



Annual Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

NEWTOPIA INC.

December 31, 2020 and 2019

Table of Contents

	Page
Management's responsibility for financial reporting	1
Independent auditor's report	2
Statements of financial position	4
Statements of loss and comprehensive loss	5
Statements of changes in equity (deficit)	6
Statements of cash flows	7
Notes to the financial statements	8 - 41



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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 2020 and 2019 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

Anthony Lam
Chief Financial Officer

Toronto, Ontario
April 6, 2021

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, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, 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.

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
April 6, 2021

Chartered Professional Accountants
Licensed Public Accountants

NEWTOPIA INC.

Statements of Financial Position
As at December 31, 2020 and 2019
(Expressed in Canadian Dollars)

	Note	2020	2019
		\$	\$
Assets			
Current assets			
Cash		4,673,683	2,386,341
Trade and other receivables	4,20	1,067,123	1,247,858
Unbilled revenue	15	426,000	-
Prepaid expenses and deposits		465,285	462,605
Inventories	5	278,696	604,920
Deferred costs	8	232,089	-
		7,142,876	4,701,724
Property and equipment	6	129,913	186,376
Right-of-use asset	7	554,305	739,072
Intangible asset		68,948	-
		7,896,042	5,627,172
Liabilities			
Current liabilities			
Trade and other payables	23	2,765,583	2,254,894
Lease obligations	7	215,532	156,340
Convertible debentures	10	-	3,993,758
Convertible debentures derivative liabilities	10	-	1,952,638
Retractable preferred shares	11	-	7,420,265
Derivative liability	12(d)	47,508	178,670
		3,028,623	15,956,565
Non-current lease obligations		667,558	883,090
		3,696,181	16,839,655
Equity/Deficit			
Common shares	12(b)	44,648,952	4,643,945
Common shares to be issued	23	528,168	-
Preferred shares	12(c)	-	13,011,033
Special Warrants	13	-	9,164,731
Contributed surplus	14	10,046,621	5,172,192
Deficit		(51,023,880)	(43,204,384)
		4,199,861	(11,212,483)
		7,896,042	5,627,172

Nature of business 1

Signed on behalf of the Board:

"Jeffrey Ruby"

Director

"Karen Basian"

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, 2020 and 2019

(Expressed in Canadian Dollars)

	Note	2020	2019
		\$	\$
Revenue	15	11,416,319	6,109,282
Cost of sales	5,16	5,913,724	4,138,939
Gross profit		5,502,595	1,970,343
Operating expenses			
Technology and development	16	3,439,845	2,512,631
Sales and marketing	16	3,528,912	1,709,794
General and administrative	16	4,353,914	3,216,507
Share-based compensation	17	771,662	2,024,780
		12,094,333	9,463,712
Other expenses (income)			
Depreciation of property and equipment	6	80,298	56,437
Depreciation of right-of-use asset	7	184,767	184,766
Interest and accretion expense	9,10	233,542	2,640,030
Interest on lease obligations		143,325	158,642
Finance charges		13,000	6,724
Foreign exchange (gain)/loss		(34)	42,244
Change in value of convertible debenture derivative liabilities	10	448,656	(54,081)
Gain on extinguishment of convertible debentures	10	-	(408,778)
Loss on settlement of debt	23	167,716	-
Change in value of derivative liability	12(d)	(131,162)	21,237
		1,140,108	2,647,221
Net loss and comprehensive loss		(7,731,846)	(10,140,590)
Loss per share			
Basic and diluted loss per share	19	(0.12)	(0.65)
Weighted average number of common shares outstanding			
Basic and diluted	19	66,942,270	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, 2020 and 2019
(Expressed in Canadian Dollars)

	Note	Common Shares	Shares To Be Issued	Preferred Shares	Special Warrants	Contributed Surplus	Deficit	Total
		\$	\$	\$	\$	\$	\$	\$
Balance, January 1, 2019		4,643,945	-	13,011,033	-	2,701,639	(32,799,372)	(12,442,755)
Net loss and comprehensive loss		-	-	-	-	-	(10,140,590)	(10,140,590)
Share-based compensation		-	-	-	-	2,024,780	-	2,024,780
Modification of warrants	12(e)	-	-	-	-	264,422	(264,422)	-
Issuance of Special Warrants, net of cash issuance costs	13	-	-	-	9,346,082	-	-	9,346,082
Special Broker Warrants issued	13	-	-	-	(181,351)	181,351	-	-
Balance, December 31, 2019		4,643,945	-	13,011,033	9,164,731	5,172,192	(43,204,384)	(11,212,483)
Net loss and comprehensive loss		-	-	-	-	-	(7,731,846)	(7,731,846)
Share-based compensation		-	-	-	-	771,662	-	771,662
Conversion of Convertible Debentures	10	6,039,000	-	-	-	589,594	-	6,628,594
Modification of Unit warrants issued on the conversion of Convertible Debentures	10	-	-	-	-	42,787	(42,787)	-
Conversion of retractable preferred shares	11	7,420,265	-	-	-	-	-	7,420,265
Conversion of preferred shares	12(c)	13,011,033	-	(13,011,033)	-	-	-	-
Conversion of Special warrants	13	6,812,648	-	-	(9,164,731)	2,352,083	-	-
Modification of Warrants issued on the conversion of Special Warrants	13	-	-	-	-	44,863	(44,863)	-
Settlement of debt	23	-	528,168	-	-	85,446	-	613,614
Exercise of warrants	12(e)	1,229,353	-	-	-	(352,581)	-	876,772
Private placement offering	12(b)	5,696,835	-	-	-	1,052,134	-	6,748,969
Private placement compensation options	12(b)	(204,127)	-	-	-	204,127	-	-
Warrants issued to Lender	8	-	-	-	-	84,314	-	84,314
Balance, December 31, 2020		44,648,952	528,168	-	-	10,046,621	(51,023,880)	4,199,861

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, 2020 and 2019

(Expressed in Canadian Dollars)

	Note	2020	2019
		\$	\$
Cash flows used in operating activities			
Net loss and comprehensive loss		(7,731,846)	(10,140,590)
Depreciation of property and equipment		80,298	56,437
Depreciation of right-of-use asset		184,767	184,766
Amortization of deferred finance charges		13,000	-
Interest and accretion expense		233,542	2,640,030
Interest on lease obligations		143,325	158,642
Change in value of convertible debenture derivative liabilities		448,656	(54,081)
Change in value of derivative liability		(131,162)	21,237
Share-based compensation		771,662	2,024,780
Gain on extinguishment of convertible debentures	10	-	(408,778)
Loss on settlement of debt	23	167,716	-
		(5,820,042)	(5,517,557)
Change in non-cash working capital			
Trade and other receivables		180,735	(655,067)
Unbilled revenue		(426,000)	-
Prepaid expenses and deposits		(2,680)	(204,313)
Inventories		326,224	(205,547)
Trade and other payables		956,587	1,050,840
		(4,785,176)	(5,531,644)
Cash flows used in investing activities			
Purchase of property, equipment and intangible asset	6	(92,783)	(163,389)
		(92,783)	(163,389)
Cash flows from financing activities:			
Credit facility financing costs	8	(160,775)	-
Repayment of convertible debentures	10	-	(160,500)
Repayment of lease obligation	7	(299,665)	(203,606)
Proceeds from private placement offering, net of share issuance costs	12(b)(ii)	6,748,969	-
Proceeds from exercise of warrants	12(e)	876,772	-
Proceeds from issuance of Special Warrants, net of issuance costs and settlement of Debentures	13	-	7,016,922
		7,165,301	6,652,816
Net change in cash during the year		2,287,342	957,783
Cash, beginning of year		2,386,341	1,428,558
Cash, end of year		4,673,683	2,386,341
Supplemental cash flow information			
Non-cash settlement of debt	23	445,898	-
Non-cash settlement of secured debentures		-	2,329,160
Interest paid		12,987	-

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

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

1. Nature of business

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

On March 12, 2020, the World Health Organization declared the global outbreak of the COVID-19 virus as a pandemic. The outbreak has spread throughout Europe, the Middle East, Canada and the United States, causing companies and various international jurisdictions to impose restrictions, such as quarantines, closures, cancellations and travel restrictions. While these effects are expected to be temporary, the duration of the business disruptions internationally and related financial impact cannot be reasonably estimated at this time. Although the Company's operations have not been materially affected at this point, significant uncertainty remains as to the potential impact of the COVID-19 pandemic on its ability to access capital and on its results of operations and financial condition.

On March 30, 2020, the Company obtained final receipt from the Ontario Securities Commission (the "OSC") for its final non-offering long form prospectus (the "Final Prospectus") filed in connection with its completed Special Warrant offering (see Note 13). The Company previously received approval to list on the TSX Venture Exchange (the "TSX-V") conditional on receipt of the final prospectus. Due to the global economic uncertainty and market volatility caused by the COVID-19 outbreak, the Company elected to defer the commencement of trading in order to allow the volatility of financial markets to settle. On May 4, 2020, the Company commenced trading on the TSX-V under the symbol "NEWU" at a share price of \$0.70 per common share.

2. Significant accounting policies

(a) Statement of compliance

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

These financial statements were approved by the Board of Directors and authorized for issuance on April 6, 2021.

(b) Basis of presentation

The financial statements are prepared on a going concern basis using historical cost except as otherwise noted in the accounting policies below. Historical cost is generally based on the fair value of the consideration provided in exchange for goods and services.

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. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

The financial statements are presented in Canadian dollars, which is also the Company's functional currency.

The principal accounting policies adopted are set out below:

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

2. Significant accounting policies (cont'd)

(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:

- (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 Company 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 the other items, either on their own or together, with other resources that are readily available to the customer). 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 the adjusted market assessment approach.

Welcome kits

Welcome kits contain measurement and communication tools, such as genetic testing kits, smart scales and starter guides that aid in the delivery of promised services to participants. Revenue is recognized when items in the welcome kit are shipped and control has passed to the participant. Where payment is received in advance of delivery, the Company recognizes the prepayment as a contract asset and a contract liability for the unexercised contractual rights of the Customer to receive the undelivered items. As the Company expects a portion of the unexercised contractual rights of the Customer to never be exercised, the Company also recognizes breakage revenue based on the pattern of rights expected to be exercised by the Customer, updated at the end of each reporting period. Estimates of participant patterns with respect to exercise are subject to the Company's ability to estimate reliably the amount of breakage, which is based on historical data.

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. Estimates of success fees are also subject to predictions with respect to participant weight loss. Success fees are recorded when there is a low probability of there being a significant reversal of revenue.

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

2. Significant accounting policies (cont'd)

(c) Revenue recognition (cont'd)

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 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. Estimates of outcome guarantees are also subject to predictions with respect to participant weight loss.

The Company incurs no contract costs.

(d) Cost of sales

Cost of sales consists of the cost of Welcome Kits sold to new participants and the labour costs associated with the coaching team.

(e) Financial assets and liabilities

Financial assets include cash and trade and other receivables. Financial liabilities include trade and other payables, convertible debentures, convertible 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		
Trade and other payables	Other liabilities	Amortized cost
Convertible debentures	Other liabilities	Amortized cost

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

2. Significant accounting policies (cont'd)

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

Financial Instrument	Classification	Measurement
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 of 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).

(f) 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).

(g) 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-weighted 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.

(h) 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 statements of loss and comprehensive loss as part of interest and

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

2. Significant accounting policies (cont'd)

(h) *Compound financial instruments (cont'd)*

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

The remainder of preferred shares issued (Note 12(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 one preferred share and one 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 12(d)).

(i) *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.

(j) *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

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

2. Significant accounting policies (cont'd)

(j) Income taxes (cont'd)

realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net loss and comprehensive loss 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.

(k) 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 to 5 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 depreciation are reviewed annually.

(l) Internally-generated intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

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

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses. Amortization commences when the internally-generated intangible asset is ready for use and is recognised on a straight-line basis over the estimated useful life of the

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

2. Significant accounting policies (cont'd)

(l) Internally-generated intangible assets (cont'd)

intangible asset. As at December 31, 2020 the Company's intangible asset was not yet available for use.

(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 option 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 for share-based compensation transactions are disclosed in Note 17.

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

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

2. Significant accounting policies (cont'd)

(r) Foreign currency translation (cont'd)

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

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 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.

(t) Future accounting policies

Impact of the initial application of other new and amended IFRS Standards that are effective for the current year

During the year ended December 31, 2020, the Company adopted the following amendments to IFRS Standards and Interpretations:

COVID-19-Related Rent Concessions (Amendments to IFRS 16)

In May 2020, the IASB published COVID-19-Related Rent Concessions, which amends IFRS 16, Leases, to provide lessees with a practical expedient that relieves lessees from assessing whether a COVID-19-related rent concession is a lease modification. COVID 19 Related Rent Concessions qualify for the practical expedient if there was a decrease in lease consideration, reduction of lease payments that affected payments originally due on or before June 30, 2021, and there were no other substantive changes to other terms and conditions of the lease.

The adoption of the Amendments to IFRS 16 had no impact on the Company's financial statements.

Amendments to IFRS 3 Definition of a business (Amendments to IFRS 3)

The amendments to IFRS 3 clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

The adoption of the Amendments to IFRS 3 had no impact on the Company's financial statements.

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

2. Significant accounting policies (cont'd)

(t) Future accounting policies (cont'd)

Amendments to IAS 1 and IAS 8 Definition of material (Amendments to IAS 1 and IAS 8)

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of “material” across the standards and to make it easier to understand. The definition of material in IAS 8 has been replaced by a definition of material in IAS 1. The new definition states that, “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The adoption of the Amendments to IAS1 and IAS 8 had no impact on the Company's financial statements.

New and Revised IFRS Standards in issue but not yet effective

The Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	Insurance Contracts
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, plant and equipment – proceeds before intended use
Amendments to IAS 37	Onerous contracts – costs of fulfilling a contract

The Company does not expect that the adoption of the amendments to IFRS 17, IFRS 10 and IAS 28, IFRS 3 and IAS 16 will have a material impact on the financial statements of the Company. The Company has not yet completed its assessment of the impact of adoption of amendments to IAS 1 and IAS 37.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Amendments to IAS 37 – Onerous Contracts—Cost of Fulfilling a Contract

The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application. The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. Critical judgments and key sources of estimation uncertainty

The preparation of these 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 inputs and assumptions used in determining breakage revenue

4. Trade and other receivables

Trade and other receivables as at December 31, 2020 and 2019 are comprised of the following:

	2020	2019
	\$	\$
Trade receivables	955,705	1,141,648
Indirect taxes receivable	111,418	106,210
	1,067,123	1,247,858

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.

	2020	2019
	\$	\$
Trade receivables		
Current	925,916	605,419
31-60 days	9,457	496,010
61-90 days	14,767	2,496
91 days and over	5,565	37,723
	955,705	1,141,648

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

5. Inventories

Inventories recognized as cost of sales for the year ended December 31, 2020 amounted to \$971,491 (\$1,068,009 for the year ended December 31, 2019).

All of the Company's inventories during the years ended December 31, 2020 and 2019 consist of finished goods. The Company did not recognize an inventory obsolescence provision as at December 31, 2020 and 2019.

6. Property and equipment

	Office Equipment	Computer Hardware	Computer Software	Total
	\$	\$	\$	\$
<u>Cost</u>				
Balance, January 1, 2019	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
Additions	2,799	21,036	-	23,835
Disposals	-	-	(2,803)	(2,803)
Balance, December 31, 2020	82,607	341,663	-	424,270
<u>Accumulated depreciation</u>				
Balance, January 1, 2019	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
Depreciation	13,950	66,348	-	80,298
Disposals	-	-	(2,803)	(2,803)
Balance, December 31, 2020	45,691	248,666	-	294,357
<u>Carrying amounts</u>				
At December 31, 2019	48,067	138,309	-	186,376
At December 31, 2020	36,916	92,997	-	129,913

NEWTOPIA INC.

Notes to the Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

7. Right-of-use asset and lease liability

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

	Office
	\$
Balance, January 1, 2019	923,838
Depreciation	(184,766)
Balance, December 31, 2019	739,072
Depreciation	(184,767)
Balance, December 31, 2020	554,305

The right-of-use asset is being depreciated over the life of the lease, which is 6 years.

The following is a schedule of future minimum lease payments for right-of-use assets under the finance lease together with the balance of the obligations:

	\$
Balance, January 1, 2020	1,039,430
Interest expense	143,325
Payments	(299,665)
Balance, December 31, 2020	883,090
Amounts shown in:	
Current liabilities	215,532
Non-current liabilities	667,558
	883,090

The undiscounted lease payments remaining are as follows:

	December 31, 2020
	\$
No later than 1 year	329,247
Later than 1 year, but no later than 5 years	768,476
	1,097,723

Total cash outflow for leases, including principal and interest, during the year ended December 31, 2020 was \$299,665 (December 31, 2019 - \$203,606).

8. Credit facility

On December 4, 2020, the Company closed an Operating Credit Line Agreement (the "Facility") in the amount of \$5,000,000. The Company may avail itself of the operating credit under the Facility by way of either Canadian dollars at prime lending rate plus 2.25% or United States dollars at the U.S. base lending rate plus 2.25%. The Facility matures on December 4, 2022 (the "Maturity Date"), is secured by all Newtopia property and is subject to certain covenants where the Company is required to meet minimum cash runway ratios. The Company intends to use the operating line facility to fund working capital requirements as needed.

NEWTOKIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

8. Credit facility (cont'd)

In connection with the Facility, the Company was required to obtain a guarantee from Export Development Canada of 50% of the available Facility plus accrued and unpaid interest up to a maximum of 120 days (the "Guaranteed Amount"). The Company agreed to pay a guarantee fee of 2.35% of the Guaranteed Amount and guaranteed interest on outstanding amounts at the Lender's Prime Rate minus 0.05%. The initial guarantee covers the period from October 14, 2020 to September 30, 2021 (the "Guarantee Period").

In accordance with the terms of the Facility, the Lender received 210,526 Warrants (the "Warrants") on December 4, 2020, with each Warrant entitling the Lender to acquire one common share at a price of \$0.95 at any time within the earlier of the Maturity Date and December 4, 2025. The fair value of the Warrants was determined at \$84,314 using the Black Scholes valuation model with the following assumptions: risk free interest rate of 0.27%, expected life of 5 years and expected volatility of 73.75%. The Company has classified the Warrants within equity with the value of the Warrants being treated as a transaction cost and deferred and amortized over the term of the Facility.

The Company has also incurred cash transaction costs of \$138,805 in connection to the Facility. As the Facility can be drawn upon and then repaid by the Company repeatedly throughout the term, the transaction costs are in the nature of a facility fee and not specific to an amount borrowed. On this basis, the Company has deferred and amortized the transaction costs over the term of the Facility regardless of whether there have been any draw-downs by the Company. The guarantee fees paid to date in the amount of \$21,970 were treated similarly but amortized over the Guarantee Period. The Company has recorded amortization of the deferred transaction costs of \$13,000 in the Statements of Loss and Comprehensive Loss.

No amounts were drawn down by the Company under the Facility as at December 4, 2020 or in the subsequent period to December 31, 2020. If amounts are drawn down under the Facility, the amounts drawn will be initially recognized at fair value and subsequently measured at amortized cost.

The Company was in compliance with all Facility covenants as at December 31, 2020.

9. Secured debentures

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 10). 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 13), 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,

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

9. Secured debentures (cont'd)

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.

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. 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.

Interest expense for the year was nil (December 31, 2019 - \$226,787).

10. 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

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

10. Convertible debentures (cont'd)

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

The host debt was subsequently carried at amortized cost at an effective interest rate of 151%. At each reporting date, the Company reassessed the fair value of the conversion option and Unit Warrants and recorded any gain or loss that was 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 and as such the debentures were payable on this date. 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 its fair value of \$3,729,100. 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. The Company also extended the expiration date of the Unit Warrants from November 6, 2019 to May 6, 2022 for those Debenture Unit holders that consented to the extension of their maturity dates.

On November 6, 2019, the Company repaid \$150,000 of the Convertible Debentures that the holders elected not to extend its maturity date, plus total interest of \$10,500. The Company paid an additional fee of \$4,500.

The derivative liabilities were revalued to \$1,952,638 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%.

On March 30, 2020, the Company had obtained both the final receipt from the OSC for its Final Prospectus and the conditional approval to list from the TSX-V. The Common Shares from the automatic conversion of the Convertible Debentures were issued when the Company's shares commenced trading on May 4, 2020.

Upon the commencement of trading of the Company's common shares on May 4, 2020, the \$3,850,000 Convertible Debentures plus accrued and unpaid interest were automatically converted to 8,625,037 Common Shares and 1,885,707 Unit Warrants. The number of Common Shares and Unit warrants issued were calculated using the share value at listing at \$0.70 per share.

Immediately prior to conversion, the conversion option was revalued to its fair value of \$1,811,700. The value of the derivative liability component relating to the majority of the warrants was revalued at \$568,239 using an option pricing model with the following assumptions: risk-free interest rate of 0.31%, expected life of 2.01 years, share price of \$0.70 and expected volatility of 83.48%. Other warrants included in the derivative liabilities were revalued at \$21,355 using the previously mentioned assumptions, except for the expected life, which was 1.51 years.

Prior to conversion, the combined value of the convertible debenture derivative liabilities amounted to \$2,401,294, with the increase in fair value of the derivative liabilities during the year ended December 31, 2020 of \$448,656 being recognized in the statements of loss and comprehensive loss.

Upon conversion, \$1,811,700 of the derivative liabilities was transferred to common shares and \$589,594 was transferred to contributed surplus.

On May 21, 2020, the expiration date of the Unit Warrants was further extended from May 6, 2022 to May 6, 2023 and a modification adjustment for the increase in the value of the Unit Warrants of \$42,787 was recognized to Contributed Surplus and Deficit.

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

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

10. Convertible debentures (cont'd)

	\$
Residual value of liability component at issuance	1,951,530
Less: issuance costs	200,967
	1,750,563
Interest and accretion expense for the year ended December 31, 2018	399,230
Balance, December 31, 2018	2,149,793
Interest and accretion 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
Interest and accretion	233,542
Converted to Common Shares and Unit Warrants	(4,227,300)
Balance, December 31, 2020	-

11. Retractable preferred shares

	Number of shares	Amount \$
Balance, December 31, 2018 and 2019	27,344,395	7,420,265
Converted to common shares	(27,344,395)	(7,420,265)
Balance, December 31, 2020	-	-

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. The conversion of the preferred shares to common shares occurred on May 4, 2020.

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

12. 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. The conversion of the preferred shares to common shares occurred on May 4, 2020.
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. The conversion of the preferred shares to common shares occurred on May 4, 2020.
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. The conversion of the preferred shares to common shares occurred on May 4, 2020.
Unlimited	Common shares.

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

12. Equity (cont'd)

(b) Common shares, issued and outstanding

	Number of Shares	Amount \$
Balance, December 31, 2018 and 2019	15,535,919	4,643,945
Shares issued on exercise of stock options	7,500	-
Shares issued on conversion of Convertible Debentures (Note 10)	8,625,037	6,039,000
Shares issued on conversion of retractable preferred shares (Note 11)	27,344,395	7,420,265
Shares issued on conversion of preferred shares (Note 12(c))	23,915,578	13,011,033
Shares issued on exercise of Special Warrants (Note 13)	14,422,822	6,812,648
Shares issued on exercise of share purchase warrants (Note 12(e))	1,875,686	1,229,353
Shares issued in private placement offering (i)	7,900,000	5,492,708
Balance, December 31, 2020	99,626,937	44,648,952

(i) Private placement offering

On October 29, 2020, the Company closed a private placement offering 7,900,000 units (the "Units") at a price of \$0.95 per Unit for aggregate gross proceeds of \$7,505,000 (the "Offering"). Each Unit consists of one common share in the capital of the Company (each a "Common Share") and one-half of one Common Share purchase warrant (each whole warrant, a "Warrant"). Each Warrant is exercisable to acquire one Common Share for a period of 24 months following the closing of the Offering at an exercise price of \$1.30 per share. In connection with the Offering, the agents of the Offering received a cash fee equal to 7% of the gross proceeds of the Offering and 553,000 compensation options (the "Compensation Options") representing 7% of the Units sold, each entitling the holder to acquire one Common Share at the Offering price of \$0.95 per Common Share for a period to October 29, 2022.

The Company received net proceeds of \$6,748,969 after deducting agent commissions paid in cash of \$525,350 and cash closing costs of \$230,681. The net proceeds and the deduction of the Compensation Options are allocated to Common Shares and Warrants on a pro-rata basis relative to their fair values. Each Warrant and Compensation Option was estimated at the closing date using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 1.16%, expected volatility of 83.76 and expected life of 2 years. The net proceeds are allocated between Common Shares and Warrants at \$5,696,835 and \$1,052,134, respectively. The fair value of the Compensation Options of \$241,827 is allocated to Common Shares and Warrants at \$204,127 and \$37,700, respectively.

(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
Converted to common shares (Note 12(a))	(4,430,285)	(2,629,937)
Balance, December 31, 2020	-	-

(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

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

12. Equity (cont'd)

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

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 purchase warrants contain a cashless exercise feature and the number of common shares to be issued by the Company upon the exercise of the purchase warrants are not fixed, the purchase warrants do not meet the criteria for equity classification and 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, 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.

During the year ended December 31, 2020, 14,705 of the Series 2 warrants were exercised and 588,234 had expired. At December 31, 2020, the derivative liability related to the remaining 282,003 outstanding Series 2 warrants was revalued at \$47,508 using the Black-Scholes valuation model with the following inputs and assumptions: expected volatility – 53.70%, risk-free interest rate – 0.24%, expected dividend yield – 0%, and expected life – 0.4 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
Converted to common shares (<i>Note 12(a)</i>)	(10,294,118)	(5,432,215)
Balance, December 31, 2020	-	-

- (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

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

12. Equity (cont'd)

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

warrant"). The warrants are exercisable for a period of up to two years from the date of issuance.

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

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

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

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

Based on the Black-Scholes valuation model, the fair value of the broker warrants was assessed at \$160,485 using the following inputs and assumptions: expected volatility – 71.78%, risk-free interest rate – 0.64%, expected dividend yield – 0%, and expected life – 5.0 years. The broker warrants 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, 2019	9,191,175	4,948,881
Converted to common shares (<i>Note 12(a)</i>)	(9,191,175)	(4,948,881)
Balance, December 31, 2020	-	-

(d) Derivative liability

	2020	2019
	\$	\$
Series A2 Warrants	47,508	178,670

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

12. Equity (cont'd)

(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, 2019	3,116,427	0.54
Special Broker Warrants issued on offering of Special Warrants (Note 13))	768,695	0.70
Warrants expired	(45,029)	0.68
Balance, December 31, 2019	3,840,093	0.57
Bonus Warrants issued in lieu of Bonus Shares (Note 9)	2,000,000	0.0001
Unit Warrants issued on conversion of Convertible Debentures (Note 10)	1,885,707	0.70
Broker warrants issued on Convertible Debt offering (Note 10)	334,286	0.70
Warrants issued on automatic exercise of Special Warrants (Note 13)	7,211,411	1.00
Warrants issued in private placement offering (Note 12(b)(i))	3,950,000	1.30
Compensation options issued in private placement offering (Note 12(b)(i))	553,000	0.95
Warrants issued to Lender (Note 8)	210,526	0.95
Warrants exercised	(1,875,686)	0.47
Warrants expired	(707,565)	0.64
Balance, December 31, 2020	17,401,772	0.89

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

Expiry date	Exercise Price \$	Number of Warrants
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
November 2021	0.70	334,286
May 2022	0.70	633,450
September 2022 ⁽ⁱ⁾	1.00	7,211,411
February 2025	0.0001	2,000,000
October 2022	1.30	3,950,000
October 2022	0.95	763,526
May 2023	0.70	1,711,279
		17,401,772

NEWTOKIA INC.

Notes to the Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

12. Equity (cont'd)

(e) Warrants (cont'd)

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

Expiry date	Exercise Price	Number of Warrants
	\$	
December 2020 ⁽ⁱⁱⁱ⁾	0.42	787,589
March 2020 ^(iv)	0.42	167,064
June 2020	0.42	357,993
August 2020	0.42	357,993
December 2020	0.68	602,939
April 2021	0.68	176,011
May 2021	0.68	7,300
June 2021	0.68	98,692
August 2021	0.68	514,705
September 2021	0.68	1,112
May 2022	0.70	768,695
		3,840,093

- (i) In July 2020, the Company granted an extension of the expiry date from May 2022 to September 2022 resulting in a modification adjustment of \$44,863 recorded in Deficit to reflect the increase in the value of the warrants.
- (ii) The warrant table as of December 31, 2019 does not reflect the exercise prices, expiry dates and number of Unit Warrants and Compensation Options issued on the Offering of 4,000 Debenture Units (Note 10) as such information was not determined until the Company commenced trading on the TSX-V on May 4, 2020.
- (iii) In October 2019, the Company granted an extension of the expiry date from December 2019 to March 2020. In March 2020, the expiry date was further extended to October 2020.
- (iv) In October 2019, the Company granted an extension of the expiry date from October 2019 to December 2020 resulting in a modification adjustment of \$264,422 recorded in Deficit to reflect the increase in the value of the warrants.

13. 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

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

13. Special warrants (cont'd)

Common Shares are conditionally approved for listing on the TSX-V 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 \$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.

Upon the commencement of trading of the Company's common shares on May 4, 2020, the Special Warrants were automatically converted to 14,422,822 Common Shares and 7,211,411 whole Warrants. The total net proceeds raised on the Offering, including the settlement of the Secured Debentures (see Note 9), of \$9,164,731 was allocated to the Common Shares and Warrants based on their relative fair values. The fair value of the Warrants was determined using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 1.67%, share price of \$0.70 expected life of 2.0 years and expected volatility of 81.47%. \$2,352,083 was attributed to the Warrants and included in Contributed Surplus.

In July 2020, the Company granted an extension of the expiry date of the Warrants from May 2022 to September 2022 and recorded a modification adjustment of \$44,863 in Deficit to reflect the increase in the value of the warrants.

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

14. Contributed surplus

	2020	2019
	\$	\$
Stock options	5,333,482	4,476,374
Warrants	4,713,139	695,818
	10,046,621	5,172,192

15. Revenue

The Company has recognized the following amounts relating to revenue in the Statements of Loss and Comprehensive Loss

	2020	2019
	\$	\$
Engaged participant and variable consideration	9,759,969	4,059,369
Welcome kits	1,656,350	2,049,913
	11,416,319	6,109,282

During the year ended December 31, 2020, variable consideration related to success fees of \$426,000 (December 31, 2019 - \$Nil) has been recognized as unbilled revenue in the Statements of Financial Position. Refer to Note 2 for the Company's accounting policy with respect to success fees.

During 2020, the Company also recognized variable consideration related to outcome guarantee fees of \$407,189 (December 31, 2019 - \$3,670) which has been included in trade and other payables as contract liabilities on the Statements of Financial Position. Refer to Note 2 for the Company's accounting policy with respect to guarantee fees.

The net effect to the Statements of Loss and Comprehensive Loss in recognizing the success fees and performance fees during the year ended December 31, 2020 was a net increase to revenue of \$18,811.

16. Expenses by nature

	2020	2019
	\$	\$
Cost of sales		
Employee costs	4,491,913	2,483,817
Welcome kits	1,421,811	1,655,122
	5,913,724	4,138,939
Technology and development		
Employee costs	2,269,023	1,792,872
Information technology	959,138	637,910
Research and development	211,684	81,849
	3,439,845	2,512,631
Sales and marketing		
Employee costs	2,887,378	1,427,017
Advertising and promotion	641,534	282,777
	3,528,912	1,709,794

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

16. Expenses by nature (cont'd)

	2020	2019
	\$	\$
General and administrative		
Employee costs	1,663,366	1,580,793
Corporate expenses	1,805,683	1,187,299
Professional fees	884,865	448,415
	4,353,914	3,216,507

17. 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 18,114,870. 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 and or 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 are as follows:

	Number of options	Weighted average exercise price
		\$
Options outstanding, January 1, 2019	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
Granted during the year	5,031,599	0.84
Expired during the year	(230,000)	0.42
Forfeited during the year	(30,000)	0.74
Options outstanding, December 31, 2020	15,610,020	0.58

The Company recognized share-based compensation expense of \$771,662 for the year ended December 31, 2020 with a corresponding amount recognized to contributed surplus (December 31, 2019 - \$2,024,780). 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. No stock options were modified in 2020. The stock options granted during the years ended December 31, 2020 and 2019 were determined using the Black-Scholes pricing model at the weighted average assumptions as follows:

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

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

	2020	2019
Share price	\$0.85	\$0.61
Expected volatility	73.99%	67.83% - 80.45%
Expected life	5 years	5 years
Expected dividends	-%	-%
Risk-free interest rate	1.29%	1.53%

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

A summary of the stock options outstanding as at December 31, 2020 are as follows:

Exercise price range	Number outstanding	Options Outstanding		Options Exercisable	
		Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$	#	#	\$	#	\$
0.21 - 0.40	1,040,882	3.8	0.27	1,040,882	0.27
0.41 - 0.60	8,707,539	2.4	0.45	6,131,813	0.44
0.61 - 0.80	1,028,571	0.7	0.68	913,571	0.68
0.81 - 1.00	4,833,028	4.9	0.85	-	-
Balance, December 31, 2020	15,610,020	3.1	0.58	8,086,266	0.45

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

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

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

18. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2019 - 26.5%) to the effective tax rate is as follows:

	2020	2019
	\$	\$
Net loss before recovery of income taxes	(7,731,846)	(10,140,590)
Expected income tax recovery	(2,048,939)	(2,687,256)
Non-deductible expenses	1,745	12,779
Share-based compensation	352,890	536,567
Change in value of convertible debenture derivative liabilities	84,136	(117,030)
Loss on settlement of debt	44,445	-
Share issuance costs booked through equity	(264,432)	(260,669)
Accretion expense	44,083	540,046
Change in tax benefits not recognized	1,786,072	1,975,563
Income tax expense	-	-

Deferred tax

The following table summarizes the components of deferred tax:

	2020	2019
	\$	\$
Deferred tax assets		
Operating losses carried forward	26,492	5,061
Lease obligations	146,890	195,853
	173,382	200,914
Deferred tax liabilities		
Property and equipment	(8,221)	(5,061)
Intangible assets	(18,271)	-
Right-of-use asset	(146,890)	(195,853)
	(173,382)	(200,914)
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.

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:

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

18. Income taxes (cont'd)

	2020	2019
	\$	\$
Lease obligations	328,788	300,361
Share issuance and financing costs	1,773,599	1,190,605
Trade and other payables	687,000	1,000,000
Operating losses carried forward	40,663,994	34,292,294
SR&ED Pool	435,530	435,530

The Canadian operating loss carry forwards expire as noted in the table below. Share issue and financing costs will be fully amortized in 2024. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

The Company's Canadian operating income tax losses expire as follows:

Year of expiry	Amount
	\$
2027	242,654
2028	572,316
2029	670,632
2030	1,159,044
2031	1,010,140
2032	1,101,026
2033	1,518,463
2034	3,246,424
2035	5,377,420
2036	7,291,879
2037	5,712,297
2038	6,282,672
2039	1,320,327
2040	5,128,700
	40,633,994

19. Loss per share

As a result of losses reported during the years ended December 31, 2020 and 2019, 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.

20. Financial instruments and risk management

Financial risk management objectives and policies

The Company'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.

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

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

Fair value

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

	December 31, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	\$	\$	\$	\$
Financial assets				
Cash	4,673,683	4,673,683	2,386,341	2,386,341
Trade and other receivables	1,067,123	1,067,123	1,247,858	1,247,858
Financial liabilities				
Trade and other payables	2,765,583	2,765,583	2,254,894	2,254,894
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	47,508	47,508	178,670	178,670

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.

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:

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

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

Basis of fair values (cont'd)

December 31, 2020	Fair Value Hierarchy			Total Fair Value
	Level 1	Level 2	Level 3	
	\$	\$	\$	\$
Derivative liability	-	-	47,508	47,508
	-	-	47,508	47,508

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

(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, 2020	Amount included in net loss	Issuance of liabilities	Settlement of liabilities	Fair value December 31, 2020
	\$	\$	\$	\$	\$
Convertible debentures derivative liabilities	1,952,638	448,656	-	(2,401,294)	-
Retractable preferred shares	7,420,265	-	-	(7,420,265)	-
Derivative liability	178,670	(131,162)	-	-	47,508
	9,551,573	317,494	-	(9,821,559)	47,508

	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 liability	157,433	21,237	-	-	178,670
	9,584,417	(32,844)	-	-	9,551,573

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

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

(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, 2020 and 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:

December 31, 2020	Valuation technique	Significant unobservable input	Favourable change	Unfavourable Change
			\$	\$
Derivative liability	Option pricing	Equity volatility	18,141	17,964

December 31, 2019	Valuation technique	Significant unobservable input	Favourable change	Unfavourable 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 liability	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. Expected credit losses on trade and other receivables in profit or loss were nil (2019: 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 24). A customer is considered to be at default when they are unable to fulfil 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 22. 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 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, 2020 and 2019, 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

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

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

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, 2020 and 2019, the exposure to credit risk for trade receivables and contract assets was limited to the United States (see segment information in Note 24). At December 31, 2020, two customers whose trade receivables exceeded 10% of the total trade and other receivables balance represented 89% (December 31, 2019 – 92%) 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, 2020 and 2019, the following items were denominated in foreign currency:

	2020	2019
	\$	\$
<u>Balances denominated in U.S. Dollars</u>		
Cash	837,943	1,376,103
Trade and other receivables	750,632	878,252
Trade and other payables	230,174	269,154

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, 2020 and 2019.

	Change in U.S. rate	Effect on loss before tax
	\$	\$
2020	10%	174,000
	-10%	(174,000)
2019	10%	255,795
	-10%	(255,795)

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.

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

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

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

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	\$	\$	\$	\$	\$
Trade and other payables	2,765,583	2,765,583	-	-	-
Lease obligations	883,090	215,532	667,558	-	-
Derivative liability	47,508	47,508	-	-	-
	3,696,181	3,028,623	667,558	-	-

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

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	\$	\$	\$	\$	\$
Trade and other payables	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	-	-

21. Capital management

Newtopia defines capital as its equity and retractable preferred shares. The Company's capital as at December 31, 2020 is \$4,199,861 (December 31, 2019 - deficiency of \$3,792,218). 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. The Company'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, 2020 and 2019.

The Company is subject to certain financial covenants on its loan facility (Note 8). There has been no change to the Company's policies and processes with respect to the way it manages capital.

22. Economic dependence

During the year ended December 31, 2020, the Company derived 84% of its services and product revenues primarily from a single direct customer. In 2019, the Company derived 88% of its revenues from a single direct customer and a major U.S. health benefits provider and its channel of customers.

NEWTOPIA INC.

Notes to the Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

23. 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:

	2020	2019
	\$	\$
Salaries, fees and short-term benefits	2,599,515	1,531,947
Share-based benefits	583,529	1,369,571
	3,183,044	2,901,518

On March 2, 2020, the Company and the CEO of the Company agreed to settle \$400,000 of unpaid bonuses related to years prior to 2019 with 865,849 common shares and 188,571 stock options. The stock options are exercisable at \$0.70 per common share until November 6, 2021. The fair value of the common shares and stock options at the date of the settlement was determined to be \$528,168 and \$39,548, respectively. The fair value of the stock options was determined using the Black-Scholes pricing model with the following assumptions: risk free interest rate of 1.75%, expected life of 1.7 years and expected volatility of 75.43%. The difference from the bonus payable of \$400,000, being \$167,716 has been recognized as a loss on settlement of debt in the Statements of Loss and Comprehensive Loss. The 865,849 common shares were issued to the CEO subsequent to December 31, 2020.

On November 16, 2020, the Company issued 348,028 stock options to the directors of the Company as settlement of unpaid 2020 directors fees of \$160,000. Each option vests quarterly over one year and is exercisable at a price of \$0.85 per common share at any time up to November 16, 2025. The fair value of the stock options of \$178,956 was determined using the Black-Scholes option pricing model with the following assumptions: risk free interest rate 1.29%, expected life of 5 years and expected volatility of 73.99%. The unpaid fees are reduced by the amortization of the fair value of the stock options over the vesting period. During the year ended December 31, 2020, the 2020 directors fees liability was reduced by \$45,898 and as at December 31, 2020, the remaining balance owing was \$114,102.

As at December 31, 2020, aggregate bonuses payable to members of the executive team, including \$300,000 to the CEO for years prior to 2020, was \$774,850 (December 31, 2019 - \$1,000,000).

24. 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, 2020 and 2019, the Company derived 100% of its revenue from customers located in the United States.