

Form 51-102F4
Business Acquisition Report

Item 1 Identity of Company

1.1 Name and Address of Company

Sixth Wave Innovations Inc. ("Sixth Wave")
Suite 830 – 1100 Melville Street
Vancouver, BC V6E 4A6

1.2 Executive Officer

For further information please contact John Veltheer, Chief Financial Officer, at john@veltheer.com.

Item 2 Details of Acquisition

2.1 Nature of Business Acquired

On January 31, 2020, Sixth Wave (formerly Atom Energy Inc.) through its agreement and plan of merger (the "Merger Agreement") with, among others, 6th Wave Innovations Corp. ("6WIC"), obtained all of the issued and outstanding shares of the surviving entity resulting from the merger of 6WIC and 6th Wave Acquisition Inc., a wholly-owned subsidiary of Sixth Wave (the "Merger").

6WIC is a development stage nanotechnology company with patented technologies that focus on extraction and detection of target substances at the molecular level using highly specialized molecularly imprinted polymers (MIPs). Sixth Wave is in the process of commercializing its Affinity™ cannabinoid purification system, as well as, IXOS®, a line of extraction polymers for the gold mining industry. Sixth Wave can design, develop and commercialize MIP solutions across a broad spectrum of industries.

2.2 Acquisition Date

January 31, 2020

2.3 Consideration

Pursuant to the Merger Agreement, Sixth Wave issued in aggregate 14,291,054 common shares and USD\$1.2 million to the former holders of 6WIC common and preferred stock, and issued 3,928,042 warrants to purchase common shares in Sixth Wave in exchange for outstanding 6WIC warrants. Sixth Wave also issued 2,719,202 common shares and 1,777,778

warrants in connection with the settlement of US\$1.39 million of outstanding 6WIC debt owed to Affinity Nanotechnology Inc. ("Affinity"), repaid USD\$1.1 million of debt owed to Affinity and replaced the balance of 6WIC debt owed to Affinity with a USD\$1.0 million principal amount convertible promissory. Another USD\$318,000 of accumulated deferred salary was paid to management of 6WIC. A further 3,603,600 common shares were issued upon the automatic exchange of Sixth Wave's outstanding subscription receipts upon completion of the acquisition.

Funding for the consideration and operations of Sixth Wave and 6WIC was obtained through five tranches of non-brokered common share issuances and one tranche of a brokered subscription receipt issuance (each subscription receipt being automatically exchanged for one common share upon satisfaction of all of the conditions outlined in the Merger Agreement), each of which was completed at a price of \$0.75 per common share or security convertible into a common share. The financings are summarized below:

Date	Type of Security	Number of Securities	Total Funds Received
May 6, 2019	Common shares	1,333,333	\$999,999.75
May 27, 2019	Common shares	2,946,663	\$2,210,000.00
July 25, 2019	Subscription Receipts	3,603,600	\$2,702,700.00
October 21, 2019	Common shares	3,480,583	\$2,610,437.25
December 6, 2019	Common shares	2,000,000	\$1,500,000.00
January 20, 2020 ⁽¹⁾	Common shares	5,212,559	\$3,909,418.50
Total		18,576,738	13,932,555.50

(1) A total of \$3,153,422.25 was closed in escrow with 4,204,563 common shares being issued upon the completion of the Merger.

2.4 Effect on Financial Position

Upon the closing of the acquisition, the acquired business became the principal business of Sixth Wave. Sixth Wave currently has no plans or proposals for material changes in the business affairs or the affairs of the acquired business which may have a significant effect on the financial performance and financial position of the company. Sixth Wave plans to continue to develop the molecularly imprinted polymer technology of the acquired business for its existing applications and to seek new applications for the technology.

2.5 Prior Valuations

None.

2.6 Parties to Transaction

This was not a transaction with an informed person, associate or affiliate of Sixth Wave.

2.7 Date of Report

May 6, 2020

Item 3 Financial Statements and Other Information

The following financial statements are attached to this report:

Audited financial statements of 6th Wave Innovations Corp. as at and for the years ended December 31, 2019 and 2018, and the report of the auditors thereon.

6th Wave Innovations Corp. has not obtained the consent of the auditors to include the audit reports thereon in this report.

Financial Statements of

6TH WAVE INNOVATIONS CORP.

Years ended December 31, 2019 and 2018

(Expressed in United States dollars)

INDEPENDENT AUDITOR'S REPORT

To the Directors of
6th Wave Innovations Corp.

Opinion

We have audited the accompanying financial statements of 6th Wave Innovations Corp. (the "Company"), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of loss and comprehensive loss, changes in shareholder's deficiency, and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

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 audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the financial statements, which indicates that the Company has no main sources of revenue, experienced significant losses and negative cash flows from operations since inception and has a deficit. As stated in Note 2, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 IFRS, 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

May 4, 2020

6TH WAVE INNOVATIONS CORP.

Statements of Financial Position

Expressed in United States dollars

	December 31, 2019	December 31, 2018
	\$	\$
ASSETS		
Current assets		
Cash	241,185	62,216
Receivables (Note 17)	375,494	-
Prepaid expenses and other (Note 16)	33,363	40,888
	<u>650,042</u>	<u>103,104</u>
Investment in associated company (Note 7)	160,000	160,000
Equipment (Note 8)	194,739	190,414
Pilot plant (Note 9)	106,136	565,913
Right-of-use assets (Note 4 and 10)	268,449	-
	<u>1,379,366</u>	<u>1,019,431</u>
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable and accrued liabilities (Note 16)	451,818	254,207
Current portion of lease liabilities (Note 4 and 13)	74,220	-
Revolving credit loan (Note 11)	40,000	38,163
Note payable (Note 12)	34,285	31,075
Convertible debentures (Note 12)	4,568,482	3,773,237
Derivative liabilities (Note 12)	293,194	387,893
Deferred revenue (Note 19)	200,000	200,000
Deferred salary loans (Note 14)	1,827,998	1,513,923
	<u>7,489,997</u>	<u>6,198,498</u>
Long-term liabilities		
Deferred revenue (Note 19)	400,000	400,000
Lease liabilities (Note 4 and 13)	194,229	-
	<u>8,084,226</u>	<u>6,598,498</u>
Shareholders' deficiency		
Share capital (Note 15)	2,507,203	2,507,203
Contributed surplus (Note 15)	2,079,793	2,043,460
Warrants reserve (Note 15)	3,539,845	3,539,845
Deficit	(14,831,701)	(13,669,575)
	<u>(6,704,860)</u>	<u>(5,579,067)</u>
	<u>1,379,366</u>	<u>1,019,431</u>

Nature of operations (Note 1)

Going concern (Note 2)

Commitments (Note 22)

Subsequent Events (Note 23)

Approved on behalf of the Board of Directors

(s) Jonathan Gluckman
Jonathan Gluckman, Director

(s) Sherman McGill
Sherman McGill, Director

The accompanying notes form an integral part of these financial statements.

6TH WAVE INNOVATIONS CORP.

Statements of Loss and Comprehensive Loss

Expressed in United States dollars

	2019	2018
	\$	\$
Revenue		
Revenue (Note 17)	750,000	758,066
Expenses		
Amortisation (Note 8)	67,259	38,524
Advertising and promotion	18,297	8,208
Office expenses	156,899	49,897
Professional fees	525,121	376,255
Finance expense (Notes 12 & 14)	891,984	1,746,653
Salaries and consultants (Note 16)	1,309,947	1,166,895
Insurance expense	25,444	35,417
Rent expense	136,029	137,439
Share based compensation (Notes 15 & 16)	36,333	111,647
Research and development expenses (Note 9)	1,199,021	507,531
Travel and related expenses	182,501	146,495
	<u>4,548,835</u>	<u>4,324,961</u>
Equity loss in associated company (Note 7)	-	11,360
Fair value adjustment of derivative liability (Note 12)	(111,463)	(1,355,579)
Extension payment income (Note 18)	(2,582,305)	-
Foreign exchange	57,059	(37,880)
	<u>(2,636,709)</u>	<u>(1,382,099)</u>
Net loss and comprehensive loss	<u>(1,162,126)</u>	<u>(2,184,796)</u>
Net loss per common shares	(872,531)	(1,640,359)
Net loss per series A preferred shares	(289,595)	(544,437)
Basic and diluted loss per common share	(0.64)	(1.21)
Weighted average number of common shares outstanding (basic and diluted)	1,355,261	1,355,261
Basic and diluted loss per series A preferred shares	(0.64)	(1.21)
Weighted average number of series A preferred shares outstanding (basic and diluted)	449,814	449,814

The accompanying notes form an integral part of these financial statements.

6TH WAVE INNOVATIONS CORP.Statements of Changes in Shareholders' Deficiency
Expressed in United States dollars

	Number of Common Shares	Number of Series A Shares	Share Capital	Series A Shares	Contributed Surplus	Warrant Reserves	Deficit	Total Deficiency
Balance at January 1, 2018	1,355,261	449,814	\$ 1,170,596	\$ 1,336,607	\$ 1,931,813	\$ 3,314,624	\$ (11,484,779)	\$ (3,731,139)
Net loss	-	-	-	-	-	-	(2,184,796)	(2,184,796)
Issuance of warrants relating to deferred salary loans and financial advisory services	-	-	-	-	-	225,221	-	225,221
Share-based payments	-	-	-	-	111,647	-	-	111,647
Balance at December 31, 2018	1,355,261	449,814	1,170,596	1,336,607	2,043,460	3,539,845	(13,669,575)	(5,579,067)
Balance at January 1, 2019	1,355,261	449,814	1,170,596	1,336,607	2,043,460	3,539,845	(13,669,575)	(5,579,067)
Net loss	-	-	-	-	-	-	(1,162,126)	(1,162,126)
Share-based payments	-	-	-	-	36,333	-	-	36,333
Balance at December 31, 2019	1,355,261	449,814	1,170,596	1,336,607	2,079,793	3,539,845	(14,831,701)	(6,704,860)

The accompanying notes form an integral part of these financial statements.

6TH WAVE INNOVATIONS CORP.

Statements of Cash Flows

Expressed in United States dollars

	For the year ended December 31 2019 \$	For the year ended December 31 2018 \$
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES		
Loss for the year	(1,162,126)	(2,184,796)
Adjustments for items not involving cash:		
Amortisation	67,259	38,524
Amortisation included in research and development expense	377,277	188,637
Share-based payments	36,333	111,647
Finance expense relating to issuance of warrant for deferred salaries	-	66,546
Issuance of warrants relating to services	-	158,675
Change in fair value of derivative liability	(111,463)	(1,355,579)
Accrued interest expense	891,984	1,669,704
Equity loss in associated company	-	11,360
Unrealized foreign exchange	57,055	(44,212)
 Change in non-cash operating working capital:		
Accounts receivable	(292,994)	-
Prepaid expenses and other	7,525	23,181
Accounts payable and accrued liabilities	283,407	63,033
Deferred salary loans	180,254	189,084
Deferred revenue	-	200,000
	<u>334,511</u>	<u>(864,196)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	-	30,000
Repayment of revolving line of credit	(38,163)	-
Proceeds from revolving line of credit	40,000	38,163
Proceeds from issuance of convertible debentures	-	2,050,673
Repayment of convertible debentures	-	(400,000)
	<u>1,837</u>	<u>1,718,836</u>
 CASH FLOWS USED BY INVESTING ACTIVITIES		
Purchase of equipment	(71,583)	(201,054)
Pilot plant	(85,796)	(668,754)
Investment in associated company	-	(28,399)
	<u>(157,379)</u>	<u>(898,207)</u>
 INCREASE IN CASH	178,969	(43,567)
CASH, beginning of year	62,216	105,783
CASH, end of year	<u>241,185</u>	<u>62,216</u>
 Non cash investing activities:		
Embedded derivative included in convertible debentures	-	799,949
Capitalization of right of use asset and lease liability	268,449	-
Pilot plant expenditures included in accounts payable and accrued liabilities	-	85,796
Pilot plant recovery	82,500	-

The accompanying notes form an integral part of these financial statements.

6TH WAVE INNOVATIONS CORP

Notes to Financial Statements

Years ended December 31, 2019 and 2018

Expressed in United States dollars, except where otherwise indicated

1. Nature of operations:

6th Wave Innovations Corp. ("6WIC" or the "Company") is a corporation incorporated under the laws of the state of Delaware on July 3, 2013 and is domiciled in the United States. The address of the Company's head office and registered and records office is 615 Arapeen Drive, Suite 303, Salt Lake City, UT 84108. The Company is a nanotechnology company focused on extraction and detection of target substances at the molecular level. The Company has developed a line of extraction polymers for the gold mining industry using its IXOS[®] patented technology. To date, the Company has not earned significant revenues from its IXOS[®] patented technology in the gold mining industry and is considered to be a development stage enterprise. Subsequent to December 31, 2019, the Company completed a merger transaction with Sixth Wave Innovations Inc. (formerly Atom Energy Inc.) ("Sixth Wave") as outlined in Note 23.

2. Going concern:

These financial statements have been prepared in accordance with International Financial Reporting Standards applicable to a going concern, which assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

The Company has no main sources of revenue, experienced significant losses and negative cash flows from operations since inception and has a deficit. Management estimates current working capital may not be sufficient to fund all of the Company's planned expenditures in 2020. The ability of the Company to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its extraction research is contingent upon securing financing or monetizing assets. Management believes they can raise sufficient working capital to continue operations for the next twelve months, and generate revenue from its extraction technology, but is aware, in making its going concern assessment, of a material uncertainty related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economics, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

6TH WAVE INNOVATIONS CORP

Notes to Financial Statements

Years ended December 31, 2019 and 2018

Expressed in United States dollars, except where otherwise indicated

3. Basis of presentation:

Statement of compliance

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). The accounting policies applied in these financial statements are based on IFRS issued and in effect as of December 31, 2019.

The date the Board of Directors approved the financial statements is May 04, 2020.

Basis of measurement

These financial statements have been prepared in United States dollars on a historical cost basis except for financial instruments measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Functional currency

The financial statements are presented in United States dollars, which is the functional and presentation currency of the Company.

Use of estimates and judgments

The preparation of financial statements requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The determination of estimates requires the exercise of judgments based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results could differ from those estimates.

6TH WAVE INNOVATIONS CORP

Notes to Financial Statements

Years ended December 31, 2019 and 2018

Expressed in United States dollars, except where otherwise indicated

3. Basis of presentation (continued):

Classification of associated company

Classification of investments requires judgment as to whether the Company controls, has joint control or significant influence over the strategic financial and operating decisions relating to the activity of the investee. In assessing the level of control or influence that the Company has over an investment, management considers ownership percentages, board representation as well as other relevant provisions in shareholder agreements. If an investor holds 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

The Company has classified its investment in Geolithic Corp. as an associated company as the Company owns approximately 40% of the outstanding common shares of Geolithic Corp. as at December 31, 2019. The Company has the option to purchase additional common shares of Geolithic Corp. at a future date pursuant to the signed option agreement. Additional details of additional common shares purchased after December 31, 2019 can be found in the subsequent events note (Note 23).

Valuation of investment in associated company

To value the investment in associated company, management obtains financial information from the majority owner and adjusts the carrying value of the investment. The investment is subject to all estimates included in the financial information from the majority owner as well as estimates of impairment losses.

Share-based payments

Equity-settled share-based payments issued to officers, directors, employees, and consultants are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured.

6TH WAVE INNOVATIONS CORP

Notes to Financial Statements

Years ended December 31, 2019 and 2018

Expressed in United States dollars, except where otherwise indicated

3. Basis of presentation (continued):

Taxation

The Company's accounting policy for taxation requires management's judgment in assessing whether deferred tax assets are recognized on the statement of financial position. Deferred tax assets, including those arising from tax loss carry-forwards, capital losses, and temporary differences are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future sales volumes, resource prices, operating costs, capital expenditure, dividends, and other capital management transactions.

Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the statement of financial position and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amount of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of loss and comprehensive loss.

Embedded Derivatives

As part of assessing whether an instrument is a hybrid financial instrument and contains an embedded derivative, significant judgement is required in evaluating whether the host contract is more akin to debt or equity and whether the embedded derivative is clearly and closely related to the underlying host contract. The Company concludes that the host instrument of the convertible debentures is a debt host due to the holder's right to redeem the instrument for cash at a point in time in the future. The Company determines that the conversion option is not closely related to the debt host, and that the conversion option is required to be separated from the host instrument and accounted for as an embedded derivative due to the variability in the number of shares issuable under the convertible debentures. In applying its judgement, the Company relies primarily on the economic characteristics and risks of the instrument as well as the substance of the contractual arrangements.

The initial fair values of the embedded derivative conversion options and subsequent re-measurements at fair value at each reporting date are determined by using the Black-Scholes pricing model which required exercise of judgment in relation to variables such as expected volatilities in share price and foreign exchange rates.

6TH WAVE INNOVATIONS CORP

Notes to Financial Statements

Years ended December 31, 2019 and 2018

Expressed in United States dollars, except where otherwise indicated

4. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements unless otherwise indicated.

(a) Cash:

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents. As at December 31, 2019, the Company had cash of approximately \$241,000 (2018 - \$62,000).

(b) Financial instruments:

(i) Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are classified as FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income/loss.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash is classified as FVTPL and receivables are classified as amortized cost.

(ii) Financial liabilities

The Company initially recognises financial liabilities on the trade date at which the Company becomes party to the contractual provisions of the instrument. The Company derecognises financial liabilities when its contractual obligations are discharged, cancelled, or expire.

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities, revolving credit loan, note payable, convertible debentures and deferred salary loans. The convertible debentures are convertible into a variable number of common shares at the option of the holder.

6TH WAVE INNOVATIONS CORP

Notes to Financial Statements

Years ended December 31, 2019 and 2018

Expressed in United States dollars, except where otherwise indicated

4. Significant accounting policies (continued):

(iii) Non-derivative financial liabilities

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iv) Embedded derivatives

Embedded derivatives are contained in non-derivative host contracts and are treated as separate derivatives when they meet the definition of a derivative, and their risks and characteristics are not closely related to those of the host contracts. Embedded derivatives are recorded at fair market value with mark-to-market adjustments recorded in profit or loss.

(c) Intangible assets excluding goodwill:

Expenditure on research activities is recognized 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 recognized if, and only if, all of the following have been demonstrated:

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

6TH WAVE INNOVATIONS CORP

Notes to Financial Statements

Years ended December 31, 2019 and 2018

Expressed in United States dollars, except where otherwise indicated

4. Significant accounting policies (continued):

The amount initially recognized for internally-generated intangible assets is the sum of the expenses incurred from the date when the intangible assets first meet the recognition criteria listed above. If no future economic benefit is expected before the end of the life of assets, the residual book value is expensed. Subsequent to initial recognition, internally generated intangible assets are reported at cost. Where no internally-generated intangible asset can be recognized, development costs are recognized as an expense in the period in which it is incurred. Amortization of intangible assets is recognized based on an expected economic life. The Company has not capitalized an internally-generated intangible asset as the Company has not been able to demonstrate the criteria noted above.

(d) Impairment of assets:

i) Financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for objective evidence of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investments have been affected.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructure of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against accounts receivable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii) Non-financial assets

The carrying amount of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, the asset's recoverable amount is estimated.

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Notes to Financial Statements

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Expressed in United States dollars, except where otherwise indicated

4. Significant accounting policies (continued):

The recoverable amount of an asset of cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets which generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

The Company's assets do not generate separate cash inflows. If there is an indication that a company asset may be impaired, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is recognised directly against the carrying amount of the asset whenever the carrying amount of an asset, or its CGU, exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGU's are allocated first to the goodwill and then to carrying amounts of the assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation, if no impairment loss had been recognised.

(e) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognised as a deduction from equity, net of any tax effects.

6TH WAVE INNOVATIONS CORP

Notes to Financial Statements

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4. Significant accounting policies (continued):

(f) Investments in associated company:

The Company accounts for its long-term investments in affiliated companies over which it has significant influence using the equity basis of accounting, whereby the investment is initially recorded at cost, adjusted to recognize the Company's share of earnings or losses and reduced by dividends received. The statements of loss and comprehensive loss reflect the Company's share of the results of operations of the associated company from the acquisition date forward. Where there has been a change recognized directly in the equity of the associated company, the Company recognizes its share of any changes. Unrealized gains and losses resulting from transactions between the Company and the associated company are eliminated to the extent of the interest in the associated company.

The Company assesses its equity investments for impairment at each reporting date if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the equity investment and that the event or events has an impact on the estimated future cash flow of the investment that can be reliably estimated. Objective evidence of impairment of equity investments includes:

- (i) significant financial difficulty of the associated company;
- (ii) becoming probable that the associated company will enter bankruptcy or other financial reorganization; or
- (iii) national or local economic conditions that correlate with defaults of the associated company.

If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in profit or loss. Upon loss of significant influence over the associated company, the Company measures and recognizes any remaining investment at its fair value. Any difference between the carrying amount of the associated company upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss.

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Notes to Financial Statements

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4. Significant accounting policies (continued):

(g) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable on respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred income tax assets and deferred income tax liabilities of the same taxable entity are offset when they relate to taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. The principal temporary differences arise from amortisation on equipment, tax losses carried forward, and fair value adjustments on assets acquired in business combinations.

6TH WAVE INNOVATIONS CORP

Notes to Financial Statements

Years ended December 31, 2019 and 2018

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4. Significant accounting policies (continued):

(h) Share-based payments:

Awards of options to employees and others providing similar services under this plan are expensed based on the estimated fair value of the options at the grant date, with a corresponding credit to contributed surplus in shareholders' deficiency. Fair value is measured using the Black-Scholes pricing model. If the options are subject to vesting periods, the compensation cost is recognized over this period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Equity-settled share-based payment transactions with parties other than employees and those providing similar services 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.

Consideration received on the exercise of stock options is credited to share capital together with the amounts originally recorded as share-based compensation in contributed surplus related to the exercised options.

(i) Loss per share:

The calculation of basic loss per common share is based on net loss divided by the weighted average number of common and preferred shares outstanding during the period. Diluted income (loss) per share is calculated by adjusting the income (loss) and number of shares for the effect of dilutive options and other dilutive potential units. Since the Company has a net loss for all years being presented, the effect of the exercise of options and warrants has not been included in the calculation as it would be anti-dilutive.

(j) Revenue recognition:

Revenue is recognized only when the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the entity.

6TH WAVE INNOVATIONS CORP

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4. Significant accounting policies (continued):

(k) Equipment:

Equipment is recorded at cost less accumulated amortisation and impairment losses. The Company provides for amortisation using the declining balance at rates designed to amortise the cost of the equipment over their estimated useful lives. The annual amortisation rates are as follows:

Asset	Basis	Rate
Office equipment	Declining balance	30%
Furniture and fixtures	Declining balance	30%
Research equipment	Declining balance	30%

(l) Pilot plant:

Pilot plant is recorded at historical cost less accumulated amortisation and impairment charges. Pilot plant is depreciated using the straight-line method over the estimated useful lives of the individual assets. The significant classes of pilot plant and the rates are as follows:

Asset	Basis	Rate
Pilot plant	Straight-line	2 years

(m) Warrants:

From time to time the Company issues warrants in conjunction with share capital. Proceeds are allocated between share capital and private placement warrants based on the relative fair value of each instrument. The fair value of compensatory warrants is estimated using an appropriate option pricing model, as outlined in Note 15.

(n) Standards, amendments and interpretations:

The Company adopted the following accounting standards and amendments effective beginning January 1, 2019:

(i) IFRIC Interpretation 23 Uncertainty over Income Tax Treatments:

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Early application is permitted. The interpretation clarifies the accounting for income tax treatments (current and deferred tax) that have yet to be accepted by the tax authorities. The Interpretation did not cause a material impact on the financial statements.

6TH WAVE INNOVATIONS CORP

Notes to Financial Statements

Years ended December 31, 2019 and 2018

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4. Significant accounting policies (continued):

(ii) IFRS 16 Leases:

In January 13, 2016, the IASB issued IFRS 16, Leases, which replaced IAS 17, Leases. It was effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. IFRS 16 eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet accounting model that is similar to current finance lease accounting. Leases become an on-balance sheet liability that attract interest, together with a new asset.

The most significant effect of the new standard is the lessee's recognition of the initial present value of unavoidable future lease payments as right-of-use ("ROU") assets and lease liabilities on the statement of financial position, including those for most leases that would have formerly been accounted for as operating leases.

Prior to November 2019, the Company did not have any lease adjustments. In November 2019, the Company entered into a lease on its corporate office facility. In the context of IFRS 16, a ROU asset of \$268,449 and a lease liability of \$268,449 were recognized as at lease commencement date (Note 10 and 13). The lease liability was measured at the present value of the remaining lease payments, discounted using the Company's weighted average incremental borrowing rate of approximately 15%. The ROU asset was measured at an amount equal to the corresponding initial lease liability.

On adoption, the following practical expedients were permitted by IFRS 16, but were not applicable to the Company:

- Accounting for leases with a remaining term of less than twelve months as at December 31, 2019, as short-term leases; and
- Accounting for lease payment as an expense for leases of low-value assets.

The modified retrospective approach does not require restatement of prior period comparative financial information and is applied prospectively. The application of IFRS 16 requires the Company to make judgements that affect the valuation of the lease liabilities and the valuation of ROU assets. These include: determining contracts that are within the scope of IFRS 16; determining the contract term; and determining the interest rate used for the discounting of future cash flows.

The impact on profit or loss was an elimination of rent expense, and the recognition of depreciation of the ROU asset, and interest on the lease liability. The Company's lease is denominated in United States dollars, therefore there was no additional volatility in foreign exchange amounts recognised in profit and loss. See Note 10 and 13 for additional details. Operating lease expenses relating to short-term and low value leases not included in the measurement of lease obligations during the year ended December 31 2019 was \$105,789.

6TH WAVE INNOVATIONS CORP

Notes to Financial Statements

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4. Significant accounting policies (continued):

The following is the accounting policy for leases as of January 1, 2019 upon adoption of IFRS 16:

The Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assess whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Company has the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, the Company recognized a right-of-use asset and lease liability at the commencement date of a lease. The right-to-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentive receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices or purchase options if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

6TH WAVE INNOVATIONS CORP

Notes to Financial Statements

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4. Significant accounting policies (continued):

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit or loss.

The Company does not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and lease of low-value assets. The lease payments associated with these leases are charged directly to profit or loss on a straight-line basis over the lease term.

5. Capital management:

The Company's capital structure consists of shareholders' deficiency. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing, selling assets, and incurring debt. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. There were no changes to the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements other than as disclosed in Notes 11 and 12.

The Company does not have adequate sources of capital to meet its current obligations and ultimately the development of its business over the long term, and will need to raise adequate capital by obtaining equity financing, selling assets and/or incurring debt. The Company may raise additional debt or equity financing in the near future to meet its current obligations.

6. Financial instruments and risk management:

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

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Notes to Financial Statements

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6. Financial instruments and risk management (continued):

The fair value of accounts payable and accrued liabilities and revolving credit loan approximates fair value due to the short-term nature of the financial instruments. Cash is classified as fair value through profit or loss and are measured using level 1 inputs of the fair value hierarchy. The Company's derivative liabilities are measured using level 3 inputs as disclosed in Note 12.

Revolving credit loan, note payable, convertible debentures, deferred salary loans and lease obligations are measured at amortized cost. The fair value of these financial instruments approximates its carrying value as the balance accrues over time.

The Company is exposed to a variety of financial risk by virtue of its activities including, credit, interest rate, and liquidity risk. The Company is not exposed to significant foreign exchange or price risk.

(a) Credit risk

Credit risk is the risk that a counter party will be unable to pay amounts owed to the Company. Management's assessment of the Company's exposure to credit risk is low. Credit risk is also the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's cash is held in U.S. major banks and accordingly, there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies.

(b) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to limited interest rate risk as it only holds cash and has no variable rate debt.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not able to meet its obligations as they come due. The Company's ability to continue as a going concern is dependent on management's ability to raise the required capital through future equity or debt issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board are actively in the review, planning, and approval of significant expenditures and commitments.

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7. Investment in associated company:

On January 20, 2017, the Company entered into a Minerals Extraction Joint Venture Company Agreement with TriLateral Energy, LLC (“TLE”). TLE and the Company formed Geolithic Corp. (“Geolithic”) a corporation formed under the laws of the state of Delaware with its principal place of business in Salt Lake City, Utah. The Company owns 40% of the issued and outstanding common shares. Geolithic is a private company and its principal business activity is to extract lithium and other relatively rare and valuable minerals using new and innovative extraction methods.

Geolithic is recognised as an equity investment of the Company. The Board and management of Geolithic is comprised of three representatives of TLE and two representatives of the Company.

Voting is proportionate to each party’s participating interest which is, as at December 31, 2019 and 2018, 60% to TLE and 40% to the Company.

In 2017 the Company entered into an exclusive license agreement with Geolithic for the use of the Company’s nano extraction technology and received \$400,000 from TLE on behalf of Geolithic relating to the advanced payments of the exclusive license agreement. The Company has accounted for the \$400,000 as deferred revenue as the Company has not fulfilled its obligation pursuant to the license agreement.

As at December 31, 2019 the Company has not fulfilled its obligation pursuant to the license agreement and continues to account for the \$400,000 as deferred revenue.

A reconciliation of the Company’s investment in Geolithic is as follows:

Balance at December 31, 2017	\$	142,961
Contributions throughout the year		28,399
Equity loss in Geolithic		(11,360)
Balance at December 31, 2018	\$	160,000
Contributions throughout the year		-
Equity loss in Geolithic		-
Balance at December 31, 2019	\$	160,000

Geolithic’s estimated financial information as at December 31, 2019 and December 31, 2018 and loss and comprehensive loss for the year ending December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Total current assets	\$ -	\$ -
Total assets	400,000	400,000
Total current liabilities	-	-
Total long term liabilities	-	-
Loss and comprehensive loss for the year	-	28,399
Company’s share of loss during the year	\$ -	\$ 11,360

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Notes to Financial Statements

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8. Equipment:

	Office equipment	Furniture and fixtures	Research equipment	Total
Cost				
Balance, January 1, 2018	\$ 13,596	\$ 4,424	\$ 45,882	\$ 63,902
Additions	652	-	200,402	201,054
Balance December 31, 2018	14,248	4,424	246,284	264,956
Additions	7,895	-	63,688	71,583
Balance, December 31, 2019	22,143	4,424	309,972	336,539
Accumulated amortisation				
Balance, January 1, 2018	\$ 5,947	\$ 2,114	\$ 27,957	\$ 36,018
Amortisation	2,393	693	35,438	38,524
Balance, December 31, 2018	8,340	2,807	63,395	74,542
Amortisation	2,355	485	64,419	67,259
Balance, December 31, 2019	10,695	3,292	127,814	141,801
Net book value				
Balance, December 31, 2018	\$ 5,908	\$ 1,617	\$ 182,889	\$ 190,414
Balance, December 31, 2019	\$ 11,448	\$ 1,132	\$ 182,159	\$ 194,739

9. Pilot plant:

	December 31, 2018	Additions	Amortisation	Recovery	December 31, 2019
Pilot Plant	\$ 565,913	\$ -	\$ 377,277	\$ (82,500)	\$ 106,136
	\$ 565,913	\$ -	\$ 377,277	\$ (82,500)	\$ 106,136
	December 31, 2017	Additions	Amortisation	Recovery	December 31, 2018
Pilot Plant	\$ -	\$ 754,550	\$ 188,637	\$ -	\$ 565,913
	\$ -	\$ 754,550	\$ 188,637	\$ -	\$ 565,913

\$377,277 (2018 - \$188,637) of amortisation was recorded in research and development expenses. During the year ended December 31, 2018, the Company completed the construction of the pilot plant, which became available for use in July 2018. During the year ended December 31, 2019, the Company recorded a recovery of \$82,500 against pilot plant costs given that the fee earned was considered to be incidental to the development of the pilot plant.

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10. Right-of-use assets:

As at December 31, 2019, the Company recognized \$268,449 as a right-of-use asset for the lease of the Company's office located in Salt Lake City, Utah.

Cost:

At December 31, 2017 and 2018	-
Additions (Note 4)	268,449
At December 31, 2019	268,449

Depreciation:

At December 31, 2017 and 2018	-
Charge for the period	-
At December 31, 2019	-

Net book value:

At December 31, 2018	-
At December 31, 2019	268,449

11. Revolving credit loan:

The Company has a demand revolving credit line with BB&T Bank in the maximum amount of \$40,000 with interest at 6.39% (2018 – 7.14%). The amount owing at December 31, 2019 was \$40,000 (2018 - \$38,163).

12. Convertible debentures and note payable:

Somerston Loans

During the year ended December 31, 2019, the Company borrowed \$Nil (2018 - \$1,100,000) under a series of convertible loans (the "Somerston Loans") that bear interest at 10% per annum compounded monthly. The convertible loans are not secured.

The Somerston Loans are convertible at the option of the debtholder into Series B Preferred shares at a price equal to the lesser of i) \$5.60 per share and ii) 80% of the weighted average issue price of Series B Preferred Shares. However, should the Company complete a minimum Series B financing of at least \$2,000,000, then the entire principal and accrued interest owing under the Somerston Loans will automatically be converted into Series B Preferred shares at a price equal to 80% of the weighted average issue price of Series B Preferred shares.

6TH WAVE INNOVATIONS CORP

Notes to Financial Statements

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12. Convertible debentures and note payable (continued):

As a result of the variability in the number of shares issuable under the Somerston Loans, the cash received under each of the Somerston Loans has been allocated between the fair value of the loan conversion feature, which is considered an embedded derivative liability, and the value of the loan liability. The value ascribed to the loan conversion feature is determined using the Black Scholes option pricing model as at the loan date, and the residual amount has been allocated to the loan liability. The following is a summary of the original loan allocations and amounts outstanding:

Note	Issue Date	Maturity Date	Amount	Embedded Derivative	Loan Liability	Balance at December 31, 2019	Balance at December 31, 2018
1	August 31, 2016	January 31, 2020	\$ 500,000	\$ 261,900	\$ 238,100	\$ 248,551	\$ 224,992
2	March 24, 2017	January 31, 2020	500,000	243,200	\$ 256,800	659,000	596,535
3	July 30, 2017	January 31, 2020	500,000	260,900	\$ 239,100	636,378	576,058
4	October 2, 2017	January 31, 2020	250,000	122,400	\$ 127,600	312,664	283,027
5	November 20, 2017	January 31, 2020	250,000	115,200	\$ 134,800	308,524	279,280
6	January 16, 2018	January 31, 2020	250,000	96,600	\$ 153,400	303,771	274,978
7	February 27, 2018	January 31, 2020	250,000	92,000	\$ 158,000	300,307	271,842
8	April 5, 2018	January 31, 2020	200,000	56,400	\$ 143,600	237,836	215,292
9	May 3, 2018	January 31, 2020	250,000	70,600	\$ 179,400	295,011	267,048
10	July 10, 2018	January 31, 2020	150,000	42,400	\$ 107,600	173,767	157,296
Total			\$ 3,100,000	\$ 1,361,600	\$ 1,738,400	\$ 3,475,809	\$ 3,146,347

During the year ended December 31, 2019, the maturity dates have been extended to January 31, 2020 under terms of the Agreement and Plan of Merger (Note 23). During the year ended December 31, 2019, the Company incurred \$329,462 (2018 - \$1,412,115) in finance costs, including \$Nil (2018 - \$1,111,632) in interest accretion expenses of the loan liabilities. At December 31, 2019 a total of \$3,475,809 (2018 - \$3,146,347) in loan principal and accrued interest remained outstanding.

During the year ended December 31, 2019, the Company repaid \$Nil (2018 - \$400,000) of principal and interest on Note 1. Additionally, the loan conversion features have been revalued to \$Nil (2018 - \$Nil) and the Company has recorded a fair value adjustment gain of \$Nil (2018 - \$1,315,400) on the statement of loss and comprehensive loss.

The following is a continuity schedule of the Somerston convertible debentures:

	December 31, 2019	December 31, 2018
Opening balance	\$ 3,146,347	\$ 1,392,232
Additions	-	1,100,000
Embedded derivatives	-	(358,000)
Repayment	-	(400,000)
Interest expense	329,462	1,412,115
Ending balance	\$ 3,475,809	\$ 3,146,347

On August 24, 2018, the Company borrowed \$30,000 under a promissory note that bears interest at 10% per annum compounded monthly and payable on January 31, 2020. The Company incurred interest expense of \$3,210 (2018 - \$1,075) in connection with the promissory note during the year ended December 31, 2019. Subsequent to December 31, 2019 the promissory note was repaid as part of the merger transaction with Sixth Wave as further described in Note 23.

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12. Convertible debentures and note payable (continued):

Sixth Wave Loan

During the year ended December 31, 2018, the Company borrowed \$950,673 from Sixth Wave Innovations Inc. (formerly Atom Energy Inc.) (CAD \$1,250,000) in the form of a convertible promissory note (the "Sixth Wave Loan") that bears interest at 10% compounded monthly and was payable on September 7, 2019. On September 5, 2019 the Sixth Wave Loan was extended to November 30, 2019 and on November 29, 2019, the loan was further extended to January 31, 2020.

The Sixth Wave Loan is convertible at the option of the debtholder into shares of the Common Shares or Series B Preferred shares of the Company at a price equal to the lesser of i) \$9.00 per share and ii) 80% of the weighted average issue price of equity financing. However, should the Company complete a minimum financing of at least \$2,000,000, then the entire principal and accrued interest owing under the Sixth Wave Loan will automatically be converted into Common Shares or Series B Preferred Shares of the Company at a price equal to the lesser of i) \$9.00 per share and ii) 80% of the weighted average issue price of equity.

The Sixth Wave Loan has been determined to be a hybrid financial instrument comprised of host debt contract and multiple embedded derivatives. The cash received under the Sixth Wave Loan is allocated between the fair value of the embedded derivatives, and the value of the loan liability. The value ascribed to the multiple embedded derivatives is determined using a Black Scholes option pricing model as at the loan date, and the residual amount has been allocated to the loan liability. The Sixth Wave Loan's multiple embedded derivatives are valued at \$441,949 with the residual value of \$508,724 allocated to the loan liability.

During the year ended December 31, 2019, the Company incurred \$425,491 (2018 - \$148,501) in finance costs, including \$328,129 (2018 - \$111,636) in accretion of the Sixth Wave Loan. As at December 31, 2019 a total of \$1,073,879 (2018 - \$946,327) in loan principal and accrued interest remained outstanding.

The multiple embedded derivatives have been revalued to \$293,194 (2018 - \$387,893) and the Company has recorded a loss of \$111,463 (2018 – gain of \$40,179) on the statement of loss and comprehensive loss.

The following is the continuity schedule of the Sixth Wave Loan:

	December 31, 2019	December 31, 2018
Opening balance	\$ 626,890	\$ -
Additions	-	950,673
Embedded derivatives	-	(441,949)
Foreign exchange	40,292	(30,335)
Interest expense	425,491	148,501
Ending balance	\$ 1,092,673	\$ 626,890

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12. Convertible debentures and note payable (continued):

The fair value of embedded derivative component of the convertible debt was estimated using the Black Scholes pricing model with weighted average assumptions as follows:

	December 31, 2019	December 31, 2018
Risk-free interest rate	1.59%	2.35%
Expected life	0.08 years	0.84 years
Expected volatility	36%	34%
Expected dividends	nil	nil

13. Lease liabilities

As at December 31, 2019, the Company recognized a lease liability of \$268,449 for the lease of the Company's office located in Salt Lake City, Utah. A reconciliation of the lease liability as at December 31, 2019 is as follows:

	December 31, 2018	Lease liabilities recognized January 1, 2019	Principal payments	Current portion	December 31, 2019
Office lease liability	\$ -	\$ 268,449	\$ -	\$ (74,220)	\$ 194,229
	\$ -	\$ 268,449	\$ -	\$ (74,220)	\$ 194,229

	December 31, 2017	Lease liabilities recognized January 1, 2018	Principal payments	Current portion	December 31, 2018
Office lease liability	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -	\$ -

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14. Deferred salary loans:

Effective February 1, 2014, as amended on September 1, 2016, the Company entered into several deferred salary loan agreements (the "Deferral Agreements") with certain key employees. Pursuant to the terms of the Deferral Agreements, the Company has deferred a portion of monthly salaries for an indefinite period of time, and the unpaid balances will accrue interest at a rate of 8% per annum compounded monthly. In addition, the Company will issue the debtors share purchase warrants as additional compensation in proportion to the amount debt deferred in the specific deferral period as follows:

Deferral	Period	Number of Warrants (per \$1 of debt)	Exercise Price
First	Feb 1, 2014 to May 31, 2014	1.00	\$ 1.00
Second	Jun 1, 2014 to May 31, 2015	0.50	\$ 2.00
Third	Jun 1, 2015 to Aug 31, 2016	0.30	\$ 3.33
Fourth and subsequent	Sep 1, 2016 to Dec 31, 2019 and subsequent periods	0.13	\$ 7.50

The share purchase warrants expire on the later of i) five years from the issuance date and ii) December 31, 2021. As at December 31, 2019, a total of \$1,827,998 (2018 - \$1,513,923) in principal and interest remain outstanding.

During the year ended December 31, 2019, the Company incurred \$133,821 (2018 - \$184,962) in financing costs, including \$Nil (2018 - \$66,546) from the issuance of Nil (2018 - 12,615) share purchase warrants. As at December 31, 2019, there were no set terms of repayment; accordingly, the Company classified the loans as current liabilities.

15. Share capital:

Authorized:

3,000,000 number of common shares with par value of \$0.0001 per share.

449,814 Series A preferred shares, voting, with par value of \$0.0001 per share.

335,948 Series B preferred shares, with par value of \$0.0001 per share.

(a) Common shares

During the year ended December 31, 2019 and 2018, the Company did not have any common share transactions.

(b) Series A preferred shares

During the years ended December 31, 2019 and 2018 there were no transactions in Series A preferred shares. The Company currently has 449,814 Series A preferred shares outstanding at December 31, 2019 and 2018.

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15. Share capital (continued):

The holder of each Series A preferred shares is entitled to the number of votes equal to the number of shares of common shares into which each share of Series A preferred share could be converted on the record date. Liquidation preference is given to Series A preferred shares holders, at a rate of the amount per Series A preferred share equal to two times the applicable Series A price plus an amount equal to all declared and unpaid dividends.

Series A preferred shares are convertible without the payment of any additional consideration by the holder at the option of the holder at the conversion rate range from \$2.67 to \$3.33.

(c) Series B preferred shares

During the years ended December 31, 2019 and 2018 there were no transactions in Series B preferred shares. The Company currently has Nil Series B preferred shares outstanding at December 31, 2019 (2018 – Nil).

(d) Stock options

As at December 31, 2019 the Company had options outstanding, enabling the holders to acquire the following number of common shares:

	2019		2018	
	Number of options	Weighted Average exercise price	Number of options	Weighted Average exercise price
Balance, beginning of year	559,275	\$ 2.61	559,275	\$ 2.61
Granted	-	-	-	-
Expired	-	-	-	-
Balance, end of year	559,275	\$ 2.61	559,275	\$ 2.61

As at December 31, 2019, the Company had 554,775 (2018 – 536,775) options exercisable with a weighted average exercise price of \$2.60 (2018 – \$2.58).

During the year ended December 31, 2019, the Company granted Nil (2018 – Nil) incentive stock options to the consultants, directors and officers of the Company.

During fiscal 2019 the Company expensed a total of \$36,333 (2018 - \$111,647) as share-based compensation for values of stock options vested.

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15. Share capital (continued):

At December 31, 2019, options were outstanding enabling holders to acquire common shares as follows:

Exercise price per share (\$)	Number of outstanding options	Number of exercisable options	Expiry date	Weighted average life remaining
3.33	10,000	10,000	March 1, 2023	3.17
1.00	278,775	278,775	February 1, 2024	4.09
7.50	17,000	17,000	March 8, 2024	4.19
8.00	37,500	37,500	December 19, 2024	4.97
3.33	216,000	211,500	February 1, 2027	7.09
	559,275	554,775		5.30

(e) Warrants

As at December 31, 2019 the Company had warrants outstanding, enabling the holders to acquire the following number of common shares:

	December 31, 2019		December 31, 2018	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of year	911,515	\$ 5.19	877,879	\$ 5.20
Granted	-	-	33,636	4.89
Expired	-	-	-	-
Balance, end of year	911,515	\$ 5.19	911,515	\$ 5.19

During the year ended December 31, 2019, the Company issued Nil warrants.

During the year ended December 31, 2018, the Company issued 33,636 warrants to consultants, directors, and officers of the Company. The warrants are exercisable at prices ranging from \$3.33 to \$7.50 for a period of 5 to 10 years. Of the total warrants issued, 12,615 warrants were issued to key employees in relation to deferred salary loans and 21,021 warrants were issued to consultants for advisory services. The fair value of these warrants was estimated to be \$225,220, of which \$66,546 was charged to finance expense and \$158,674 has been charged to professional fees.

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15. Share capital (continued):

The fair value of the warrants issued is estimated on the grant date using the Black-Scholes option pricing model using the following weighted average variables:

	December 31, 2019	December 31, 2018
Risk-free interest rate	-	2.21%
Expected life	-	8.12 years
Expected volatility	-	64%
Expected dividends	-	nil
Fair value per warrant	-	\$6.70

At December 31, 2019, warrants were outstanding enabling holders to acquire common shares as follows:

Exercise price (\$)	Number of outstanding options	Expiry date	Weighted average life remaining (years)
1.00	161,666	December 31, 2021	2.00
2.00	140,337	December 31, 2021	2.00
3.33	47,525	December 31, 2021	2.00
7.50	4,767	December 31, 2021	2.00
7.50	66,667	January 31, 2020	0.08
7.50	103,110	March 31, 2022	2.25
7.50	7,667	June 30, 2022	2.50
7.50	333,333	July 31, 2022	2.58
7.50	5,333	September 30, 2022	2.75
7.50	7,474	December 31, 2022	3.00
7.50	5,333	March 31, 2023	3.25
7.50	7,282	June 30, 2023	3.50
3.33	21,021	April 26, 2028	8.33
	911,515		

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16. Related party transactions:

The following summarizes the Company's related party transactions during the years ended December 31, 2019 and 2018. Key management personnel include the Chief Executive Office ("CEO"), Chief Financial Officer ("CFO"), and directors and officers, companies controlled or significantly influenced by them and immediate family members of key management. The Company entered into the following transactions with related parties, not disclosed elsewhere in the financial statements.

- a) During the year ended December 31, 2019, the Company recorded \$528,191 (2018 - \$724,948) in short-term employee benefits paid or accrued to directors and officers of the Company and immediate family members of an officer.
- b) During the year ended December 31, 2019, the Company recorded \$36,333 (2018 - \$111,647) in share-based compensation associated with stock options granted to directors and officers of the Company.
- c) During the year ended December 31, 2019, the Company recorded \$Nil (2018 - \$66,546) in finance costs relating to the issuance of Nil (2018 - 12,615) share purchase warrants, in connection with the deferral of certain key management compensation.
- d) As at December 31, 2019, a total of \$1,827,998 (2018 - \$1,513,923) was included in deferred salaries payable owing to certain officers and former officers of the Company for unpaid salaries, including accrued interest. These liabilities bear interest at a rate of 8% per annum compounded monthly and are payable at the discretion of the Company (Note 14).
- e) During the year ended December 31, 2019, the Company advanced \$Nil (2018 - \$Nil) to the CEO of the Company. As at December 31, 2019, the balance owing is \$2,801 (2018 - \$11,125) which has been recorded in prepaids and other assets.
- f) As at December 31, 2019 included in accounts payable and accrued liabilities is \$80,269 (2018 - \$58,800) relating to vacation salaries to key management personnel.

17. Consulting revenue:

During the year ended December 31, 2019, the Company recorded \$750,000 (2018 - \$758,066) in consulting revenue for services rendered to Sixth Wave for research into other applications of the IXOS® technology. As at December 31, 2019, \$250,000 (2018 - \$Nil) of the consulting revenue was included in accounts receivable.

18. Extension payment income:

In accordance with the terms of the agreement and plan of merger with Sixth Wave (the "Merger Agreement"), Sixth Wave can extend the closing date of the merger transaction on a month-to-month basis if Sixth Wave provides payment of \$200,000 five business days prior to the end of the month commencing on December 31, 2018. The Company recognized \$2,582,305 in other income pertaining to the extension payments.

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19. Deferred revenue:

In accordance with the terms of the Merger Agreement, Sixth Wave can extend the closing date of the merger on a month-to-month basis if Sixth Wave provides payment of \$200,000 five business days prior to the end of the month commencing on December 31, 2018. As at December 31, 2019, Sixth Wave has provided the Company with a \$200,000 payment extending the closing date to January 31, 2020. The Company has recorded the \$200,000 payment as deferred revenue and present this amount in current liabilities. A reconciliation of the Company's deferred revenue is as follows:

	December 31, 2019	December 31, 2018
Geolithic (Note 7)	\$ 400,000	\$ 400,000
Extension payment (Note 18)	200,000	200,000
Total	\$ 600,000	\$ 600,000

20. Income taxes:

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2019	2018
Loss for the year	\$ (1,162,126)	\$ (2,184,796)
Expected income tax (recovery)	\$ (314,000)	\$ (590,000)
Change in statutory, foreign tax, foreign exchange rates and other	(171,000)	(110,000)
Permanent differences	10,000	84,000
Impact of future tax rate	(240,000)	-
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	(213,000)	79,000
Change in unrecognized deductible temporary differences	928,000	537,000
Total income tax expense (recovery)	\$ -	\$ -

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20. Income taxes (continued):

The significant components of the Company's deferred tax assets that have not been included on the statement of financial position are as follows:

	2019	2018
Deferred tax assets (liabilities)		
Property and equipment	\$ 49,000	\$ -
Investment in associated company	30,000	27,000
Debt with accretion	338,000	127,000
Intangible assets	158,000	47,000
Non-capital losses available for future period	2,401,000	1,847,000
	2,976,000	2,048,000
Unrecognized deferred tax assets	(2,976,000)	(2,048,000)
Net deferred tax assets	\$ -	\$ -

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	2019	Expiry Date Range	2018	Expiry Date Range
Temporary Differences				
Investment in associated company	107,000	No expiry date	107,000	No expiry date
Debt with accretion	1,211,000	No expiry date	510,000	No expiry date
Intangible assets	566,000	No expiry date	189,000	No expiry date
Non-capital losses available for future periods	8,614,000	2034 to 2039	7,403,000	2034 to 2038

Tax attributes are subject to review, and potential adjustment, by tax authorities.

21. Segmented information:

The Company operates in one business segment which is the extraction and detection of target substances at the molecular level. All consulting revenue was earned from a Canadian public company. All capital assets of the Company are located in the United States. The Company's equity investee is located in the United States.

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22. Commitments:

- a) In November 2014, the Company entered into a four-year operating lease for its office premises in Salt Lake City which began in December 2014. This lease was extended until December 31 2022.

As of December 31, 2019, these commitments required total payments including estimated common expenses, as follows:

Year	\$
Payable not later than one year	74,220
Payable later than one year and not later than five years	194,229
Payable later than five years	-
	<u>268,449</u>

- b) In February of 2017 the Company has entered into employment agreements with three key executive officers of the Company in which the Company will pay each officer base salaries ranging from \$200,000 to \$250,000 per annum.

The employment agreements have terms of two years and shall automatically extend for a period of two years, unless or until any one of the employment agreements is earlier terminated by either party under the terms of the employment agreement. Should the Company be subject to a change of control and terminate the employment agreement for cause or without cause a payment shall be made within six months, in a single lump sum, to the executive in an amount equal two times the amount of the executive's then annual total compensation package as of the date of the executive's termination.

23. Subsequent events:

- a) On September 7, 2018 the Company entered into an Agreement and Plan of Merger (the "Agreement") with Sixth Wave Innovations Inc (formerly "Atom Energy Inc.") ("Sixth Wave"), pursuant to which Sixth Wave acquired 100% of the outstanding shares of the Company in exchange for common shares of Sixth Wave and cash consideration (the "Merger Transaction"). In connection with the Merger Transaction, Sixth Wave listed its common shares on the Canadian Securities Exchange ("CSE").

The closing of the Merger Transaction was contingent upon Sixth Wave's shares becoming listed on the Canadian Securities Exchange and on Sixth Wave completing an equity financing concurrent with the listing in an amount not less than \$10 million (the "Concurrent Financing"), and other standard conditions precedent to be fulfilled prior to the closing of the Merger Transactions (the "Closing").

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23. Subsequent event (continued):

Significant terms of the Merger Transaction are as follows:

- Aggregate consideration to the Company consisted of approximately USD\$7.7 million, which was settled with a mixture of securities of Sixth Wave (with an approximate value of USD\$6.5 million) and cash of approximately USD\$1.2 million.
- Securities of Sixth Wave issued to the Company's shareholders to settle the above consideration was of the same class issued in the Concurrent Financing and was valued based on the pricing at which the securities were issued in the Concurrent Financing (the "Concurrent Financing Price"), subject to a cap of CDN\$0.60 per unit of securities.
- In the money options and warrants of the Company were settled with securities of Sixth Wave, with the amount by which the options and warrants are in the money being paid by the issuance of securities of Sixth Wave of the same class issued in the Concurrent Financing, valued at the Concurrent Financing Price.
- Out of the money options of the Company were cancelled.
- Out of the money warrants of the Company were converted to warrants at a variety of different strike prices and terms based on the Concurrent Financing Price and the current exercise price of the Company's warrants.
- Pursuant to the Merger Agreement, Sixth Wave has repaid approximately USD\$2.7 million of existing indebtedness of the Company on closing, with an additional USD\$2.4 million to be repaid over 24 months.
- The closing of the transactions contemplated by the Merger Agreement were extended from March 31, 2019 to January 31, 2020 subject to certain conditions.

On January 31, 2020, the Company completed the Closing of the Merger Transaction and on February 11, 2020, Sixth Wave listed its common shares for trading on the CSE.

b) Agreement with Geolithic:

On February 28, 2020, the Company entered into an option agreement with TLE to acquire a controlling interest in Geolithic. The Company has two options to purchase the entirety of Geolithic's shares, exercised in two separate transaction for a total purchase price of \$300,000 to be paid by the Company. The first option shall be exercisable for 15% of the total outstanding shares for a total purchase of \$75,000. The second option shall be exercisable to purchase 35% of the total outstanding shares for a total price of \$175,000 on or before July 31, 2020 and to purchase the remaining 10% of the total outstanding shares for a total price of \$50,000 on or before September 30, 2020. Subsequent to year end, the Company exercised the first option and paid \$75,000 USD for 15% of the total outstanding shares of Geolithic, resulting in the Company owning 55% of Geolithic.