

UPCO INTERNATIONAL INC.
CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

FOR THE YEARS ENDED DECEMBER 31, 2021
AND 2020

MSLL CPA LLP

2110 - 1177 West Hastings Street
Vancouver, B.C. Canada
V6E 2K3

Tel: 604 688 5671
Fax: 604 688 8479
msllcpa.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Upco International Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Upco International Inc. and its subsidiaries (the Company) which comprise consolidated statements of financial position as at December 31, 2021 and 2020 and the consolidated statements of loss and comprehensive loss, consolidated statement of changes in equity, and consolidated statement of cash flows for the year ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the year ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially

inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the consolidated 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.

Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tracy Zhang, CPA, CA.

/s/ MSLL CPA LLP

Chartered Professional Accountants

Vancouver, Canada

May 2, 2022

UPCO INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in United States dollars)

As at December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash	1,393,781	5,134
Receivables (Note 3)	41,767	37,894
Loan receivables	20,600	2,096
Other receivables	-	218
Total Current assets	<u>1,456,148</u>	<u>45,342</u>
NON-CURRENT ASSETS		
Property and equipment, net (Note 4)	9,307	-
Total Non-current assets	<u>9,307</u>	<u>-</u>
Total assets	<u>1,465,455</u>	<u>45,342</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 5)	168,716	406,113
Loans payable (Note 6)	-	6,283
Total current liabilities	<u>168,716</u>	<u>412,396</u>
LIABILITIES		
NON-CURRENT LIABILITIES		
Loans payable (Note 7)	150,033	144,613
Convertible debentures (Note 8)	204,117	172,647
Total non-current liabilities	<u>354,150</u>	<u>317,260</u>
Total liabilities	<u>522,866</u>	<u>729,656</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	8,874,931	6,100,307
Reserves	397,173	860,514
Equity component of convertible debentures	120,081	120,081
Accumulated Other Comprehensive Income - opening	65,871	(57,915)
Accumulated Other Comprehensive Income - current	32,961	123,786
Deficit	(8,548,428)	(7,831,087)
Total equity	<u>942,589</u>	<u>(684,314)</u>
TOTAL LIABILITIES & EQUITY	<u>1,465,455</u>	<u>45,342</u>

Nature and continuance of operations (Note 1)

Subsequent events (Note 14)

On behalf of the Board on May 2nd, 2022

“Andrea Pagani”

Director

Director

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

UPCO INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in United States dollars)

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Revenue	496,221	-
Cost of Revenue	<u>(458,630)</u>	<u>-</u>
	37,591	-
Operating Expenses		
Depreciation (Note 4)	(1,372)	-
Amortization	-	(69,760)
Bad debt expense	(23,880)	(131,219)
Consulting fees	(52,777)	(323,088)
Filing fees	(17,325)	(17,199)
Interest and bank charges	(3,760)	(2,993)
IT and communication	(21,172)	(1,963)
Food and Entertainment	(642)	-
Office expenses	(3,116)	(19,712)
Management fees	(437,617)	(771,098)
Personnel Costs	-	(43,480)
Professional fees	(225,097)	(101,863)
Travel expenses	(12,993)	(27,828)
Subscription fees	-	(6,898)
Rent	(6,721)	-
Other operating expenses	(36,508)	-
Tax expense	(36)	-
Total operating expenses	<u>(843,016)</u>	<u>(1,517,911)</u>
Foreign exchange	365	(2,995)
Finance expense	(45,250)	(29,847)
Interest income	600	1,122
Hosting expense	(436)	-
Gain on debt settlement	-	104,494
Gain on deconsolidated of subsidiary (note 10)	132,805	-
Impairment of intangible assets	-	(56,330)
	<u>88,084</u>	<u>16,444</u>
Loss for the year	<u>(717,341)</u>	<u>(1,501,467)</u>
Foreign Exchange Adjustment	= 32,961	= 123,786
Comprehensive loss for the year	<u><u>(684,380)</u></u>	<u><u>(1,377,681)</u></u>
Basic and diluted loss per common share	(0.01)	(0.02)
Weighted average number of common shares outstanding		
– basic and diluted	107,133,151	90,349,181

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

UPCO INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Expressed in United States dollars)
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Loss for the year	(717,341)	(1,501,467)
<u>Adjustments to reconcile net profit (loss) to cash flows generated by operating activities:</u>		
Finance expense	36,803	29,847
Interest income	(600)	(1,122)
Bad debts expense	23,880	131,219
Amortization	-	69,760
Depreciation	1,372	-
Share paid for management fee	245,966	559,197
Impairment of intangible assets	-	56,330
Gain on debt settlement	-	(104,494)
Operating expense paid by shares	27,748	-
Unrealized foreign exchange	-	12,887
Changes in non-cash working capital items:		
Accounts payable and accrued liabilities	(237,397)	362,010
Prepaid expenses	218	206,687
Receivables	(27,753)	34,872
Net cash used in operating activities	(647,104)	(144,284)
<u>Cash flows from investing activities</u>		
Payments for property, plant, and equipment	(10,497)	-
Recovery of investment funds, net	-	-
Net cash (outflow) inflow from investing activities	(10,497)	-
<u>Cash flows from financing activities</u>		
Interest paid	-	(582)
Loans funds received	-	5,705
Loans funds repayment	(6,283)	-
Net proceeds from share issuance	1,650,334	104,997
Net proceeds from warrants exercise	387,235	-
Loans receivables	(20,600)	39,841
Net proceeds from related party loan	-	10,180
Net cash from financing activities	2,018,956	160,141
Effect of foreign exchange on cash	35,562	(11,394)
Change, in cash for the year	1,388,647	4,463
Cash, beginning of year	5,134	671
Cash, end of year	1,393,781	5,134

Supplemental Disclosure with respect to Cash Flows (Note 12 and 13)

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

UPCO INTERNATIONAL INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
(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	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	154,294	67,916	-	(117,801)	-	-	104,409
Shares for debt	17,485,010	737,907	-	-	-	-	-	737,907
Options exercised	750,000	38,519	(5,503)	-	-	-	-	33,016
Shares for management fee	14,503,752	559,198	-	-	-	-	-	559,198
Share issued to Equinox (Note 12)	7,023,145	-	-	-	-	-	-	-
Related party debt settlement	-	-	(18,492)	-	-	-	-	(18,492)
Net loss for the year	-	-	-	-	-	123,786	(1,501,467)	(1,377,681)
Balance, December 31, 2020	114,590,095	6,100,307	860,514	120,081	-	65,871	(7,831,087)	(684,314)
Shares issued for cash – private placement	14,000,000	1,650,334	-	-	-	-	-	1,650,334
Shares for debt	667,589	27,748	-	-	-	-	-	27,748
Warrants exercised	6,170,000	855,125	(467,890)	-	-	-	-	387,235
Stock-based compensation	3,264,200	241,417	4,549	-	-	-	-	245,966
Cancellation of shares issued to Equinox (Note 9)	(7,023,145)	-	-	-	-	-	-	-
Net loss for the year	-	-	-	-	-	32,961	(717,341)	(684,380)
Balance, December 31, 2021	131,668,739	8,874,931	397,173	120,081	-	98,832	(8,548,428)	942,589

The accompanying notes are an integral part of these consolidated 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.

On January 25, 2021, Upco Systems Inc. a wholly owned subsidiary of the Company changed its name to Octacom Inc.

On March 23, 2021, Brilliance Global LLC ("Brilliance"). was set up in the state of Delaware, USA as a wholly owned subsidiary of the Company.

On August 2021, Upco Systems SRL the Company's 100% owned subsidiary filed for voluntary bankruptcy at the counts of Parma, Italy.

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 \$717,341 and has an accumulated deficit of \$8,548,428. 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 December 31, 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 consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34 ‘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 consolidated 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 IFRS. 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 May 2nd, 2022.

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.

UPCO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

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.

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

UPCO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

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 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 8).

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	
		December 31, 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.

Functional and presentation currency

The functional currency of each of the Company’s entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in US dollars. The parent company, Upco International Inc, functional currency is CAD, and the functional currency of Oktacom Inc. and Brilliance Global LLC is USD.

In preparing the consolidated financial statements of the Company, transactions in currencies other than the Company’s functional currency are recognized at the rates of exchange prevailing at the dates of the

transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise. Exchange differences arising, if any, are recognized in other comprehensive income (loss).

Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by dividing the income or loss attributable to common shareholders by the weighted average number of common shares outstanding and for the effects of all dilutive potential common shares.

Financial Instruments

Financial assets

The Company classifies its financial assets in the following categories: fair value through profit or loss, amortized cost or fair value through other comprehensive income. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded in profit or loss.

Amortized cost

Financial assets are classified at amortized cost if both of the following criteria are met and the financial assets are not classified or designated as fair value through profit and loss: 1) the Company's objective for these financial assets is to collect their contractual cash flows and 2) the asset's contractual cash flows represent 'solely payments of principal and interest'. The Company's cash and cash equivalents, and receivables are recorded at amortized cost as they meet the required criteria.

Fair value through other comprehensive income ("OCI")

For financial assets that are equity instruments not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments at fair value through other comprehensive income ("FVOCI"), with all subsequent changes in fair value being recognized in other comprehensive income. This election is available for each separate investment. Under this new FVOCI category, fair value changes are recognized in OCI while dividends are recognized in profit or loss. On disposal of the investment the cumulative change in fair value is not recycled to profit or loss, rather transferred to deficit. The Company does not have any financial assets designated as FVOCI.

Financial assets include cash, receivables, loans receivable and other receivables which are measured at amortized cost.

Financial liabilities

Financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable and accrued liabilities, loans payable, related party loans, other payables and convertible debentures which are measured at amortized cost.

Financial instrument disclosures

The Company provides disclosures that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the date of the statement of financial position, and how the entity manages these risks.

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying values of the Company's cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate their fair values due to their short-term maturities or to the prevailing interest rates of the related instruments, which are comparable to those of the market. The determination of fair value of the convertible debt is based on a discounted cash flow model using the current market interest rate that the Company could have obtained for a similar secured loan without a conversion option.

Revenues

Currently, the Company is operating in one segment – telecommunications wholesale services. The Company's main service is to provide long-distance services through access to its network, which has the capability to track pertinent data for each individual call to a particular country destination. This allows the Company to rate each call by applying predetermined long-distance rates by country to the volume of minutes provided.

The Company enters into bilateral transactions pursuant to which the Company may purchase minutes to specific destinations at predetermined rates and the counterparty may purchase minutes from the Company to specific destinations at predetermined rates. The Company earns its revenues from access to, and usage of, its telecommunications network by the counterparty, based on these bilateral transactions. The number of minutes purchased and sold in a bilateral transaction are not necessary equal. The Company recognizes revenue and related cost of revenue for these bilateral transactions based on the prices charged for minutes.

To determine the amount and timing of revenue to be recognized, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue is recognized when the counterparties make long-distance calls through the Company's network.

Impairment of long-lived assets

The carrying amount of the Company's long-lived assets (which includes intangible assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of profit or loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Share-based payments

The Company operates a Stock Option Plan (the "Plan"). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to reserves. The fair value of options is determined using the Black-Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted are based on the number of equity instruments that eventually vest.

Where granted share options vest in installments over the vesting period (defined as graded vesting), the Company treats each installment as a separate share option grant. Share-based compensation expense is recognized over the vesting period, or as specified vesting conditions are satisfied, and credited to reserve within equity.

Income taxes

Income tax expense is comprised of current and deferred taxes. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable or recoverable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, as well as any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

UPCO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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.

	December 31, 2021	December 31, 2020
Trade receivable	36,027	7,537
Provision of invoices to be issued	29,832	-
Allowance for doubtful accounts	(24,092)	-
Tax receivable	-	30,357
Balance December 31	41,767	37,894

4. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2021	December 31, 2020
Cost		
Balance, beginning of year	-	-
Additions	10,497	-
Foreign exchange	193	-
Balance, end of year	10,690	-
Accumulated Amortization		
Balance, beginning of year	-	-
Depreciation expense	1,372	-
Foreign exchange	11	-
Balance, end of year	1,383	-
Net Book Value	9,307	-

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.

	December 31, 2021	December 31, 2020
Cost		
Balance, beginning of year	225,702	215,362
Additions	-	-
Foreign exchange	-	10,340

UPCO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

Balance, end of year	225,702	225,702
Accumulated Amortization		
Balance, beginning of year	225,702	98,089
Amortization expense	-	69,760
Impairment	-	56,330
Foreign exchange	-	1,523
Balance, end of year	225,702	225,702
Net Book Value	-	-

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2021	December 31, 2020
Current		
Trade payables	92,552	357,291
Accrued liabilities	76,164	48,822
Balance, December 31	168,716	406,113

6. LOANS PAYABLE

	December 31, 2021	December 31, 2020
Loans payable	-	6,283
Balance, December 31	-	6,283

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

7. RELATED PARTY TRANSACTIONS AND BALANCES

	December 31, 2021	December 31, 2020
Related party loans	150,033	144,613
Balance December 31	150,033	144,613

As at December 31, 2021, the Company has loans outstanding with the CEO of \$ 150,033 (2020 - \$ 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. Some of the 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	December 31, 2021	December 31, 2020
Consulting and professional fees	-	2,880
Management fees	437,617	771,908

8. 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 CDN \$143,560 and the remaining amount of CDN \$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 CDN \$15,661 and the remaining amount of CDN \$15,839 was the equity portion.

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

<u>Convertible debentures</u>	
Balance, December 31, 2019	139,355
Issuance for cash	-
Equity feature	-
Interest paid	(587)
Finance expense	29,553
Translation adjustment	<u>4,326</u>
Balance, December 31, 2020	172,647
Issuance for cash	-
Equity feature	-
Interest paid	-
Finance expense	31,470
Translation adjustment	-
Balance, December 31, 2021	<u>204,117</u>

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%.

9. SHARE CAPITAL AND RESERVES

a) Authorized share capital

Unlimited common shares, without par value.

b) Issued share capital

Year ended December 31, 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\$2,097,740.

In January 6, 2021, the Company issued 3,850,000 shares pursuant to the exercise of warrants at

UPCO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

exercise price of C\$0.04 per share for proceed of C\$154,000.

On February 12, 2021, the Company issued 667,589 common shares in settlement of debts of C\$ 35,270 with the Company's CEO for various expenses he paid on behalf of the Company. As the fair value of common share issued equal to the carrying amount of debt, no gains or losses being recognized.

In February 18, 2021, the Company issued 2,320,000 common shares pursuant to the exercise of warrants at exercise price of C\$0.15 for net proceed of C\$ 337,500. Share issue cost of C\$10,500 was paid and deduct from the gross proceed.

Management Commitments

On February 12, April 26, July 8, 2021 and October 18, 2021, the Company issued 1,493,888 common shares, pursuant to the management agreement commitments with the fair value of C\$ 76,188; issued 283,744 common shares, pursuant to the management agreement commitments (Note 13) with the fair value of C\$ 75,476, issued 577,908 common shares, pursuant to the management agreement commitments with the fair value of C\$ 73,972, and issued 908,660 common shares, pursuant to the management agreement commitments with the fair value of C \$76,327, respectively. The fair value of services received were measured by reference to the fair value of the equity instruments granted.

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.

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. The fair value of services received were measured by reference to the fair value of the equity instruments granted.

UPCO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

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	Number of Options (after restatement)
Balance, December 31, 2019	6,770,000	0.19	6,770,000
Cancelled or expired	(4,580,000)	0.20	(4,580,000)
Exercised	<u>(750,000)</u>	0.06	<u>(750,000)</u>
Balance outstanding, December 31, 2020	1,440,000	0,22	1,440,000
Restatement (1)			(1,440,000)
December 31, 2020 Restated			-
Balance outstanding, December 31, 2020	-	-	-
Granted	400,000		400,000
Balance exercisable, December 31, 2021	400,000	0.09	400,000

Stock options outstanding as of December 31, 2021:

Number	Exercise price	Expiry date	Remaining expected life (years)
<u>400,000</u>	<u>0.09</u>	March 3, 2025	3.17
400,000	\$ 0.09		

(1) During September 2020, the management called to Stock Option Holder (SOH) asking for a cancellation of the outstanding 1,440,000 Stock Option, which was agreed by the SOH.

During the year ended December 31, 2021, the Company issued 400,000 stock options to employee. The option grant the employee the right to purchase the Company's common share at C\$0.09 per share. The option vest 25% on March 3, 2022, 25% twelve months, twenty four months and thirty six months each from the date of March 3, 2022. The Company recorded share-based compensation with respect to stock options in the amount of C\$4,549 for the year ended December 31, 2021 (2020-Nil).

The company settles stock options exercised through the issuance of common shares from treasury.
Fair value input assumptions

The table below shows the assumptions, or weighted average parameters, applied to the Black-Scholes

UPCO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

Option Pricing Model in order to determine share-based compensation costs over the life of the awards for options granted during each of the periods presented.

	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Expected dividend	0.00%	0.00%	0.00%	0.00%
Estimated volatility	171%	216%	209%	201%
Weighted average risk-free annual interest	0.38%	0.38%	0.38%	0.73%
Weighted average expected life (years)	3.17	3.17	3.17	3.17
Grant date fair value (C\$)	0.04	0.07	0.08	0.08

d) Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2020	2,593,425	C\$ 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	C\$ 0.15
Granted	3,850,000	0.10
Executed	<u>6,170,000</u>	0.15
Balance outstanding and exercisable, December 31, 2021	1,407,516	C\$ 0.15

Warrants outstanding as of December 31, 2021:

Number	Exercise price	Expiry date
1,407,516	C\$ 0.15	January 20, 2025
1,407,516	C\$ 0.15	

e) Equinox Group

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

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.

10. DECONSOLIDATION

On August 2021, Upco Systems SRL the Company's 100% owned subsidiary filed for voluntary bankruptcy at the counts of Parma, Italy. In accordance with IFRS 10, the Company recognized gain on deconsolidation in the amount of \$132,805 for the year ended December 31, 2021.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

The Board of Directors has overall responsibility for the establishment and oversight of the Company's riskmanagement 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.

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 settle 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 December 31, 2021, the Company has cash of \$ 1,393,781 to settle current liabilities of \$168,716.

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.

12. 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.

13. 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 9). During year 2021 and 2020, the Company issued 7,003,752 and 3,264,200 common shares with respect to this commitment.

14. SUBSEQUENT EVENTS

During the last quarter 2021, Oktacom signed a reciprocal carrier services agreement with a company in the Balkans, that offers aligned services: voice business, telecommunications carriers and traffic termination. During the first quarter 2022, Oktacom paid in advances to this Company traffic looking for an increase demand there. This agreement will provide the group presence in that region. Together with other actions, consistent with its marketing and business strategy, the group will expand reach and bolster its revenue stream.