newtopia

Condensed Interim Financial Statements of

NEWTOPIA INC.

For the Nine Months Ended September 30, 2019 and 2018

(Unaudited)

NEWTOPIA INC.

Condensed interim financial statements (Unaudited)
Nine months ended September 30, 2019 and 2018

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NEWTOPIA INC.
Condensed interim statements of financial position (Unaudited)
As at September 30, 2019 and December 31, 2018
(Expressed in Canadian Dollars)

	Note	**September 30, 2019**	December 31, 2018
		$	$
Assets			
Current assets			
Cash		**4,679,171**	1,428,558
Trade and other receivables	3	**1,309,612**	592,791
Prepaid expenses		**369,651**	258,292
Inventories		**299,236**	399,373
		6,657,670	2,679,014
Non-current assets			
Property and equipment		**132,184**	79,424
Right-of-use asset		**785,261**	923,838
		7,575,115	3,682,276
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**1,320,230**	1,204,054
Lease obligations		**126,384**	44,963
Secured debentures	4	**1,440,000**	1,900,000
Interest payable	4	**91,320**	202,373
Convertible debentures	5	**4,131,427**	2,149,793
Convertible debentures derivative liabilities	5	**2,092,816**	2,006,719
Retractable preferred shares	6	**7,420,265**	7,420,265
Derivative liability	7(d)	**185,307**	157,433
		16,807,749	15,085,600
Non-current lease obligations		**935,352**	1,039,431
		17,743,101	16,125,031
Equity/Deficit			
Common shares	7(b)	**4,643,945**	4,643,945
Preferred shares	7(c)	**13,011,033**	13,011,033
Special Warrants	8	**7,590,162**	-
Contributed surplus	9	**3,447,564**	2,701,639
Deficit		**(38,860,690)**	(32,799,372)
		(10,167,986)	(12,442,755)
		7,575,115	3,682,276

	Note
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Signed on behalf of the Board: "Jeffrey Ruby"

Director

The accompanying notes form an integral part of and should be read in conjunction with these condensed interim financial statements.

NEWTOPIA INC.

Condensed interim statements of loss and comprehensive loss (Unaudited)
Three and nine months ended September 30, 2019 and 2018
(Expressed in Canadian Dollars)

	Note	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
		$	$	**$**	$
Continuing operations					
Product and services revenue		**1,201,893**	703,892	**4,571,597**	2,481,223
Cost of sales		**784,342**	441,775	**2,749,430**	1,696,576
		417,551	262,117	**1,822,167**	784,647
Operating expenses					
Technology		**582,666**	514,774	**1,686,016**	1,571,818
Sales and marketing		**407,963**	235,399	**1,195,733**	947,318
Administrative		**678,918**	531,271	**1,865,184**	1,675,391
Stock-based compensation		**226,848**	130,939	**564,574**	(13,057)
		1,896,395	1,412,383	**5,311,507**	4,181,470
Other expenses					
Depreciation of property and equipment		**13,827**	11,784	**37,396**	34,560
Depreciation of right-of-use asset		**46,192**	46,192	**138,576**	138,575
Interest and accretion expense	4, 5	**718,609**	62,045	**2,162,526**	88,538
Interest on lease obligations		**39,591**	40,089	**119,867**	120,108
Foreign exchange gain/loss		**(22,593)**	17,978	**(358)**	(3,237)
Change in value of convertible debentures derivative liabilities	5	**19,980**	-	**86,097**	-
Change in derivative liability	7(d)	**25,398**	8,496	**27,874**	(97,602)
		841,004	186,584	**2,571,978**	280,942
Net loss and comprehensive loss		**(2,319,848)**	(1,336,850)	**(6,061,318)**	(3,677,765)
Loss per share					
Basic and diluted		**(0.15)**	(0.09)	**(0.39)**	(0.24)
Weighted average number of common shares outstanding					
Basic and diluted		**15,535,919**	15,535,919	**15,535,919**	15,535,919

The accompanying notes form an integral part of and should be read in conjunction with these condensed interim financial statements.

NEWTOPIA INC.

Condensed interim statements of changes in equity (deficit) (Unaudited)
Nine months ended September 30, 2019 and 2018
(Expressed in Canadian Dollars)

	Note	Common Shares	Preferred Shares	Special Warrants	Contributed Surplus	Deficit	Total
		$	**$**	**$**	**$**	**$**	**$**
Balance, December 31, 2018		**4,643,945**	**13,011,033**	**-**	**2,701,639**	**(32,799,372)**	**(12,442,755)**
Net loss and comprehensive loss		-	-	-	-	(6,061,318)	(6,061,318)
Stock-based compensation		-	-	-	564,574	-	564,574
Issuance of Special Warrants, net of cash issuance costs	8	-	-	7,771,513	-	-	7,771,513
Special Broker Warrants issued	8	-	-	(181,351)	181,351	-	-
Balance, September 30, 2019		**4,643,945**	**13,011,033**	**7,590,162**	**3,447,564**	**(38,860,690)**	**(10,167,986)**
Balance, December 31, 2017		4,639,503	13,011,033	-	2,378,190	(26,410,535)	(6,381,809)
Net loss and comprehensive loss		-	-	-	-	(3,677,765)	(3,677,765)
Stock-based compensation		-	-	-	(13,057)	-	(13,057)
Balance, September 30, 2018		4,639,503	13,011,033	-	2,365,133	(30,088,300)	(10,072,631)

The accompanying notes form an integral part of and should be read in conjunction with these condensed interim financial statements.

NEWTOPIA INC.

Condensed interim statements of cash flows (Unaudited)
Nine months ended September 30, 2019 and 2018
(Expressed in Canadian Dollars)

		Nine Months Ended September 30,	
		2019	2018
		$	$
Cash flows used in operating activities:			
Net loss and comprehensive loss		**(6,061,318)**	(3,677,765)
Items not involving cash:			
Depreciation of property and equipment		**37,396**	34,560
Depreciation of right-of-use asset		**138,576**	138,575
Interest and accretion expense		**2,162,526**	88,538
Interest on lease obligations		**119,867**	120,108
Change in value of convertible debentures derivative liabilities		**86,097**	-
Change in derivative liability		**27,874**	(97,602)
Stock-based compensation		**564,574**	(13,057)
		(2,924,408)	(3,406,643)
Net change in non-cash working capital			
Trade and other receivables		**(716,821)**	58,735
Inventories		**100,137**	(11,022)
Prepaid expenses		**(111,359)**	13,646
Accounts payable and accrued liabilities		**116,176**	(37,936)
		(3,536,275)	(3,383,220)
Interest paid		**(1,944)**	-
		(3,538,219)	(3,383,220)
Cash flows used in investing activities			
Purchase of property and equipment		**(90,156)**	(22,234)
		(90,156)	(22,234)
Cash flows from (used in) financing activities:			
Repayment of lease obligations		**(142,525)**	(103,020)
Issuance of Special Warrants, net of cash issuance costs and settlement of Debentures	4, 8	**7,021,513**	-
Net proceeds from secured debentures		**-**	2,400,000
		6,878,988	2,296,980
Increase (decrease) in cash		**3,250,613**	(1,108,474)
Cash, beginning of period		**1,428,558**	1,444,125
Cash, end of period		**4,679,171**	335,651
Supplemental disclosure of cash flow information			
Non-cash settlement of secured debentures		**750,000**	-

The accompanying notes form an integral part of and should be read in conjunction with these condensed interim financial statements.

(Expressed in Canadian Dollars)

1. Nature of operations and going concern

Newtopia Inc. ("Newtopia" or the "Company") is a health technology company that delivers disease prevention solutions by leveraging technology, behavioral science and genetics to help individuals prevent chronic disease and reduce costs for employers and insurers. Newtopia was incorporated on May 9, 2008, pursuant to the provisions under the Business Corporations Act of Ontario, Canada. The Company's corporate headquarters and registered head office are located at 4101 Yonge Street, Suite 706, Toronto, Ontario, M2P 1N6.

On September 24, 2019, the Company filed a non-offering preliminary prospectus with the Ontario Securities Commission ("OSC") and on October 7, 2019, filed an application to list on the TSX - Venture Exchange ("TSXV").

The Company's condensed interim financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation 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 $6,061,318 for the nine month period ended September 30, 2019 and as of that date has an accumulated deficit of $38,860,690. 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. These conditions indicate the existence of a material uncertainty that may cast significant doubt regarding the company's ability to continue as a going concern. To date, the Company has funded operations through debt financing and through private equity offerings. During the nine months ended September 30, 2019, the Company raised $7,021,513 in net cash proceeds on the closing of the first and second tranche of an offering for Special Warrants (see Note 8). Subsequent to September 30, 2019, the secured debentures were converted into Special Warrants of the company (as described in Note 12). Additionally, the convertible debenture units of the Company will automatically convert to common shares upon a Liquidity Event (as described in Note 5); the Company's retractable preferred shares are also convertible to common shares (as described in Note 6).

The financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate.

2. Basis of presentation

Statement of compliance

These condensed interim financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"), using International Accounting Standard ("IAS 34"), Interim Financial Reporting.

These condensed interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2018 and accompanying notes. The Company has followed the same basis of presentation, accounting policies and method of computation for these condensed interim financial statements as were disclosed in the audited financial statements for the year ended December 31, 2018.

The condensed interim financial statements were approved for issuance by the Board of Directors on March 30, 2020.

3. Trade and other receivables

	2019	2018
	$	$
Trade receivables	**1,149,012**	384,441
Indirect taxes receivable	**160,600**	208,350
	1,309,612	592,791

(Expressed in Canadian Dollars)

4. Secured debentures

Date of debenture	Maturity date	Available face amount	**September 30, 2019**	December 31, 2018
		$	$	$
March 27, 2018	March 31, 2020 [(1)]	1,000,000	**540,000**	1,000,000
June 11, 2018	March 31, 2020 [(1)]	900,000	**900,000**	900,000
August 29, 2018	February 28, 2019	300,000	**-**	-
September 27, 2018	March 27, 2019	400,000	**-**	-
		2,600,000	**1,440,000**	1,900,000

(1) During the period since their original maturity dates, the lenders have granted periodic extensions of the maturity dates of the Debentures. On September 18, 2019, the lender of the Debentures agreed to extend the maturity dates of the remaining $540,000 and $900,000 Debentures issued on March 27, 2018 and June 11, 2018, respectively, to March 31, 2020.

During the year ended December 31, 2018, the Company issued a series of short-term 13% secured debentures (the "Debentures") for an aggregate amount of $2,600,000, drawn in tranches as determined between the Company and lenders affiliated with shareholders of the Company. The debentures are repayable at the earlier of (a) six months from the date of the debenture, and (b) the 10th business day following the closing of any subsequent equity or debt financing by the Company (the "Repayment Date"). On the Repayment Date, the lender is entitled to a debt retirement fee of 3% of the repaid advances and one common share in the capital of the company for each $1 advanced, to a maximum issuance of 2,000,000 common shares (the "Bonus Shares"). The final tranche of the $2,600,000 was issued on October 31, 2018. The Debentures are secured by a General Security Agreement.

The Debentures are accounted for as a compound financial instrument with a liability component, being the host debt contract, a separate equity component, being the bonus shares, and an embedded derivative, being the prepayment option.

At inception, the Company recognized the host debt contract at its fair value determined by discounting the net present value of future payments of interest (including the debt retirement fee) and principal at the market rate for similar non-convertible liabilities at the time of issue (20%). The difference between the fair value of the host debt and the face value was not material, and as such no portion of the secured debentures was allocated to equity. The value of the prepayment option was also determined to be not material.

On November 6, 2018, the Company closed a private placement offering of convertible debenture units for aggregate gross proceeds of $4,000,000 (see Note 5). Upon the closing of the offering, the Company used $731,508 of the proceeds from the offering to pay $700,000 of the Debentures' outstanding principal balance, related interest of $10,508 and a retirement fee of $21,000.

On July 26, 2019, the lender of the Debentures agreed to settle $460,000 of the $1,000,000 Debenture issued in March 2018 and all interest owing as at July 26, 2019 of $290,000 for 1,071,429 of Special Warrants offered by the Company (see Note 8). The lenders are affiliated with the Agents on the offering of Special Warrants.

At September 30, 2019, the lender was entitled to receive 1,160,000 Bonus Shares (December 31, 2018 - 700,000 Bonus Shares).

Accrued interest and the retirement fee due on repayment of the outstanding Debentures as at September 30, 2019 were $34,320 and $57,000, respectively, for a total payable of $91,320 (December 31, 2018 - $202,373). Interest expense for the three and nine months ended September 30, 2019 were $50,805 and $180,892, respectively ($90,161 and $158,512 for the three and nine months ended September 30, 2018, respectively).

5. Convertible debentures

On November 6, 2018, the Company closed a private placement offering (the "Offering") of 4,000 7% unsecured convertible debenture units (the "Debenture Units") at a price of $1,000 per unit for aggregate gross proceeds of $4,000,000. Each Debenture Unit consists of one $1,000 principal amount of subordinated unsecured convertible debentures (the "Convertible Debentures") and such number of warrants (the "Unit Warrants") equal to 33% of the principal amount divided by the Unit Warrant exercise price. Each Unit Warrant entitles the holder to purchase one common share (the "Common Share") in the capital stock of the Company at the Unit Warrant exercise price for a period of 36 months to November 7, 2021. The Unit Warrant exercise price shall be determined upon a liquidity event ("Liquidity Event") involving the Company at the fair market value (the "Fair Market Value") of one Common Share on the date of such Liquidity Event. The Unit Warrants cannot be exercised prior to a Liquidity Event. The Liquidity Event is stated to mean the listing of the Company's common shares on a recognized exchange, the sale of all its outstanding shares or assets, or a merger involving the Company. The Convertible Debentures will mature and be repaid on November 6, 2019 together with an additional fee equal to 3% of the principal amount. The conversion price (the "Conversion Price"), subject to adjustment in certain circumstances, shall be set upon a Liquidity Event at 70% of the deemed market price per share upon a Liquidity Event, after taking into account customary adjustments. All issued and outstanding Convertible Debentures including interest shall automatically be converted into fully paid Common Shares at the Conversion Price upon a Liquidity Event. The Company, in its sole discretion, shall have the right to repay the Debenture Units plus any accrued and unpaid interest in full at any time subject to an early repayment fee (the “Early Repayment Fee”) equal to 3% of the principal amount.

In consideration for the services of the agents connected with the Offering, the Company paid a cash commission of $234,000 equal to 6% of the gross proceeds from the Offering and issued such number of compensation options (the "Compensation Options") equal to 6% of the gross proceeds raised from the Offering divided by the deemed market price per share upon a Liquidity Event. Each Compensation Option entitles the agent to purchase one Common Share at the deemed market price per share upon a Liquidity Event for a period of 36 months following a Liquidity Event or until November 6, 2019 if a Liquidity Event has not occurred prior to such date. The fair value of the Compensation Options of $75,821 was determined using an option pricing model with the following assumptions: risk free interest rate of 2.37%, expected life of 1 year, expected volatility of 65.91% and probability of a Liquidity Event at 90%.

Excluding the cash commission paid to the agent, the Company also paid legal and other closing costs of $105,769. The Company's net proceeds from the Offering after deducting total cash issuance costs of $339,769 was $3,660,231.

The Convertible Debentures are accounted for as a compound financial instrument, including the host debt contract and separate derivative liabilities, being the conversion option and Unit Warrants. In accordance with IFRS 9, for Convertible Debentures with embedded derivative liabilities, the fair value is allocated to the individual components of the compound financial instrument by first determining the fair value of the embedded derivative liabilities and then allocating the residual value to the host debt contract. The fair values of the conversion option of $1,618,760 and Unit Warrants $427,710 were determined using an option pricing model with the following assumptions: risk free interest rate of 2.37%, expected life of 1 year and expected volatility of 65.91%. The residual value of $1,951,530 was then allocated to the host debt contract.

The value of the compensation options was accounted for as transaction costs that were proportionately allocated between the host debt and the derivative liability components of the convertible debenture.

The host debt contract is subsequently carried at amortized cost at an effective interest rate of 151%. At each reporting date, the Company reassesses the fair value of the conversion option and Unit Warrants and records any gain or loss that is attributable to changes in credit risk in other comprehensive income, and the remaining change in the Statements of Loss and Comprehensive Loss.

The following table is a summary of the accretion to amortized cost of the host contract:

(Expressed in Canadian Dollars)

5. Convertible debentures (cont'd)

	$
Residual value of liability component at issuance	1,951,530
Less: issuance costs	200,967
	1,750,563
Interest and accretion expense for the year ended December 31, 2018	399,230
Balance, December 31, 2018	2,149,793
Interest and accretion expense for the nine months ended September 30, 2019	1,981,634
Balance, September 30, 2019	4,131,427

The derivative liabilities were revalued as at December 31, 2018, using option pricing models with the following assumptions: risk free interest rate of 1.87%, expected life of 0.85 years and expected volatility of 56.74% at $2,006,719.

The derivative liabilities were revalued as at September 30, 2019, using option pricing models with the following assumptions: risk free interest rate of 1.57%, expected life of 0.10 years and expected volatility of 67.97% at $2,092,816 with the increase in fair value of the liability of $19,980 recognized in the statement of loss and comprehensive loss for the three months ended September 30, 2019 and $86,097 for the nine months ended September 30, 2019.

6. Retractable preferred shares

	Number of shares	Amount
		$
Balance, December 31, 2018 and September 30, 2019	**27,344,391**	**7,420,265**

Retractable preferred shares were issued during the period from 2008 to 2014 and are comprised of Series 1 class A preferred shares, voting and participating by series, issuable in series with rights, privileges, restrictions and conditions as determined by the directors and officers of Newtopia at the time of issuance. In April 2019, holders of Series 1 class A preferred shares consented to the conversion of Series 1 class A preferred shares into common shares on a one for one basis. For administrative reasons, the conversion of the preferred shares to common shares will occur at the time the Company becomes listed.

7. Equity

(a) Authorized

Unlimited	Series 2, class A preferred shares, voting and participating by series, issuable in series with rights, privileges, restrictions and conditions as determined by the directors and officers of Newtopia at the time of issuance. Series 2, class A preferred shares are convertible to common shares at a stated conversion ratio on the earlier of: (i) qualifying initial public offering; (ii) qualified merger or acquisition; and (iii) at majority consent of the Series 2, class A preferred shareholders. On liquidation, Series 2, class A preferred shareholders are entitled to receive whether in cash, securities or other property payment of the greater of the threshold price per share and the pro rata share of the proceeds to which each holder would be entitled to if they had converted to common shares, in preference to the common shareholders. In April 2019, holders of the Series 2 class A preferred shares approved the conversion of Series 2 class A preferred shares into common shares on a one for one basis. For administrative reasons, the conversion of the preferred shares to common shares will occur at the time the Company becomes listed.
Unlimited	Series 3, class A preferred shares, voting and participating by series, issuable in series with rights, privileges, restrictions and conditions as determined by the directors and officers of Newtopia at the time of issuance. Series 3, class A preferred shares are convertible to common shares at a stated conversion ratio on the earlier of: (i) qualifying initial public offering; (ii) qualified merger or acquisition; and (iii) at majority consent of the Series 3, class A preferred shareholders. On liquidation, Series 3, class A preferred shareholders are entitled to receive whether in cash, securities or other property payment of the greater of the threshold price per share and the pro rata share of the proceeds to which each holder would be entitled to if they had converted to common shares, in preference to the common shareholders. In April 2019, holders of the Series 3 class A preferred shares consented to the conversion of Series 3 class A preferred shares into common shares on a one for one basis. For administrative reasons, the conversion of the preferred shares to common shares will occur at the time the Company becomes listed.
Unlimited	Series 4, class A preferred shares, voting and participating by series, issuable in series with rights, privileges, restrictions and conditions as determined by the directors and officers of Newtopia at the time of issuance. Series 4, class A preferred shares are convertible to common shares at a stated conversion ratio on the earlier of: (i) qualifying initial public offering; (ii) qualified merger or acquisition; and (iii) at majority consent of the Series 4, class A preferred shareholders. On liquidation, Series 4, class A preferred shareholders are entitled to receive whether in cash, securities or other property payment of 80% of the threshold price per share and the pro rata share of the proceeds to which each holder would be entitled to if they had converted to common shares, in preference to the common shareholders. In April 2019, holders of the Series 4 class A preferred shares consented to the conversion of Series 4 class A preferred shares into common shares on a one for one basis. For administrative reasons, the conversion of the preferred shares to common shares will occur at the time the Company becomes listed.
Unlimited	Common shares.

(Expressed in Canadian Dollars)

7. Equity (cont'd)

(b) Common shares, issued and outstanding

	Number of shares	Amount
		$
Balance, December 31, 2018 and September 30, 2019	**15,535,919**	**4,643,945**

(i) On June 26, 2018, the Company received $3,148 upon the exercise 7,500 stock options at $0.42 per common share. Contributed surplus of $1,294 related to the stock options was re-allocated to common shares. 7,500 commons shares are to be issued to the holder of the stock options.

(c) Preference shares, issued and outstanding

Series 2, class A preference shares

	Number of shares	Amount
		$
Balance, December 31, 2018 and September 30, 2019	**4,431,005**	**2,629,937**

(i) In April, May and June of 2016, the Company issued 1,410,742 units as part of a private placement at $0.68 per unit for gross proceeds of $959,305. The Company paid $75,136 in closing costs for net proceeds of $884,169. Each unit comprised of one series 2 class A preference share and one purchase warrant eligible to purchase one-fifth of a common share of the Company at $0.68 per common share (each whole warrant, a “Series 2 warrant”). The warrants are exercisable for a period of up to five years from the date of issuance.

Since the number of common shares to be issued by the Company upon exercise of the purchase warrants are not fixed and do not meet the criteria for equity classification, the purchase warrants have been classified as a derivative liability and deducted from the carrying value of the units. The residual value is allocated on a pro rata basis to the preferred shares and to the option to convert the preferred shares in to common shares.

The fair value of the conversion feature has been assessed at nil. Transaction costs allocated to the derivative liability are expensed immediately as financing charges, whereas those allocated to the preferred shares are deducted from their carrying value. The issuance costs paid in cash have been allocated to the derivative liability and preferred shares at $7,560 and $67,576, respectively.

The 2016 purchase warrants at the time of issuance were allocated a fair value of $96,907 based on the Black-Scholes valuation model using the following inputs and assumptions: expected volatility – 71.70%, risk-free interest rate – 0.71%, expected dividend yield – 0%, and expected life – 5.0 years.

At December 31, 2018, the derivative liability related to the 884,942 outstanding Series 2 warrants was revalued at $157,433 based on the Black-Scholes valuation model using the following inputs and assumptions: expected volatility – 58.78%, risk-free interest rate – 1.85%, expected dividend yield – 0%, and expected life – 2.4 years (See note 7(d)).

At September 30, 2019, the derivative liability related to the 884,942 outstanding Series 2 warrants was revalued at $185,307 based on the Black-Scholes valuation model using the following inputs and assumptions: expected volatility – 73.59%, risk-free interest rate – 1.82%, expected dividend yield – 0%, share price of $0.61 and expected life – 1.7 years.

(ii) 46,141 broker warrants were issued related to the Company’s private placement in (i). Each broker warrant is eligible to purchase one common share of the Company at $0.68 per common share.

(Expressed in Canadian Dollars)

7. Equity (cont'd)

(c) Preference shares, issued and outstanding (cont'd)

Based on the Black-Scholes valuation model, the fair value of the broker warrants was assessed at $13,738 using the following inputs and assumptions: expected volatility – 98.00%, risk-free interest rate – 0.53%, expected dividend yield – 0%, and expected life – 2.0 years. The broker warrants have been allocated to the derivative liability and preferred shares at $1,348 and $12,390, respectively.

Series 3, class A preference shares

	Number of shares	Amount
		$
Balance, December 31, 2018 and September 30, 2019	**10,294,118**	**5,432,215**

(i) In August 2016, the Company issued 10,294,118 units in a private placement for gross proceeds of $7,000,000. The Company paid $401,679 in closing costs for net proceeds of $6,598,321. Each unit comprised one series 3 class A preference share and one purchase warrant eligible to purchase one-half of a common share of the Company at $0.99 per common share (each whole warrant, a “Series 3 warrant”). The warrants are exercisable for a period of up to two years from the date of issuance.

Since the number of common shares to be issued by the Company upon exercise of the purchase warrants are not fixed and do not meet the criteria for equity classification, the purchase warrants have been classified as a derivative liability and deducted from the carrying value of the units. The residual value is allocated on a pro rata basis to the preferred shares and to the option to convert the preferred shares into common shares. The fair value of the conversion feature has been assessed at nil. Transaction costs allocated to the derivative liability are expensed immediately as financing charges, whereas those allocated to the preferred shares are deducted from their carrying value. The issuance costs paid in cash have been allocated to the derivative liability and preferred shares at $62,744 and $338,935, respectively.

The share purchase warrants have been allocated a fair value of $1,093,434 based on the Black-Scholes valuation model, using the following inputs and assumptions: expected volatility – 98.04%, risk-free interest rate – 0.55%, expected dividend yield – 0%, and expected life – 2.0 years.

In August 2018, the 5,050,505 Series 3 warrants expired unexercised.

(ii) 514,705 broker warrants were issued related to the Company’s private placement in (i). Each broker warrant is eligible to purchase one common share of the Company at $0.68 per common share.

Based on the Black-Scholes valuation model, the fair value of the broker warrants was assessed at $160,485 using the following inputs and assumptions: expected volatility – 71.78%, risk-free interest rate – 0.64%, expected dividend yield – 0%, and expected life – 5.0 years. The broker warrants were allocated to the derivative liability and preferred shares at $25,069 and $135,416, respectively.

Series 4, class A preference shares

	Number of shares	Amount
		$
Balance, December 31, 2018 and September 30, 2019	**9,191,175**	**4,948,881**

(Expressed in Canadian Dollars)

7. Equity (cont'd)

(d) Derivative liability

	September 30, 2019	December 31, 2018
	$	$
Series A2 warrants	**185,307**	157,433

(e) Warrants

As at September 30, 2019 and 2018, the Company has the following warrants outstanding with the corresponding average exercise prices:

	Number of warrants	Weighted average exercise price
		$
Balance, December 31, 2018	**3,116,427**	**0.54**
Special Broker Warrants issued *(Note 8)*	768,695	0.70
Broker warrants expired	(45,029)	0.68
Balance, September 30, 2019	**3,840,093**	**0.57**
Balance, December 31, 2017	**8,166,932**	**0.82**
Warrants expired	(5,050,505)	0.99
Balance, September 30, 2018	**3,116,427**	**0.54**

The following table reflects the actual warrants issued and outstanding as of September 30, 2019[(i)]:

Expiry date	Exercise price	Number of Warrants
	$	
October 2019	0.42	787,589
December 2019	0.42	167,064
June 2020	0.42	357,993
August 2020	0.42	357,993
December 2020	0.68	602,939
April 2021	0.68	176,011
May 2021	0.68	7,300
June 2021	0.68	98,692
August 2021	0.68	514,705
September 2021	0.68	1,112
May 2022	0.70	768,695
		3,840,093

[(i)] The warrant tables do not reflect the exercise prices, expiry dates and number of Unit Warrants and Compensation Options issuable on the Offering of 4,000 convertible Debt Units (Note 5) as such information is not determinable until the completion of a Liquidity Event.

(Expressed in Canadian Dollars)

7. Equity (cont'd)

(e) Warrants (cont'd)

The following table reflects the actual warrants issued and outstanding as of September 30, 2018:

Expiry date	Exercise price	Number of Warrants
	$	
April 2019 [i]	0.68	35,290
May 2019 [i]	0.68	2,190
June 2019 [i]	0.68	7,549
October 2019	0.42	787,589
December 2019	0.42	167,064
June 2020	0.42	357,993
August 2020	0.42	357,993
December 2020	0.68	602,939
April 2021	0.68	176,011
May 2021	0.68	7,300
June 2021	0.68	98,692
August 2021	0.68	514,705
September 2021	0.68	1,112
		3,116,427

[i] On June 7, 2018, the Company agreed to grant a twelve month extension of the expiry dates for certain warrants. The warrants expired unexercised during the nine months ended September 30, 2019.

8. Special warrants

Pursuant to an agency agreement entered by the Company on May 3, 2019, the company agreed to create, offer, issue and sell up to 14,285,715 special warrants (the “Special Warrants”) at a price of $0.70 per Special Warrant (the “Issue Price”), for gross proceeds of up to $10,000,000.50 (the “Offering”). The agents of the agreement (the “Agents”) agreed to find purchasers of the Special Warrants on a commercially reasonable “best efforts” private placement basis.

Each Special Warrant shall be voluntarily exercisable, for no additional consideration, into one Unit (each, a “Unit”), subject to adjustment described below. Each Unit consists of one common share (a “Common Share”) and one half (½) of one common share purchase warrant (a “Warrant”). Each whole Warrant entitles the holder to purchase one Common Share at $1.00 per Common Share, subject to adjustment as detailed below, for 3 years following the Closing Date.

All unexercised Special Warrants will be deemed to be exercised on the date that is two business days following the earlier of: (i) that date which is 12 months following the date of the first closing of the Offering, and (ii) the later of: (A) the date on which the Company obtains a receipt for a Final Prospectus; and (B) the date the Common Shares are conditionally approved for listing on the TSX Venture Exchange or, subject to the consent of the Agents, another recognized exchange.

In the event that the Company has not filed the Preliminary Prospectus by that date which is 60 days following the date the Company receives, in the aggregate, $8,000,000 in gross proceeds from the Offering, each unexercised Special Warrant will thereafter entitle the holder thereof to receive upon the exercise or deemed exercise thereof, for no additional consideration, 1.20 Units in lieu of one Unit (the “Penalty Provision”).

In consideration of the services rendered by the Agents in connection with the Offering, the Company agrees to pay a cash commission of 7% the gross proceeds raised and special broker warrants (the “Special Broker Warrants”) to purchase that number of Common Shares equal to 7% of the number of Special Warrants sold in the Offering. Each Special Broker Warrant will entitle the holder to purchase one Common Share at a price of $0.70 per Common Share at any time during the three (3) year period following the date of the first closing of the

(Expressed in Canadian Dollars)

8. Special warrants (cont'd)

Offering.

On May 3, 2019, the Company closed the first tranche of the Offering, issuing 6,792,944 Special Warrants for gross proceeds of $4,755,061. The Company paid a 7% cash commission to the agents of $332,854 and incurred $132,791 in issuance costs for net proceeds of $4,289,416. In addition, the Company issued 475,506 Special Broker Warrants to the Agents, each exercisable at a price of $0.70 per common share at any time up to May 3, 2022. The Special Broker Warrants were valued using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 1.42%, expected life of 3.0 years, stock price of $0.61 and expected volatility of 63.12% at $112,457.

On July 26, 2019, the Company closed the second tranche of the Offering for aggregate gross proceeds of $3,761,757, issuing 4,373,221 Special Warrants on a brokered private placement basis and 1,000,714 Special Warrants in a concurrent non-brokered private placement basis for gross proceeds of $3,061,255 and $700,500, respectively. Included in the brokered private placement proceeds, the lender of the Debentures agreed to settle $460,000 of the $1,000,000 Debentures issued in March 2018 and all outstanding interest as at July 26, 2019 of $290,000, for a total subscription of $750,000 in 1,071,429 Special Warrants. In consideration for their services on the brokered portion of the Offering, the Agents received 293,189 Special Broker Warrants and were entitled to receive a cash commission of $205,233 of which $129,358 was settled by the Agents for 184,793 of Special Warrants. Including the Agents' Commission of $129,358 converted to Special Warrants and after paying the Agents their remaining cash commission of $75,875 and out-of-pocket costs of $34,548, the Company received net proceeds of $3,521,975. The Company incurred closing costs of $39,879 for a total net proceeds from the second tranche of $2,732,097. The 293,189 Special Broker Warrants, each exercisable at a price of $0.70 per common share at any time up to May 3, 2022, were valued at $68,894 based on the Black Scholes option pricing model with the following assumptions: risk free interest rate of 1.55%, expected life of 2.8 years, stock price of $0.61 and expected volatility of 65.08%.

9. Contributed surplus

	September 30, 2019	December 31, 2018
	$	$
Stock options	**3,016,168**	2,451,594
Warrants	**431,396**	250,045
	3,447,564	2,701,639

10. Share-based payment arrangements

The Company has established a stock option plan for the benefit of its employees, directors, officers and consultants. The maximum number of options that may be granted under the plan cannot exceed 12,990,043. The options are exercisable for a period of up to 5 years. The Board of Directors determines the price per common share and the number of common shares which may be allocated to each director, officer, employee and consultant and all other terms and conditions of the option, subject to the rules of the TSX Venture Exchange.

(Expressed in Canadian Dollars)

10. Share-based payment arrangements (cont'd)

The number of weighted-average exercise price of options under the stock option program were as follows:

	Number of options	Weighted average exercise price
		$
Outstanding, as at December 31, 2018	**12,585,098**	**0.51**
Expired	(100,000)	0.27
Forfeited	(2,717,559)	0.56
Options outstanding, September 30, 2019	**9,767,539**	**0.50**
Outstanding, as at December 31, 2017	**11,696,086**	**0.47**
Granted	60,000	0.68
Exercised	(7,500)	0.42
Forfeited	(4,612,500)	0.40
Options outstanding, September 30, 2018	**7,136,086**	**0.51**

The following table is a summary of the Company's stock options outstanding as at September 30, 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
$	#	#	$	#	$
0.41 - 0.60	7,907,539	2.51	0.46	3,256,086	0.42
0.61 - 0.80	1,860,000	2.47	0.68	1,015,000	0.68
Balance, September 30, 2019	**9,767,539**	**2.51**	**0.50**	**4,271,086**	**0.48**

The following table is a summary of the Company's stock options outstanding as at September 30, 2018:

	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
$	#	#	$	#	$
0.21 - 0.40	100,000	0.83	0.27	100,000	0.27
0.41 - 0.60	4,506,086	0.42	2.30	2,129,565	0.42
0.61 - 0.80	2,530,000	3.33	0.68	760,000	0.68
Balance, September 30, 2018	**7,136,086**	**2.65**	**0.51**	**2,989,565**	**0.48**

The Company recognized share-based compensation expense of $226,848 and $564,574 for the three and nine months ended September 30, 2019, respectively (September 30, 2018 - $130,939 expense and $13,057 recovery due to forfeitures, respectively) with a corresponding amount recognized to contributed surplus. The fair value of the stock option granted during the nine months ended September 30, 2018 was determined using the

(Expressed in Canadian Dollars)

10. Share-based payment arrangements (cont'd)

Black-Scholes pricing model at the weighted average assumptions as follows:

	2019	2018
Share price	N/A	$0.57
Expected volatility	N/A	74.61%
Expected life	N/A	5 years
Expected dividends	N/A	-%
Risk-free interest rate	N/A	1.97%

Expected volatility has been based on comparable companies listed on various exchanges.

11. Related party transactions

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 for the nine months ended September 30, 2019 and 2018 consisted of the following:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2019	2018	**2019**	2018
	$	$	**$**	$
Salaries and fees	**216,250**	270,000	**689,583**	815,208
Share-based benefits	**199,578**	121,550	**452,697**	379,131
	415,828	391,550	**1,142,280**	1,194,339

12. Subsequent events

In October 2019, holders of $3,850,000 of the $4,000,000 Debenture Units consented to the extension of the maturity dates of their Debenture Units from November 6, 2019 to March 31, 2020. Subsequently, the Company extended the date upon which the Unit Warrants and Compensation Options shall immediately expire if a Liquidity Event has not occurred from November 6, 2019 to March 31, 2020. In November 2019, the Company repaid the $150,000 Converted Debentures that was not extended and maturing on November 6, 2019, plus total interest and repayment fee of $15,000. In November 2019, the Company extended the expiration date for certain Unit Warrant holders to purchase common shares from November 6, 2021 to May 6, 2022.

On December 31, 2019, the lender of the Debentures agreed to settle the remaining principal balance of $1,440,000, accrued interest to date of $82,160 plus the outstanding retirement fee of $57,000 for a total subscription of $1,579,160 in 2,255,943 Special Warrants.

On February 20, 2020, the lender of the Debentures agreed to accept 2 million warrants of the Company (the "Bonus Warrants") in lieu of the 2 million Bonus Shares (see Note 4). The Bonus Warrants are exercisable into Common Shares at an exercise price of $0.0001 per Common Share until February 20, 2025, provided that the holder of the Bonus Warrants, together with its affiliates, are prohibited from exercising Bonus Warrants in Common Shares, if, as a result of the conversion, the holder, together with its affiliates, would own more than 9.99% of the total number of Common Shares issued and outstanding immediately after giving effect to the exercise.

Subsequent to September 30, 2019, financial markets have been negatively impacted by the novel Coronavirus or COVID-19, which was declared a pandemic by the World Health Organization on March 12, 2020. This has resulted in significant uncertainty and consequently, it is difficult to reliably measure the potential impact of this uncertainty on our future financial results.