

UPCO INTERNATIONAL INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in United States dollars)

**FOR THE NINE MONTHS ENDED SEPTIEMBER 30, 2021
AND 2020**

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 accompanying by a notice indicating that the financial statements have not been review 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

(Expressed in United States dollars)

As at

	(Unaudited) September 30, 2021	(Audited) December 30, 2020
ASSETS		
CURRENT ASSETS		
Cash	1,561,641	5,134
Receivables (Nota 3)	117,053	37,894
Loan receivables (Nota 4)	-	2,096
Other receivables (Nota 5)	-	218
Total Current assets	1,678,694	45,342
NON-CURRENT ASSETS		
Property and equipment, net (Nota 6)	11,019	-
Receivables non-current	100	-
Intangible Assets (Nota 7)	-	-
Total Non-current assets	11,119	-
Total assets	1,689,813	45,342
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Nota 8)	176,616	406,113
Loans payable (Nota 9)	-	6,283
Salaries and social security payables	45,171	-
Total current liabilities	221,787	412,396
LIABILITIES		
NON-CURRENT LIABILITIES		
Accounts payable and accrued liabilities non-current (Nota 8)	206,536	-
Loans payable (Nota 10)	148,589	144,613
Convertible debentures (Nota 11)	203,025	172,647
Total non-current liabilities	558,150	317,260
Total liabilities	749,937	729,656
SHAREHOLDERS' EQUITY		
Share capital (Nota 12)	8,064,822	6,100,307
Reserves	860,514	860,514
Equity component of convertible debentures	120,081	120,081
Accumulated Other Comprehensive Income - opening	587,474	65,871
Deficit	(8,723,015)	(7,831,087)
Total equity	909,876	(684,314)
TOTAL LIABILITIES & EQUITY	1,689,813	45,342
Nature and continuance of operations (Note 1)		

On behalf of the Board on November 26, 2021

Andrea Pagani Director

Director

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

UPCO INTERNATIONAL INC.

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSSES AND
COMPREHENSIVE LOSSES FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021, and 2020**
(Expressed in United States dollars)

	(Unaudited) For the nine months ended September 30, 2021	(Unaudited) For the nine months ended September 30, 2020	(Unaudited) For the three months ended September 30, 2021	(Unaudited) For the three months ended September 30, 2020
Revenue	197,820	4,723	149,001	2,599
Cost of Revenue	(113,445)	-	(82,881)	-
	84,375	4,723	66,120	2,599
Operating Expenses				
Amortization (Nota 6)	(697)	(37,977)	(697)	(1,724)
Bad debt expense	(320,934)	-	(320,934)	-
Consulting fees	(25,638)	(1,055,776)	(4,056)	(220,726)
Filing fees	(14,802)	(12,830)	(3,125)	(8,217)
Interest and bank charges	(3,099)	(2,366)	(1,378)	197
IT and communication	(12,281)	(1,963)	(1,675)	(2,599)
Office expenses	(3,072)	(8,959)	(3,072)	(5,251)
Management fees	(251,978)	(171,418)	(75,001)	(47,820)
Personnel Costs	(642)	(36,815)	(642)	25,416
Professional fees	(108,248)	(80,562)	(31,235)	(19,227)
Promotion, travel, and show	(4,687)	(27,983)	-	(12,645)
Subscription fees	-	(4,432)	-	(613)
Leases	(3,370)	-	(3,370)	-
Other operating expenses	(127,093)	-	(127,093)	-
Tax expense	(36)	-	(35)	-
Legal fees	(2,638)	-	(2,637)	-
Total operating expenses	(879,215)	(1,441,081)	(546,007)	(290,610)
Foreign exchange	(3,803)	(9,017)	4,727	(2,750)
Finance expense	(29,937)	(22,135)	46,338	(7,549)
Interest income	(8,031)	7,870	8,031	(400)
Recovery on amounts payable - consolidation adjustment	3,676	280,909	(5,252)	17,900
Stock-Based Compensation	(58,993)	-	58,993	-
	(97,088)	257,627	112,837	8,001
Loss for the period	(891,928)	(1,178,731)	(367,050)	(280,010)
Foreign Exchange Adjustment	521,603	(5,143)	515,579	(6,622)
Comprehensive loss for the period	(370,325)	(1,183,874)	148,528	(286,632)
Basic and diluted loss per common share	(0.00)	(0.01)	(0.00)	(0.00)
Weighted average number of common shares outstanding				
– basic and diluted	136,487,595	84,640,775	131,652,273	93,804,440

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

UPCO INTERNATIONAL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS FOR THE
NINE MONTHS ENDED SEPTEMBER 30, 2021, and 2020
Expressed in United States dollars)

	(Unaudited) For the nine months ended September 30, 2021	(Unaudited) For the nine months ended September 30, 2020
Cash flows from operating activities		
Loss for the period	(891,928)	(1,178,731)
<u>Adjustments to reconcile net profit (loss) to cash flows generated by operating activities:</u>		
Finance expense	-	22,135
Interest income	-	(3,999)
Amortization	697	37,977
Share-based payments	90,000	311,573
Consulting fees	-	385,193
Charge (Recovery) on amounts payable	319,684	(280,909)
Unrealized foreign exchange	10	(1,514)
Changes in non-cash working capital items:		
Accounts payable and accrued liabilities	(22,961)	196,906
Other receivables	2,096	-
Prepaid expenses	(319,466)	127,461
Receivables	(79,259)	33,616
Decrease in Taxes payables	(144,613)	-
Increase in Others	30,378	-
Salaries and social security payables	45,171	-
Net cash used in operating activities	(970,191)	(350,292)
<u>Cash flows from investing activities</u>		
Payments for property, plant, and equipment	(11,726)	-
Proceeds from loans	(6,283)	(22,842)
Recovery of investment funds, net	-	23,332
Net cash (outflow) inflow from investing activities	(18,009)	490
<u>Cash flows from financing activities</u>		
Proceeds from borrowings	148,589	5,475
Payment of borrowings	-	-
Payment of borrowings interests	-	(582)
Net proceeds from share issuance	2,396,118	104,997
Stock options exercised	-	33,017
Related party loans - funds received	-	254,690
Related party loans - funds repaid	-	(5,262)
Net cash from financing activities	2,544,707	392,335
Net cash generated by financing activities	1,556,507	42,533
Change, in cash for the period	1,556,507	42,533
Cash, beginning of period	5,134	671
Cash, end of period	1,561,641	43,204

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 FOR THE NINE MONTHS
ENDED SEPTEMBER 30, 2021, and 2020
(Unaudited)
(Expressed in United States dollars)

	Number of common shares	Share capital	Contribute surplus	Equity component of convertible debt	Obligation to issue shares	Accumulated Other Comprehensive Income	Deficit	(Unaudited) Total
Balance, December 31, 2019	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)
Share 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)
Balance, September 30, 2020	102,696,154	6,145,729	784,203	120,081	-	(63,058)	(7,508,351)	(521,396)
Balance, December 31, 2020	114,590,095	6,100,307	860,514	120,081	-	65,871	(7,831,087)	(684,314)
Private placement	20,170,000	1,650,334	-	-	-	-	-	1,650,334
Debt to equity – Swap	2,739,385	121,403	-	-	-	-	-	121,403
Options exercised		265,832						265,832
Stock-based compensation	283,744	170,845	-	-	-	-	-	170,845
Share issued to Equinox	(7,023,145)	(243,899)	-	-	-	-	-	(243,899)
Net loss for the period	-	-	-	-	-	521,603	(891,928)	(370,325)
Balance, September 30, 2021	130,760,079	8,064,822	860,514	120,081	-	587,474	(8,723,015)	909,876

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

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 is listed on the Canadian Securities Exchange ("CSE") under the trading symbol UPCO.

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 7).

The Company's head and registered office is located at 1200 – 750 West Pender Street, Vancouver, British Columbia, Canada, V6C 2T8.

Going Concern

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") assuming the Company will continue a going-concern basis. The Company has incurred losses and negative operating cash flows since inception. The Company incurred a net loss of \$891,928 and has an accumulated deficit of \$8,723,015 during the period ended September 30, 2021. 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 of September 30, 2021, 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.

These financial statements do not include any adjustments related to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

COVID-19

Since March 31, 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 currently, 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.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These condensed consolidated interim financial statements, including comparatives, have been prepared⁵ 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

UPCO INTERNATIONAL INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in United States dollars)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

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, 2020.

International Accounting Standard 1 requires that financial statements present fairly for each financial period the Company’s financial position, financial performance, and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board’s ‘Framework for the preparation and presentation of financial statements. In all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to: (i) properly select and apply accounting policies; (ii) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; (iii) provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance; and (iv) make an assessment of the Company’s ability to continue as a going concern.

Additionally, the Board of Directors of the Company are responsible for: (i) keeping proper accounting records; (ii) disclosing with reasonable accuracy at any time the financial position of the consolidated financial statements; (iii) safeguarding the assets of the Group; and (iv) taking reasonable steps for the prevention and detection of fraud and any other irregularities.

Certain information and disclosures normally included in the notes to annual financial statements, prepared in accordance with IFRS, have been condensed or omitted. The Directors believes that disclosures made are adequate and that the information gives a true and fair view.

Basis of Presentation

The consolidated financial statements have been prepared on a historical cost basis except as detailed in the significant accounting policies disclosed in Note 2. The audited consolidated financial statements were approved by the Company’s Board of Directors on August 27, 2021.

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.

Key areas requiring judgment and estimation uncertainty include:

UPCO INTERNATIONAL INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
(Expressed in United States dollars)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

Going concern

The evaluation of the Company's ability to continue as a going concern, to raise additional financing to cover its operating expenses and its obligations for the upcoming year requires significant judgment based on 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.

Property, plant, and equipment

Furniture, fixtures and equipment, leasehold improvements, and automobiles are stated at cost less accumulated depreciation. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of properties, plant, and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized to write off the cost or valuation of assets (other than land and properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as similar assets or, were shorter, the term of the relevant lease.

An item of properties, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of properties, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

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 are reviewed by management annually to determine if impairment of the asset is required.

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.

UPCO INTERNATIONAL INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
(Expressed in United States dollars)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

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 are reviewed by management annually to determine if impairment of the asset is required.

Expected Credit Loss ("ECL")

Bad debts are assessed considering current economic conditions and 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 11).

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.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its controlled entity, as follows:

	Authority of incorporation	Percentage owned	
		September 30, 2021	December 31, 2020
Oktacom Inc.	New York, USA	100%	100%
Brilliance Global LLC.	Delaware, USA	100%	n/a

Inter-company transactions and balances are eliminated upon consolidation.

3. RECEIVABLES

Trade and tax receivables

The Company has credit evaluation, approval, and monitoring processes to assess new customers' credit quality that mitigate potential credit risks. Credit limits are imposed on each customer, which are reviewed annually. The Company measures bad debts using the expected credit loss model.

	(Unaudited) September 30, 2021	(Audited) December 31, 2020
Trade receivable	117,053	7,537
Tax receivable	-	30,357
Balance	117,053	37,894

UPCO INTERNATIONAL INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
(Expressed in United States dollars)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

4. LOAN RECEIVABLES

	(Unaudited) September 30, 2021	(Audited) December 31, 2020
Loans receivable	319,694-	142,741
Loans receivable – foreign currency exchange	-	(9,426)
Loans receivable – bad debt provision	-	<u>(131,219)</u>
Balance	-	2,096

Upco Systems srl: Upco Systems SRL, a wholly owned subsidiary in Italy, filed for voluntary bankruptcy on the 24th of August 2021 at the courts of Parma, Italy. Upco International Inc. does not reasonably expect to recover any amount of its outstanding loans to the company.

Bad debt provision was registered considering financial position of the debtor.

5. PREPAIDS AND ADVANCES

	(Unaudited) September 30, 2021	(Audited) December 31, 2020
Prepaid expenses	-	<u>218</u>
Balance	-	218

6. PROPERTY, PLANT AND EQUIPMENT

	(Unaudited) September 30, 2021	(Audited) December 31, 2020
Cost		
Balance, beginning of period	-	-
Additions	11,919	-
Foreign exchange	193	-
Balance, end of period	11,726	-
Accumulated Amortization		
Balance, beginning of period	-	-
Depreciation expense	697	-
Foreign exchange	10	-
Balance, end of period	707	-
Net Book Value	11,019	-

7. INTANGIBLE ASSET

The Company previously incurred certain costs related to its development of a smartphone application, which will allow 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. 9

During the year ended December 31, 2019, the Company released an updated version of its mobile

UPCO INTERNATIONAL INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
(Expressed in United States dollars)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

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.

	(Unaudited) September 30, 2021	(Audited) December 31, 2020
Cost		
Balance, beginning of period	225,702	215,362
Additions	-	-
Foreign exchange	-	10,340
Balance, end of period	225,702	225,702
Accumulated Amortization		
Balance, beginning of period	225,702	98,089
Amortization expense	-	69,760
Impairment	-	56,330
Foreign exchange	-	1,523
Balance, end of period	225,702	225,702
Net Book Value	-	-

8. TRADE PAYABLES AND OTHER LIABILITIES

	(Unaudited) September 30, 2021	(Audited) December 31, 2020
Current		
Trade payables	176,616	357,291
Accrued liabilities	-	48,822
Balance	176,616	406,113
Non-current		
Trade payables	206,536	-
Accrued liabilities	-	-
Balance	206,536	-

9. LOANS PAYABLE

	(Unaudited) September 30, 2021	(Audited) December 31, 2020
Loans payable	-	6,283
Balance	-	6,283

Annual interest rate of above loan is 5%, and amounts are unsecured and due on demand.

10. RELATED PARTY TRANSACTIONS AND BALANCES

	(Unaudited) September 30, 2021	(Audited) December 31, 2020
		10

UPCO INTERNATIONAL INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
(Expressed in United States dollars)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

Related party loans	148,589	-	144,613
Balance	148,589-		144,613

Annual interest rate is 3%, and amounts are unsecured and due on demand.

Key management personnel of the Company include the President and Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”), current and former Directors of the Company. A selected management fees were settled in the Company’s common shares as disclosed in Note 12. b. Compensation to key management personnel is as follows:

Payments to key management personnel	(Unaudited) September 30, 2021	(Unaudited) September 30, 2020
Consulting and professional fees	133,886	643,886
Management fees	251,978	123,598

11. 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 at the holder’s choice. The fair value of debt portion is CND \$143,560 and the remaining amount of CND \$145,190 was the equity portion.

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. The fair value of debt portion is CND \$15,661 and the remaining amount of CND \$15,839 was the equity portion.

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

Convertible debentures	
Balance, December 31, 2019	139,355
Issuance for cash	-
Equity feature	-
Interest paid	(587)
Finance expense	29,553
Translation adjustment	4,326
Balance, December 31, 2020	172,647
Issuance for cash	-
Equity feature	-
Interest paid	-
Finance expense	30,378
Translation adjustment	-
Balance, September 30, 2021	203,025

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%.

12. SHARE CAPITAL AND RESERVES

a) Authorized share capital

Unlimited common shares, without par value.

b) Issued share capital

Period ended September 30, 2021

The Company entered into a Capital Commitment agreement with LDA Capital LLC. The Capital Commitment is in the form of a 'Put Option' that may be exercisable on a bi-weekly basis; each amount will vary depending on the Company's volume during the previous fifteen-day period and price per share during the forward looking 15-day pricing period. The strike price of the put option is determined by the VWAP - volume weighted average price during such period. As part of this agreement, the Company issued 14,000,000 common shares in January 2021 raising C\$2,120,000.

In January 2021, the Company issued 3,850,000 shares pursuant to the exercise of stock options and issued 667,589 shares to related parties in settlement of debt for C\$ 35,270.

In February 2021, the Company issued 2,320,000 common shares in a private placement for C\$ 348,000.

In February 2021, the Company issued 3,850,000 Warrants with exercise price of C\$ 0.1.

Management Commitments

On January 1, 2020, the Company signed 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.

On February 4, April 26 and July 8, 2021, the Company issued 1,493,888 common shares, pursuant to the management agreement commitments with the fair value of C\$ 30,000; issued 283,744 common shares, pursuant to the management agreement commitments with the fair value of C\$ 30,000 and issued 577,908 common shares, pursuant to the management agreement commitments with the fair value of C\$ 30,000, respectively

Year ended December 31, 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 on December 31, 2019, and remaining amount was received on January 6, 2020. 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. Share issue cost of \$4,176 was paid and deducted from share capital. The share purchase warrants are classified as equity instruments because fixed amount of cash is exchanged for a fixed amount of equity ("fixed for fixed" criteria). The Company applied residual approach, the fair value of the shares at the date of issue was determined first and the residual amount was allocated to warrants reserve which shown in contributed surplus. Warrants classified as equity instruments are not subsequently re-measured.

UPCO INTERNATIONAL INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited)

(Expressed in United States dollars)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

On February 28, 2020, the Company issued 5,531,704 common shares with fair value of C\$387,219, of which 3,428,571 were to related parties to settle C\$240,000 debt with no gains or losses recognized. The remaining common shares of 2,103,133 were to settle debts carrying amount of C\$164,944 with C\$17,725 gain was recognized as gain on settlement of debt on the statement of loss and comprehensive loss.

On July 17, 2020, and September 28, 2020, the Company issued 1,229,112 and 103,398 common shares in settlement of debts of \$63,384 and \$5,797, respectively. As the fair value of common share issued equal to the carrying amount of debt, no gains or losses being recognized.

On September 28, 2020, the Company issued 5,750,000 common shares with fair value of C\$258,750 in settlement of related party loans with no gains or losses being recognized.

On November 25, 2020, the Company issued 4,870,796 common shares in the settlement of various third-party debts. The fair value of common share issued was C\$243,540, and the aggregate carrying amount debts was C\$365,862. C\$122,322 gain was recognized on the consolidated statements of loss and comprehensive loss due to this transaction.

On June 1, 2020, the Company issued 7,500,000 common shares to a director for services rendered at a fair value of C\$337,500. During the year 2020, the Company issued 7,003,752 common shares pursuant to the management agreement commitments with the fair value of C\$421,938 (Note 19). The fair value of services received were measured by reference to the fair value of the equity instruments granted.

c) Stock options

The Company allows total number of shares of stock reserved and available for distribution under the Plan shall be a rolling 15% 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, 2019	6,770,000	0.19
Cancelled or expired	(4,580,000)	0.20
Exercised	<u>(750,000)</u>	0.06
Balance outstanding, December 31, 2020	1,440,000	\$ 0.22
Balance exercisable, December 31, 2020	1,440,000	\$ 0.22
Balance outstanding, September 30, 2021	1,840,000	\$ 0.22
Expired (*)	(1,440,000)	
Granted	400,000	
Balance exercisable, September 30, 2021	400,000	\$ 0.09

Stock options outstanding as of September 30, 2021:

Number	Exercise price	Expiry date	Remaining expected life (years)
--------	----------------	-------------	---------------------------------

UPCO INTERNATIONAL INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited)

(Expressed in United States dollars)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

900,000	0.23	April 30, 2023	1,58 (*)
50,000	0.22	June 5, 2023	1,68(*)
340,000	0.20	June 7, 2023	1,68(*)
150,000	0.20	September 14, 2023	1,96(*)
<u>400,000</u>	<u>0.09</u>	March3, 2025	
1,840,000	\$ 0.19		

(*) Cancelled in September 2020.

d) Share-based payments

During the period ended September 2021 and during the year ended December 31, 2020, the Company did not grant any stock options.

e) Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2020	2,593,425	0.16
Granted	1,477,516	0.15
Executed	<u>343,425</u>	0,25
Balance outstanding and exercisable, December 31, 2020,	3,727,516	\$ 0.15
Granted	3,850,000	0.15
Executed	2,320,000	0,15
Expired	<u>70,000</u>	0,15
Balance outstanding and exercisable, September 30, 2021	5,327,516	\$ 0,15

Warrants outstanding as of September 30, 2021:

Number	Exercise price	Expiry date
50,000	0.15	October 23, 2023
3,850,000	0,10	June 7, 2023
225,000	0,15	September 13, 2023
100,000	0,15	November 1, 2023
50,000	0,15	November 13, 2023
440,000	0,11	November 25, 2023
50,000	0,15	December 8, 2023
562,516	0,15	January 6, 2024
5,327,516	\$ 0.14	

f) Equinox Group

In November 2020, the Company issued 7,023,145 shares for the purchase of 51% membership ¹⁴ interest of the Equinox Group.

UPCO INTERNATIONAL INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in United States dollars)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

On February 22, 2021, the Company signed a termination and reverse agreement with Equinox Group in which the previous agreement to buy 51% of the Equinox Group was terminated. Equinox is a provider in the telecommunications, technology, and services areas. Under the terms of the agreement, Equinox Group have returned the obtained to the Company for cancellation.

12. 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 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.

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 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 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 collaborates 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.

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. On September 30, 2021, the Company has cash of \$ 1,561,641 to settle current liabilities of \$176,616.

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.

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.

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

13. 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 adjusts it considering general economic conditions and the risk characteristics of the underlying assets and the Company's working capital requirements. 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 this period. The Company is not subject to any externally imposed capital requirements.

14. COMMITMENTS

On January 1, 2020, the Company signed 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 year 2020, the Company issued 7,003,752 common shares with respect to this commitment.

15. SUBSEQUENT EVENTS

- a) On October 4, 2021 the Company has executed a Letter of Intent for the potential investment (capital contribution) of US\$ 500,000 by the Company in exchange of the 51% of the issued and outstanding shares of capital stock, paying in advance borrowed a loan of US\$20,000 for a period of 60 days with an annual interest rate of 12%, while the due diligence and certain condition precedent for the capital contribution are being conducted or fulfilled, being such loan beneficial for the development of this investment opportunity for the Company.

UPCO INTERNATIONAL INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
(Expressed in United States dollars)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

- b) The Management Agreements entered on January 1st, 2020 between the Company and each of the Managers (Andrea Pagani and Juan Ramos Taboada) was adjusted and amended with regard to the Management Fees and the duration of the contracts, with effective date on October 21, 2021.