Consolidated Financial Statements of

# SPECTRA7 MICROSYSTEMS INC.

Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

# SPECTRA7 MICROSYSTEMS INC.

Years Ended December 31, 2020 and 2019

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# Independent Auditor's Report

To the Shareholders of Spectra7 Microsystems Inc.:

## Opinion

We have audited the consolidated financial statements of Spectra7 Microsystems Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and December 31, 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated 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 consolidated financial statements, which indicates that the Company incurred a comprehensive loss during the year ended December 31, 2020 and, as of that date, had an accumulated deficit. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 these consolidated 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 consolidated 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Murad Bhimani.

MNP LLP

Toronto, Ontario
April 30, 2021

Chartered Professional Accountants
Licensed Public Accountants

## SPECTRA7 MICROSYSTEMS INC.

Consolidated Statements of Loss and Comprehensive Loss
Years Ended December 31, 2020 and 2019
(Expressed in United States Dollars)

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Revenue | **1,031,933** | 4,644,573 |
| Cost of sales | **503,838** | 2,072,071 |
| Gross margin | **528,095** | 2,572,502 |
| Expenses (Income): | | |
| Research and development, net of investment tax credits (Note 13) and including amortization of licenses | **2,814,970** | 5,363,921 |
| Sales and marketing | **352,541** | 1,703,819 |
| General and administrative | **1,298,041** | 2,852,896 |
| Depreciation of right-of-use assets (Note 4) | **308,455** | 341,345 |
| Depreciation of property and equipment (Note 15) | **288,846** | 395,421 |
| Share-based compensation (Note 7(c)) | **492,677** | 1,076,131 |
| Gain on extinguishment of convertible debt (Note 6) | **(228,159)** | - |
| Interest on lease obligation of right-of-use asset (Note 5) | **29,474** | 71,150 |
| Accretion expense (Note 6) | **2,144,974** | 1,863,945 |
| Change in derivative liability | **-** | (35) |
| Foreign exchange gain | **(52,956)** | (56,936) |
| Loss on disposal of property and equipment (Note 15) | **12,951** | 2,901 |
| Total Expenses | **7,461,814** | 13,614,558 |
| Grant income (Note 11) | **(776,085)** | - |
| Net Loss | **(6,157,634)** | (11,042,056) |
| Other comprehensive (loss): | | |
| Unrealized foreign currency translation | **(83,043)** | (253,525) |
| **Total comprehensive loss** | **(6,240,677)** | (11,295,581) |
| **Loss per share** | | |
| Basic and diluted | **(0.01)** | (0.04) |
| **Weighted average number of common shares outstanding** | | |
| Basic and diluted | **530,068,798** | 298,520,049 |

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

## SPECTRA7 MICROSYSTEMS INC.

Consolidated Statement of Changes in Shareholders' Deficiency
Years Ended December 31, 2020 and 2019
(Expressed in United States Dollars)

| | Common shares | Share-based payment reserve | Convertible debentures – share conversion option | Warrants | Subscription received for units | Deficit | Accumulated other comprehensive loss | Total Shareholders' deficiency |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| **Balance, December 31, 2018** | **136,129,926** | **3,946,639** | **1,574,971** | **895,435** | **-** | **(149,841,563)** | **315,887** | **(6,978,705)** |
| Impact of adopting IFRS 16 (Note 3) | - | - | - | - | - | 52,526 | - | 52,526 |
| **Adjusted balance, January 1, 2019** | **136,129,926** | **3,946,639** | **1,574,971** | **895,435** | - | **(149,789,037)** | **315,887** | **(6,926,179)** |
| Shares issued under Restricted Share Unit plan (Note 7(b)(i) | 1,519,168 | (1,519,168) | - | - | - | - | - | - |
| Restricted share units granted to directors to settle unpaid directors' fees (Note 7(c)(i) | - | 94,846 | - | - | - | - | - | 94,846 |
| Non-broker warrants expired | - | 64,952 | - | (64,952) | - | - | - | - |
| Subscription received for common shares | | | | | (4,104) | | | (4,104) |
| Units issued pursuant August Private Placement (Note 7(a)(i) | 3,504,607 | - | - | - | - | - | - | 3,504,607 |
| Units issued pursuant to August Prospectus Offering | 2,454,437 | - | - | - | - | - | - | 2,454,437 |
| Allocation of warrants portion of August Units (Note 7(a)(i)) | (397,601) | - | - | 397,601 | - | - | - | - |
| Cash paid for issuance costs (Note 7(a)(i)) | (679,039) | - | - | (48,546) | - | - | - | (727,585) |
| Shares issued as commission on August Private Placement (Note 7(a)(i)) | 60,864 | - | - | - | - | - | - | 60,864 |
| Shares issued as commission on August Prospectus (Note 7(a)(i)) | 81,941 | - | - | - | - | - | - | 81,941 |
| Allocation of warrant portion of compensation shares (Note 7(a)(i)) | (133,277) | - | - | (9,528) | - | - | - | (142,805) |
| Compensation options issued to brokers (Note 7(a)(i)) | (112,919) | - | - | 112,919 | - | - | - | - |
| Share-based compensation expense (Note 7(b)(iii) | - | 1,076,131 | - | - | - | - | - | 1,076,131 |
| Total comprehensive loss | - | - | - | - | - | (11,042,056) | (253,525) | (11,295,581) |
| **Balance, December 31, 2019** | **142,428,107** | **3,663,400** | **1,574,971** | **1,282,929** | **(4,104)** | **(160,831,092)** | **62,362** | **(11,823,427)** |

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

# SPECTRA7 MICROSYSTEMS INC.

Consolidated Statements of Changes in Shareholders' Deficiency
Years Ended December 31, 2020 and 2019
(Expressed in United States Dollars)

| | Common shares | Share-based payment reserve | Convertible debentures - share conversion option | Warrants | Subscription received for shares not issued | Deficit | Accumulated other comprehensive loss | Total Shareholders' Deficiency |
|---|---|---|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| **Balance, December 31, 2019** | **142,428,107** | **3,663,400** | **1,574,971** | **1,282,929** | **(4,104)** | **(160,831,092)** | **62,362** | **(11,823,427)** |
| Shares issued under Restricted Share Unit plan (Note 7(c)(i)) | 281,789 | (281,789) | - | - | - | - | - | - |
| Subscription received for common shares | - | - | - | - | 744,265 | - | - | 744,265 |
| Units issued on March Private Placement, net of issuance costs (Note 7(a)(i)) | 1,066,065 | - | - | - | - | - | - | 1,066,065 |
| Units issued on July Private Placement, net of issuance costs (Note 7(a)(i)) | 516,311 | - | - | - | - | - | - | 516,311 |
| Allocation of warrants portion of July Units, net of issuance costs (Note 7(a)(i)) | - | - | - | 101,231 | - | - | - | 101,231 |
| Share-based compensation expense (Note 7(c)(iii)) | - | 492,677 | - | - | - | - | - | 492,677 |
| Settlement of Promissory Notes (Note 10) | 753,583 | - | - | - | - | - | - | 753,583 |
| Shares issued upon exercise of stock options | 13,835 | (5,950) | - | - | - | - | - | 7,885 |
| Conversions of convertible debt to shares | 119,404 | - | (13,939) | - | - | - | - | 105,465 |
| Total comprehensive loss | - | - | - | - | - | (6,157,634) | (83,043) | (6,240,677) |
| **Balance, December 31, 2020** | **145,179,094** | **3,868,338** | **1,561,032** | **1,384,160** | **740,161** | **(166,988,726)** | **(20,681)** | **(14,276,622)** |

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

**SPECTRA7 MICROSYSTEMS INC.**
Consolidated Statements of Financial Position
December 31, 2020 and December 31, 2019
(Expressed in United States Dollars)

| | **December 31, 2020** | December 31, 2019 |
|---|---|---|
| | **$** | $ |
| **Assets** | | |
| Current assets: | | |
| Cash | **35,253** | 71,121 |
| Trade and other receivables | **89,224** | 650,573 |
| Investment tax credits *(Note 13)* | **4,033** | 11,884 |
| Inventories *(Note 14)* | **135,981** | 482,925 |
| Prepaid expenses and other assets | **309,563** | 216,524 |
| | **574,054** | 1,433,027 |
| Non-current investment tax credits *(Note 13)* | **7,886** | 24,245 |
| Property and equipment *(Note 15)* | **268,311** | 613,330 |
| Right-of-use assets *(Note 4)* | **99,164** | 608,604 |
| Intangible assets *(Note 16)* | **-** | 312,546 |
| | **949,415** | 2,991,752 |
| **Liabilities** | | |
| Current liabilities: | | |
| Trade and other payables | **5,219,130** | 3,830,582 |
| License liabilities *(Note 16)* | **-** | 269,908 |
| Obligation under finance lease | **-** | 4,482 |
| Promissory notes to related parties *(Note 8)* | **-** | 1,040,000 |
| Deferred revenue | **69,183** | 17,533 |
| Convertible debentures *(Note 6)* | **-** | 9,008,693 |
| Lease obligation on right-of-use assets *(Note 5)* | **110,533** | 345,874 |
| | **5,398,846** | 14,517,072 |
| Non-current convertible debentures *(Note 6)* | **9,827,191** | - |
| Non-current lease obligation on right-of-use assets *(Note 5)* | **-** | 298,107 |
| | **15,226,037** | 14,815,179 |
| **Shareholders' Equity** | | |
| Common shares *(Note 7(a))* | **145,179,094** | 142,428,107 |
| Share-based payment reserve (Note 7(c)) | **3,868,338** | 3,663,400 |
| Convertible debentures - share conversion option (Note 6) | **1,561,032** | 1,574,971 |
| Warrants (Note 7(d)) | **1,384,160** | 1,282,929 |
| Subscription received for shares not issued | **740,161** | (4,104) |
| Deficit | **(166,988,726)** | (160,831,092) |
| Accumulated other comprehensive (loss) income | **(20,681)** | 62,362 |
| | **(14,276,622)** | (11,823,427) |
| | **949,415** | 2,991,752 |

Going concern (Note 1)

Subsequent events (Note 22)

Signed on behalf of the Board:

*"Ron Pasek"*
*Director*

*"Raouf Halim"*
*Director*

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

## SPECTRA7 MICROSYSTEMS INC.
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019
(Expressed in United States Dollars)

| | Year Ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| | $ | $ |
| **Operating activities:** | | |
| Net Loss | **(6,157,634)** | (11,042,055) |
| Items not involving cash: | | |
| Amortization of licenses | **312,546** | 593,057 |
| Depreciation of property and equipment (Note 15) | **340,260** | 455,185 |
| Depreciation of right-of-use assets (Note 4) | **308,455** | 341,345 |
| Share-based compensation | **492,677** | 1,076,131 |
| Gain on extinguishment of convertible debt | **(228,159)** | - |
| Accretion expense | **2,144,974** | 1,863,945 |
| Release of government grant (Note 11) | **(776,085)** | - |
| Change in value of derivative liability | **-** | (35) |
| Loss on disposal of property and equipment | **12,951** | 2,901 |
| | **(3,550,015)** | (6,709,526) |
| Net change in non-cash working capital items | | |
| Trade and other receivables | **561,349** | (57,629) |
| Investment tax credits | **24,210** | 47,997 |
| Inventories | **346,944** | 515,335 |
| Prepaid expenses and other assets | **(93,039)** | 86,698 |
| Trade and other payables | **1,104,957** | 1,334,923 |
| Deferred revenue | **51,650** | (731,267) |
| | **(1,553,944)** | (5,513,469) |
| Grant funds received (Note 11) | **776,085** | - |
| Interest paid | **(745,980)** | (379,637) |
| | **(1,523,839)** | (5,893,106) |
| **Financing activities:** | | |
| Proceeds from promissory notes to related parties | **50,000** | 1,342,106 |
| Proceeds from exercise of stock options | **7,885** | - |
| Repayment of promissory notes | **-** | (76,294) |
| Repayment of obligation under finance lease (Note 5) | **(4,482)** | (35,904) |
| Repayment of license liabilities | **-** | (14,254) |
| Repayment of lease obligation on right-of-use assets (Note 5) | **(318,331)** | (305,968) |
| Proceeds from subscribed shares | **744,265** | - |
| Proceeds from the issuance of shares, net of issuance costs (Note 7(a)(i)) | **1,683,607** | 4,701,545 |
| | **2,162,944** | 5,611,231 |
| **Investing activities:** | | |
| Acquisition of property and equipment (Note 15) | **(8,205)** | (83,491) |
| Acquisition of licenses | **-** | (545,259) |
| | **(8,205)** | (628,750) |
| Effect of foreign exchange rate changes on cash | **(666,768)** | 49,543 |
| (Decrease)/Increase in cash | **(35,868)** | (861,082) |
| Cash, beginning of year | **71,121** | 932,203 |
| Cash, end of year | **35,253** | 71,121 |

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

## 1. Nature of operations, going concern and continuation of the business

Spectra7 Microsystems Inc. (the "Company" or "Spectra7"), is a publicly traded company listed on the TSX Venture Exchange (the "TSXV"). The Company is a high performance analog semiconductor company delivering unprecedented bandwidth, speed and resolution to enable disruptive industrial design for leading electronics manufacturers in Virtual Reality ("VR"), Augmented Reality ("AR"), Mixed Reality ("MR"), data centers and other connectivity markets.

The Company is domiciled in Canada and its registered office is located at 181 Bay Street, Suite 1800, Toronto, Canada M5J 2T9.

The Company's consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize the carrying value of its assets and discharge its liabilities in the normal course of operations. The Company incurred a comprehensive loss of $6,240,677 for the year ended December 31, 2020 (December 31, 2019 - $11,295,581) and has an accumulated deficit of $166,988,726 (December 31, 2019 - $160,831,092). To date, the Company has funded operations through debt financings and through private and public equity offerings. These factors represent material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing and/or achieve profitable operations in the future. The consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

The COVID-19 pandemic has negatively impacted the Company and its impact on the data center programs is uncertain. While demand for the Company's new data center products remains strong, Spectra7 is currently experiencing significant staffing issues, customer disruptions, and supply chain challenges caused by the spread of COVID-19 and associated shut downs that are expected to continue to impact overall revenues in the near term. Revenue for the year ended December 31, 2020 was significantly reduced as a result of the COVID-19 pandemic. In response to the material near-term revenue impact, the Company has significantly reduced operating expenses, including employee furloughs. The Company continues to pursue the best available paths to manage operational risk and preserve capital during this time.

On April 24, 2020, the Company applied for enrollment in the Paycheck Protection Program ("PPP") formed under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The PPP provides funding by the U.S. Small Business Administration ("SBA"), an Agency of the United States of America, to incentivize small businesses to maintain employees on the payroll during the Coronavirus (COVID-19) pandemic. On June 5, 2020, the Paycheck Protection Program Flexibility Act ("PPPFA") was approved by the United States Congress to provide greater flexibility in order for recipients to be eligible for forgiveness of funds received under the PPP. On October 9, 2020, the Company applied for forgiveness of the funds received under the PPP.

## 2. Basis of presentation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved for issuance by the Board of Directors on April 30, 2021.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value through profit or loss. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

These consolidated financial statements are presented in United States dollars. The Company's functional currency is Canadian dollars.

c) Basis of consolidation

**2. Basis of presentation (Continued)**

The consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiaries:

Spectra7 Microsystems Corp., a company incorporated under the laws of Ontario;
Spectra7 Microsystems Ltd., a company incorporated under the laws of Delaware;
Spectra7 Microsystems (Ireland) Limited, a company incorporated under the laws of Ireland; and
Si Bai Ke Te (Dongguan) Electronics Trading Co. Ltd., a China wholly foreign owned enterprise (WFOE).

All intercompany balances and transactions are eliminated in full on consolidation.

d) New Accounting Policies and Accounting Standards

(i) New Accounting Policies

During the year ended December 31, 2020, the Company adopted the following accounting policy related to government grants due to the receipt of funds under the PPP (see Notes 1 and 3).

(ii) New Accounting Standards

The Company adopted the following amendments to accounting standards as of January 1, 2020:

<u>IFRS 3: Business Combinations</u>

In October 2018, the IASB issued amendments to IFRS 3, Business Combinations ("IFRS 3"). The amendments were effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The amendments clarify the definition of a business, with the objective of assisting entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. Adoption of the amendments to IFRS 3 did not have any impact on the Company's condensed consolidated financial statements. They may affect whether future acquisitions are accounted for as business combinations or asset acquisitions, along with the resulting allocation of the purchase price between the net identifiable assets acquired and goodwill.

There was no impact of this amendment on the Company's Consolidated Financial Statements.

The following are future accounting standards issued as at January 1, 2021, but not yet effective:

<u>IAS 1: Presentation of Financial Statements</u>

In January 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements ("IAS 1") to clarify the requirements for classifying liabilities as current or non-current. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company is currently assessing the impact of the amendment to IAS 1 to the Company's consolidated financial statements.

The amendments to IAS 1 are not expected to have a significant impact on the Company's Consolidated Financial Statements

<u>Amendments to IFRS 7 - Financial Instruments: Disclosure (IFRS 7); IFRS 9; IAS 39, Financial Instruments: Recognition and Measurement; and IFRS 16 - Leases (IFRS 16)</u>

In August 2020, the IASB published IBOR Reform Phase 2 which address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. For financial instruments at amortized cost, the amendments introduce a practical expedient such that if a change in the contractual cash flows is as a result of IBOR reform and occurs on an economically equivalent basis, the change will be accounted for by updating the effective interest rate with no immediate gain or loss recognized. The amendments are effective for annual periods beginning on or after January 1, 2021, with earlier application permitted.

## 2. Basis of presentation (Continued)

The amendments are not expected to have a significant impact on the Company's Consolidated Financial Statements

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The IASB also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the IASB decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment - Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

## 3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently throughout the Company.

*Inventories*

Inventories consist of microchip component parts. Raw material inventories, work in process and finished goods are recorded at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its present location and condition.

An assessment is made of the net realizable value of inventory at each reporting period. Net realizable value is the estimated selling price less the estimated cost of completion and the estimated costs necessary to make the sale. When circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of any write down previously recorded is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value. Raw materials are not written down unless the goods in which they are incorporated are expected to be sold for less than cost, in which case, they are written down by reference to replacement cost of the raw materials, as this is the best indicator of net realizable value.

*Financial instruments*

The Company has adopted IFRS 9 Financial Instruments ("IFRS 9") on January 1, 2018. On adoption of IFRS 9, the Company adopted and implemented the following accounting policy:

**3. Summary of significant accounting policies (Continued)**

*Classification*

The Company classifies its financial instruments in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading including all equity derivative instruments are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election on an instrument-by-instrument basis to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL or the Company has opted to measure them at FVTPL. The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 Financial Instruments: Recognition and Measurements ("IAS 39") and the new classification under IFRS 9:

| Financial Instrument | Classification | Measurement |
|---|---|---|
| ***Financial Assets*** | | |
| Cash | Loans and receivables | Amortized cost |
| Trade and other receivables | Loans and receivables | Amortized cost |
| ***Financial Liabilities*** | | |
| Trade and other payables | Other liabilities | Amortized cost |
| Obligation under finance lease | Other liabilities | Amortized cost |
| License liabilities | Other liabilities | Amortized cost |
| Lease obligations | Other liabilities | Amortized cost |
| Promissory notes to related parties | Other liabilities | Amortized cost |
| Convertible debentures | Other liabilities | Amortized cost |

*Measurement*

*Financial assets and liabilities at amortized cost:*

Financial assets and liabilities at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost less any impairment.

*Impairment of financial assets at amortized cost*

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

*Derecognition*

*Financial assets*

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the Consolidated Statements of Loss and Comprehensive Loss.

## 3. Summary of significant accounting policies (Continued)

*Financial liabilities*

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the Consolidated Statements of Loss and Comprehensive Loss.

*Impact of adopting IFRS 9*

Under IAS 39, the 2017 amendments to the term loan facility (note 7(b)) were accounted for as a modification such that the Company adjusted the carrying value of the Loan Facility for both the financing costs paid and cost of the Amendment Warrants issued and by adjusting the effective interest rate such that the adjusted carrying amount and the revised estimate of future cash flows are discounted over the revised estimated life of the Loan Facility. Under IFRS 9, the Company recalculated the amortized cost of the modified term loan facility by discounting the modified contractual cash flows using the original effective interest rate. IFRS 9 requires that the difference between the amortized cost of the modified term loan facility and the carrying value of the term loan facility prior to amendment is recognized immediately through the profit or loss.

*Property and equipment*

Property and equipment are carried at cost, less accumulated depreciation. The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recognized based on the cost of an item of property and equipment, less its estimated residual value, using the straight-line method, over its estimated useful life at the following rates:

| | |
|---|---|
| Computer software | 1 year |
| Computer hardware, laboratory and testing equipment | 3 years |
| Masks | Estimated life of the product, not to exceed 5 years |
| Office equipment | 5 years |
| Leasehold improvements | Term of lease |

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of loss and comprehensive loss. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately are capitalized and depreciated over their estimated useful life. Repair and maintenance costs are recognized in the consolidated statements of loss and comprehensive loss as incurred.

The Company reviews the useful life, depreciation method and carrying value of its property and equipment annually with the effect of any changes in estimate accounted for on a prospective basis. Where the carrying value exceeds the estimated recoverable amount, an impairment is measured and recorded based on the higher of fair value less costs to sell or the asset's value in use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful life.

**3. Summary of significant accounting policies (Continued)**

*Intangible assets*

Definite life intangible assets acquired in business combinations and pursuant to asset purchases are recorded at their fair values at the date of acquisition. Amortization is recognized on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Customer relationships | 3 years |
| Software and technology | 3 years |

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The Company has no indefinite life intangibles.

*Licenses*

Licenses to use electronic design automation tools are recorded at the aggregate cost of the payments in the contract less accumulated amortization and accumulated impairment losses. Amortization commences in the year the license is put into use in the development of the microchip and is amortized on a straight-line basis over its remaining license term. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Liabilities due on license agreements are classified as other financial liabilities and are recognized initially at fair value and subsequently at amortized cost.

*Impairment of tangible and intangible assets*

The Company reviews at each reporting period the carrying amounts of its tangible and intangible assets which all have finite lives, to determine whether there are indicators that the carrying values are not recoverable. If such an indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs, the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets. Recoverable amount is the higher of fair value less costs to sell and value in use. 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 which the estimates of future cash flows have not been adjusted. The Company bases its impairment calculation on the most recent budgets and forecast calculations, which are prepared separately for each of the Company’s CGUs to which the individual assets are allocated. A long-term growth rate is calculated and applied to project future cash flows. Impairment losses of continuing operations are recognized in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) in expense categories consistent with the function of the impaired asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset or a cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**3. Summary of significant accounting policies (Continued)**

*Government grants and investment tax credits*

Government grants received under incentive programs is accounted for using the cost reduction method; whereby, the grant is netted against the related expense or capital expenditure to which it relates when there is reasonable assurance that the credits will be realized or grant will be received and all attached conditions will be complied with.

Government grants received under reimbursement or funding programs is accounted for using the cost reduction method; whereby, a receivable is set up as the costs are incurred based on the terms of reimbursement or funding program and the expected recoveries are netted against the related expense. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. The Company has presented the government grant in the statement of financial position as Government grants and in the statement of loss and comprehensive loss as other income.

The Company is entitled to certain tax incentives for qualified scientific research and experimental development. These incentives are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the incentives will be received. The investment tax credits are recorded as a reduction of the relevant asset account or of research and development expenses in the period when the expenses occur.

*Convertible debentures*

The liability, equity and other (when applicable) components of convertible notes are presented separately on the statement of financial position, starting from initial recognition. The Company determines the carrying amount of the financial liability by discounting the stream of future payments at the prevailing market rate for a similar liability of comparable credit status and providing substantially the same cash flows. The liability component is then increased by accretion of the discounted amounts to reach the nominal value of the convertible notes at maturity which is recorded in the statement of comprehensive loss as accretion expense.

The carrying amount of other components (when applicable), such as warrants, is determined using the Black-Scholes option pricing model. The carrying amount of the equity component is calculated by deducting the carrying amount of the financial liability and the carrying amounts of any other components (when applicable) from the amount of the convertible notes, and is presented in Equity as an equity component of convertible notes. The equity component is not remeasured subsequent to initial recognition, except on conversion or expiry.

The transaction costs are distributed between liability, equity and other (when applicable) components, on a pro-rata basis according to their carrying amounts.

*Borrowing costs*

Borrowing costs comprise interest payable on borrowings calculated using the effective interest rate method, and the ascribed value of warrants, and are expensed when they are incurred unless they are directly attributable to the acquisition, construction or production of a qualifying asset.

Activity relating to various compensation options issued as commissions and fees to agents in relation to equity and debt financing are reflected within the warrants reserve on the consolidated statement of changes in equity.

*Income taxes*

Tax expense comprises current and deferred tax. Tax is recognized in the statements of comprehensive income except to the extent it relates to items recognized in other comprehensive income or directly in equity.

*Current Tax*

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that are enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

## 3. Summary of significant accounting policies (Continued)

*Deferred Tax*

Deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In addition, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of loss and comprehensive loss in the period in which the enactment or substantive enactment takes place. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available to utilize such amounts. Deferred tax assets are reviewed at each reporting date and are adjusted to the extent that it is no longer probable that the related tax benefits will be realized.

The Company is subject to income tax assessment in multiple jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken in the ordinary course of business for which the ultimate tax determination is uncertain.

The Company recognizes liabilities based on the Company's current understanding of tax laws as applied to the Company's circumstances. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of these financial statements. Additionally, estimating income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income before such deductions expire. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

*Foreign currencies*

The consolidated financial statements are presented in United States dollars. The Company's functional currency is Canadian dollars. As such, an amount is recorded in other comprehensive loss for the translation to presentation currency. The functional currency of its subsidiaries is United States dollars given the majority of revenues and expenses are incurred in United States dollars. Transactions in currencies other than the functional currency are recorded at the rates of exchange at the date of the transaction. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost are translated using historical rates.

Exchange differences are recognized in profit or loss in the period in which they arise.

*Revenue recognition*

The Company has adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15") on a full retrospective basis as of January 1, 2018. Under the full retrospective method, the provisions of IFRS 15 are applied to each period presented in the financial statements, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8"), subject to certain practical expedients that are outlined in IFRS 15.

On adoption of IFRS 15, the Company adopted and implemented the following accounting policy:

The Company's revenue is derived from one performance obligation which is to deliver the Company's product to its customers, being each individual distributor of the Company's product (the "Distributor"). Revenue is recognized when control of the Company's product is transferred to the Distributor and when the Distributor obtains control of the Company's product. The Company considers control to have passed at the point of shipment as all risk of loss or damage to the Company's product passes to the Distributor at this point.

## 3. Summary of significant accounting policies (Continued)

*Revenue recognition (Continued)*

In each period, the Company recognizes revenue, net of any variable consideration, including the right of return. The estimate of expected returns reflects the amount that the Company expects to repay or credit its Distributors, using the expected value method. Revenue includes amounts subject to returns only if it is highly probable that there will be no significant reversal of cumulative revenue if the estimate of expected returns changes.

The Company records an adjustment to cost of sales and inventories representing the Company's right to receive goods back from the Distributor. The adjustment to inventories is initially measured at the carrying amount of the products at the time of sale, less any expected costs to recover the product and any expected reduction in value. In subsequent periods, the Company updates its expected level of returns, adjusting the measurement of the returns liability and inventories.

*Costs to obtain or fulfill a contract*

The Company capitalizes the incremental costs of obtaining a customer if the Company expects to recover those costs. The incremental costs of obtaining a contract are those that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Company capitalizes the costs incurred to fulfill a contract only if these costs meet all of the following criteria:

(i) The costs relate directly to a contract or to an anticipated contract that the Company can specifically identify.
(ii) The costs generate or enhance resources of the Company that will be used to satisfy (or in continuing to satisfy) performance obligations in the future.
(iii) The costs are expected to be recovered.

Contract acquisition and fulfillment costs are amortized using the straight-line method over the expected period of benefit. Costs to obtain or fulfill a contract, if any, are classified as contract costs in the Company’s Consolidated Statements of Financial Position.

*Contract Liabilities*

Customer deposits are recorded as deferred revenue on the consolidated statement of financial position and recognized to revenue when the product is shipped to the customer.

*Leases*

Effective January 1, 2019, the Company adopted IFRS 16: Leases (“IFRS 16”) which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date.

Where a lease has two or more separate lease components the Company has accounted for each lease component within the contract as a lease separately from non-lease components of the contract. The non-lease components are accounted for by applying other applicable standards.

The right of use asset is initially measured at cost which comprises of the lease liability, lease payments made at or before the commencement date, initial indirect costs and asset retirement obligations, less any lease incentives. The right of use asset is subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

**3. Summary of significant accounting policies (Continued)**

*Leases (Continued)*

The lease liability is initially measured at the present value of the future lease payments discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Subsequently, the lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

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

The Company has adopted IFRS 16 using the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to opening deficit at the date of initial application. Comparative information as at December 31, 2018 are not restated to reflect the adoption of IFRS 16 but continue as reported under IAS 17. The Company has elected to not apply IFRS 16 for short term leases that are 12 months or less and for leases of low value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

The Company has applied IFRS 16 on two leases for office premises with a commencement date of January 1, 2019. Using an incremental borrowing rate of 8.75%, a right of use asset and lease obligation of $949,949 was recorded on January 1, 2019 with a reduction to opening deficit of $52,526 for lease inducements.

Lease modifications are accounted for as either a new lease with an effective date of the modification or as a change in the accounting for the existing lease.

*Share-based payments*

Share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Share-based payments to non-employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reasonably, in which case they are measured at the fair value of the equity instruments granted.

The Company maintains two share-based compensation plans for the benefit of its directors, officers, employees and consultants. These plans are a restricted share unit plan (the "RSU Plan") and a stock option plan (the "Stock Option Plan").

The RSU Plan is described in Note 7(b)(i). The fair-value of restricted share units ("RSUs") issued without payment (or if payment is less than fair value) to directors, officers, employees and consultants is determined upon the date of grant and (the difference if less than fair value) recognized as compensation expense over the vesting period for directors, officers or employees and over the period of service for consultants with a corresponding increase in equity. RSUs issued at fair value are booked as equity.

The Stock Option Plan is described in Note 7(b)(ii). The fair-value of the stock options issued to directors, officers, employees and consultants is determined using the Black-Scholes option pricing model incorporating assumptions regarding risk-free interest rates, dividend yield, expected volatility of the Company's stock, and a weighted average expected life of options. For awards with graded vesting, each tranche in an award is considered a separate grant with a different fair value. The fair value of each tranche is recognized over its respective vesting period. For employees, officers and directors, the fair value of each tranche is estimated at the date of grant.

The estimated fair value of the options that are ultimately expected to vest are recorded over the option's vesting period and charged to profit or loss with a corresponding increase in share based payment reserve. When determining the number of options that are expected to vest the Company takes into account historical experience and trends in actual option forfeitures. For all stock options issued, if and when the stock options are exercised, the applicable amounts of share based payment reserve are transferred together with the proceeds to common shares within share capital.

**3. Summary of significant accounting policies (Continued)**

*Share-based payments (Continued)*

For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is re measured, with changes in fair value recognized in profit or loss.

If stock options or RSUs are repurchased from directors, officers or employees and consultants, the excess of the consideration paid over the carrying amount of the stock options or RSUs repurchased is charged to share based payment reserve and or deficit.

The Company has adopted the amended IFRS 2 Share-based payments ("IFRS 2") on January 1, 2018.

Based on management's assessment there are no material retrospective adjustments to the amounts recognized in the Company's Consolidated financial statements for the comparative periods presented.

*Loss per share*

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential securities, which comprise of stock options, RSUs, warrants and special shares.

*Provisions*

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

*Measurement uncertainty and judgments*

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the periods presented herein. Management bases its judgments and estimates on historical experiences and on other various factors it believes to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of trade and other receivables and investment tax credits that are included in the consolidated statement of financial position;
- the net realizable value used to determine the carrying value of inventories and potential write downs or reversals of write-downs to inventories;
- the estimated useful lives and residual value of property and equipment, and licenses which are included in the consolidated statement of financial position and the related depreciation and amortization included in the consolidated statement of loss and comprehensive loss;
- the amount of deferred tax assets only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits to be recovered;
- the inputs and assumptions used in the valuation and recording of share-based payments;

(Expressed in United States Dollars)

## 3. Summary of significant accounting policies (Continued)

*Measurement uncertainty and judgments (Continued)*

- the inputs and assumptions used in the valuation and recording of derivative liability; and
- the assessment of Company's ability to continue as going concern

## 4. Right-of-use assets

The following table sets forth the right-of-use assets:

| | $ |
|---|---|
| **Balance, January 1, 2019 (Note 3)** | 949,948 |
| Depreciation | (341,345) |
| **Balance, December 31, 2019** | **608,604** |

| | $ |
|---|---|
| **Balance, December 31, 2019** | **608,604** |
| Depreciation | (308,455) |
| Lease Termination | (200,985) |
| **Balance, December 31, 2020** | **99,164** |

## 5. Lease obligations on right-of-use assets

The present value of the remaining minimum lease payments on the obligations for right-of-use assets as at December 31, 2020 are as follows:

| | $ |
|---|---|
| **Balance, January 1, 2019** | **949,949** |
| Principal repayments | (305,968) |
| **Balance, December 31, 2019** | **643,981** |
| Principal repayments | (318,331) |
| Derecognition of lease obligation (Note 4) | (215,117) |
| **Balance, December 31, 2020** | **110,533** |
| Current | 110,533 |
| Non-Current | - |

(Expressed in United States Dollars)

**5. Lease obligations on right-of-use assets (Continued)**

Set out below is a maturity analysis of lease liabilities as at December 31, 2020:

| | 2020<br>$ |
|---|---|
| Less than one year | 110,533 |
| One to five years | - |
| More than five years | - |
| Total undiscounted lease obligation | 110,533 |

The following are the amounts recognized in the statement of loss and comprehensive loss:

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Depreciation expense of right-of-use assets | 308,455 | 341,345 |
| Interest on lease obligation of right-of-use asset | 29,474 | 71,150 |
| Variable lease payments | - | 55.443 |
| **Total amount recognized in profit or loss** | 337,929 | 467,938 |

The following amounts were recognized in statement of cash flows:

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| **Total cash outflow for leases** | 4,482 | 14,254 |

The Company's property leases contain extension options exercisable by the Company. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

(Expressed in United States Dollars)

## 6. Convertible debentures

| | $ |
|---|---|
| **Balance, January 1, 2019** | **7,238,396** |
| Accretion expense | 1,863,945 |
| Repayment of interest | (368,913) |
| Foreign exchange translation adjustment | 275,265 |
| **Balance, December 31, 2019** | **9,008,693** |
| Accretion expense | 2,098,823 |
| Repayment of interest | (748,212) |
| Converted to Common Shares | (105,465) |
| Foreign exchange translation adjustment | 22,402 |
| **Balance, December 22, 2020** | **10,276,241** |
| Derecognition of Convertible Debt | (10,048,082) |
| Gain on Derecognition of Convertible Debt | (228,159) |
| **Balance, December 23, 2020** | **-** |

| | $ |
|---|---|
| Fair value of liability component at issuance | 9,711,196 |
| Less: issuance costs | (20,638) |
| | **9,690,558** |
| Accretion expense | 46,151 |
| Foreign exchange translation adjustment | 90,482 |
| **Balance, December 31, 2020** | **9,827,191** |

The Company's convertible debentures are subject to certain covenants including restrictions against incurring certain additional indebtedness. The Company entered into promissory notes with certain directors of the Company during the year ended December 31, 2019 (see Notes 8 and 10), which put the Company offside such covenants. On May 21, 2020 the Company settled all outstanding amounts under the promissory notes and therefore brought the Company into compliance with such restrictive covenants. As of December 31, 2020 the Company is in compliance with all covenants.

During the year, 368,570 common shares were issued upon conversion of $105,465 in convertible debentures. On conversion, this amount and $13,939 related to the share conversion option were recorded in share capital.

On December 23, 2020, the Company entered into First Supplemental Convertible Debenture Indenture (the “Supplemental Indenture”) to amend the terms and conditions for the above debentures as follows:

- To extend the maturity date of the debentures from January 9, 2021 to July 9, 2022;
- To reduce the conversion price of the debentures from CDN $0.35 per common share to CDN $0.05 per common share until January 9, 2022 and to CDN $0.10 per common share from January 10, 2022 to July 9, 2022;
- To provide for payment of 10% bonus principal on maturity including interest at 7% per annum on the additional principal; and

(Expressed in United States Dollars)

## 6. Convertible debentures (Continued)

- To add a make-whole interest payment to the maturity date for Debentures that are converted prior to maturity.

The Company treated the modifications as an extinguishment of the existing instrument and recorded a gain of $228,159 on derecognition.

The Supplemental Indenture was recorded as a new compound financial instrument with debt component of $9,711,196 determined using present value of future cash flows and discount rate of 19%. The residual between the fair value of Supplemental Indenture and amount attributed to debt component was considered conversion feature. Debt component is being amortized using effective interest rate of approximately 20% over its term.

## 7. Shareholders' equity

(a) Common shares

- Authorized share capital consists of an unlimited number of common shares.

The following table summarizes the changes to the issued and outstanding common shares during the year ended December 31, 2020:

| | Common Shares | |
|---|---|---|
| | # | $ |
| **Balance, December 31, 2019** | **409,557,177** | **142,428,107** |
| Shares issued under Restricted Share Unit plan | 2,717,091 | 281,789 |
| Units issued on March Private Placement (i) | 99,999,998 | 1,066,065 |
| Units issued on July Private Placement (i) | 37,724,824 | 516,311 |
| Convertible Debenture Conversions (Note 6) | 368,570 | 119,404 |
| Shares issued upon exercise of stock options | 350,000 | 13,835 |
| Settlement of Promissory Notes (Note 10) | 42,000,000 | 753,583 |
| **Balance, December 31, 2020** | **592,717,660** | **145,179,094** |

The following table summarizes the changes to the issued and outstanding common shares during the year ended December 31, 2019:

| | # | $ |
|---|---|---|
| **Balance, December 31, 2018** | **237,738,585** | **136,129,926** |
| Shares issued under Restricted Share Unit plan (Note 7(b)(i) | 9,168,447 | 1,519,168 |
| August Units issued - August Private Placement (ii) | 93,176,081 | 3,504,607 |
| August Units issued - August Prospectus Offering (ii) | 65,255,480 | 2,454,437 |
| Allocation of warrants portion of August Units (ii) | - | (397,601) |
| Cash paid for issuance costs - shares portion (ii) | - | (679,039) |
| Shares issued as commission - August Private Placement (ii) | 1,797,984 | 60,864 |
| Shares issued as commission - August Prospectus Offering (ii) | 2,420,600 | 81,941 |
| Allocation of warrant portion of compensation shares | - | (133,277) |
| Compensation Options issued to brokers - shares portion August Private Placement and August Prospectus Offering (ii) | - | (112,919) |
| **Balance, December 31, 2019** | **409,557,177** | **142,428,107** |

**7. Shareholders' equity (Continued)**

(a) Common shares (Continued)

(i) Private Placement

On March 10, 2020, the Company announced a non-brokered private placement of up to 100,000,000 common shares in the capital of the Company ("Common Shares") at a price of CDN $0.015 per Common Share for gross proceeds of up to $1,087,132 (CDN $1,500,000), (the "March Private Placement"). The first tranche of the March Private Placement closed on March 10, 2020 and consisted of the issuance of 80,798,400 Common Shares for aggregate gross proceeds of $882,657 (CDN $1,211,976) and recorded on statement of changes in shareholders' deficiency net of issuance costs of $17,105.

On April 20, 2020, the Company completed a second tranche of the March Private Placement, which consisted of the issuance of 19,201,598 Common Shares for aggregate gross proceeds of $204,475 (CDN $288,024) and recorded on statement of changes in shareholders' deficiency net of issuance costs of $3,962.

On June 18, 2020, the Company announced a non-brokered private placement of up to 40,000,000 common shares in the capital of the Company ("Common Shares") at a price of CDN $0.025 per Common Share for gross proceeds of up to $759,071 (CDN $1,000,000), (the "July Private Placement"). Each Unit will consist of one common share in the capital of the Company (each, a "Common Share") and one-half of one common share purchase warrant (each whole warrant, a "Warrant") with each Warrant being exercisable into one Common Share at an exercise price of $0.05 for a period of five years from the date of issuance, subject to adjustment upon certain customary events. The expiry date of the Warrants can be accelerated by the Company at any time following the date that is 4 month and one day after closing of the Private Placement and prior to the expiry date of the Warrants if the closing price of the Common Shares on the TSX Venture Exchange is greater than $0.08 for any 10 non-consecutive trading days.

On July 15, 2020, the Company completed a first tranche of the July Private Placement, which consisted of the issuance of 21,046,904 units (the "Units") at a price of $0.025 per Unit for gross proceeds of $388,778 (CDN $526,173).

On September 25, 2020, the Company completed a second tranche of the July Private Placement, which consisted of the issuance of 16,677,920 units (the "Units") at a price of $0.025 per Unit for gross proceeds of $311,248 (CDN $416,948).

Gross proceeds from the Offerings were allocated to the common shares and Warrants based on their relative fair values. The fair value of the Warrants was determined using Monte Carlo option pricing model with the following assumptions: risk free interest rate of 0.35%, expected life of 5 years and expected volatility of approximately 95%. Issuance costs have been allocated proportionately to common shares and warrants based on respective fair values. The total transaction costs related to July Private Placement was $82,484 resulting in $516,311 and $101,231 recorded as common shares and Warrants net of respective transaction costs.

(ii) Private Placement and Prospectus Offering
On August 21, 2019, the Company closed its best efforts prospectus offering of 65,255,480 units ("August Units") at a price of CDN $0.05 per Unit for aggregate gross proceeds to the Company of $2,454,437 (CDN $3,262,774) (the "August Prospectus Offering"). Each August Unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder thereof to acquire one common share at an exercise price of CDN $0.08 until August 21, 2024 (the "Expiry Date").

Concurrently with the August Prospectus Offering, the Company closed a non-brokered private placement of 93,176,081 August Units, for gross proceeds of $3,504,607 (CDN $4,658,804) (the "August Private Placement" and, together with the August Prospectus Offering, the "Offerings"), bringing the aggregate gross proceeds to the Company from the Offerings to $5,959,044 (CDN $7,921,578).

Gross proceeds from the Offerings were allocated to the common shares and Warrants based on their relative fair values. The fair value of the Warrants was determined using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 1.49%, expected life of 5 years and expected volatility of 33.9%. $5,561,443 and $397,601 were attributed to the common shares and Warrants, respectively with the Warrants classified as equity in shareholders' equity.

**7. Shareholders' equity (Continued)**

(a) Common shares (Continued)

In consideration for the services provided by the agents under the August Prospectus Offering, the Company paid commissions (the "Agents' Commission") equal to 6.0% of the proceeds of the August Prospectus Offering of which $71,870 (CDN $94,736) was payable in cash and a total of $81,941 (CDN $101,030) was payable by the issuance of 2,020,600 common shares at a fair value of CDN $0.045 per share (the "Commission Shares"). In addition, the Company issued 400,000 common shares to Haywood Securities Inc. ("Corporate Finance Fee Shares") at a fair value of $0.045 per share.

The Company also issued to the agents an aggregate of 4,567,883 non-transferable compensation options (the "Compensation Options") equal to 7.0% of the total number of August Units sold under the August Prospectus Offering. Each Compensation Option is exercisable into one common share at an exercise price equal of CDN $0.05 at any time prior to the Expiry Date. The fair value of the Compensation Options was determined at $76,474 using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 1.49%, expected life of 5 years and expected volatility of 33.9%.

In connection with the provision of certain financial advisory services, the Company also paid Haywood Securities Inc. a cash advisory fee and issued an aggregate of 5,900,000 non-transferable advisory options on the same terms as the Compensation Options.

In consideration for the services provided by certain finders in connection with the August Private Placement the Company issued an aggregate of 1,797,984 common shares at a fair value of $0.045 per share. The Company also issued 2,097,648 Compensation Options to the finders, each Compensation Option is exercisable into one common share at an exercise price equal of CDN $0.05 at any time from 5 years of the grant date. The fair value of the Compensation Options was determined at $20,198 using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 1.49%, expected life of 5 years and expected volatility of 33.9%. $18,850 and $1,348 were allocated to the common shares and Warrants respectively based on their relative fair values.

The Company paid $686,356 of transaction costs related to the Offerings, with $640,561 and $45,795 being allocated to the common shares and Warrants, respectively.

Of the 65,255,480 August Units issued pursuant to the August Prospectus Offering, 13,290,000 August Units were issued for settlement of accounts payable and cash transaction costs of $327,653 and there was no gain or loss recognized from these settlements. Also, of the 93,176,081 August Units issued pursuant to the August Private Placement, 15,728,452 August units were issued in settlement of promissory notes of $475,000 and accounts payable of $116,590 and there was no gain or loss recognized from these settlements.

(b) Share based compensation

The Company has established a stock option plan ("Option Plan") and a restricted share unit plan ("RSU Plan") with the intention of attracting, retaining and motivating employees, officers and directors.

The Company's Board of Directors determines, among other things, the eligibility of individuals to participate in the RSU Plan and the Option Plan and the term, vesting periods, and the exercise price of options granted under the Option Plan.

At the annual and special meeting of shareholders in June 2019, shareholders approved amendments to both the Option Plan and the RSU Plan to provide that the combined maximum number of common shares reserved for issuance under both the Option Plan and the RSU Plan, inclusive of existing stock options and RSUs, shall not exceed 47,838,517. The combined aggregate number of common shares reserved under the Option Plan and the RSU Plan at December 31, 2020 was 43,733,061 common shares (December 31, 2019 39,332,300 common shares).

*(i) Restricted Share Units (RSU)*

Vesting is determined by the Company's Board of Directors at the time of grant. Vesting is contingent upon continuous service/employment through the specific vesting date. The fair value as of the grant date is used to determine the value.

(Expressed in United States Dollars)

**7. Shareholders' equity (Continued)**

(b) Share based compensation (Continued)

The following table summarizes information about the Company's outstanding RSUs as at December 31, 2020 and 2019:

| | **December 31, 2020** | December 31, 2019 |
|---|---|---|
| | **#** | # |
| **Balance, opening** | **37,105,661** | **17,135,257** |
| Granted | **1,300,000** | 29,166,114 |
| Forfeited | **(8,623,245)** | (27,263) |
| Vested and common shares issued | **(2,717,091)** | (9,168,447) |
| **Balance, ending** | **27,065,325** | **37,105,661** |

During the year ended December 31, 2020, 2,717,091 RSUs were delivered for $281,789, which was transferred to common shares from share-based payment reserve (December 31, 2019 - 9,168,447 RSUs were delivered for $1,519,168).

*(ii) Stock options*

Vesting is determined by the Company's Board of Directors at the time of grant. Vesting is contingent upon continuous service/employment through the specific vesting date and have an exercise price as set forth in the option certificate issued in respect of such option and in any event shall not be less than market price of the common shares as of the award date.

The expiry date of an option is fixed by the Board of Directors at the time the particular option is awarded, provided that the expiry date shall be no later than the date that is 10 years following the award date of such option, subject to earlier termination upon the option holder ceasing to be a director, officer, employee or consultant of the Company.

The following table summarizes information about the Company's outstanding stock options as at December 31, 2020 and 2019:

| | **December 31, 2020** | | December 31, 2019 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Price | Number of Options | Weighted Average Price |
| | # | CDN $ | # | CDN $ |
| **Options outstanding, opening** | **2,226,639** | **0.43** | **6,428,453** | **0.43** |
| Granted | 17,821,129 | 0.02 | - | - |
| Exercised | (350,000) | 0.03 | | |
| Forfeited | (3,030,032) | 0.17 | (4,201,814) | 0.36 |
| **Options outstanding, ending** | **16,667,736** | **0.07** | **2,226,639** | **0.56** |

During the year ended December 31, 2020, the Company has reversed share-based compensation expenses of $2,802 (year ended December 31, 2019 - $119,602) as a result of the forfeitures.

(Expressed in United States Dollars)

**7. Shareholders' equity (Continued)**

(b) Share based compensation (Continued)

The following table is a summary of the Company's stock options outstanding as at December 31, 2020:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Exercise price range | Number outstanding | Weighted average remaining contractual life (years) | Weighted average exercise price | Number exercisable | Weighted average exercise price |
| CDN $ | # | # | CDN $ | # | CDN $ |
| 0.00 - 0.20 | 14,951,111 | 5.84 | 0.03 | 10,002,379 | 0.03 |
| 0.21 - 0.40 | 215,625 | 3.22 | 0.22 | 188,014 | 0.22 |
| 0.41 - 0.60 | 566,864 | 2.80 | 0.50 | 533,114 | 0.50 |
| 0.61 - 0.80 | 419,100 | 1.43 | 0.67 | 419,100 | 0.67 |
| 0.81 - 1.00 | 75,000 | 0.89 | 0.92 | 75,000 | 0.92 |
| **Balance, December 31, 2020** | **16,667,736** | **5.57** | **0.07** | **11,217,607** | **0.08** |

The following table is a summary of the Company's stock options outstanding as at December 31, 2019:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Exercise price range | Number outstanding | Weighted average remaining contractual life (years) | Weighted average exercise price | Number exercisable | Weighted average exercise price |
| CDN | # | # | CDN $ | # | CDN $ |
| 0.00 - 0.20 | 100,000 | 5.61 | 0.19 | 33,332 | 0.19 |
| 0.21 - 0.40 | 385,000 | 4.64 | 0.22 | 226,763 | 0.22 |
| 0.41 - 0.60 | 747,500 | 3.16 | 0.48 | 603,534 | 0.47 |
| 0.61 - 0.80 | 556,639 | 2.18 | 0.69 | 536,353 | 0.69 |
| 0.81 - 1.00 | 437,500 | 0.41 | 0.93 | 437,500 | 0.93 |
| **Balance, December 31, 2019** | **2,226,639** | **2.74** | **0.56** | **1,837,482** | **0.61** |

(Expressed in United States Dollars)

**7. Shareholders' equity (Continued)**

(b) Share based compensation (Continued)

*(iii) Share based compensation expense*

For its RSU Plan and Option Plan, the Company recognized share-based compensation expense of $492,677 for the year ended December 31, 2020 ($1,076,131 for the year ended December 31, 2019) with a corresponding amount recognized as share-based payment reserve.

The fair value of the RSUs is determined based upon the Company's stock price on the date of grant. The fair value of stock options granted during the year ended December 31, 2020 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

| | Year Ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| Dividend yield | 0% | N/A |
| Expected volatility | 134% | N/A |
| Risk free rate of return | 0.84% | N/A |
| Forfeiture rate | 10% | N/A |
| Expected life | 6.5 years | N/A |

Expected volatility is based on comparable companies listed on various exchanges.

(c) Share-based payment reserve

The following is a continuity schedule for the years ended December 31, 2020 and December 31, 2019:

| | $ |
|---|---|
| **Balance, December 31, 2018** | **3,946,639** |
| Shares issued pursuant to settlement of RSUs | (1,519,168) |
| RSUs issued on settlement of debt | 94,846 |
| Non-broker warrants expired | 64,952 |
| Share based compensation expense | 1,076,131 |
| **Balance, December 31, 2019** | **3,663,400** |
| Shares issued pursuant to settlement of RSUs | (281,789) |
| Share-based compensation expense | 492,677 |
| **Balance, December 31, 2020** | **3,874,288** |

(Expressed in United States Dollars)

**7. Shareholders' equity (Continued)**

(d) Warrants

The following table summarizes information about the Company's outstanding warrants as at December 31, 2020 and 2019:

| | **December 31, 2020** | | December 31, 2019 | |
|---|---|---|---|---|
| | Number of Warrants | Weighted Average Price | Number of Warrants | Weighted Average Price |
| | # | CDN $ | # | CDN $ |
| **Balance, opening** | **151,550,744** | **0.17** | 68,138.557 | 0.35 |
| Warrants component of July Private Placement (Note 7(i)) | **18,862,412** | **0.05** | - | - |
| Prospectus Offering/ August Private Placement (Note 7(ii)) | **-** | **-** | 12,565,531 | 0.05 |
| Warrants component of August Prospectus Offering (Note 7(ii)) | **-** | **-** | 32,627,740 | 0.08 |
| Warrants component of August Private Placement (Note 7(ii) | **-** | **-** | 46,588,041 | 0.08 |
| Non-broker warrants expired | **-** | | (7,679,125) | 0.55 |
| Broker warrants expired | **(3,063,000)** | **0.35** | (690,000) | 0.40 |
| **Balance, ending** | **167,350,156** | **0.16** | 151,550,744 | 0.17 |

The following is a summary of the warrants outstanding as at December 31, 2020:

| **Number of warrants outstanding** | **Exercise Price** | **Expiry Date** |
|---|---|---|
| Non-broker Warrants | | |
| 22,182,975 | CDN $0.50 | January 9, 2021 |
| 14,168,145 | CDN $0.1575 | July 6, 2023 |
| 16,206,114 | CDN $0.225 | October 30, 2023 |
| 79,215,781 | CDN $0.08 | August 21, 2024 |
| 10,523,452 | CDN $0.05 | July 15, 2025 |
| 8,338,960 | CDN $0.05 | September 25, 2025 |
| Broker Warrants (Compensation Options) | | |
| 497,137 | CDN $0.1575 | July 6, 2023 |
| 1,447,051 | CDN $0.225 | October 30, 2023 |
| 12,565,531 | CDN $0.05 | August 21, 2024 |
| Waiver Warrants | | |
| 2,205,010 | CDN $0.30 | February 24, 2022 |

(Expressed in United States Dollars)

**7. Shareholders' equity (Continued)**

(d) Warrants

The following is a summary of the warrants outstanding as at December 31, 2019:

| Number of warrants outstanding | Exercise Price | Expiry Date |
|---|---|---|
| Non-broker Warrants[(1)] | | |
| 22,182,975 | CDN $0.50 | January 9, 2021 |
| 14,168,145 | CDN $0.1575 | July 6, 2023 |
| 16,206,114 | CDN $0.225 | October 30, 2023 |
| 79,215,781 | CDN $0.08 | August 21, 2024 |
| Broker Warrants (Compensation Options) | | |
| 3,063,000 | CDN $0.35 | January 9, 2020 |
| 497,137 | CDN $0.1575 | July 6, 2023 |
| 1,447,051 | CDN $0.225 | October 30, 2023 |
| 12,565,531 | CDN $0.05 | August 21, 2024 |
| Waiver Warrants | | |
| 2,205,010 | CDN $0.30 | February 24, 2022 |

[(1)] Subject to acceleration in certain circumstances.

**8. Related party transactions and balances**

The Company transacts with key individuals from management and with its directors who have authority and responsibility to plan, direct and control the activities of the Company. The nature of these dealings was in the form of payments for services rendered in their capacity as employees and as directors of the Company.

The Company's key management personnel are comprised of the Board of Directors and current and former members of the executive team of the Company.

Key management personnel compensation is comprised of the following:

| | **Year Ended December 31,** | |
|---|---|---|
| | **2020** | 2019 |
| | **$** | $ |
| Salaries, fees and short-term benefits | **322,997** | 2,257,166 |
| Share-based benefits | **446,881** | 867,353 |
| | **769,878** | 3,124,519 |

During the year, the Company settled the non-interest bearing promissory notes payable to certain directors of the Company in the amount of $750,000, adjusted for the effect of foreign exchange rate (December 31, 2019 - $1,040,000). The promissory notes were non-interest bearing and repayable within one year. See Note 10.

(Expressed in United States Dollars)

## 9. Economic dependence

During the year ended December 31, 2020, the Company derived approximately 96% of its revenue from two customers (December 31, 2019 – 96% from four customers).

## 10. Promissory Notes

As at December 31, 2019, the Company had $1,040,000 owing to certain directors of the Company pursuant to outstanding promissory notes (the "Promissory Notes"). During year ended December 31, 2020, the Company settled $290,000 of the Promissory Notes with funds from the issuance of Common Shares pursuant to the March Private Placement as described in Note 7(a)(i). During year ended December 31, 2020, the Company issued an aggregate of 42,000,000 Common Shares to directors of the Company at market price of CDN $0.025 per Common Share to settle the remaining $750,000 Promissory Notes, adjusted for the effect of foreign exchange rate.

## 11. Government Grant

| | $ |
|---|---|
| **Balance, January 1, 2020** | **-** |
| Received during the period | 776,085 |
| Released to the statement of loss and comprehensive loss | (776,085) |
| **Balance December 31, 2020** | **-** |

Under the terms of the PPP, the Company received approval and grant from a US based bank and the SBA for $776,085 at an interest rate of 1.0% per annum and maturing in 24 months. Payments will not be due by the Company during the initial six-month period and, commencing one month after such six-month period, the Company shall be responsible for monthly payments of principal and interest in equal amounts until the maturity date.

Under the CARES Act, the Company is eligible for forgiveness of both the principal and accrued interest to the extent that the Funds are used to cover eligible payroll, mortgage interest, rent and utility costs over a 24-week period following receipt of the grant and so long as the Company retains its employees and maintains their levels of compensation. No more than 40% of the funds may be allocated to non-payroll costs.

The Company intends to use the funds for the purposes set out in the CARES Act and the PPPFA and apply for forgiveness of the grant either on the maturity date or prior to the maturity date if all the Funds have been used by the Company. As at December 31, 2020, the Company reasonably expects that it will meet the terms of forgiveness under the CARES Act and on this basis, the Company considers the funds to be in the form of a government grant (see Note 2(d)). On October 9, 2020, the Company submitted the application for forgiveness to the SBA following an initial review by its bank.

## 12. Trade and Other Payables

Trade and other payables are comprised of the following:

| | **December 31, 2020** | December 31, 2019 |
|---|---|---|
| | **$** | $ |
| Trade payables | **3,203,598** | 2,363,662 |
| Other payables | **2,015,532** | 1,466,920 |
| Total | **5,219,130** | 3,830,582 |

As at December 31, 2020 the amount of other payables is $2,015,532 (December 31, 2019 - $1,466,920), and includes $1,293,436 (December 31, 2019 - $1,198,454) related to accrued executive payroll and bonus.

## 13. Investment tax credits receivable

The Company claims research and development deductions and related investment tax credits ("ITCs") for Irish income tax purposes based on management's interpretation of the applicable legislation of the respective countries. These claims are subject to audit by tax authorities and any adjustments that result could adjust the investment tax credits recorded.

Irish investment tax credits denominated in Euros are first available for offset against the Company's corporate tax liability of the current and preceding accounting periods. Any excess that remains is repaid to the Company in equal instalments over three years.

Tax credits receivable expected to be recovered within twelve months of the statement of financial position date are presented as current assets. All other investment tax credits receivable are presented as non-current assets.

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Recoverable amount - current | **4,033** | 11,884 |
| Recoverable amount - non-current | **7,886** | 24,245 |
| | **11,919** | 36,129 |

Investment tax credits recognized as a reduction of research and development expense:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Estimate of investment tax credits claimed for current year | **13,000** | 13,000 |
| Decrease in investment tax credits as a result of actual amounts received over amounts accrued for prior year's claims | **(602)** | (601) |
| Investment tax credits credited against research and development expense | **(12,398)** | (12,399) |

## 14. Inventories

| | **2020** | 2019 |
|---|---|---|
| | $ | $ |
| Work-in-progress | **301,014** | 483,865 |
| Finished goods | **139,318** | 318,471 |
| | **440,332** | 802,336 |
| Less: provision for obsolescence | **(304,351)** | (319,411) |
| | **135,981** | 482,925 |

Inventories recognized as cost of sales for the year ended December 31, 2020 amounted to $452,396 ($1,999,513 for the year ended December 31, 2019).

(Expressed in United States Dollars)

## 15. Property and equipment

| | Computer hardware/ software | Laboratory Equipment | Masks and Testing Equipment | Office Equipment | Leasehold Improvements | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Cost, balance** | | | | | | |
| December 31, 2018 | 1,402,333 | 2,334,963 | 2,414,396 | 283,099 | 110,828 | 6,545,619 |
| Additions | 13,309 | 15,325 | 54,857 | - | - | 83,491 |
| Disposals | - | (20,500) | - | (5,996) | - | (26,496) |
| Currency movement | 13 | 72 | - | 2 | - | 87 |
| December 31, 2019 | 1,415,655 | 2,329,860 | 2,477,197 | 269,161 | 110,828 | 6,602,701 |
| Additions | - | 5,705 | 2,500 | - | - | 8,205 |
| Disposals | (22,644) | (257,999) | (262,490) | (12,083) | (37,500) | (592,716) |
| Currency movement | (203) | (1,077) | - | - | - | (1,280) |
| December 31, 2020 | 1.392,808 | 2,076,489 | 2,214,707 | 257,078 | 73,328 | 6,016,910 |
| **Accumulated depreciation** | | | | | | |
| December 31, 2018 | 1,368,317 | 2,172,035 | 1,810,788 | 155,807 | 50,771 | 5,557,718 |
| Depreciation | 28,624 | 113,551 | 238,920 | 42,216 | 31,874 | 455,185 |
| Disposals | - | (20,500) | - | (7,037) | - | (27,537) |
| Currency movement | 7 | 43 | - | 3,955 | - | 4,005 |
| December 31, 2019 | 1,396,948 | 2,265,129 | 2,049,708 | 194,941 | 82,645 | 5,989,371 |
| Depreciation | 14,414 | 51,636 | 215,465 | 39,025 | 19,720 | 340,260 |
| Disposals | (22,464) | (247,557) | (262,498) | (9,746) | (37,500 | (579,765) |
| Currency movement | (191) | (1,076) | - | - | - | (1,267) |
| December 31, 2020 | 1.388,707 | 2,068,132 | 2,002,675 | 224,220 | 64,865 | 5,748,599 |
| **Carrying amounts** | | | | | | |
| December 31, 2019 | 18,707 | 64,731 | 427,489 | 74,220 | 28,183 | 613,330 |
| **December 31, 2020** | **4,101** | **8,357** | **214,532** | **32,858** | **8,463** | **268,311** |

Included in laboratory equipment is equipment under a finance lease agreement with a cost of $nil (December 31, 2019 - $20,500) and accumulated depreciation of $20,450 (December 31, 2019 - $27,110).

Of the total depreciation recorded in the current year, $51,414 (2019 - $59,764) was recorded as part of cost of sales.

(Expressed in United States Dollars)

### 16. Intangible assets

| | Licenses |
|---|---|
| | $ |
| **Cost** | |
| Balance, December 30, 2018 | 9,332,655 |
| Additions | 545,259 |
| Balance, December 31, 2019 | 9,877,914 |
| Additions | - |
| Balance, December 31, 2020 | 9,877,914 |
| **Accumulated amortization** | |
| Balance, December 30, 2018 | 8,972,311 |
| Amortization | 593,057 |
| Balance, December 31, 2019 | 9,565,368 |
| Amortization | 312,546 |
| Balance, December 31, 2020 | 9,877,914 |
| **Carrying Amounts** | |
| Balance, December 31, 2019 | 312,546 |
| **Balance, December 31, 2020** | **-** |

Amounts payable on license agreements that have extended terms in excess of one year are presented as long-term liabilities:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| No later than 1 year | **-** | 269,908 |
| Later than 1 year, but no later than 5 years | **-** | - |
| | **-** | 269,908 |

(Expressed in United States Dollars)

**17. Income taxes**

A reconciliation between the Company's statutory and effective tax rate is as follows:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Net loss before income tax | **(6,157,634)** | (11,042,056) |
| Combined Federal and Provincial income tax rate | **26.50%** | 26.50% |
| Recovery based on statutory tax rate | **(1,631,773)** | (2,926,144) |
| Increase (decrease) in tax expense | | |
| Permanent differences | **133,409** | 330,664 |
| Effect of different tax rates in foreign jurisdictions | **(78,751)** | (9,261) |
| Change in temporary differences not recognized | **2,081,440** | 2,936,467 |
| Adjustment related to prior periods | **231,897** | (4,730) |
| Other | **34,513** | 1,350 |
| Deductible equity issuance costs | **-** | (245,187) |
| Foreign exchange translation | **(770,735)** | (83,113) |
| Income tax expense (recovery) | **-** | - |

Deferred tax assets (liabilities) not recognized in the consolidated statements of financial position:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Unused tax losses | **34,267,776** | 32,840,803 |
| Undeducted SR&ED expenses | **5,961,232** | 5,961,232 |
| Investment tax credits carried forward | **5,152,216** | 4,766,171 |
| Tangible and intangible assets | **623,019** | 475,795 |
| Share issuance costs and financing fees | **381,254** | 550,456 |
| Convertible debentures | **(85,381)** | (292,704) |
| Right of use asset | **2,729** | 13,041 |
| Provisions | **308,394** | 345,433 |
| Other | **24,552** | 49,837 |
| Deferred tax assets | **46,635,791** | 44,710,063 |

(Expressed in United States Dollars)

**17. Income taxes (Continued)**

*Non-capital losses*

As at December 31, 2020, the Company has non-capital losses for carry forward to reduce future years' income for tax purposes which, if unused, expire as follows:

| | Canada | USA |
|---|---|---|
| | **$** | **$** |
| 2025 | - | - |
| 2026 | 2,877,000 | - |
| 2027 | 3,757,000 | - |
| 2028 | 4,371,000 | - |
| 2029 | 4,371,000 | - |
| 2030 | 2,715,000 | - |
| 2031 | 5,514,000 | - |
| 2032 | 6,394,000 | - |
| 2033 | 1,611,000 | - |
| 2034 | 8,985,000 | - |
| 2035 | 8,432,000 | - |
| 2036 | 11,643,000 | - |
| 2037 | 19,168,000 | - |
| 2038 | 13,733,000 | - |
| 2039 | 4,349,000 | - |
| 2040 | 7,287,000 | - |
| Indefinitely | - | 33,928 |
| | 105,207,000 | 33,928 |

The Company has Irish loss carryforwards of $51,141,695 which do not expire. These losses can be carried forward indefinitely for offset against future profits of the same trade.

*Undeducted scientific research and experimental development expenses*

As at December 31, 2020, the Company has unused scientific research and experimental development expenditures ("SR&ED") available in Canada for carry forward to reduce future years' income for tax purposes of $22,495,216 (December 31, 2019 - $22,495,216). These undeducted expenses have no expiry date.

*Available scientific research and experimental development investment tax credits*

The Company has non-refundable scientific research and experimental development investment tax credits in Ireland and Canada that can be applied against income taxes payable in each respective country. The Irish ITC of $2,989,161 (December 31, 2019 - $2,603,120) do not expire.

The unused Canadian ITC of $2,943,000 expire as follows:

| | Canada |
|---|---|
| | **$** |
| 2024 | 27,000 |
| 2025 | 274,000 |
| 2026 | 764,000 |
| 2027 | 686,000 |
| 2028 | 346,000 |
| 2029 | 198,000 |
| 2030 | 504,000 |
| 2031 | 108,000 |
| 2032 | 36,000 |
| | 2,943,000 |

(Expressed in United States Dollars)

## 18. Financial instruments

The Company may be exposed to risks of varying degrees of significance that affect its ability to achieve its strategic objectives. The main objectives of the Company's risk processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed to are as follows:

*Fair value*

The fair value of cash, trade and other receivables, trade and other payables, license liabilities, lease liabilities, promissory notes to related parties, lease obligation on right of use assets and also approximate their carrying values due to their short-term nature.

| | **December 31, 2020** | | December 31, 2019 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| | **$** | **$** | $ | $ |
| Financial assets | | | | |
| Cash | **35,253** | **35,253** | 71,121 | 71,121 |
| Trade and other receivables | **89,224** | **89,224** | 650,573 | 650,573 |
| Financial liabilities | | | | |
| Trade and other payables | **5,219,130** | **5,219,130** | 3,830,582 | 3,830,582 |
| License liabilities | **-** | **-** | 269,908 | 269,908 |
| Lease liabilities | **-** | **-** | 4,482 | 4,482 |
| Promissory notes to related parties | **-** | **-** | 1,040,000 | 1,040,000 |
| Lease obligation on right of use assets | **110,533** | **110,533** | 345,874 | 345,874 |
| Convertible debentures | **9,827,191** | **9,827,191** | 9,008,693 | 9,008,693 |

*Basis of fair values*

Assets and liabilities recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) observed in active markets for identical assets or liabilities.
Level 2 – 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).
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There have been no significant transfers between levels during the year.

**18. Financial instruments (Continued)**

*Foreign currency risk*

The Company may undertake sales and purchases transactions in foreign currencies, and therefore is exposed to gains or losses due to fluctuations in foreign currency exchange rates. Management believes the foreign exchange risk derived from currency conversions is currently low and therefore does not actively hedge its foreign currency risk. There has been no change to the Company's policies and processes with respect to the way it manages foreign currency risk. The balance sheet includes the following amounts expressed in United States dollars with respect to financial assets and liabilities for which cash flows are denominated in the following foreign currencies:

| | **December 31, 2020** | December 31, 2019 |
|---|---|---|
| | **$** | $ |
| Cash | | |
| Canadian dollars | **2,587** | 5,058 |
| Euro | **1,594** | 5,458 |
| Chinese Yuan | **2,684** | 3,838 |
| Trade and other receivables | | |
| Canadian dollars | **-** | 9,654 |
| Euro | **-** | - |
| Investment tax credits receivable | | |
| Euro | **11,919** | 36,129 |
| Accounts payable and accrued charges | | |
| Canadian dollars | **502,092** | 308,594 |
| Euro | **42,231** | 44,071 |
| British pound | **8,064** | 7,790 |
| Chinese Yuan | **15,691** | 183,340 |
| Taiwan Dollar | **-** | 2,147 |

*Interest risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk associated with the Company's Convertible Debentures arises from fluctuations in interest rates and the degree of volatility of these rates. The Convertible Debentures provides for a fixed annual rate of 7% and hence no interest rate risk. The Company does not use derivative financial instruments to reduce its exposure to interest rate risk.

*Credit risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to trade and other receivables and money held in the Company's bank accounts. The carrying value of these assets represents the maximum credit exposure. The Company mitigates this risk by monitoring the credit worthiness of its customers and only dealing with creditworthy counterparties. At December 31, 2020, two customers whose trade receivables exceeded 10% of the total trade and other receivables balance represented a combined 96% of the Company's trade and other receivables. At December 31, 2019, three customers represented 98% of the Company's trade and other receivables.

(Expressed in United States Dollars)

## 18. Financial instruments (Continued)

*Credit risk (Continued)*

The Company believes that the trade receivables balance is fully collectable. As of the approval date as it relates to December 31, 2020, $nil (2019 - $650,573) in trade receivables remains outstanding. The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The loss allowance is based on the Company's historical collection and loss experience and incorporates forward-looking factors, where appropriate. The provision matrix below shows the expected credit loss rate at each aging category of trade receivables.

| | Current | 1-30 | 31-60 | 60-90 | >90 | Total |
|---|---|---|---|---|---|---|
| Trade receivables outstanding at December 31, 2020 | $89,224 | $- | $- | $- | $- | $89,224 |
| Expected loss rate | 0% | 0% | 0% | 0% | 0% | 0% |
| Loss allowance provision | $- | $- | $- | $- | $- | $- |

| | Current | 1-30 | 31-60 | 60-90 | >90 | Total |
|---|---|---|---|---|---|---|
| Trade receivables outstanding at December 31, 2019 | $650,573 | $- | $- | $- | $- | $650,573 |
| Expected loss rate | 0% | 0% | 0% | 0% | 0% | 0% |
| Loss allowance provision | $- | $- | $- | $- | $- | $- |

(Expressed in United States Dollars)

**18. Financial instruments (Continued)**

*Liquidity risk*

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. There has been no change to the Company's policies and processes with respect to the way it manages liquidity risk.

The following are the contractual maturities of the financial liabilities as at December 31, 2020:

| | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Trade and other payables | 5,219,130 | 5,219,130 | - | - | - |
| Convertible debentures | 11,857,807 | 802,558 | 11,055,249 | - | - |
| Lease obligation on right of use assets | 112,556 | 112,556 | - | - | - |
| | 17,189,493 | 6,134,244 | 11,055,249 | - | - |

**The following are the contractual maturities of the financial liabilities as at December 31, 2019**

| | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Trade and other payables | 3,830,582 | 3,830,582 | - | - | - |
| License liabilities | 269,908 | 269,908 | - | - | - |
| Convertible debentures | 9,008,693 | 9,008,693 | - | - | - |
| Finance leases | 4,482 | 4,482 | - | - | - |
| Lease obligation on right of use assets | 345,874 | 345,874 | | | |
| Promissory notes to related parties | 1,040,000 | 1,040,000 | - | - | - |
| | 14,499,539 | 14,499,539 | - | - | - |

**19. Guarantees**

In the normal course of business, the Company enters into agreements that meet the definition of a guarantee. The Company's primary guarantees are as follows:

(a) The Company has provided indemnities under its lease agreements for the use of its operating facilities. Under the terms of these agreements, the Company agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) Indemnity has been provided to all directors and officers of the Company for various items including, but not limited to, all costs to settle suits or actions due to association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Company. The maximum amount of any potential future payment cannot be reasonably estimated.

**19. Guarantees (Continued)**

(c) In the normal course of business, the Company has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnities may require the Company to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnities prevents the Company from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Company has not made any payments under such or similar indemnities and therefore no amount has been accrued in the consolidated statements of financial position with respect to these indemnities.

**20. Capital management**

The Company's objectives when managing capital are to: (i) ensure the Company continues to operate as a going concern to maximize the return on investment to shareholders; (ii) ensure sufficient liquidity to meet the Company's financial obligations and to execute its operating and strategic plans; and (iii) minimize the after tax cost of capital while taking into consideration current and future industry, market and economic risks and conditions. The Company's capital structure consists of its equity, loan facility and convertible debentures. Other than covenants disclosed in convertible debentures note (Note 6), there are no externally imposed restrictions on capital.

The Company intends to maintain a flexible capital structure in order to finance its ongoing growth and respond to changes in economic conditions.

**21. Segment information**

*Operating segment*

The Company operates in one operating segment, semiconductors. Management assesses performance and makes decisions about allocating resources based on this one business segment.

*Geographic information*

For the years ended December 31, 2020 and 2019, revenues were derived substantially from customers in Asia.

At December 31, 2020, there were non-current assets, primarily property and equipment, located in Ireland, China, and the United States of America of $297, $nil, and $152,648, respectively, and at December 31, 2019, $25,256, $763, and $924,102, respectively.

**22. Subsequent Events**

Subsequent to the end of the year, on January 15, 2021, the Company completed the first tranche of a non-brokered private placement (the "Private Placement") of 114,013,763 units of the Company ("Units") at a price of CDN $0.03 per Unit for gross proceeds of approximately CDN $3,420,413 (USD $2,682,466). On February 12, 2021, the Company completed the second tranche of the Private Placement, which consisted of the issuance of 37,995,866 Units for gross proceeds of CDN $1,139,876 (USD $893,951) and the issuance 9,870,626 Units to settled CDN $296,119 owing to an arm's length party. Each Unit consists of one common share and one-half of one common share purchase warrant (each whole warrant, a "Warrant") with each Warrant being exercisable into one common share at an exercise price of $0.05 for a period of five years from the date of issuance, subject to adjustment upon certain customary events. The expiry date of the Warrants can be accelerated by the Company at any time following the date that is 4 month and one day after closing of the Private Placement and prior to the expiry date of the Warrants if the closing price of the common shares on the TSX Venture Exchange is greater than $0.08 for any 10 non-consecutive trading days.

**22. Subsequent Events (Continued)**

On February 19, 2021, the Company applied for enrollment in the 2nd Paycheck Protection Loan Program ("PPP") formed under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The PPP provides funding by the U.S. Small Business Administration ("SBA"), an Agency of the United States of America, to incentivize small businesses to maintain employees on the payroll during the Coronavirus (COVID-19) pandemic. Under the terms of the PPP, the Company has received approval and funding from a US based bank and the SBA for $776,085 at an interest rate of 1.0% per annum and maturing in 24 months. Payments will not be due by the Company during the initial six-month period and, commencing one month after such six-month period, the Company shall be responsible for monthly payments of principal and interest in equal amounts until the maturity date. Under the terms of the PPP, the amounts provided to the Company are to be forgiven if employees are kept on the payroll for eight weeks and the funds are used for qualified payroll-related expenses. The Company intends to use the funds for such purposes and apply for forgiveness of the amounts so funded under the PPP.

On March 5, 2021, the Company received a new government grant for the Paycheck Protection Program in the amount of $739,470.

On March 21, 2021, the Company received notice of forgiveness for the full amount of the first grant from the Paycheck Protection Program.

On April 12, 2021, the Company announced that it intends to sell, on a brokered private placement basis, in one or more tranches, up to 220,000,000 units (the "April Units"). The Company has engaged Cormark Securities Inc. to offer the April Units for sale on a best efforts agency basis. The issuance price of the April Units will be determined in the context of the market. Each April Unit will consists of one common share and one common share purchase warrant (each whole warrant, a "April Warrant") with each April Warrant being exercisable into one common share for a period of five years from the date of issuance, subject to adjustment upon certain customary events.

Subsequent to the end of the year, the Company prepaid CDN $1,995,000 of principal of the Company's convertible debentures and the holders of the Company's convertible debentures converted an aggregate of CDN $3,928,000 of principal at a conversion price of CDN $0.05 per common share, resulting in the issuance of 78,560,000 common shares. The Company issued an additional 10,314,061 common shares in payment of the make-whole interest amount owing pursuant to the converted debentures and the Company paid a total of CDN $16,523.48 in accrued interest on the converted debentures. An aggregate of CDN $12,201.10 of accrued interest and CDN $79,528.75 of make whole interest amount in connection with the converted debentures remains outstanding.