

# **KABN Systems NA Holdings Corp.**

## **Interim Condensed Consolidated Financial Statements**

**(unaudited)**

**For the Three and Nine Month Period Ended  
September 30, 2020**

### **Unaudited Interim Condensed Consolidated Financial Statements:**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim financial statements for the three and nine month periods ended September 30, 2020.

**KABN Systems NA Holdings Corp.**  
**Interim Condensed Consolidated Statements of Financial Position**  
**As at September 30, 2020 and December 31, 2019**  
(unaudited)

	September 30, 2020	December 31, 2019
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 1,661	\$ -
Due from Pegasus Fintech Canada Inc. (Note 11)	-	6,350
Harmonized sales tax receivable	249,226	55,361
Prepaid expenses and other current assets	409,179	237,800
	<b>660,066</b>	<b>299,511</b>
Prepaid long-term partnership	62,500	-
Intangible assets	975,198	1,176,963
	<b>\$ 1,697,764</b>	<b>\$ 1,476,474</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued expenses	\$ 823,727	\$ 363,444
Due to KABN (Gibraltar) Ltd. (Note 11)	150,816	122,755
	<b>974,543</b>	<b>486,199</b>
<b>Shareholders' Equity</b>		
Share capital	3,628,369	1,238,911
Contributed surplus	375,141	-
Warrants	1,009,235	364,792
Deficit	(4,289,524)	(613,428)
	<b>723,221</b>	<b>990,275</b>
	<b>\$ 1,697,764</b>	<b>\$ 1,476,474</b>

**Subsequent events (Note 15)**

<b>Approved by the Board</b>	<u>“Jeff Mesina”</u> Director ( <b>Signed</b> )	<u>“David Lucatch”</u> Director ( <b>Signed</b> )
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**KABN Systems NA Holdings Corp.****Interim Condensed Consolidated Statements of Loss and Comprehensive Loss**

**For the Three and Nine Month Period Ended September 30, 2020 and Period from May 1, 2019  
(incorporation date) to September 30, 2019**

(unaudited)

	<b>Three Months Ended Sept 30, 2020</b>	<b>Three Months Ended Sept 30, 2019</b>	<b>Nine Months Ended Sept 30, 2020</b>	<b>Nine Months Ended Sept 30, 2019</b>
<b>Revenue</b>	<b>\$ -</b>	<b>\$ 12,594</b>	<b>\$ 80</b>	<b>\$ 15,277</b>
<b>Operating expenses</b>				
Amortization	<b>67,255</b>	67,255	<b>201,765</b>	100,882
Annual license fee	-	-	<b>140,940</b>	-
Consulting fees	<b>73,775</b>	16,000	<b>274,466</b>	46,000
General and administrative costs	<b>7,685</b>	6,222	<b>27,354</b>	6,222
Interest expense	-	370	<b>2,540</b>	703
Legal and audit fees	<b>36,131</b>	217,630	<b>319,308</b>	217,630
Loan fee	-	-	<b>15,000</b>	-
Management and staff	<b>277,500</b>	-	<b>457,500</b>	-
Marketing and communications	<b>274,765</b>	48,969	<b>612,224</b>	48,969
Product development	<b>219,193</b>	10,000	<b>252,511</b>	10,000
Stock based compensation	<b>146,727</b>	-	<b>361,816</b>	-
Web and infrastructure	<b>33,387</b>	8,790	<b>43,597</b>	11,603
	<b>1,136,418</b>	375,326	<b>2,715,021</b>	442,009
<b>Other income, gain and losses</b>				
Charge for public company listing	-	-	<b>(951,504)</b>	-
Foreign exchange (loss) gain	<b>(3,290)</b>	(10,279)	<b>(9,651)</b>	15,819
	<b>(1,139,708)</b>	(10,279)	<b>(3,676,176)</b>	15,819
<b>Comprehensive loss, end of period</b>	<b>\$ (1,139,708)</b>	<b>\$ (372,921)</b>	<b>\$ (3,676,096)</b>	<b>\$ (410,913)</b>
<b>Basic and diluted loss per share (Note 14)</b>				
Basic and diluted	<b>\$ (0.017)</b>	\$ (0.010)	<b>\$ (0.067)</b>	\$ (0.012)
<b>Weighted average number of common shares outstanding</b>				
Weighted average number of common shares	<b>65,816,399</b>	38,102,672	<b>54,628,198</b>	35,084,613

**KABN Systems NA Holdings Corp.**  
**Interim Condensed Consolidated Statements of Changes in Shareholders' Equity**  
**For the Nine Month Period Ended September 30, 2020 and Period from May 1, 2019**  
**(incorporation date) to September 30, 2019**  
(unaudited)

	Number of Common Shares	Amount	Reserve for Warrants	Contributed Surplus	Deficit	Total
Balance May 1, 2019	-	\$ -	\$ -	\$ -	\$ -	-
Issued for initial license fees (Note 7)	32,500,000	325,000	-	-	-	325,000
Issued to settle debt (note 8)	2,150,000	153,664	61,336	-	-	215,000
Issued in connection with convertible debt (Note 6)	257,030	18,370	7,333	-	-	25,703
Issued in connection with private placement (Note 8)	10,380,000	741,877	296,123	-	-	1,038,000
Comprehensive loss	-	-	-	-	(613,428)	(613,428)
<b>Balance December 31, 2019</b>	<b>45,287,030</b>	<b>1,238,911</b>	<b>364,792</b>	<b>-</b>	<b>(613,428)</b>	<b>990,275</b>
Issued in connection with private placement (Note 8)	14,490,912	1,463,603	637,600	-	-	2,101,203
Issued in connection with RTO of Torino Power (Note 5)	5,972,286	895,843	-	-	-	895,843
Issuance in connection with warrant exercise (Note 8)	128,515	19,277	(7,325)	7,325	-	19,277
Issuance in connection with consultant obligations (Note 8)	67,684	10,735	-	-	-	10,735
Issuance of finder's warrants (Note 8)	-	-	14,168	-	-	14,168
Issuance of stock options (Note 8)	-	-	-	367,816	-	221,089
Comprehensive loss	-	-	-	-	(3,676,096)	(3,676,096)
<b>Balance September 30, 2020</b>	<b>65,946,607</b>	<b>\$ 3,628,369</b>	<b>\$ 1,009,235</b>	<b>\$ 375,141</b>	<b>\$ (4,289,524)</b>	<b>\$ 723,221</b>

**KABN Systems NA Holdings Corp.**  
**Interim Condensed Consolidated Statements of Cash Flows**  
**For the Nine Month Period Ended September 30, 2020 and Period from May 1, 2019**  
**(incorporation date) to September 30, 2019**  
(unaudited)

	<b>Nine Month Period Ended</b>	
	<b>September 30,</b>	<b>September 30,</b>
	<b>2020</b>	<b>2019</b>
<b>Cash provided by (used in)</b>		
<b>Operations</b>		
Net loss and comprehensive loss	\$ (3,670,096)	\$ (410,913)
Items not affecting cash		
Amortization	201,765	100,882
Foreign exchange loss (gain), net	9,651	(15,819)
Expenses payable in shares	571,311	-
Stock based compensation	361,816	-
Public company charge on reverse takeover transaction	951,504	-
	<b>(1,574,049)</b>	<b>(325,850)</b>
<b>Net change in non-cash working capital</b>		
Increase in prepaid expenses and other current assets	(171,379)	(277,800)
Increase in prepaid partnership	(62,500)	-
Increase in accounts payable and accrued expenses	460,283	270,835
Increase in accounts receivable	-	(7,946)
Increase in harmonized sales tax recoverable	(193,865)	(44,072)
Decrease in due from Pegasus Fintech Canada Inc.	(6,350)	(141,374)
Increase in due to KABN (Gibraltar) Ltd.	28,061	-
	<b>(1,519,799)</b>	<b>(526,207)</b>
<b>Investing</b>		
Purchase of intangible assets	-	512,496
<b>Financing</b>		
Proceeds from issuance of convertible debt	-	25,703
Net proceeds/advances from common share/unit issuances	1,521,460	1,013,000
	<b>1,521,460</b>	<b>1,038,703</b>
<b>Net change in cash</b>	<b>1,661</b>	<b>-</b>
<b>Cash, beginning of period</b>	<b>-</b>	<b>-</b>
<b>Cash, end of period</b>	<b>\$ 1,661</b>	<b>\$ -</b>

**KABN Systems NA Holdings Corp.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**Three and Nine Month Period Ended September 30, 2020**  
(unaudited)

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

KABN Systems NA Holdings Corp. (the “Company” formerly Torino Power Solutions Inc.) was incorporated under the Company Act of British Columbia, Canada on September 10, 2014. The Company wholly owns KABN Systems North America Inc (“KABN”) in conjunction with the reverse takeover transaction completed on June 4, 2020 (Note 5). The Company through this wholly owned subsidiary is the exclusive licensee of KABN (Gibraltar) Ltd’s financial services platform, KABN ID which provides organizations with an enabled *Always On* identity validation and verification process for the US and Canada. As at September 30, 2020, Crypto KABN Holdings Inc. and KABN Gibcan Inc. held a combined 38.44% of the Company’s total common shares outstanding. KABN (Gibraltar) Ltd. controls KABN Gibcan Inc.

The address of the Company’s head office and the registered and records office is 2200 HSBC Building, 885 West Georgia Street, Vancouver B.C., V6C 3E8, Canada.

The Company’s interim condensed consolidated financial statements (“interim financial statements”) as at September 30, 2020 have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, and prior operating results. During the nine month period ended September 30, 2020, the Company has incurred a net loss of \$3,676,096 a deficit of \$4,289,524 and had cash of \$1,661. These factors raise substantial doubt about the Company’s ability to continue as a going concern. The continued operations of the Company are dependent on its ability to generate future cash flows from operations or obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company’s liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. If the Company is unable to raise additional capital in the future, management expects that the Company will need to curtail operations, liquidate assets, seek additional capital on less favorable terms and/or pursue other remedial measures. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company’s ability to continue as a going concern. The interim financial statements do not include any adjustments that might result from the outcome of this uncertainty. Such adjustments could be material.

These interim financial statements were authorized for issue by the Board of Directors on November 27, 2020.

**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

These interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”) on a basis consistent with the accounting policies disclosed in the audited financial statements for the fiscal year ended December 31, 2019.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual financial statements for the period from May 1, 2019 (incorporation date of KABN) to December 31, 2019. The principal accounting policies adopted are consistent with those of the prior financial period, except for the policies as described in Note 3.

**KABN Systems NA Holdings Corp.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**Three and Nine Month Period Ended September 30, 2020**  
(unaudited)

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**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (Cont'd)**

These interim financial statements have been prepared on a historical cost convention. In addition, these interim financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The comparative figures presented throughout these interim condensed financial statements are the historical results of KABN Systems North America Inc.

These interim financial statements have been prepared in Canadian dollars which is the functional currency and presentation currency of the Company.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The following accounting policies were adopted by the Company on January 1, 2020:

Effective for annual reporting periods commencing on January 1, 2020, the IASB has made amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" which use a consistent definition of materiality throughout IFRS and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

Effective for annual reporting periods commencing on January 1, 2020, the IASB has made amendments to the definition of a business under IFRS 3 "Business Combinations" which requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments are not expected to have any significant impact on the Company's financial statements.

The standards that were issued but not yet applied by the Company are not expected to have any significant impact on the Company's financial statements.

#### **4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the Company's interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the interim financial statements and reported amounts of income and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Areas requiring a significant degree of estimation and judgment relate to the estimated useful life of intangibles, collectability of harmonized sales tax recoverable and assessment of COVID-19 pandemic's impact on the Company's business. The useful lives could change significantly as a result of technical innovations or some other event. The amortization charge will increase where the useful lives are less than previously estimated lives, or technically obsolete that have been abandoned will be written off or written down.

The Company has recently registered for its harmonized sales tax account with the tax regulator but filed its returns during the three month period ended September 30, 2020. Management had previously considered the collectability of this amount to be probable and recognized the recoverable amount accordingly in the interim statement of financial position. Subsequent to September 30, 2020, all of the Company's outstanding harmonized sales tax returns have been assessed as filed and applicable refunds issued, thus resolving the uncertainty around collectability.

The Company has been closely monitoring developments related to COVID-19, including the existing and potential impact on global and local economies. The Company has implemented its business continuity plan ensuring minimal interruption to the business. Governments worldwide have since put in place various measures to contain the spread of the virus, which have directly and indirectly impacted many businesses. The COVID-19 pandemic presented some challenges in raising financing during the three and nine month period ended September 30, 2020 but otherwise did not have any other significant impact on the Company's interim financial statements. The longer-term impacts of the COVID-19 situation will depend on future developments which are highly uncertain, rapidly evolving and difficult to predict. These impacts may differ in magnitude depending on a number of scenarios, which the Company continues to monitor and take into consideration.

#### **5. REVERSE TAKEOVER TRANSACTION**

On January 13 2020, the Company and its newly formed wholly owned subsidiary 2733668 Ontario Inc. ("Subco") entered into an Amalgamation Agreement (the "Amalgamation Agreement") with KABN, an arm's length private company, whereby the Company would acquire KABN (the "Transaction"). The Transaction is structured as a "three-cornered amalgamation" whereby KABN amalgamated with Subco, thereby forming Amalco. Amalco is a wholly-owned subsidiary of the Company and concurrently the Company would change its name from Torino Power Solutions Inc. to KABN Systems NA Holdings Corp. Pursuant to the Amalgamation Agreement, the Company would acquire all of the issued and outstanding shares of KABN in exchange for issuance of common shares of the Company. The Transaction would result in the business of KABN becoming the business of the Company.



**KABN Systems NA Holdings Corp.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**Three and Nine Month Period Ended September 30, 2020**  
(unaudited)

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**5. REVERSE TAKEOVER TRANSACTION (Cont'd)**

The Amalgamation Agreement set out a number of terms of the Transaction, including the following:

- a) Subco and KABN amalgamated, thereby forming Amalco;
- b) each KABN shareholder transferred their KABN shares to the Company in exchange for common shares of the Company on a one for one basis;
- c) The Company received one fully paid and non-assessable common share of Amalco for each common share of Subco held by the Company, following which all such common shares of Subco were cancelled;
- d) KABN shares held by the Company as a result of the exchanges described in (b) above were cancelled and The Company received one common share of Amalco for each KABN share that was cancelled, and Amalco became a wholly-owned subsidiary of the Company; and
- e) Stock Options and Warrants of the Company will be honoured on an equivalent basis from the original terms as issued under KABN Stock Options and KABN Warrants such that exercises under these agreements will be issuable in shares of the Company.

Immediately subsequent to giving effect to the Transaction (inclusive of the 14,490,912 common shares issued pursuant to the financing), the issued and outstanding share capital of the Company consists of 65,750,228 common shares, undiluted. The former shareholders of KABN held 59,777,942 common shares of the Company, representing 91% of the post-Transaction issued and outstanding common shares of the Company.

On a fully diluted basis, total issued and outstanding common shares consist of 85,329,595 common shares. The former shareholders of KABN held 59,777,942 common shares of the Company, representing 70% of the post-Transaction issued and outstanding common shares of the Company.

Because the former shareholders of KABN obtained control of the Company, the Transaction is considered a purchase of the Company by KABN and is accounted for as a reverse acquisition. This reverse acquisition is not a business combination and therefore is outside the scope of IFRS 3 Business Combinations. As KABN has granted equity investments in return for goods and services received, the transaction falls under the scope of IFRS 2 Share Based Payment. The consideration is based on the fair value of the Company's common shares that were exchanged as this is the most reliable indicator of fair value. The consideration is recognized with a corresponding increase in the equity of the Company.

The consolidated statement of financial position gives effect to the acquisition of KABN's outstanding common shares by the Company in accordance with accounting guidance pertaining to reverse acquisitions under IFRS. All of the Company's deficit and other business equity balances prior to the Transaction are eliminated as follows:

• Share capital	\$7,162,975
• Share-based payment reserve	\$576,682
• Deficit	\$7,795,318

**KABN Systems NA Holdings Corp.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**Three and Nine Month Period Ended September 30, 2020**  
(unaudited)

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**5. REVERSE TAKEOVER TRANSACTION (Cont'd)**

The determination and allocation of the purchase price is summarized below:

**Purchase Price**

Outstanding Common Shares of the Company		
Post-consolidated outstanding common shares	5,972,286	
Price per common share	<u>\$ 0.15</u>	
		\$ 895,843
<b>Total Purchase Price</b>		<b>\$ 895,843</b>

Allocation of purchase price

Net liabilities assumed		(55,661)
Charge related to public company listing		<u>951,504</u>
<b>Total Purchase Price</b>		<b>\$ 895,843</b>

**6. CONVERTIBLE DEBT AND LOAN PAYABLE**

On June 4, 2019, the Company received \$25,000 in the form of a convertible debenture, carrying a two-year term to maturity with an interest rate of 18% per annum and convertible at the option of the holder into units at a price of \$0.10. On July 31, 2019, the holder elected to convert the debt and accrued interest of \$703 into a subscription into the private placement of units in the Company (Note 8).

On February 3, 2020 the Company received a short term loan of \$150,000 repayable on March 2, 2020 that would carry no interest if repaid at maturity, however if the maturity date was missed, interest would apply from the date of advance to the date of repayment at the rate of 6% per annum. The loan also carries a fixed lender fee of \$15,000 to be repaid at maturity. The lender agreed to settle the debt, lender fee and accrued interest through a subscription into a private placement of common stock units that closed on May 20, 2020 (Note 8).

**7. INTANGIBLE ASSETS**

	<b>Total</b>
Licensing rights - at cost May 1, 2019	\$ 1,345,100
Less: accumulated amortization	<u>(168,137)</u>
<b>Balance at December 31, 2019</b>	<b>1,176,963</b>
<b>Less: accumulated amortization</b>	<b><u>(201,765)</u></b>
<b>Balance at September 30, 2020</b>	<b>\$ 975,198</b>

**KABN Systems NA Holdings Corp.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**Three and Nine Month Period Ended September 30, 2020**  
(unaudited)

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**7. INTANGIBLE ASSETS (Cont'd)**

On May 15, 2019, the Company entered into a sublicensing agreement with KABN (Gibraltar) Ltd. (the "licensing agreement") which grants the Company an exclusive sublicense to KABN (Gibraltar) Ltd's financial services platform, KABN ID with a patent pending enabled *Always On* identity and revenue programs in the US and Canada (Note 1). The cost of intangibles represents the initial license fee of US\$1,000,000 payable upon execution of agreement, of which \$325,000 was paid by way of issuance of 32,500,000 common shares of the Company at \$0.01 per share (Notes 8 and 11).

**8. SHARE CAPITAL**

**Authorized Share Capital**

The Company is authorized to issue an unlimited number of common shares without par value.

**Issued Share Capital**

As at September 30, 2020 the Company had issued 65,946,607 common shares (45,287,030 December 31, 2019).

As part of the licensing arrangement between KABN (Gibraltar) Ltd. and Crypto KABN Holdings Inc., 12,500,000 common shares were directed by KABN (Gibraltar) Ltd. to be issued from the Company to Crypto KABN Holdings Inc. The remaining 12,500,000 common shares owned by KABN (Gibraltar) Ltd. were assigned to its wholly-owned subsidiary, KABN GibCan Inc. Crypto KABN Holdings Inc. is the head licensor to certain intellectual property sublicensed to the Company by KABN (Gibraltar) Ltd.

In May 2019, the Company issued a total of 7,500,000 common shares to KABN (Gibraltar) Ltd at a share price of \$0.01 per common share as additional payment to KABN (Gibraltar) Ltd. for the license fees referred to in (Note 7).

In July 2019, the Company closed its first tranche of a private placement and issued 3,862,030 units for gross proceeds of \$311,203 and settlement of debt of \$75,000. Proceeds were raised in advance of the closing in June (\$160,000 as at June 30, 2019) and July and includes conversion of \$25,703 of convertible debt including accrued interest. Each unit consists of one common share and one-half share purchase warrant. Each whole warrant entitles a holder to purchase one common share at \$0.15 per share, and expires at 18 months following the closing date of the private placement unless the acceleration clause is met which is a closing price of \$0.25 or higher for 20 consecutive trading days on a regulated market.

On August 30, 2019, the Company closed its second tranche of a private placement and issued 8,625,000 units for gross proceeds of \$727,500 and settlement of debt of \$135,000. On December 10, 2019, the Company issued 300,000 units at \$0.10 per share for total gross proceeds of \$25,000 and settlement of debt of \$5,000. Each unit for both placements consists of one common share and one-half share purchase warrant on the same terms as the July closing described above.

On June 4, 2020, the Company received final approval from the Canadian Securities Exchange for completion of the reverse takeover transaction described in Note 5. The completed transaction resulted in 5,972,286 common shares to the former shareholders of Torino Power Solutions Inc.

**KABN Systems NA Holdings Corp.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**Three and Nine Month Period Ended September 30, 2020**  
(unaudited)

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**8. SHARE CAPITAL (Cont'd)**

**Issued Share Capital (Cont'd)**

On May 20, 2020, the Company closed its first tranche of a private placement priced at \$0.15 per unit and issued 6,279,913 units for gross proceeds of \$569,442 and settlement of debt and service agreements of \$205,005. Proceeds raised in advance of the closing are included in the closing. The closing also includes agreement to settle the bridge loan, loan fees and accrued interest totaling \$167,540 (Note 6). Each unit consists of one common share and one-half share purchase warrant. Each whole warrant entitles a holder to purchase one common share at \$0.20 per share, and expires at 18 months following the closing date of the private placement unless the acceleration clause is met under which exercise can be enforced by the Company with a closing price of \$0.30 or higher for 20 consecutive trading days on a regulated market.

On June 1, 2020, the Company closed its second tranche of a private placement priced at \$0.15 per unit and issued 8,210,999 units for gross proceeds of \$796,650 and settlement of service agreements of \$435,000, on the same terms as the May 20, 2020 first tranche of the private placement.

Share issuance costs for the May 20, 2020 and June 1, 2020 private placements totaled \$72,435, of which \$14,168 was in the form of finder's warrants (Note 9). There were no share issuance costs associated with the fiscal 2019 private placements.

During the three month period ended September 30, 2020, a warrant holder exercised their right to acquire 128,515 common shares of the Company at a price of \$0.15 per common share for a value of \$19,277. In addition, a consultant was compensated at the Company's option in the form of 67,864 common shares with a value of \$10,735.

On August 18, 2020, the Company received and accepted irrevocable subscriptions from a group of arm's-length U.S. family office and foreign investors, for a total of 9 million common share units ("Units") for gross proceeds of \$2,970,000. As of September 30, 2020, this financing has not closed (Note 15).

**9. SHARE PURCHASE WARRANTS**

	<b>Weighted Average Exercise Price</b>	<b>Number Shares of Issuable on Exercise</b>
Warrants outstanding as at December 31, 2019 (Note 8)	\$ 0.15	6,393,515
Issuance of warrants during fiscal 2020 (Note 8)	0.20	7,406,453
Exercise of warrants during fiscal 2020 (Note 8)	0.15	(128,515)
<b>Balance at September 30, 2020</b>	<b>\$ 0.177</b>	<b>13,671,453</b>

During the period ended December 31, 2019, the Company issued 6,393,515 share purchase warrants and recorded a total fair value of \$364,792.

**KABN Systems NA Holdings Corp.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**Three and Nine Month Period Ended September 30, 2020**  
(unaudited)

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**9. SHARE PURCHASE WARRANTS (Cont'd)**

The fair value of the warrants has been estimated using the Black-Scholes Option Pricing Model. The first tranche of warrants assumed a risk-free interest rate of 1.35%. The second tranche of warrants assumed a risk-free interest rate of 1.55%. The third tranche of warrants assumed a risk-free interest rate of 1.69%. All three tranches of warrants were assumed to have an expected volatility of 150%, have an expected life of 18 months and no dividends expected. The expected volatility was determined using the average historical volatility of similar entities that are publicly listed on the basis that the Company has limited historical information.

During the three month period ended June 30, 2020, the Company issued 7,406,453 share purchase warrants. 7,245,453 warrants were issued in conjunction with the private placement closings on May 20<sup>th</sup> and June 1<sup>st</sup> and a fair value of \$637,800 was recorded. 161,000 finder's warrants were issued in conjunction of those same private placement closings and a fair value of \$14,168 was recorded.

The fair value of the warrants has been estimated using the Black-Scholes Option Pricing Model and the same assumptions were used for the May 20<sup>th</sup> and June 1<sup>st</sup> private placement closings and related finder's warrants. These assumptions include a risk-free interest rate of 0.29%, an expected volatility of 150%, an expected life of 18 months and no dividends expected. The expected volatility was determined using the average historical volatility of similar entities that are publicly listed on the basis that the Company has limited historical information.

During the three month period ended September 30, 2020, a warrant holder exercised their right to acquire 128,515 common shares of the Company at a price of \$0.15 per common share for a value of \$19,277. As a result of the warrant exercise a value of \$7,325 was removed from warrants with a corresponding addition of \$7,325 to contributed surplus as a classification entry within Shareholders' Equity.

**10. STOCK BASED COMPENSATION**

Pursuant to the Company's stock option plan, the Company may grant stock options to directors, officers, employees, and consultants. The maximum aggregate number of common shares which may be reserved for issuance, set aside and made available for issuance under the plan may not exceed 15% of the issued and outstanding common shares of the Company at the time of granting the stock options. The exercise price of any stock options granted under the plan shall be determined by the Board of Directors, but may not be less than the market price of the common shares on the Canadian Stock Exchange on the date of Grant (less any discount permissible under exchange rules). The term of any stock options granted under the plan shall be determined by the Board of Directors at the time of the grant but may not exceed ten years.

	<b>Weighted Average Exercise Price</b>	<b>Number Shares of Issuable on Exercise</b>
Opening Balance	\$ -	-
Issuance of stock options during Q2 fiscal 2020	0.15	4,350,000
Issuance of stock options during Q3 fiscal 2020	0.15	500,000
<b>Balance at September 30, 2020</b>	<b>\$ 0.15</b>	<b>4,850,000</b>

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**10. STOCK BASED COMPENSATION (Cont'd)**

On June 1, 2020, the Company issued 4,350,000 stock options which have a total fair value of \$465,450. \$104,727 and \$325,816 in stock based compensation was recognized in the statement of loss and comprehensive loss during the three and nine month period ended September 30, 2020 and in the statement of financial position as contributed surplus. Stock based compensation was recorded based on a graded vesting schedule.

The stock options vest as follows: 40% immediately on the grant date, 30% six months from the grant date and 30% twelve months from the grant date. The stock options have an expiry term of 24 months from the grant date.

On July 28, 2020, the Company issued 500,000 stock options which have a total fair value of \$42,000 which is recognized as stock based compensation in the statement of loss and comprehensive loss during the three and nine month period ended September 30, 2020 and in the statement of financial position as contributed surplus. This grant vested immediately, and no further stock base compensation will be recorded for this grant. The stock options have an expiry term of 18 months from the grant date.

As at September 30, 2020 the stock options have a weighted average remaining life of 1.63 years. No stock options were issued during the period ended December 31, 2019.

The fair value of the stock options has been estimated using the Black-Scholes Option Pricing Model and carry the following assumptions: A risk-free interest rate of between 0.23%-0.29%, an expected volatility of 150%, have an expected life equivalent to the term of maturity being between 18 and 24 months and no dividends expected. The expected volatility was determined using the average historical volatility of similar entities that are publicly listed on the basis that the Company has limited historical information.

**11. RELATED PARTY TRANSACTIONS**

The Company's related parties include its key management personnel, and companies related by way of directors or shareholders in common.

During the nine month period ended September 30, 2020, the initial license fee of \$1,345,100 (US\$ 1,000,000) recorded as an intangible asset has been paid in full to KABN (Gibraltar) Ltd. As at December 31, 2019, \$122,755 (US\$ 94,514) was outstanding on the initial license fee.

On the first anniversary of the license agreement of May 15, 2020, \$100,000 USD was due and paid to KABN (Gibraltar) Ltd, and for each anniversary thereafter, an annual license fee of \$250,000 USD will be due to KABN (Gibraltar) Ltd. Royalties of 14% of gross margins of the Company are payable to KABN (Gibraltar) Ltd. calculated on annual calendar results.

There was no cash compensation paid to management by the Company for the period ended December 31, 2019. Management has been provided to the Company by its founding shareholder KABN (Gibraltar) Ltd. for a maximum period of nine months from May 15, 2019 which carried an option to extend this deadline by mutual agreement.

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**11. RELATED PARTY TRANSACTIONS (Cont'd)**

On February 15, 2020, the maximum period of no cash compensation paid to management of nine months had expired. KABN (Gibraltar) Ltd agreed to provide management services on an interim basis at the rate of \$40,000 per month from the date of expiry to the date of finalization of the reverse takeover transaction.

For the nine month period ending September 30, 2020, \$270,000 has been billed by KABN (Gibraltar) Ltd. for management services of which \$269,184 has been paid as at September 30, 2020 and \$816 was outstanding. KABN (Gibraltar) Ltd. has continued to provide certain management and support services to the Company during the three month period ended September 30, 2020.

For the three and nine month period ended September 30, 2020, product and technical development and operational services were incurred by KABN (Gibraltar) Ltd for the benefit of the Company in the amount of \$150,000, all of which is payable as at September 30, 2020.

During the Company's second quarter, \$6,350 that was due from Pegasus Fintech Canada Inc., an affiliate controlled by a key management personnel of the Company, was repaid by the Company.

**12. FINANCIAL INSTRUMENTS**

**Financial Assets and Liabilities**

Information regarding the Company's financial assets and liabilities as at September 30, 2020 and December 31, 2019 is summarized as follows:

	<b>September 30, 2020</b>	December 31, 2019
<b>Financial Assets - at amortized cost</b>		
Due from Pegasus Fintech Canada Inc.	\$ -	\$ 6,350
Harmonized sales tax receivable	<b>249,226</b>	55,361
	<b>\$ 249,226</b>	\$ 61,711

	<b>September 30, 2020</b>	December 31, 2019
<b>Financial Liabilities - at amortized cost</b>		
Due to KABN (Gibraltar) Ltd.	\$ 150,816	\$ 122,755
Accounts payable and accrued expenses	<b>823,727</b>	363,444
	<b>\$ 974,543</b>	\$ 486,199

The Company considers that the carrying amount of all its financial assets and financial liabilities recognized at amortized cost in the interim financial statements approximates their fair value due to the demand nature or short-term maturity of these instruments.

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**12. FINANCIAL INSTRUMENTS (Cont'd)**

**Risk Exposure**

The Company's financial instruments expose it to a variety of financial risks: market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk. These risks arise from the normal course of operations and all transactions are undertaken to support those operations. Risk management is carried out by management under policies approved by the Board of Directors. Management identifies and evaluates the financial risks in cooperation with the Company's operating units. The Company's overall risk management program seeks to minimize potential adverse effects on the Company's financial performance, in the context of its general capital management objectives (Note 13).

*Concentration of Credit Risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company did not have significant exposure to credit risk as at September 30, 2020 and December 31, 2019.

*Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support its normal operating requirements.

The Company's ongoing liquidity is impacted by various external events and conditions. The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flows, as well as future equity and debt financing.

The Company coordinates this planning and budgeting process with its financing activities through the capital management process described in Note 13. The Company's financial liabilities are comprised of its accounts payable and accrued expenses, and Due to KABN (Gibraltar) Ltd., the contractual maturities of which are summarized as follows:

	<b>September 30, 2020</b>
<b>Financial liabilities with contractual maturities</b>	
Within 90 days or less	<b>\$ 974,543</b>

*Interest Rate Risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

At September 30, 2020 and December 31, 2019, the Company has no significant exposure to interest rate risk.



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**12. FINANCIAL INSTRUMENTS (Cont'd)**

**Risk Exposure (Cont'd)**

*Currency Risk*

Currency risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities. The Company is exposed to foreign currency risk on fluctuations related to accrued expenses and certain amounts to KABN (Gibraltar) Ltd. that are denominated in US dollars.

As at September 30, 2020 and December 31, 2019, the Company has no significant exposure to foreign currency risk.

**13. CAPITAL MANAGEMENT**

The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds for the growth of the Company. Capital is comprised of the Company's shareholders equity. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

**14. BASIC AND DILUTED LOSS PER SHARE**

	<b>Three Months</b>	<b>Nine Months</b>
<b>Comprehensive loss for period ended September 30, 2020</b>	<b>\$ (2,111,282)</b>	<b>\$ (2,536,389)</b>
<b>Weighted average number of common shares</b>	<b>65,816,399</b>	<b>54,628,198</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.017)</b>	<b>\$ (0.067)</b>
	<b>Three Months</b>	<b>Nine Months</b>
Comprehensive loss for period ended September 30, 2019	\$ (372,921)	\$ (410,913)
Weighted average number of common shares	38,102,672	35,084,613
Basic and diluted loss per share	\$ (0.010)	\$ (0.012)

## **15. SUBSEQUENT EVENTS**

On November 11, 2020 the Company has engaged Mackie Research Capital Corporation (“Mackie”) as a financial and capital markets advisor to the Company. The service agreement includes providing advice and assistance in connection with defining strategic and financial objectives, making initial contacts with potential institutional and strategic investors, maintaining a regular dialogue with the Company in regards to corporate development, strategic growth objectives as well as general market sentiment, assisting in maintaining an orderly and liquid market in the Company’s shares and increasing market awareness of KABN North America.

KABN North America has agreed to retain Mackie as its Canadian financial advisor for a term of twelve (12) months ending November 10, 2021, and the arrangement may be extended by mutual agreement. As part of the compensation for its services, Mackie will receive a monthly fee of \$6,500 for its trading advisory services for a minimum of six months with extension by mutual agreement and a financial advisory fee of \$75,000 payable in common shares in the capital of the Company at a deemed price equal to \$0.15 per common share. In addition, The Company will grant 1,500,000 common share purchase warrants (the “Broker Warrants”) to Mackie Research. Each Broker Warrant will entitle the holder thereof to purchase one common share in the capital of the Company at an exercise price of \$0.20 at any time up to 24 months following the date of issuance. The issuance including, but not limited to, the price of the common shares and warrants is subject to the rules of the Canadian Securities Exchange and remains subject to applicable regulatory approvals.

The financing previously announced on August 18, 2020 has not yet closed. The Company received and accepted irrevocable subscriptions from a group of arm’s-length U.S. family office and foreign investors, for a total of 9 million common share units (“Units”) for gross proceeds of \$2,970,000.

Per the subscription documents, each Unit is priced at \$0.33 per Unit. Each Unit consists of one common share of the Company (“Common Shares”) and ½ Common Share purchase warrant (“Warrants”), with each whole Warrant entitling the holder to purchase one Common Share for \$0.37 per share for 24 months from closing of the transaction. No fees were paid in association with the financing. In accordance with applicable securities rules and regulations, the Common Shares and the Warrants comprised in the Units, and the Common Shares issuable on exercise of the Warrants, will be subject to hold periods ranging from 4 months to 1 year, with the majority of the offering subject to a 1 year hold, restricting shares and warrants from transfer or trading except as permitted by law.