newtopia

Annual Financial Statements

For the Years Ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

NEWTOPIA INC.

December 31, 2019 and 2018

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Newtopia Inc.
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Management's Responsibility for Financial Reporting

To the Shareholders of
Newtopia Inc.

The accompanying financial statements of Newtopia Inc. ("Newtopia" or the "Company") are the responsibility of management and have been approved by the Board of Directors of the Company.

The financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with International Financial Reporting Standards, as disclosed in the notes to the financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the financial position date. In the opinion of management, the financial statements have been prepared with acceptable limits of materiality and are in accordance with International Financial Reporting Standards.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. The finance department assists the Board of Directors in fulfilling its responsibility. The Board of Directors meets with management to review the financial reporting process and the financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with the established financial standards and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

MNP LLP, the Company's independent auditors have audited the 2019 and 2018 financial statements and their report is presented herein. The auditors have full and unrestricted access to the Board of Directors.

Jeff Ruby
Chief Executive Officer

Edmond Lem
Chief Financial Officer

Toronto, Ontario
June 12, 2020

Independent Auditor's Report

To the Shareholders of Newtopia Inc.:

Opinion

We have audited the financial statements of Newtopia Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2019 and December 31, 2018, and the statements of loss and comprehensive loss, changes in equity (deficit) and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and December 31, 2018, and its financial performance and its 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 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 financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the company incurred a comprehensive loss of $10,140,590 for the year ended December 31, 2019 and, as of that date, had an accumulated deficit of $43,204,384. 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 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Financial Statements

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

In preparing the financial statements, management is responsible for assessing the 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 Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 financial statements, including the disclosures, and whether the 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 Pierrette Dosanjh.

MNP LLP

Toronto, Ontario
June 12, 2020

Chartered Professional Accountants
Licensed Public Accountants

MNP

NEWTOPIA INC.

Statements of Financial Position
As at December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Note	**2019**	2018
		$	$
Assets			
Current assets			
Cash		**2,386,341**	1,428,558
Trade and other receivables	4,18	**1,247,858**	592,791
Prepaid expenses and deposits		**462,605**	258,292
Inventories	5	**604,920**	399,373
		4,701,724	2,679,014
Property and equipment	6	**186,376**	79,424
Right-of-use asset	7	**739,072**	923,838
		5,627,172	3,682,276
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**2,254,894**	1,204,054
Lease obligations		**156,340**	44,963
Secured debentures	8	**-**	1,900,000
Interest payable	8	**-**	202,373
Convertible debentures	9	**3,993,758**	2,149,793
Convertible debentures derivative liabilities	9	**1,952,638**	2,006,719
Retractable preferred shares	10	**7,420,265**	7,420,265
Derivative liability	11(d)	**178,670**	157,433
		15,956,565	15,085,600
Non-current lease obligations		**883,090**	1,039,431
		16,839,655	16,125,031
Equity/Deficit			
Common shares	11(b)	**4,643,945**	4,643,945
Preferred shares	11(c)	**13,011,033**	13,011,033
Special Warrants	12	**9,164,731**	-
Contributed surplus	13	**5,172,192**	2,701,639
Deficit		**(43,204,384)**	(32,799,372)
		(11,212,483)	(12,442,755)
		5,627,172	3,682,276

Nature of business and going concern	1
Events after year end	23

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 financial statements.

NEWTOPIA INC.
Statements of Loss and Comprehensive Loss
Years Ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

		2019	2018
		$	$
Continuing operations			
Products and services revenue	14	**6,109,282**	3,073,901
Costs of sales		**4,138,939**	2,174,926
		1,970,343	898,975
Operating expenses			
Technology		**2,512,631**	2,196,506
Sales and marketing		**1,709,794**	1,357,210
Administrative		**3,216,507**	2,515,417
Stock-based compensation	15	**2,024,780**	248,922
		9,463,712	6,318,055
Other expenses			
Depreciation of property and equipment	6	**56,437**	46,166
Depreciation of right-of-use asset	7	**184,766**	184,766
Interest and accretion expense	8,9	**2,640,030**	633,111
Interest on lease obligations		**158,642**	160,251
Finance charges		**6,724**	212,623
Foreign exchange loss/(gain)		**42,244**	(29,987)
Change in value of convertible debenture derivative liabilities	9	**(54,081)**	(39,751)
Gain on extinguishment of convertible debentures	9	**(408,778)**	-
Change in value of derivative liability	11(d)	**21,237**	(197,422)
		2,647,221	969,757
Net loss and comprehensive loss		**(10,140,590)**	(6,388,837)
Loss per share			
Basic and diluted loss per share	17	**(0.65)**	(0.41)
Weighted average number of common shares outstanding			
Basic and diluted	17	**15,535,919**	15,535,919

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

NEWTOPIA INC.
Statements of Changes in Equity (Deficit)
Years Ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Note	Common Shares	Preferred Shares	Special Warrants	Contributed Surplus	Deficit	Total
		$	$	$	$	$	$
Balance, December 31, 2017		**4,639,503**	**13,011,033**	**-**	**2,378,190**	**(26,410,535)**	**(6,381,809)**
Net loss for the year		-	-	-	-	(6,388,837)	(6,388,837)
Compensation options	9	-	-	-	75,821	-	75,821
Shares to be issued on exercise of stock options	11(b)	4,442	-	-	(1,294)	-	3,148
Stock-based compensation	15	-	-	-	248,922	-	248,922
Balance, December 31, 2018		**4,643,945**	**13,011,033**	**-**	**2,701,639**	**(32,799,372)**	**(12,442,755)**
Net loss for the year		-	-	-	-	(10,140,590)	(10,140,590)
Modified warrants	11(e)	-	-	-	264,422	(264,422)	-
Issuance of Special Warrants, net of cash issuance costs	12	-	-	9,346,082	-	-	9,346,082
Special Broker Warrants issued	12	-	-	(181,351)	181,351	-	-
Stock-based compensation	15	-	-	-	2,024,780	-	2,024,780
Balance, December 31, 2019		**4,643,945**	**13,011,033**	**9,164,731**	**5,172,192**	**(43,204,384)**	**(11,212,483)**

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

NEWTOPIA INC.
Statements of Cash Flows
Years Ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Note	2019	2018
		$	$
Cash flows used in operating activities			
Net loss and comprehensive loss		**(10,140,590)**	(6,388,837)
Depreciation of property and equipment		**56,437**	46,166
Depreciation of right-of-use asset		**184,766**	184,766
Finance charges		**-**	212,623
Interest and accretion expense		**2,640,030**	633,111
Interest on lease obligations		**158,642**	160,251
Change in value of convertible debenture derivative liabilities		**(54,081)**	(39,751)
Change in value of derivative liability		**21,237**	(197,422)
Stock-based compensation		**2,024,780**	248,922
Gain on extinguishment of convertible debentures	9	**(408,778)**	-
		(5,517,557)	(5,140,171)
Change in non-cash working capital			
Trade and other receivables		**(655,067)**	(57,694)
Prepaid expenses and deposits		**(204,313)**	88,108
Inventories		**(205,547)**	(326,958)
Accounts payable and accrued liabilities		**1,050,840**	116,084
		(5,531,644)	(5,320,631)
Interest paid		**-**	(31,508)
		(5,531,644)	(5,352,139)
Cash flows used in investing activities			
Purchase of property and equipment	6	**(163,389)**	(42,346)
		(163,389)	(42,346)
Cash flows from financing activities:			
Proceeds from secured debentures	8	**-**	2,600,000
Repayment of secured debentures	8	**-**	(700,000)
Proceeds from issuance of convertible debentures, net of issuance costs	9	**-**	3,660,231
Repayment of convertible debentures	9	**(160,500)**	-
Repayment of lease obligation		**(203,606)**	(184,461)
Exercise of stock options		**-**	3,148
Issuance of Special Warrants, net of issuance costs and settlement of Debentures	12	**7,016,922**	-
		6,652,816	5,378,918
Net change in cash during the year		**957,783**	(15,567)
Cash, beginning of year		**1,428,558**	1,444,125
Cash, end of year		**2,386,341**	1,428,558
Supplemental cash flow information			
Non-cash settlement of secured debentures		**2,329,160**	-

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

1. Nature of business and going concern

Newtopia Inc. (“Newtopia” or the "Company") is a health technology company taking a precision approach to disease prevention. Leveraging genetics and behavioral science, Newtopia delivers sustainable habit changes that help individuals prevent chronic disease and help employers and insurers reduce health care costs with proven value on investment. Newtopia was incorporated on May 9, 2008, pursuant to the provisions under the Business Corporations Act of Ontario. The Company’s corporate headquarters and registered head office are located at 4101 Yonge Street, Suite 706, Toronto, Ontario, M2P 1N6.

The Company’s 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 $10,140,590 for the year ended December 31, 2019 and as of that date has an accumulated deficit of $43,204,384. 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 private equity offerings. During the year ended December 31, 2019, the Company raised $7,016,922 in net cash proceeds on the closing of the first and second tranche of an offering for Special Warrants (see Note 12). Subsequent to year-end, the convertible debenture units of the Company automatically converted to common shares upon a Liquidity Event (as described in Note 9) and the Company's retractable preferred shares were converted to common shares (as described in Note 10).

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

2. Significant accounting policies

(a) Statement of compliance

Newtopia’s financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (IFRIC).

These financial statements were authorized for issuance by the Board of Directors on June 12, 2020.

(b) Basis of presentation

The financial statements are prepared on a going concern basis using the historical cost method, as set out in the relevant accounting policies. The financial statements are presented in Canadian dollars, which is also the Company’s functional currency. The accounting policies set out below have been applied consistently in all material respects.

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

(c) Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it transfers control to a customer.

Revenue is recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods and services. This is achieved by applying the following five steps:

2. Significant accounting policies (cont'd)

(c) Revenue recognition (cont'd)

(i) identify the contract with a customer;
(ii) identify the performance obligations in the contract;
(iii) determine the transaction price;
(iv) allocate the transaction price to the performance obligations in the contract; and
(v) recognize revenue when (or as) the entity satisfies a performance obligation

The Company principally generates revenue from providing services to its customer's employees (the "participants"). Products and services are not typically sold separately but are bundled in packages. The typical length of a contract for bundled packages is two years or more. The Company bills its customers on a monthly basis. No cash refunds are offered.

For bundled packages, the Company accounts for individual products and services separately if they are distinct (i.e. if a product or service is separately identifiable from other items bundled in the package and if a customer can benefit from it). The consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices. As the Company does not sell products and services separately, the Company estimates the stand-alone selling prices using an expected cost plus margin approach.

Welcome kits

Welcome kits contain measurement and communication tools, such as genetic testing kits, smart scales and getting started guides, that aid in the delivery of services to the participants. Revenue is first recognized when a welcome kit is shipped to the participant. This usually occurs when the customer signs a new contract and participants enroll. The Company offers no returns or warranties of any kind.

Engaged participant fees

Engaged participant fees are charged to the customers when a participant is deemed to be engaged in the program based on criteria as defined in the contract. This revenue is recognized when the engagement criteria is met by the participant, and as the benefits of the health coaching services are received over a distinct period of time.

Success fees

Success fees are one-time fees paid by customers upon the achievement of certain target metrics normally measured after the first year of a participant's active enrolment in the Company's program. Success fee revenue is recognized upon achievement of these metrics. The Company includes success fees in the transaction price based on the most likely amount. The Company estimates success fees based on participant data collected on existing and similar customer contracts, however participant outcomes can vary depending on geographical location and industry.

Outcome guarantee fees

Certain customer contracts contain outcome guarantee fees where the Company refunds a portion of previously earned engaged participant fees if certain target metrics are not met. The Company includes a provision for refundable outcome guarantees in the transaction price based on the most likely amount. The Company estimates outcome guarantee refunds based on participant data collected on existing and similar customer contracts, however participant outcomes can vary depending on geographical location and industry.

Contract costs

The Company incurs no contract costs.

(d) Financial assets and liabilities

Financial assets include Newtopia's cash and trade and other receivables. Financial liabilities include accounts payable and accrued liabilities, secured debentures, interest payable, convertible debentures, convertible

2. Significant accounting policies (cont'd)

(d) Financial assets and liabilities (cont'd)

debentures derivative liabilities, derivative liability and retractable preferred shares.

Financial assets and financial liabilities are initially measured at fair value. Subsequent measurement of these assets and liabilities is based on their classification.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The Company classifies its financial assets and financial liabilities in the following measurement categories: i) those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss) and ii) those to be measured at amortized cost.

The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at fair value through profit or loss (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Company reclassifies financial assets when and only when the business model for managing those assets changes. Financial liabilities are not reclassified.

The Company has implemented the following classifications:

Financial Instrument	Classification	Measurement
Financial assets		
Cash	Amortized cost	Amortized cost
Trade and other receivables	Amortized cost	Amortized cost
Financial Liabilities		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Secured debentures	Other liabilities	Amortized cost
Interest payable	Other liabilities	Amortized cost
Convertible debentures	Other liabilities	Amortized cost
Convertible debentures derivative liabilities	FVTPL	Fair value
Retractable preferred shares	FVTPL	Fair value
Derivative liability	FVTPL	Fair value

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments or principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of the subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition).

2. Significant accounting policies (cont'd)

(e) Derivative liability

Subsequent to initial recognition, derivative liability is stated at fair value, with any gains or losses arising on remeasurement being recognized in the statements of loss and comprehensive loss. Fair value is determined in a manner described in Note 2(g).

(f) Impairment of Financial Assets

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

If there is objective evidence that an impairment loss has occurred on an unquoted or not actively traded equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate.

For financial assets carried at amortized cost, the Company recognizes loss allowances for expected credit losses on its financial assets measured at amortized cost. The Company recognizes expected credit losses for trade and other receivables under the simplified approach under IFRS 9. The simplified approach does not require the Company to track changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses. Expected credit losses are probability-weighed estimate of credit losses. Credit losses are measured at the present value of the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive. Expected credit losses are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

Objective evidence of impairment of financial assets carried at amortized cost exists if the counterparty is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted, or it is probable the counterparty will enter into bankruptcy or a financial reorganization.

(g) Compound financial instruments

Convertible debentures

The liability, equity and derivative components of convertible debentures are presented separately on the statement of financial position. Where there is both liability and equity components, 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 face value of the convertible notes at maturity which is included in the statement of comprehensive loss as part of interest and accretion expense. The carrying amount of the equity component is calculated by deducting the carrying amount of the financial liability and the fair values of derivatives from the amount of the convertible debentures, 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 derivative components, on a pro-rata basis according to their carrying amounts.

Preferred shares

The Company issued certain preferred shares (Note 10) that are retractable at the option of the holder at their retraction price, are convertible into common shares and have dividend and liquidation rights. Retractable preferred shares are classified as financial liabilities on the Statements of Financial Position, since the preferred shares do not meet the criteria in IAS 32, Financial Instruments: Presentation for classification as equity. The conversion feature constitutes an embedded derivative financial liability and the dividend and liquidation rights represent an equity component.

The Company determined that the embedded derivative liability and the equity component described above have a value of nil on the original and subsequent measurement dates. As such, the fair value of these preferred

2. Significant accounting policies (cont'd)

(g) Compound financial instruments

shares are equivalent to their value upon issuance, with fair value adjustments made for subsequent share issuances.

The remainder of preferred shares issued (Note 11(c)), are non-retractable and convertible into common shares and have dividend and liquidation rights. The conversion feature constitutes a derivative financial liability and the dividend and liquidation rights represent an equity component.

The Company determined that the derivative liability described above has a value of nil on the original and subsequent measurement dates.

Part of the preferred shares (non-retractable) mentioned above were issued as units. Each unit consisted of 1 preferred share and 1 purchase warrant with each warrant exercisable into common shares of the company. The preferred shares are convertible into common shares and have dividend and liquidation rights. The conversion feature constitutes a derivative financial liability, the dividend and liquidation rights represent an equity component and the warrant is classified as a derivative financial liability (Note 11(d)).

(h) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired or whenever events/change in circumstances indicate that the carrying amount of an asset exceeds the recoverable amount. An asset's recoverable amount is the higher of the asset's or the cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss for the period in which they are identified.

(i) Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss, except when it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Estimates

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

IFRIC 23, *Uncertainty over Income Tax Treatments ("IFRIC 23"*) clarifies application of recognition and

2. Significant accounting policies (cont'd)

(i) Income taxes (cont'd)

measurement requirements in *IAS 12 Income Taxes*, when there is uncertainty over income tax treatments, including whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax losses), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. The standard is effective for annual periods beginning on or after January 1, 2019. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight. The Company has adopted this standard in the current year which had no impact on the financial statements.

(j) Government grants and investment tax credits

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.

(k) Cash

Cash comprises of cash on hand and unrestricted cash balances with banks.

(l) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Items are amortized using the straight-line method over their estimated useful lives as follows:

Office equipment	5 years
Computer hardware	3 years
Computer software	1 year

When components of an asset have a different useful life and cost that is significant to the total cost of the asset, depreciation is calculated on each separate component. Estimated useful lives, residual values and methods of deprecation are reviewed annually.

(m) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less selling costs. The cost of inventories is based on a first-in, first-out principle.

(n) Share capital

Common shares and non-retractable preferred shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a reduction of share capital. When the Company issues share capital for consideration other than cash, the transaction is recorded at the fair value of the share capital issued. Where shares are issued in connection with warrants, the Company uses the Black-Scholes pricing model to apportion the fair value of consideration received between share capital and warrants.

(o) Share-based compensation

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The assumptions and models used for estimating fair value

2. Significant accounting policies (cont'd)

for share-based compensation transactions are disclosed in Note 15.

The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in contributed surplus. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

(p) Loss per share

Basic earnings and loss per common share are calculated by dividing the profit and loss by the weighted average number of common shares outstanding during the year. Diluted earnings and loss per common share are calculated by dividing the applicable earnings and loss by the sum of the weighted average number of common shares outstanding and adjusting for all additional shares that would have been outstanding if potentially dilutive common securities had been issued during the year.

(q) Provisions

Provisions are recognized when present (legal or constructive) obligations, as a result of a past event, will lead to a probable outflow of economic resources and amounts can be estimated reliably. Provisions are measured at management's best estimate of the expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered remote, no liability is recognized.

(r) Foreign currency translation

Foreign currency denominated revenues and expenses are translated using average rates of exchange during the year. Foreign currency denominated monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. The resulting exchange gains and losses are recognized in net income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(s) Leases

IFRS 16: Leases

Effective January 1, 2018, the Company early 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.

The right-of-use asset is initially measured at cost which comprises of the lease liability, lease payments made at or before the commence 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. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term

2. Significant accounting policies (cont'd)

(s) Change in accounting policy (cont'd)

IFRS 16: Leases (cont'd)

using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits for the Company.

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.

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 applied IFRS 16 on a lease for office premises with a commencement date of January 1, 2018. Using an incremental borrowing rate of 15%, a right-of-use asset of $1,108,604 and lease obligation of $1,065,795 was recorded on January 1, 2018 with no impact to the opening deficit balance.

3. Critical judgments and key sources of estimation uncertainty

The preparation of Newtopia's financial statements requires management to make estimates based on events and circumstances that existed at the statement of financial position date. Accordingly, actual results may differ from these estimates. Significant estimates made by management with a significant risk of material adjustment in the current year are discussed below:

- the amount of deferred tax assets 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 analysis of historical bad debts and the judgement used to predict future economic conditions when estimating expected credit losses;
- the inputs and assumptions used in the allocation of the purchase price for bundled products and services;
- the inputs and assumptions used with respect to determining success fees;
- the inputs and assumptions used with respect to determining outcome guarantee fees;
- the inputs and assumptions used in the valuation and recognition of share-based payments;
- the inputs and assumptions used in the valuation and recognition of derivative liability; and
- the assessment of Company's ability to continue as going concern

(Expressed in Canadian Dollars)

4. Trade and other receivables

Trade and other receivables as at December 31, 2019 and 2018 are comprised of the following:

	2019	2018
	$	$
Trade receivables	**1,141,648**	384,441
Indirect taxes receivable	**106,210**	208,350
	1,247,858	592,791

Trade receivables include amounts that are past due at the end of the reporting period (see the table below for aged analysis). 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 Company has estimated and set its expected credit losses at nil based on the Company's historical collection and loss experience and incorporates forward-looking factors, where appropriate. The Company reviews its trade receivables regularly and reduces amounts to their expected realizable values by providing for expected credit losses as soon as the trade receivables are determined not to be fully collectible.

	2019	2018
	$	$
Trade receivables		
Current	**605,419**	184,332
31-60 days	**496,010**	115,203
61-90 days	**2,496**	83,282
91 days and over	**37,723**	1,624
	1,141,648	384,441

5. Inventories

Inventories recognized as cost of sales for the year ended December 31, 2019 amounted to $1,068,009 ($714,025 for the year ended December 31, 2018).

All of the Company's inventory during the years ended December 31, 2019 and 2018 consist of finished goods. The Company did not recognize any inventory obsolescence provisions at December 31, 2019 and 2018.

(Expressed in Canadian Dollars)

6. Property and equipment

	Office Equipment	Computer Hardware	Computer Software	Total
	$	$	$	$
Cost				
Balance, January 1, 2018	32,543	162,157	2,803	197,503
Additions	-	42,346	-	42,346
Balance, December 31, 2018	32,543	204,503	2,803	239,849
Additions	47,265	116,124	-	163,389
Balance, December 31, 2019	**79,808**	**320,627**	**2,803**	**403,238**
Accumulated depreciation				
Balance, January 1, 2018	18,928	92,528	2,803	114,259
Depreciation	5,048	41,118	-	46,166
Balance, December 31, 2018	23,976	133,646	2,803	160,425
Depreciation	7,765	48,672	-	56,437
Balance, December 31, 2019	**31,741**	**182,318**	**2,803**	**216,862**
Carrying amounts				
At December 31, 2018	8,567	70,857	-	79,424
At December 31, 2019	**48,067**	**138,309**	**-**	**186,376**

7. Right-of-use asset

The following table represents the right-of-use assets:

	Office
	$
Balance, January 1, 2018	-
Additions, *(Note 2(s))*	1,108,604
Depreciation	(184,766)
Balance, December 31, 2018	923,838
Depreciation	(184,766)
Balance, December 31, 2019	**739,072**

(Expressed in Canadian Dollars)

8. Secured debentures

Date of debenture	Original maturity dates	Available loan amount	**2019**	2018
		$	$	$
March 27, 2018	September 27, 2018 [(1)]	1,000,000	**-**	1,000,000
June 11, 2018	December 11, 2018 [(1)]	900,000	**-**	900,000
August 29, 2018	February 28, 2019	300,000	**-**	-
September 27, 2018	March 27, 2019	400,000	**-**	-
		2,600,000	**-**	1,900,000

[(1)] During the year ended December 31, 2018, the lenders agreed to extensions of the maturity dates of the outstanding debentures and following the settlement of $460,000 of the $1,000,000 debenture dated March 27, 2018 through the subscription of Special Warrants issued by the Company on July 26 2019, agreed to extend the maturity dates of the remaining unpaid debentures to March 31, 2020.

During the year ended December 31, 2018, the Company issued a series of 13% secured debentures (the "Debentures") for an aggregate amount of $2,600,000, to be drawn in tranches as determined between the Company and the lenders. 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 offerings, debt financing, sale, merger or liquidity event involving 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 million common shares (the "Bonus Shares"). The Company also has the option to prepay the Debenture before maturity at no additional cost. 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, (the "host 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 at its fair value less transaction costs 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 9). 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, as part of an offering of Special Warrants by the Company (see Note 12), the lender 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. The lenders are affiliated with the Agents on the offering of Special Warrants.

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. At December 31, 2019, the lender was entitled to receive 2,000,000 Bonus Shares.

Accrued interest and the retirement fee due on repayment of the outstanding Debentures as at December 31, 2019 was nil (December 31, 2018 - $145,373 and $57,000, respectively). Interest expense for the year was $226,787 (December 31, 2018 - $233,881).

9. 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 and expected volatility of 65.91%.

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 (the "host debt") 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. The fair values of the conversion option of $1,618,760 and Unit Warrants $427,710 were determined using option pricing models with the following assumptions: risk free interest rate of 2.37%, expected life of 1 year, expected volatility of 65.91% and probability of liquidity event at 90% (conversion option assumption only). The residual value of $1,951,530 was then allocated to the host debt.

The value of the compensation options were 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 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.

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. On November 6, 2019, the Company repaid the $150,000 Converted Debentures that was not extended and maturing on November 6, 2019 plus total interest of $10,500. The Company paid an additional fee of $4,500. In November 2019, the Company

(Expressed in Canadian Dollars)

9. Convertible debentures (cont'd)

extended the expiration date for certain Unit Warrant holders to purchase common shares from November 6, 2021 to May 6, 2022. The extension of the maturity date of the debenture units resulted in the derecognition of the host debt at its amortized cost of $4,137,878 and the recognition at it's fair value of $3,729,100, with the decrease in the liability of $408,778 recognized as a gain on extinguishment of convertible debentures in the Statements of Loss and Comprehensive Loss.

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

	$
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 up to October 23, 2019	2,148,584
Repayment	(160,500)
Debt extinguishment	(4,137,878)
Recognition of new debt	3,729,100
Interest and accretion	264,659
Balance, December 31, 2019	**3,993,758**

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 with the decrease in fair value of the liability of $39,751 recognized in the statement of loss and comprehensive loss.

The derivative liabilities were revalued as at December 31, 2019, using option pricing models with the following assumptions: risk free interest rate of 1.66%, expected life of 0.25 years and expected volatility of 67.75% at $1,952,638 with the decrease in fair value of the liability of $54,081 recognized in the statement of loss and comprehensive loss.

10. Retractable preferred shares

	Number of shares	Amount
		$
Balance, December 31, 2018 and 2019	**27,344,395**	**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.

There were no retractable preferred shares issued during the years ended December 31, 2019 and 2018.

The Company is authorized to issue an unlimited number of retractable preferred shares.

11. 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)

11. Equity (cont'd)

(b) Common shares, issued and outstanding

	Number of shares	Amount
		$
Balance, January 1, 2018	**15,535,919**	**4,639,503**
Shares to be issued on exercise of stock options	-	4,442
Balance, December 31, 2018	**15,535,919**	**4,643,945**
Balance, December 31, 2019	**15,535,919**	**4,643,945**

(i) During the year ended December 31, 2018, the Company received $3,148 upon the exercise of 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 common shares were issued to the holder of the stock options on March 30, 2020.

(c) Preference shares, issued and outstanding

Series 2, class A preference shares

	Number of shares	Amount
		$
Balance, December 31, 2018 and 2019	**4,430,285**	**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, 2017, the derivative liability related to the 884,942 outstanding Series 2 warrants was revalued at $268,491 based on the Black-Scholes valuation model using the following inputs and assumptions: expected volatility – 82.20%, risk-free interest rate – 1.73%, expected dividend yield – 0%, and expected life – 3.5 years.

At December 31, 2018, the derivative liability related to the 884,942 outstanding Series 2 warrants was

(Expressed in Canadian Dollars)

11. Equity (cont'd)

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

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.

At December 31, 2019, the derivative liability related to the 884,942 outstanding Series 2 warrants was revalued at $178,670 based on the Black-Scholes valuation model using the following inputs and assumptions: expected volatility – 77.43%, risk-free interest rate – 1.69%, expected dividend yield – 0%, and expected life – 1.4 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 Series 4 Preferred 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 $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 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.

At December 31, 2016, the derivative liability related to the outstanding 5,050,505 Series 3 warrants was revalued at $910,101 based on the Black-Scholes valuation model using the following inputs and assumptions: expected volatility – 95.10%, risk-free interest rate – 0.74%, expected dividend yield – 0%, and expected life – 1.65 years.

At December 31, 2017, the derivative liability related to the outstanding 5,050,505 Series 3 warrants was revalued at $86,364 based on the Black-Scholes valuation model using the following inputs and assumptions: expected volatility – 54.61%, risk-free interest rate – 1.66%, expected dividend yield – 0%,

(Expressed in Canadian Dollars)

11. Equity (cont'd)

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

and expected life – 0.65 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 have been 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 2019	**9,191,175**	**4,948,881**

(d) Derivative liability

	2019	2018
	$	$
Series A2 warrants	**178,670**	157,433

(e) Warrants

The following table is a summary of the activities of the Company's warrants$^{(i)}$:

	Number of warrants	Weighted average exercise price
		$
Balance, January 1, 2018	**8,166,932**	**0.82**
Warrants expired	(5,050,505)	0.99
Balance, December 31, 2018	**3,116,427**	**0.54**
Special Broker Warrants issued on offering of Special Warrants (Note 12))	768,695	0.70
Broker warrants expired	(45,029)	0.68
Balance, December 31, 2019	**3,840,093**	**0.57**

(Expressed in Canadian Dollars)

11. Equity (cont'd)

(e) Warrants (cont'd)

The following table is a summary of the warrants outstanding as at December 31, 2019[(i)]:

Expiry date	Exercise price	Number of Warrants
	$	
December 2020 [(ii)]	0.42	787,589
March 2020 [(ii)]	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

The following table is a summary of the warrants outstanding as at December 31, 2018:

Expiry date	Exercise price	Number of Warrants
	$	
April 2019 [(iii)]	0.68	35,290
May 2019 [(iii)]	0.68	2,190
June 2019 [(iii)]	0.68	7,549
October 2019 [(ii)]	0.42	787,589
December 2019 [(ii)]	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) 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 Debenture Units (Note 9) as such information is not determinable until the completion of a Liquidity Event.

(ii) Expiry dates were extended on October 25, 2019 resulting in a modification adjustment of $264,422 recorded in Deficit to reflect the increase in the value of the warrants.

(iii) On June 7, 2018, the Company agreed to grant a twelve month extension of the expiry dates. The warrants

11. Equity (cont'd)

(e) Warrants (cont'd)

expired unexercised during the year ended December 31, 2019.

12. 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 agreed 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 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 $3,761,755, 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 $3,521,974. The Company incurred closing costs of $39,879 for a total net proceeds from the second tranche of $2,732,095. 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

(Expressed in Canadian Dollars)

12. Special warrants (cont'd)

$0.61 and expected volatility of 65.08%.

The total number of Special Warrants issued under the first and second tranches of the Offering was 12,166,879 for a combined gross proceeds of $8,516,816.

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. Accordingly, the total number of Special Warrants was 14,422,822. The Company incurred legal costs of $4,589 in connection with the debt settlement.

13. Contributed surplus

	2019	2018
	$	$
Stock options	**4,476,374**	2,451,594
Warrants	**695,818**	250,045
	5,172,192	2,701,639

14. Products and services revenue

	2019	2018
	$	$
Major products and service items		
Engaged participant and success fees	**4,059,369**	2,338,866
Welcome kits	**2,049,913**	735,035
	6,109,282	3,073,901

Success fees, as outlined in the applicable contracts, are determined after the first year of enrollment for each participant, however uncertainty exists pertaining to any consideration that may be received. As such, this uncertainty prevents the recognition of these success fees until earned in accordance with IFRS 15 as any amounts accrued prior may be reversed.

Outcome guarantee fees refunded during the year ended December 31, 2019 were $3,670 (December 31, 2018 - Nil).

(Expressed in Canadian Dollars)

15. 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 vesting schedule, exercise 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. 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 number of weighted-average exercise price of options under the stock option program were as follows:

	Number of options	Weighted average exercise price
		$
Options outstanding, January 1, 2018	**11,696,086**	**0.47**
Granted during the year	5,509,012	0.51
Exercised *(see Note 11(b))*	(7,500)	0.42
Forfeited during the year	(4,612,500)	0.40
Options outstanding, December 31, 2018	**12,585,098**	**0.51**
Granted during the year	1,090,882	0.28
Forfeited during the year	(2,837,559)	0.54
Options outstanding, December 31, 2019	**10,838,421**	**0.45**

In October 2019, the Company modified the term to expiry of 1,756,086 stock options and the exercise price of 1,000,000 stock options. The Company recognized share-based compensation expense of $2,024,780 for the year ended December 31, 2019 with a corresponding amount recognized to contributed surplus (December 31, 2018 - $248,922). The stock options granted during the years ended December 31, 2018 and 2019 were determined using the Black-Scholes pricing model at the weighted average assumptions as follows:

	2019	2018
Share price	$ 0.61	$ 0.57
Expected volatility	67.83% - 80.45%	76.35%
Expected life	5 years	5 years
Expected dividends	-%	-%
Risk-free interest rate	1.53%	1.34%

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

(Expressed in Canadian Dollars)

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

A summary of the stock options outstanding as at December 31, 2019 are as follows:

	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	1,040,882	4.8	0.27	1,040,882	0.27
0.41 - 0.60	8,937,539	3.3	0.45	4,636,449	0.44
0.61 - 0.80	860,000	1.7	0.68	530,000	0.68
Balance, December 31, 2019	**10,838,421**	**3.3**	**0.45**	**6,207,331**	**0.43**

A summary of the Company's stock options outstanding as at December 31, 2018 are as follows:

	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	0.6	0.27	100,000	0.27
0.41 - 0.60	9,895,098	3.6	0.47	2,568,586	0.42
0.61 - 0.80	2,590,000	3.1	0.68	935,000	0.68
Balance, December 31, 2018	**12,585,098**	**3.5**	**0.51**	**3,603,586**	**0.48**

(Expressed in Canadian Dollars)

16. Income taxes

Current income taxes

The following table reconciles the income taxes calculated at the combined Canadian and provincial tax rates with income tax expense recognized in the statements of loss and comprehensive loss:

	2019	2018
	$	$
Loss before income tax	**(10,140,590)**	(6,388,837)
Statutory rate	**26.50%**	26.50%
Recovery based on statutory tax rate	**(2,687,256)**	(1,693,042)
Increase (decrease) in tax recovery due to:		
Non-deductible expenses	**12,779**	2,881
Share-based payment and non-deductible items	**536,567**	65,964
Change in value of derivative liability	**(117,030)**	(52,317)
Share issuance costs booked through equity	**(260,669)**	-
Accretion expense	**540,046**	-
Change in tax benefit not recognized	**1,975,563**	1,676,514
Income tax expense	**-**	-

Deferred tax

The following table summarizes the components of deferred tax:

	2019	2018
	$	$
Deferred tax assets		
Operating losses carried forward	**5,061**	5,060
Lease obligations	**195,853**	195,850
	200,914	200,910
Deferred tax liabilities		
Property and equipment	**(5,061)**	(5,060)
Right-of-use asset	**(195,853)**	(195,850)
	(200,914)	(200,910)
Net deferred tax asset	**-**	-

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

(Expressed in Canadian Dollars)

16. Income taxes (cont'd)

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2019	2018
	$	$
Non-capital losses carried forward	**34,292,294**	28,009,276
Share issuance and financing costs	**1,190,605**	623,559
SR&ED Pool	**435,530**	435,530
Accounts payable and accrued liabilities	**1,000,000**	550,000
Property and equipment	**-**	2,547
Right-of-use asset	**300,361**	160,566

The Company has non-capital loss carry-forwards for income tax purposes of $34,292,294 (December 31, 2018 - $28,009,276), which may be available to reduce taxable income in future years. The potential benefit of these losses has not been recognized in the financial statements as deferred income tax assets because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom:

Year of origin	Year of expiry	Amount
		$
2008	2028	323,528
2009	2029	572,316
2010	2030	670,632
2011	2031	1,159,044
2012	2032	1,010,140
2013	2033	1,101,026
2014	2034	1,518,463
2015	2035	3,246,424
2016	2036	5,377,420
2017	2037	7,291,879
2018	2038	5,712,297
2019	2039	6,309,125
		34,292,294

17. Loss per share

As a result of losses reported during the years ended December 31, 2019 and 2018, the outstanding stock options and warrants have an anti-dilutive effect and are not included in the computation of diluted loss per share. Consequently, basic and diluted loss per share are the same.

(Expressed in Canadian Dollars)

18. Financial instruments and risk management

Financial risk management objectives and policies

Newtopia's activities exposes it to a variety of financial risks including foreign currency risk, credit risk and liquidity risk. These financial risks are actively managed by the Company under the policies approved by the Board of Directors. The principal financial risks are managed by the Company's finance department, within Board approved policies and guidelines. On an ongoing basis, the finance department actively manages market conditions with a view to minimizing the exposure of the Company to changing market factors, while at the same time limiting the funding costs to the Company.

Fair value

The fair value of cash, trade and other receivables, accounts payable and accrued liabilities, secured debentures, interest payable and convertible debentures approximate their carrying values due to their short-term nature.

	December 31, 2019		December 31, 2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
	$	**$**	$	$
Financial assets				
Cash	**2,386,341**	**2,386,341**	1,428,558	1,428,558
Trade and other receivables	**1,247,858**	**1,247,858**	592,791	592,791
Financial liabilities				
Accounts payable and accrued liabilities	**2,254,894**	**2,254,894**	1,204,054	1,204,054
Secured debentures	**-**	**-**	1,900,000	1,900,000
Interest payable	**-**	**-**	202,373	202,373
Convertible debentures	**3,993,758**	**3,993,758**	2,149,793	2,149,793
Convertible debentures derivative liabilities	**1,952,638**	**1,952,638**	2,006,719	2,006,719
Retractable preferred shares	**7,420,265**	**7,420,265**	7,420,265	7,420,265
Derivative liability	**178,670**	**178,670**	157,433	157,433

Basis of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

(a) Fair value hierarchy

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

(Expressed in Canadian Dollars)

18. Financial instruments and risk management (cont'd)

Basis of fair values (cont'd)

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 period.

The following tables presents the financial instruments measured at fair value classified by the fair value hierarchy:

	Fair Value Hierarchy			
December 31, 2019	Level 1	Level 2	Level 3	Total Fair Value
	$	$	$	$
Convertible debentures derivative liabilities	-	-	1,952,638	1,952,638
Retractable preferred shares	-	-	7,420,265	7,420,265
Derivative liabilities	-	-	178,670	178,670
	-	-	9,551,573	9,551,573

	Fair Value Hierarchy			
December 31, 2018	Level 1	Level 2	Level 3	Total Fair Value
	$	$	$	$
Convertible debenture derivative liabilities	-	-	2,006,719	2,006,719
Retractable preferred shares	-	-	7,420,265	7,420,265
Derivative liabilities	-	-	157,433	157,433
	-	-	9,584,417	9,584,417

(b) Level 3 reconciliation

The following tables presents the changes in fair value measurements for instruments included in Level 3 of the fair value hierarchy:

	Fair value January 1, 2019	Amount included in net loss	Issuance of liabilities	Settlement of liabilities	Fair value December 31, 2019
	$	$	$	$	$
Convertible debentures derivative liabilities	2,006,719	(54,081)	-	-	1,952,638
Retractable preferred shares	7,420,265	-	-	-	7,420,265
Derivative liabilities	157,433	21,237	-	-	178,670
	9,584,417	(32,844)	-	-	9,551,573

(Expressed in Canadian Dollars)

18. Financial instruments and risk management (cont'd)

Basis of fair values (cont'd)

	Fair value January 1, 2018	Amount included in net loss	Issuance of liabilities	Settlement of liabilities	Fair value December 31, 2018
	$	$	$	$	$
Convertible debentures derivative liabilities	-	(39,751)	2,046,470	-	2,006,719
Retractable preferred shares	7,420,265	-	-	-	7,420,265
Derivative liabilities	354,855	(197,422)	-	-	157,433
	7,775,120	(237,173)	2,046,470	-	9,584,417

(c) Level 3 sensitivity analysis

The table below indicates the possible impact to the net loss and comprehensive loss for the year ended December 31, 2019 of a 10% increase or decrease in assumption of one or more of the unobservable inputs used for the recurring fair value measurements categorized in Level 3:

	Valuation technique	Significant unobservable input	Favorable change	Unfavorable Change
			$	$
Convertible debentures derivative liabilities	Conversion value, Option pricing	Probability of Liquidity Event	211,246	225,439
		Equity volatility	53,359	64,628
		Stock price	-	8,470
Retractable preferred shares	Transaction price	Share price	742,027	742,027
Derivative liabilities	Option pricing	Equity volatility	19,203	18,849

Credit risk

Credit risk is the risk of financial loss to the Company that arises from the possibility that the Company's customers may experience financial difficulty and be unable to fulfil their contract commitments. The Company mitigates the risk of credit loss by entering into contracts with large and established customers and by placing its cash with major financial institutions.

The carrying value of cash and trade and other receivables represents the Company's maximum credit exposure. Impairment losses on trade and other receivables in profit or loss were nil (2018: Nil).

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which its customers operate (see Segment details in Note 22). A customer is considered to be at default when they are unable to fullfil their contractual commitments and make the required payments on their debt obligations. Given the customer base is comprised of large established corporations, customer balances are also considered to be in default when they are more than 90 days past due. Details of concentration of revenue are included in Note 20. The gross carrying amount of a trade receivable is written off when the Company has no reasonable expectations of recovering the balance in its entirety or a portion thereof. The Company makes an assessment on a customer by customer basis with respect to the timing and amount of write-off based on the specific circumstances of the customer and determines the amount to write-off based on whether is reasonable expectation of recovery.

Management has established a credit policy under which each new customer is analyzed individually for creditworthiness. The majority of the Company's current customers are large established corporations with high

18. Financial instruments and risk management (cont'd)

credit quality consisting primarily of U.S. healthcare insurance payors or self-insured employers. The Company limits its exposure to credit risk from trade receivables by establishing a maximum payment period of 1-2 months. When determining whether there is an increase in credit risk of any of its trade receivables, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information, that includes forward-looking information. At December 31, 2019 and 2018, none of these customer's balances have been written off or are credit impaired at the reporting date. There has been no change to the Company's policies and processes with respect to the way it manages credit risk.

The Company does not require collateral in respect of trade and other receivables. The Company does not have trade receivable and contract assets for which no loss allowance is recognized because of collateral.

At December 31, 2019 and 2018, the exposure to credit risk for trade receivables and contract assets was limited to the United States (see segment information in Note 22). At December 31, 2019, two customers whose trade receivables exceeded 10% of the total trade and other receivables balance represented 92% (December 31, 2018 – 83%) of the Company's trade and other receivables.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate based on the changes in foreign exchange rates. The Company enters into transactions to purchase and sell goods denominated in foreign currencies, which relate to revenues, cost of sales, expenses, cash, accounts receivable and accounts payable balances. Balances are subject to rate fluctuations.

As at December 31, 2019 and 2018, the following items were denominated in foreign currency:

	2019	2018
	$	$
Balances denominated in U.S. Dollars		
Cash	**1,376,103**	13,793
Trade and other receivables	**878,252**	281,642
Accounts payable and accrued liabilities	**269,154**	79,728

The following table demonstrates the sensitivity to a reasonably possible change in the U.S. dollar exchange rate, with all other variables held constant, on the translation of the Company's foreign currency denominated monetary assets and liabilities as at December 31, 2019 and 2018.

	Change in U.S. rate	Effect on loss before tax
	$	$
2019	10%	255,795
	-10%	(255,795)
2018	10%	29,487
	-10%	(29,487)

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.

(Expressed in Canadian Dollars)

18. Financial instruments and risk management (cont'd)

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
	$	$	$	$	$
Accounts payable and accrued liabilities	2,254,894	2,254,894	-	-	-
Lease obligations	1,039,430	156,340	883,090	-	-
Convertible debentures	3,993,758	3,993,758	-	-	-
Convertible debentures derivative liabilities	1,952,638	1,952,638	-	-	-
Retractable preferred shares	7,420,265	7,420,265	-	-	-
Derivative liability	178,670	178,670	-	-	-
	16,839,655	15,956,565	883,090	-	-

19. Capital management

Newtopia defines capital as its equity and retractable preferred shares. The Company has a deficiency as at December 31, 2019 in the amount of $3,792,218 (December 31, 2018 - deficiency of $5,022,490). The Company's objective when managing its capital is (i) to safeguard the ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders; and (ii) to provide adequate return to shareholders by obtaining an appropriate amount of financing with the level of risk, to reduce after-tax cost of capital.

The Company sets the amount of capital in proportion to its risk. Newtopia manages capital structure and makes adjustments in light of changes in economic conditions and the characteristics of risk of underlying assets. In order to maintain or adjust capital structure, the Company may attempt to issue new shares or sell assets to reduce its obligations. Newtopia's objective is met by retaining adequate liquidity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. There have been no changes to the Company's capital management policies during the years ended December 31, 2019 and 2018.

20. Economic dependence

During the year ended December 31, 2019, the Company derived its services and product sales primarily from two customers, a major U.S. health benefits provider and its channel of customers and a single direct customer. The aggregate revenues of the two customers represent 88% of the Company's total revenue in fiscal 2019 (2018 - 88%)

21. Related party transactions and balances

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 year consisted of the following:

	2019	2018
	$	$
Salaries, fees and short-term benefits	**1,531,947**	1,258,542
Share-based benefits	**1,369,571**	110,456
	2,901,518	1,368,998

21. Related party transactions and balances (cont'd)

At December 31, 2019, there was $1,000,000 of unpaid bonuses related to 2019 and prior years due to a senior executive of the Company included in accounts payable and accrued liabilities (December 31, 2018 - $550,000).

22. Segment information

In measuring performance, the Company does not distinguish or group its operations on a geographical or any other basis and, accordingly has a single operating segment. Management has applied judgment by aggregating its operating segments into one single reportable segment for disclosure purposes. Such judgment considers the nature of the operations, the customer mix and an expectation that the operating segments within a reportable segment have similar long-term economic characteristics.

For the years ended December 31, 2019 and 2018, the Company derived 100% of its revenue from customers located in the United States.

23. Events after year end

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 8). 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 December 31, 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.

Subsequent to December 31, 2019, the Company issued 865,849 Common Shares and 188,571 stock options to a senior executive of the Company as payment for $400,000 of unpaid bonuses earned in prior years. The stock options are exercisable at $0.70 per Common Share until November 6, 2021.

On March 30, 2020, the Company a received a receipt from the OSC for its final non-offering long form prospectus filed in connection with its completed Special Warrant offering (see Note 12). Subsequently, on May 4, 2020, the Company commenced trading on the TSX Venture Exchange under the symbol "NEWU" at a share price of $0.70 per common share. Upon the successful listing of the Company, i) the Special Warrants were automatically converted to 14,422,822 Common Shares and 7,211,411 Common Share purchase warrants (see Note 12); ii) the $3,850,000 Convertible Debentures plus accrued and unpaid interest to March 30, 2020 of $376,269 were automatically converted to 8,625,037 Common Shares and 1,885,707 Unit Warrants (see Note 9); and iii) 51,259,973 Class A preferred shares were converted to Common Shares on a one for one basis (see Note 10 and 11(c)). In May 2020, the Company further extended the expiry dates of certain Unit Warrants included in the Convertible Debentures from May 6, 2022 to May 6, 2023.