

**UPCO INTERNATIONAL INC.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**(Unaudited)**

**(Expressed in United States dollars)**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 and 2019**

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

**UPCO INTERNATIONAL INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Unaudited)  
(Expressed in United States dollars)  
**AS AT**

	September 30, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 43,204	\$ 671
Receivables	38,782	72,766
Loans receivable (Note 3)	184,549	172,729
Prepays and advances (Note 4)	<u>77,325</u>	<u>206,905</u>
	343,860	453,071
<b>Intangible asset</b> (Note 6)	<u>75,891</u>	<u>117,273</u>
<b>Total assets</b>	<u>\$ 419,751</u>	<u>\$ 570,344</u>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 7 and 12)	\$ 583,870	\$ 926,759
Loans payable (Note 8)	5,862	107,550
Related party loans (Note 9 and 12)	<u>181,727</u>	<u>115,405</u>
	771,459	1,149,714
<b>Convertible debentures</b> (Note 10)	157,549	139,355
<b>Other payables</b>	<u>12,139</u>	<u>3,946</u>
<b>Total liabilities</b>	<u>941,147</u>	<u>1,293,015</u>
<b>Shareholders' deficiency</b>		
Share capital (Note 11)	6,145,729	4,610,389
Obligation to issue shares	-	117,801
Reserves (Note 11)	784,203	816,593
Equity component of convertible debentures (Note 10)	120,081	120,081
Accumulated other comprehensive loss	(63,058)	(57,915)
Deficit	<u>(7,508,351)</u>	<u>(6,329,620)</u>
	<u>(521,396)</u>	<u>(722,671)</u>
<b>Total liabilities and shareholders' deficiency</b>	<u>\$ 419,751</u>	<u>\$ 570,344</u>

**Nature and continuance of operations (Note 1)**  
**Subsequent events (Note 16)**

**On behalf of the Board on November 30, 2020**

\_\_\_\_\_  
*"Andrea Pagani"* Director      \_\_\_\_\_  
*"Sebastiano Galantucci"* Director

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

**UPCO INTERNATIONAL INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Unaudited)  
(Expressed in United States dollars)

	For the three months ended September 30, 2020	For the three months ended September 30, 2019	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
<b>REVENUE</b>	\$ (2,599)	\$ 394	\$ 4,723	\$ 304,136
<b>COST OF REVENUE</b>	<u>-</u>	<u>(4,633)</u>	<u>-</u>	<u>(333,830)</u>
	(2,599)	(4,239)	4,723	(29,694)
<b>OPERATING EXPENSES</b>				
Amortization (Note 6)	1,724	5,016	37,977	14,821
Bad debt expense	-	508	-	508
Consulting fees (Note 12)	220,726	65,834	1,055,776	322,597
Filing fees	8,217	2,566	12,830	11,792
Insurance	-	-	-	3,967
Interest and bank charges	(197)	4,254	2,366	9,510
Information technology and communication	-	11,261	1,963	39,167
Office expenses	5,251	1,575	8,959	27,544
Management fees (Note 12)	47,820	-	171,418	-
Personnel costs	(25,416)	16,329	36,815	33,029
Professional fees (Note 12)	19,227	16,644	80,562	90,932
Promotion, travel and show	7,447	2,584	27,983	34,912
Subscription fees	613	1,477	4,432	4,402
Rent	<u>-</u>	<u>177</u>	<u>-</u>	<u>9,356</u>
Total operating expenses	<u>(285,412)</u>	<u>(128,225)</u>	<u>(1,441,081)</u>	<u>(602,537)</u>
Foreign exchange	(2,750)	-	(9,017)	-
Finance expense (Note 10)	(7,549)	-	(22,135)	-
Interest income (Note 3)	400	-	7,870	-
Recovery on amounts payable (Notes 7 and 8)	17,900	-	280,909	-
Share-based payments (Note 11)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17,940)</u>
	8,001	-	257,627	(17,940)
Loss for the period	(280,010)	(132,464)	(1,178,731)	(650,171)
Foreign exchange adjustment	<u>(6,622)</u>	<u>111,548</u>	<u>(5,143)</u>	<u>132,025</u>
<b>Loss and comprehensive loss for the period</b>	\$ (286,632)	\$ (20,916)	\$ (1,183,874)	\$ (518,146)
<b>Basic and diluted loss per common share</b>	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>				
– basic and diluted	93,804,440	67,373,156	84,640,775	67,373,156

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

**UPCO INTERNATIONAL INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(Expressed in United States dollars)  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (1,178,731)	\$ (650,171)
Items not affecting cash:		
Finance expense	22,135	-
Interest income	(3,999)	-
Amortization	37,977	-
Share-based payments	311,573	17,940
Consulting fees	385,193	-
Recovery on amounts payable	(280,909)	-
Unrealized foreign exchange	9,883	-
Changes in non-cash working capital items:		
Accounts payable and accrued liabilities	196,906	227,764
Other receivables	-	(361,971)
Prepaid expenses	127,461	7,438
Receivables	33,616	145,776
Net cash used in operating activities	<u>(338,895)</u>	<u>(613,224)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Deposits	-	(12,090)
Loans repaid	23,332	-
Loans advanced	<u>(22,842)</u>	<u>-</u>
Net cash used in investing activities	<u>490</u>	<u>(12,090)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loan funds received	5,475	356,237
Interest paid	(582)	-
Net proceeds from share issuance	104,997	-
Stock options exercised	33,017	-
Related party loans – funds received	254,690	-
Related party loans – funds repaid	<u>(5,262)</u>	<u>-</u>
Net cash generated by financing activities	<u>392,335</u>	<u>356,237</u>
<b>Effect of foreign exchange on cash</b>	(11,397)	107,060
<b>Change in cash for the period</b>	42,533	(162,017)
<b>Cash, beginning of period</b>	<u>671</u>	<u>165,180</u>
<b>Cash, end of period</b>	<u>\$ 43,204</u>	<u>\$ 3,163</u>

In the nine months ended September 30, 2020, the Company issued 12,614,214 common shares to settle debts of \$550,958.

In the nine months ended September 30, 2019, the Company acquired 30% of UpcoTech SRL at a value of \$3,764 through accounts payable and accrued liabilities (Note 6).

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

**UPCO INTERNATIONAL INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)**  
(Unaudited)  
(Expressed in United States dollars)

	Number of shares	Share capital	Reserves	Equity component of convertible debt	Obligation to issue shares	Accumulated Other Comprehensive Income	Deficit	Total
<b>Balance, December 31, 2018</b>	67,373,156	\$ 4,289,069	\$ 798,653	\$ -	\$ -	\$ (36,902)	\$ (4,362,431)	\$ 688,389
Share-based payments	-	-	17,940	-	-	-	-	17,940
Net loss for the period	-	-	-	-	-	132,025	(650,171)	(518,146)
<b>Balance, September 30, 2019</b>	67,373,156	\$ 4,289,069	\$ 816,593	\$ -	\$ -	\$ 95,123	\$ (5,012,602)	\$ 188,183
<b>Balance, December 31, 2019</b>	71,873,156	\$ 4,610,389	\$ 816,593	\$ 120,081	\$ 117,801	\$ (57,915)	\$ (6,329,620)	\$ (722,671)
Private placement	2,955,032	226,385	-	-	(117,801)	-	-	108,584
Share issuance costs	-	(4,175)	-	-	-	-	-	(4,175)
Shares issued for debt	12,614,214	550,958	-	-	-	-	-	550,958
Options exercised	750,000	65,407	(32,390)	-	-	-	-	33,017
Consulting fees	7,500,000	385,192	-	-	-	-	-	385,192
Stock-based compensation	7,003,752	311,573	-	-	-	-	-	311,573
Net loss for the period	-	-	-	-	-	(5,143)	(1,178,731)	(1,183,874)
<b>Balance, September 30, 2020</b>	102,696,154	\$ 6,145,729	\$ 784,203	\$ 120,081	\$ -	\$ (63,058)	\$ (7,508,351)	\$ (521,396)

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

**UPCO INTERNATIONAL INC.**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited)

(Expressed in United States dollars)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

**Nature and Continuance of Operations**

Upco International Inc. (the "Company") was incorporated under the Business Corporations Act of British Columbia on March 28, 2012. The Company was previously listed on the TSX Venture Exchange ("TSX-V") under the trading symbol NSS.

The Company operates primarily in the telecommunications industries as a global telecom carrier within the international VoIP (voice over IP) wholesale business with a focus on wholesale international long distance traffic termination. The Company has a VoIP smartphone application which allows customers to send and receive local and international long-distance calls through an internet connection with the advantages of the Company's existing VoIP network (Note 6).

The Company's head and registered office is located at 200 – 17618 58<sup>th</sup> Avenue, Surrey, British Columbia, Canada, V3S 1L3.

**Going Concern**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") assuming the Company will continue on a going-concern basis. The Company has incurred losses and negative operating cash flows since inception. The Company incurred a net loss of \$1,178,731 during the period ended September 30, 2020 and has an accumulated deficit of \$7,508,351. The ability of the Company to continue as a going concern in the long-term depends upon its ability to develop profitable operations and to continue to obtain adequate financing. As at September 30, 2020, Company's ability to continue its operations will depend upon, but not be limited to, obtaining additional financing and generating revenues sufficient to cover its operating costs. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

**COVID-19**

Since March 2020, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility. The duration and enduring impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

Management is of the opinion that it will be in a position to raise ongoing financing as needed; however, there is no certainty that these and other strategies will be sufficient to permit the Company to continue as a going concern.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Statement of Compliance**

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The accounting policies and methods of computation applied by the Company in these condensed consolidated interim financial statements are the same as those applied in the Company's annual consolidated financial statements for the year ended December 31, 2019.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Basis of Presentation**

The condensed consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These condensed consolidated interim financial statements incorporate the financial statements of the Company and its wholly controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The condensed consolidated interim financial statements include the accounts of the Company and its direct wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

**Critical accounting estimates and judgments**

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. The preparation of financial statements also requires management to exercise judgment in the process of applying the accounting policies.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances, as the basis for its estimates and assumptions. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. Actual outcomes may differ from those estimates under different assumptions and conditions.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the allowance for doubtful accounts, fair value measurements for financial instruments and the recoverability and measurement of deferred tax assets.

Key areas requiring judgment and estimation uncertainty include:

*Going concern*

The evaluation of the Company's ability to continue as a going concern, to raise additional financing in order to cover its operating expenses and its obligations for the upcoming year requires significant judgment based on past experience and other assumptions including the probability that future events are considered reasonable according to the circumstances.

*Valuation of deferred income tax assets and liabilities*

A deferred tax asset is recognized for unused losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized. Detailed estimates are required in evaluating the probability that deferred tax assets will be utilized. The Company's assessment is based on existing tax laws, estimates of future profitability, and tax planning strategies.

*Intangible asset*

The Company incurs research and development costs. Judgment is required to determine whether or not there exists sufficient information to demonstrate it is probable that the internally developed asset will give rise to future economic benefits. Management's judgment involves consideration of trends and other factors in determining the expected useful lives of depreciable assets, to determine depreciation methods and the assets residual value. Intangible assets shall be reviewed by management annually to determine if impairment of the asset is required.

**UPCO INTERNATIONAL INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
(Unaudited)  
(Expressed in United States dollars)  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020**

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Critical accounting estimates and judgments (cont'd..)**

*Functional currency*

Each entity within the Company has its results measured using the primary economic environment in which the entity operates. Judgment is necessary in assessing each entity's functional currency. The Company considers the primary and secondary indicators as part of its decision-making process.

*Impairment of Intangible Asset*

Management's judgment involves consideration of trends and other factors in determining the expected useful lives of depreciable assets, to determine depreciation methods and the assets residual value. Intangible assets shall be reviewed by management annually to determine if impairment of the asset is required.

*Expected Credit Loss ("ECL")*

Bad debts are assessed using the expected credit loss model. This model uses historical balances to calculate a loss rate for current, 31-60, 61-90 and 91+ day periods. This loss rate is then adjusted depending on the respective aged period to produce a loss rate which is representative to the receivables risk in their respective periods.

*Convertible debentures*

Management has made estimates with respect to the effective interest rate applied to the convertible debentures issued (Note 10).

*Share-based payments*

The fair value of stock options issued with Canadian dollar exercise prices are subject to the limitation of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in the subjective input assumptions can materially affect the fair value estimate.

**3. LOANS RECEIVABLE**

	September 30, 2020	December 31, 2019
Balance, beginning of period	\$ 172,729	\$ -
Funds advanced	22,842	169,100
Interest accrued	3,999	6,748
Funds received	(23,332)	
Interest received	-	(4,468)
Foreign exchange	<u>8,311</u>	<u>1,349</u>
Balance, end of period	<u>\$ 184,549</u>	<u>\$ 172,729</u>

During the year ended December 31, 2019, the Company provided a loan of EUR150,000 to a company with which it has a marketing partnership of which EUR20,000 was repaid in the period ended September 30, 2020. The Company provided an additional EUR20,000 in the period ended September 30, 2020. The loan accrues interest at a rate of 7% per annum and matured on August 31, 2020. The loan is secured by certain assets in the borrower.

The Company made an additional loan of \$2,000 to an unrelated party which is unsecured and non-interest bearing.

**UPCO INTERNATIONAL INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
(Unaudited)  
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**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020**

**4. PREPAIDS AND ADVANCES**

	September 30, 2020	December 31, 2019
Prepaid expenses	\$ 9,983	\$ 145,940
Advances	<u>67,342</u>	<u>60,965</u>
<b>Balance</b>	<b>\$ 77,325</b>	<b>\$ 206,905</b>

**5. INVESTMENT IN UPCOTECH SRL**

On June 6, 2019, the Company purchased a 30% interest in UpcoTech SRL for \$3,764.

From the period from purchase on June 6, 2019 to December 31, 2019, UpcoTech SRL incurred a loss of \$18,188 of which the Company's share was \$5,456. The loss in excess of the carrying value of the investment has not been recognized. There was no activity in UpcoTech SRL in the nine months ended September 30, 2020.

Additionally, the Company received loans of \$27,543 from UpcoTech SRL in the year ended December 31, 2019, which \$24,293 has been repaid as at December 31, 2019 (Note 9).

	September 30, 2020	December 31, 2019
UpcoTech SRL		
Assets	\$ 16,409	\$ 16,724
Liabilities	<u>(23,916)</u>	<u>(24,374)</u>
Net deficiency	(7,507)	(7,650)
<b>The Company's share of the net deficiency – 30%</b>	<b>\$ (2,252)</b>	<b>\$ (2,295)</b>

	September 30, 2020	December 31, 2019
UpcoTech SRL		
Balance, beginning of period	\$ -	\$ -
Purchase of investment	-	3,764
Loss on equity investment	-	(3,605)
Other comprehensive income	<u>-</u>	<u>(159)</u>
<b>Balance, end of period</b>	<b>\$ -</b>	<b>\$ -</b>

**UPCO INTERNATIONAL INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
(Unaudited)  
(Expressed in United States dollars)  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020**

**6. INTANGIBLE ASSET**

The Company previously incurred certain costs related to its development of a smartphone application, which will allow a customer to send and receive local and international long-distance calls through an internet connection with the advantages of the Company's existing VoIP network.

During the year ended December 31, 2019, the Company released an updated version of its mobile messaging application. As the application was redeveloped the Company capitalized all costs related to it under intangible assets which will be amortized over 3 years.

	September 30, 2020	December 31, 2019
<b>Cost</b>		
Balance, beginning of period	\$ 215,362	\$ 201,984
Additions	-	8,000
Foreign exchange	(1,330)	5,378
Balance, end of period	214,032	215,362
<b>Accumulated Amortization</b>		
Balance, beginning of period	\$ 98,089	\$ 20,102
Amortization expense	37,977	77,383
Foreign exchange	2,075	604
Balance, end of period	138,141	98,089
<b>Net Book Value</b>	<b>\$ 75,891</b>	<b>\$ 117,273</b>

**7. TRADE PAYABLES AND OTHER LIABILITIES**

	September 30, 2020	December 31, 2019
Trade payables	\$ 396,703	\$ 745,565
Accrued liabilities	187,167	181,194
Balance, end of period	\$ 583,870	\$ 926,759

In the nine months ended September 30, 2020, accounts payable totalling \$173,280 were forgiven and recognized as a recovery on amounts payable.

**8. LOANS PAYABLE**

	September 30, 2020	December 31, 2019
Balance, beginning of period	\$ 107,550	\$ -
Funds received	5,475	105,915
Amounts forgiven	(107,629)	
Foreign exchange	466	1,635
Balance, end of period	\$ 5,862	\$ 107,550

During the year ended December 31, 2019, the Company received loans of EUR70,500 and \$20,000 from a third party. The amounts are non-interest bearing, unsecured and are due on demand. In the nine months ended September 30, 2020, these amounts were forgiven.

**UPCO INTERNATIONAL INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020**

**9. RELATED PARTY LOANS**

Related party loans	September 30, 2020	December 31, 2019
Balance, beginning of period	\$ 115,405	\$ -
Funds received	254,690	227,751
Settlement in common shares	(196,395)	-
Funds repaid	(5,262)	(114,502)
Translation adjustment	13,289	2,156
Balance, end of period	\$ 181,727	\$ 115,405

As at September 30, 2020, the Company has loans outstanding with the CEO and a company controlled by the CEO of \$178,269 (December 31, 2019 - \$112,093). The amounts are non-interest bearing, unsecured and due on demand. During the period ended September 30, 2020, the Company settled loans totaling \$196,395 by issuing 5,750,000 common shares.

As at September 30, 2020, the Company has an amount owing of \$3,250 (December 31, 2019 - \$3,312) to UpcoTech SRL, an associated entity (Note 5).

**10. CONVERTIBLE DEBENTURES**

On May 22, 2019, the Company issued convertible debentures in the principal amount of CDN \$288,750 with a maturity date of May 20, 2024. The debentures carry an interest rate of 5% and are convertible at a price of CDN \$0.35 per common share.

On September 4, 2019, the Company issued convertible debentures in the principal amount of CDN \$31,500 with a maturity date of September 2, 2024. The debentures carry an interest rate of 5% and are convertible at a price of CDN \$0.35 per common share.

A summary of the movement in the debt portion of the convertible debentures is as follows:

Convertible debentures	September 30, 2020	December 31, 2019
Balance, beginning of period	\$ 139,355	\$ -
Issuance	-	239,075
Equity feature	-	(120,081)
Interest paid	(582)	(1,110)
Finance expense	22,135	17,520
Translation adjustment	(3,359)	3,951
Balance, end of period	\$ 157,549	\$ 139,355
Principal and accrued interest, end of period	\$ 254,397	\$ 252,623

After valuing the financial liability component of the convertible debentures, a residual value was assigned to the conversion feature. The Company considered the market interest rate for comparable entities and instruments in the market. The Company has estimated that comparable instruments would bear an interest rate of 15%.

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**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020**

**11. SHARE CAPITAL AND RESERVES**

a) Authorized share capital

Unlimited common shares, without par value.

b) Issued share capital

*Period ended September 30, 2020*

On January 20, 2020, the Company closed a private placement issuing 2,955,032 units (“Unit”) at C\$0.10 per share for gross proceeds of \$226,385, of which \$117,801 had been received at December 31, 2019. Each Unit is comprised one common share and one-half share purchase warrant. Each warrant entitles the holder to purchase a further common share at a price of \$0.15 per share until January 20, 2025. Finder’s fees of \$4,175 were paid.

On February 28, 2020, the Company issued 5,531,704 common shares of which 5,245,999 were to related parties, in settlement of C\$387,219 in debt. On July 17, 2020, the Company issued 1,229,112 common shares in settlement of debts of \$63,384. On September 28, 2020, the Company issued 103,398 common shares in settlement of accounts payable of \$5,797. On September 28, 2020, the Company issued 5,750,000 in settlement of related party loans (Note 9).

On June 1, 2020, the Company issued 7,500,000 common shares to a director for services rendered at a value of \$385,193. In the period ended September 30, 2020, the Company issued 7,003,752 common shares pursuant to the management agreement commitments (Note 15).

*Year ended December 31, 2019*

In October 2019, the Company completed a private placement of 4,500,000 units for gross proceeds of \$340,625. Each unit is comprised of one common share and one-half share purchase warrant (“Unit”). Each warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.15 for a period of 4 years. The Company paid finders’ fees of \$17,031 and other share issue costs of \$2,274.

c) Stock options

The Company allows total number of shares of stock reserved and available for distribution under the Plan shall be a rolling 10% of common stock issued and outstanding of the Company. The number of shares reserved hereunder may consist in whole or in part of authorized and unissued shares or treasury shares. Options under the Plan may be granted to officers, employees, agents and consultants to the Company. Options shall expire five years from the date of grant but may be cancelled after 30 days of the grantee ceasing from providing the agreed upon service.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2018	6,470,000	\$ 0.19
Granted	<u>300,000</u>	0.10
Balance, December 31, 2019	6,770,000	\$ 0.19
Exercised	<u>(750,000)</u>	0.06
Balance outstanding, September 30, 2020	6,020,000	\$ 0.21
Balance exercisable, September 30, 2020	6,020,000	\$ 0.21

**UPCO INTERNATIONAL INC.**  
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(Unaudited)  
(Expressed in United States dollars)  
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**11. SHARE CAPITAL AND RESERVES (cont'd...)**

c) Stock options (cont'd...)

Stock options outstanding as at September 30, 2020:

	Number	Exercise price	Expiry date
<b>Stock Options</b>	1,050,000	\$ 0.06	October 20, 2022
	230,000	0.45	November 24, 2022
	100,000	0.45	December 4, 2022
	300,000	0.47	December 28, 2022
	1,250,000	0.23	April 30, 2023
	50,000	0.22	June 5, 2023
	800,000	0.20	June 7, 2023
	1,100,000	0.20	September 14, 2023
	840,000	0.22	December 12, 2023
	300,000	0.10	February 27, 2024
	<u>6,020,000</u>	<u>\$ 0.21</u>	

d) Share-based payments

During the period ended September 30, 2020, the Company granted Nil (2019 – 300,000) stock options with a fair value of \$Nil (2019 - \$17,940).

The following weighted average assumptions were used for Black-Scholes option-pricing model valuation of stock options granted during the period:

	2020	2019
Risk-free interest rate	-	2.25%
Expected life of options	-	5 years
Expected annualized volatility	-	100.0%
Dividend rate	-	-
Forfeiture rate	-	-

e) Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2018	343,425	\$ 0.25
Granted	<u>2,250,000</u>	0.15
Balance, December 31, 2019	2,593,425	0.16
Granted	1,477,516	0.15
Expired	<u>(343,425)</u>	0.25
Balance outstanding and exercisable, September 30, 2020	<u>3,727,516</u>	<u>\$ 0.15</u>

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**11. SHARE CAPITAL AND RESERVES (cont'd...)**

e) Warrants (cont'd...)

Warrants outstanding as at September 30, 2020:

Number of Warrants	Exercise Price	Expiry Date
2,250,000	\$0.15	October 14, 2023
<u>1,477,516</u>	\$0.15	January 19, 2024
<u>3,727,516</u>		

**12. RELATED PARTY TRANSACTIONS**

Key management personnel of the Company include the President and Chief Executive Officer (“CEO”), former Chief Financial Officer (“CFO”), current and former Directors of the Company. Compensation to key management personnel is as follows:

<b>Payments to key management personnel</b>	2020	2019
Consulting fees	\$ 734,768	\$ 94,500
Management fees	171,326	-
Professional fees	11,165	47,836

The Company recorded revenue of \$Nil (2019 - \$1,259) for transactions with a company controlled by an officer and director of the Company.

As at September 30, 2020, the Company had balances outstanding with related parties and former related parties of \$56,075 (December 31, 2019 – \$459,299) included in accounts payable and accrued liabilities. The Company had balances outstanding with related parties of \$181,727 (December 31, 2019 - \$115,405) included in loans payable (Note 9).

On February 28, 2020, the Company issued 5,245,999 common shares to related parties, in settlement of \$273,469 in debt. Related party loans are detailed in Note 9.

**13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**Financial instruments**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors is responsible for developing and monitoring the Company's risk management policies. The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

**13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)**

**Financial instruments (cont'd...)**

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

**Financial risk factors**

*Credit risk*

Credit risk is the risk of a loss if a counterparty to a financial instrument fails to meet its contractual obligations. Trade receivables are the most significant financial instrument that is exposed to credit risk. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry, as these factors may have an influence on credit risk.

A credit policy is established under which each new customer is analyzed individually or in groups for creditworthiness and given appropriate credit limits. The Company's review includes agent review, external ratings when available, and in some cases, bank references. Credit limits are established for each customer and these limits are reviewed on an ongoing basis. Customers that fail to meet the Company's creditworthiness benchmark may transact with the Company only on a prepayment basis.

Credit risk associated with cash and is minimized significantly by ensuring that these financial instruments are placed with major financial institutions. Credit risk associated with trade and other receivables is mitigated by the Company's large and unrelated customer base and the application of its credit evaluation, control and monitoring processes.

Credit risk with respect to loans receivable is considered on an ongoing basis and the collectability of loans receivable is evaluated on an ongoing basis. The Company works closely with the debtors and considers the amounts collectible.

*Liquidity risk*

Trade liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and working capital levels. The Company does not currently believe it will encounter difficulty in meeting its obligations associated with its financial liabilities.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and working capital levels. The following are the contractual maturities of financial liabilities, including estimated interest payments. At September 30, 2020, the Company has cash of \$43,204 to settle current liabilities of \$771,459.

*Currency risk*

Currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company's statements are presented in US dollars, but it regularly transacts in EUR and CAD for a portion of its business activities. The value of financial instruments or cash flows associated with the instruments denominated in US dollars will be affected by changes in the exchange rate fluctuations in the market between the EUR/CAD and US dollar.

**13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)**

**Financial risk factors (cont'd...)**

*Currency risk (cont'd...)*

The Company's primary interest rate risk consists of interest rate fluctuations, which may affect the Company's note and lease obligations. The Company does not currently use derivative instruments to limit interest rate risks.

There has been no change to the Company's exposure to market risks or the manner in which these risks are managed and measured from the prior year.

**14. CAPITAL MANAGEMENT**

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions, so that it can provide above average returns for its shareholders. The Company defines capital that it manages as the aggregate of its shareholders' equity (deficiency).

The Company manages its capital structure and makes adjustments to it in light of general economic conditions and the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust the capital structure, the Company, upon approval from its Board of Directors, may issue long-term debt, issue shares, repurchase shares through a normal course issuer bid and pay dividends. The Board of Directors reviews and approves any material transactions not in the ordinary course of business that may include various acquisition proposals, as well as capital and operating budgets.

There were no changes in the Company's approach to capital management during the period ended September 30, 2020. The Company is not subject to any externally imposed capital requirements.

**15. COMMITMENTS**

On January 1, 2020, the Company signed three management agreements with its directors and officers. Each management agreement is effective for a period of three years at a rate of US\$7,500 per month and US\$30,000 payable quarterly in common shares of the Company (Note 12). During the nine months ended September 30, 2020, the Company issued 7,003,752 common shares with respect to this commitment.

**16. SUBSEQUENT EVENTS**

Subsequent to the period ended September 30, 2020, the Company announced the closing of Equinox Group ("Equinox"). Equinox is a provider in the telecommunications, technology and services areas. Under the terms of the agreement, the Company has exchanged 7,023,145 shares for 51% of Equinox, for a total amount of US\$223,740. The Company is in the process of evaluating the transaction under IFRS 3 *Business combinations*.