,000
December 31, 2020	1,777,949	$ 117,346,166	12,359,170	$ 16,866,939

(c) Warrants exercised:

During 2019, a total of 238,250 preferred share purchase warrants were exercised at CDN $1.50 per warrant for total consideration of $267,000 ($357,375 CDN).

In addition, during the period, a total of 1,485,139 preferred share purchase warrants were exercised at CDN $2.00 per warrant for total consideration of $2,238,631 ($2,970,278 CDN).

6. Share capital (continued):

(d) Series 1, Preferred Shares:

During 2019, the Corporation entered into subscription agreements with various arm's length subscribers (the "Subscribers") to acquire 1,699,566 Series 1 Preferred Shares ("preferred shares") at CDN $2.00 per preferred share for total consideration of $2,551,741. In addition, 7,400 preferred shares were awarded to employees for the achievement of business milestones.

During 2020, the Corporation issued an additional 34,034 preferred shares for total consideration of $50,464 under this same arrangement.

7. Equity to be issued:

	Number of Preferred Shares		Amount
December 31, 2018	500	$	553
Issued	(500)		(553)
Employee shares for services	3,333		5,133
Balance, December 31, 2019	3,333		5,133
Issued	(3,333)		(5,133)
Balance, December 31, 2020	–	$	–

During 2019, the Board of Directors approved a request by an employee to receive a portion of his regular salary compensation, during his first year of employment, in the form of Series 1, Preferred Shares ("preferred shares") at CDN $2.00 per preferred share. The Corporation recorded 3,333 preferred shares to be issued for total consideration of $5,133 under this arrangement in the period.

8. Stock options:

Stock options were issued to certain officers, employees and consultants of the Corporation and were not issued under any formal stock option plan, but were granted under individual stock option agreements between the Corporation and the respective grantees. The following is a schedule of the Corporation's stock options outstanding:

	Preferred Shares Number	Weighted CDN Average Exercise Price
December 31, 2018	1,954,514	$ 1.32
Issued	1,286,000	2.00
Expired	(17,828)	1.00
Expired	(104,500)	1.50
Expired	(30,000)	2.00
December 31, 2019	3,088,186	1.59
Issued	517,500	2.00
Expired	(2,100)	1.00
Expired	(14,000)	1.50
Expired	(10,000)	2.00
December 31, 2020	3,579,586	$ 1.65

The options vest over time up to and including December 31, 2022. As at December 31, 2019 and 2020 there were no outstanding options on the common shares.

The following is a schedule of unexercised preferred share stock options:

December 31, 2019	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number outstanding at December 31, 2019	Weighted average remaining contractual life (years)	Weighted average exercise price CDN	Number exercisable at December 31, 2019	Weighted average exercise price CDN
CDN $1.00 to $2.00	3,088,186	8.73	$ 1.59	1,992,019	$ 1.43

8. Stock options (continued):

December 31, 2020	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number outstanding at December 31, 2020	Weighted average remaining contractual life (years)	Weighted average exercise price CDN	Number exercisable at December 31, 2020	Weighted average exercise price CDN
CDN $1.00 to $2.00	3,579,586	8.24	$ 1.65	2,821,419	$ 1.56

The weighted average fair value of options granted in 2020 was $0.22 (CDN $0.29) (2019 – $0.60 (CDN $0.81)) per option. Stock-based compensation for the year was $593,000 (2019 – $720,000) related to employee stock options. The Corporation calculates the fair value of its options using the Black-Scholes option pricing model and the following weighted average assumptions were used to determine the fair value of 2020 and 2019 options on date of grant:

	2020	2019
Risk free interest rate	0.51%	1.37%
Expected life	10 years	10 years
Maximum life	10 years	10 years
Expected dividend	$nil	$nil
Expected forfeiture rate	nil	nil
Expected share price volatility	50%	50%

9. Warrants:

	Number of Warrants		
	Common Shares	Preferred Shares	Amount
Balance, December 31, 2018	43,911	4,311,473	$ 4,015,749
Executive warrants exercised	(10,000)	–	(172,000)
Warrants expired	(33,911)	–	(3,407,519)
CDN $1.00 Unit warrants expired	–	(967,800)	–
CDN $1.00 Unit warrants exercised	–	(238,250)	–
CDN $1.50 Unit warrants expired	–	(1,180,784)	–
CDN $1.50 Unit warrants exercised	–	(1,485,139)	–
Executive warrants issued (note 9(a))		235,000	357,315
Balance, December 31, 2019	–	674,000	793,545
Executive warrants exercised	–	(5,000)	(15,000)
Executive warrants issued (note 9(a))	–	485,000	269,996
Director warrants issued (note 9(a))	–	157,000	79,233
Balance, December 31, 2020	–	1,311,000	$ 1,127,774

9. Warrants (continued):

(a) As part of the Corporation's compensation of its key executives, the Corporation granted the following warrants:

	2020	2019
Preferred Share Purchase warrants	175,000	160,000
Vesting period	performance based	immediate
Expiry	Aug. 27, 2025	Apr 24, 2024
Preferred Share Purchase warrants	310,000	75,000
Vesting period	over 3 years	immediate
Expiry	Oct. 21, 2025	Jul 22, 2024
Preferred Share Purchase warrants	157,000	
Vesting period	over 3 year	
Expiry	Oct. 21, 2025	

The warrants were fair valued on issuance using the Black-Scholes pricing model. Performance based vesting is met upon the Corporation hitting certain working capital targets and a liquidity event before July 31, 2021. The following assumptions were used to determine the value of the Executive Warrants:

		2020		2019
Fair value per warrant	$	1.52	$	1.50
Risk free interest rate		0.52%		1.54%
Expected life		5 years		5 years
Maximum life		5 years		5 years
Expected dividend	$	nil	$	nil
Expected price volatility		50%		50%

Stock-based compensation for the year was $349,229 (2019 – $357,315) related to issued warrants.

9. Warrants (continued):

(b) The following is a schedule of the unexercised preferred share warrants as at December 31, 2020:

	December 31, 2020		December 31, 2019	
Exercise price	Number Outstanding	Weighted Average Remaining life (years)	Number Outstanding	Weighted Average Remaining life (years)
$NIL CDN	1,259,000	3.64	622,000	4.03
$1.00 CDN	52,000	.83	52,000	1.83
	1,311,000		674,000	

The weighted average exercise price of the outstanding warrants at December 31, 2020 was $0.04 CDN (2019 - $0.08 CDN).

10. Contributed surplus:

Balance, December 31, 2018	$ 16,297,158
Warrants issued in settlement of amounts due expired	2,391,119
Warrants issued in settlement expired	1,016,400
Stock-based compensation expense (note 8)	720,000
Balance, December 31, 2019	20,424,677
Stock-based compensation expense (note 8)	593,000
Balance, December 31, 2020	$ 21,017,677

11. Commitments:

Minimum future annual commitments in respect of operating leases for office premises and equipment rent, are as follows:

2021	$ 57,772
2022	346
Thereafter	–

12. Contingencies:

In the normal course of operations, the Corporation may become engaged in disputes with other parties. The ultimate resolution of these disputes, if any, are not determinable, however, management believes the outcomes will not have a material impact on the financial condition of the Corporation.

13. Future income taxes:

The tax effects of temporary differences that give rise to significant portions of future income tax assets are approximately as follows:

	2020	2019
Future income tax assets:		
Non-capital losses	$ 12,680,000	$ 11,740,000
Less: valuation allowance	(12,680,000)	(11,350,000)
Net future income tax assets	$ –	$ –

The Corporation has approximately $50,730,000 (2019 – $46,960,000) of non-capital income tax losses which are available to reduce taxable income in future periods. The Corporation also has Canadian Scientific Research and Experimental Development (“SR&ED”) income tax credits of approximately $2,774,902 (2019 – $2,720,207) which, if not utilized, will start to expire in 2025. No benefit for these losses, pools and credits have been recognized in these consolidated financial statements. The income tax losses, pools and credits are subject to assessment by Canadian taxation authorities.

The Corporation's non-capital losses, if not utilized, expire as follows:

2028	$ 1,850,000
2029	10,070,000
2030	5,290,000
2031	4,930,000
2032	4,800,000
2033 to 2040	23,790,000

14. Related party transactions:

As disclosed in note 17, on March 5, 2021 the Corporation issued debentures to arm's length investors and certain directors of the Corporation. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

15. Financial instruments:

(a) Foreign exchange risk:

Foreign exchange risk is the risk that variation in exchange rates between the United States dollar and foreign currencies will affect the Corporation's operations and financial results. The Corporation does not use derivative instruments to reduce its exposure to foreign currency risk. As a result, the variation in exchange rates could cause unanticipated fluctuations in the Corporation's operating results.

(b) Interest rate risk:

The Corporation maintains its excess cash in interest bearing accounts and term deposits, which are subject to interest rate changes depending on prevailing rates and the length of time the Corporation invests the related cash.

(c) Liquidity risk:

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. See note 1 for information concerning the Corporation's continued reliance on its ability to obtain additional sources of liquidity in order to continue operations.

(d) Credit risk management:

Credit risk is the risk of financial loss to the Corporation if a client or counterparty to a financial instrument fails to meet its contractual obligations. Over 90% of revenue and accounts receivable at year end is due from one customer as is non recurring. The Corporation's exposure to credit risk associated with other receivables is minimal due to the nature of the counterparty being mostly a government agency. Cash is deposited with a large Canadian financial institution.

There has been no change to the Corporation's risk except for the possible impact from COVID-19 as discussed in note 2(j).

16. Government Assistance:

The Government of Canada created a program called the Temporary Wage Subsidy (“TWS”) to provide wage assistance to companies resulting from the COVID-19 outbreak. During the year, the Corporation met the eligibility requirements and received $18,640 (2019 – $nil) in total compensation. The entire amount has been recognized as revenue in the statement of operations for the year ended December 31, 2020.

17. Subsequent events:

On March 5, 2021, the Corporation issued a series of Convertible Debentures (the “Debenture”) of $3,167,383 in new capital and $785,423 of the previous SAFE agreement for total consideration of $3,952,806 ($5,000,000 CDN or the “Principal Amount”) at arm’s length to investors and certain directors of the Corporation (the “Subscribers”).

The Corporation will pay interest on the principal amount outstanding from time to time in accordance with the following: (i) an amount equal to CDN$1,125,000 (the "interest amount") in connection with any repayment or redemption of the Debenture at any time up to June 30, 2022; and (ii) in connection with any repayment or redemption of the Debenture any time on or after July 1, 2022 and prior to December 31, 2022, interest on the amount equal to the principal amount plus the interest amount, at a rate per annum equal to twenty percent (20%), prorated for the period of July 1, 2022 until December 31, 2022.

The Debenture is secured by a first charge security interest in all of the Corporation’s present and after acquired property. At the option of the Subscribers, the entire, or any portion thereof of the Debenture, is convertible into Series 1, preferred shares of the Corporation at a conversion price of CDN $1.70 per share.