

**Liquid Avatar Technologies Inc.  
(formerly KABN Systems NA Holdings Corp.)**

**Consolidated Audited Financial Statements**

**For the Year Ended December 31, 2020 and  
Period Ended December 31, 2019**

**Expressed in Canadian Dollars**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Liquid Avatar Technologies Inc. (formerly KABN Systems NA Holdings Corp.)

### *Opinion*

We have audited the consolidated financial statements of Liquid Avatar Technologies Inc. (formerly KABN Systems NA Holdings Corp.) (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year ended December 31, 2020 and for the period from May 1, 2019 (incorporation date) to December 31, 2019, and 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, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2020 and for the period from May 1, 2019 (incorporation date) to December 31, 2019 in accordance with International Financial Reporting Standards.

### *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 indicates that the Company incurred a net loss of \$5,639,196 during the year ended December 31, 2020 and, as of that date, the Company has a deficit of \$6,252,624. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *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 express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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.

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. 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 Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, 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.

#### *Auditor's Responsibilities for the Audit of the Consolidated 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.

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.

The engagement partner on the audit resulting in this independent auditor's report is Mike Zenteno.

*RSM Canada LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
April 30, 2021  
Toronto, Ontario

**Liquid Avatar Technologies Inc. (formerly KABN Systems NA Holdings Corp.)**  
**Consolidated Statements of Financial Position (Expressed in Canadian Dollars)**  
**As at December 31, 2020 and 2019**

	December 31, 2020	December 31, 2019
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 2,588,590	\$ -
Due from Pegasus Fintech Canada Inc. (Note 13)	-	6,350
Harmonized sales tax receivable	91,390	55,361
Prepaid expenses and other current assets	458,004	237,800
	<b>3,137,984</b>	<b>299,511</b>
Prepaid long-term expense	56,250	-
Computer and related equipment	18,497	-
Intangible assets (Note 8)	907,943	1,176,963
	<b>\$ 4,120,674</b>	<b>\$ 1,476,474</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued expenses	\$ 516,133	\$ 363,444
Due to KABN (Gibraltar) Ltd. (Note 13)	175,100	122,755
	<b>691,233</b>	<b>486,199</b>
<b>Shareholders' Equity</b>		
Share capital (Note 9)	5,858,759	1,238,911
Contributed surplus (Note 12)	754,400	-
Broker compensation options (Note 11)	652,786	-
Warrants (Note 10)	2,416,120	364,792
Deficit	(6,252,624)	(613,428)
	<b>3,429,441</b>	<b>990,275</b>
	<b>\$ 4,120,674</b>	<b>\$ 1,476,474</b>

**Going Concern** (Note 1)  
**Subsequent events** (Note 17)

Approved by the Board

“Jeff Mesina”

Director (Signed)

“David Lucatch”

Director (Signed)

**Liquid Avatar Technologies Inc. (formerly KABN Systems NA Holdings Corp.)**  
**Consolidated Statements of Loss and Comprehensive Loss (Expressed in Canadian Dollars)**  
**For the Year Ended December 31, 2020 and Period from May 1, 2019 (incorporation date)**  
**to December 31, 2019**

	Year Ended December 31, 2020	Period from May 1, 2019 to December 31, 2019
<b>Revenue</b>	<b>\$ 80</b>	<b>\$ 15,277</b>
<b>Operating expenses</b>		
Amortization (Note 8)	269,020	168,137
Depreciation	129	-
Bad debt expenses	-	4,546
Agent fees	337,500	50,000
Consulting fees	339,636	36,000
General and administrative costs	44,269	9,035
Interest expense	2,540	703
Legal and audit fees	348,578	285,185
Loan fee	15,000	-
Management and staff	749,545	-
Marketing and communications	1,038,643	63,969
Web and infrastructure	60,177	19,347
Product development	664,899	10,000
Annual license fee	140,940	-
Stock based compensation	671,741	-
	<b>4,682,617</b>	<b>646,922</b>
<b>Other income, gain and losses</b>		
Charge for public company listing (Note 6)	(951,504)	-
Foreign exchange (loss) gain	(5,155)	18,217
	<b>(956,659)</b>	<b>18,217</b>
<b>Comprehensive loss, end of year/period</b>	<b>\$ (5,639,196)</b>	<b>\$ (613,428)</b>
<b>Basic and diluted loss per share</b>		
Basic and diluted	<b>\$ (0.097)</b>	<b>\$ (0.016)</b>
<b>Weighted average number of common shares outstanding</b>		
Weighted average number of common shares	<b>58,342,249</b>	<b>38,830,011</b>

**Liquid Avatar Technologies Inc. (formerly KABN Systems NA Holdings Corp.)**  
**Consolidated Statements of Changes in Shareholders' Equity (Expressed in Canadian Dollars)**  
**For the Year Ended December 31, 2020 and Period from May 1, 2019 (incorporation date)**  
**to December 31, 2019**

	Number of Common Shares	Amount	Reserve for Warrants	Broker Comp Options	Contributed Surplus	Deficit	Total
Balance May 1, 2019	-	\$ -	\$ -	\$ -	-	\$ -	-
Issued for initial license fees (Note 8)	32,500,000	325,000	-	-	-	-	325,000
Issued to settle debt (Note 9)	2,150,000	153,664	61,336	-	-	-	215,000
Issued in connection with convertible debt (Note 7)	257,030	18,370	7,333	-	-	-	25,703
Issued in connection with private placement (Note 9)	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>-</b>	<b>(613,428)</b>	<b>990,275</b>
Issued in connection with private placements (Note 9)	42,157,576	3,279,338	1,981,819	-	-	-	5,261,157
Issued in connection with RTO of Torino Power (Note 6)	5,972,286	895,843	-	-	-	-	895,843
Issuance of Broker comp options (Note 11)	-	-	-	652,786	-	-	652,786
Issuance in connection with warrant exercise (Note 9)	1,187,015	202,227	(82,659)	-	82,659	-	202,227
Issuance in connection with consultant obligations (Note 9)	1,612,565	242,440	-	-	-	-	242,440
Issuance of finder's warrants (Note 9)	-	-	14,168	-	-	-	14,168
Issuance of consulting fee warrants (Note 10)	-	-	138,000	-	-	-	138,000
Issuance of stock options (Note 9)	-	-	-	-	671,741	-	671,741
Comprehensive loss	-	-	-	-	-	(5,639,196)	(5,639,196)
<b>Balance December 31, 2020</b>	<b>96,216,472</b>	<b>\$ 5,858,759</b>	<b>\$ 2,416,120</b>	<b>\$ 652,786,</b>	<b>754,400</b>	<b>\$ (6,252,624)</b>	<b>\$ 3,429,441</b>

See accompanying notes

**Liquid Avatar Technologies Inc. (formerly KABN Systems NA Holdings Corp.)**  
**Consolidated Statements of Cash Flows (Expressed in Canadian Dollars)**  
**For Year Ended December 31, 2020 and Period from May 1, 2019 (incorporation date)**  
**To December 31, 2019**

	Year/Period from May 1, 2019 to	
	December 31, 2020	December 31, 2019
<b>Cash provided by (used in)</b>		
<b>Operations</b>		
Net loss and comprehensive loss	\$ (5,639,196)	\$ (613,428)
Items not affecting cash		
Bad debt expense	-	4,546
Amortization	269,020	168,137
Depreciation	129	-
Foreign exchange loss (gain), net	5,155	(18,217)
Expenses paid in shares	876,658	-
Stock based compensation	671,741	-
Public company charge on reverse takeover transaction	951,504	-
Net cash flows used in operating activities before changes in non-cash working capital items	(2,864,989)	(458,962)
<b>Net change in non-cash working capital</b>		
Decrease/(Increase) in prepaid expenses/other current assets	3,732	(237,800)
Increase in prepaid partnership	(56,250)	-
Increase in accounts payable and accrued expenses	164,953	363,444
Increase in harmonized sales tax recoverable	(33,139)	(55,361)
Decrease/(Increase) in due from Pegasus Fintech Canada Inc.	6,350	(6,350)
Increase in due to KABN (Gibraltar) Ltd.	52,345	-
Net cash flows used in operating activities	(2,726,998)	(395,029)
<b>Investing</b>		
Purchase of intangible assets	-	(668,674)
Purchase of computer and related equipment	(18,627)	-
Cash from reverse takeover transaction	2,484	-
Net cash flows used in investing activities	(16,143)	(668,674)
<b>Financing</b>		
Proceeds from issuance of convertible debt	150,000	25,703
Net proceeds/advances from common share/unit issuances	5,181,731	1,038,000
Net cash flows provided by financing activities	5,331,731	1,063,703
<b>Net change in cash</b>	<b>2,588,590</b>	<b>-</b>
<b>Cash, beginning of year/period</b>	<b>-</b>	<b>-</b>
<b>Cash, end of year/period</b>	<b>\$ 2,588,590</b>	<b>\$ -</b>

**Liquid Avatar Technologies Inc. (formerly KABN Systems NA Holdings Corp.)**  
**Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)**  
**Year Ended December 31, 2020**

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

Liquid Avatar Technologies Inc. (the “Company” formerly KABN Systems NA Holdings Corp.) 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. Pursuant to the Amalgamation Agreement arising out of the reverse takeover transaction, 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 (Note 6). The Company through this wholly owned subsidiary is the exclusive licensee of KABN (Gibraltar) Ltd’s financial services platform, which provides organizations with an enabled *Always On* identity validation and verification process for the US and Canada. As at December 31, 2020, Crypto KABN Holdings Inc. and KABN Gibcan Inc. held a combined 26.35% of the Company’s total common shares outstanding. KABN (Gibraltar) Ltd. controls KABN Gibcan Inc.

The address of the Company’s head office is 1-7357 Woodbine Avenue Suite 605, Markham, Ontario L3R 6L3 and the registered and records office is 2200 HSBC Building, 885 West Georgia Street, Vancouver B.C., V6C 3E8, Canada.

The Company’s consolidated financial statements as at December 31, 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 year ended December 31, 2020, the Company has incurred a net loss of \$5,639,196 and a deficit of \$6,252,624. These factors raise uncertainty 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 consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Such adjustments could be material.

These consolidated financial statements were authorized for issue by the Board of Directors on April 30, 2021.

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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied for the year and period ended December 31, 2020 and 2019, unless otherwise stated.



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

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Newly Adopted Standards, Amendments and Interpretations**

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 consolidated 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 did not have any significant impact on the Company's consolidated financial statements.

**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Principles of Consolidation**

The consolidated financial statements include the accounts of Liquid Avatar Technologies Inc. and its wholly owned subsidiary KABN Systems North America Inc. Subsidiaries are entities controlled by the Company. Control occurs when exposure or rights to variable returns exist and the Company has the ability to affect those returns through its power over an investee. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. Where the Company's interest in a subsidiary is less than 100%, the Company recognizes non-controlling interests. All intercompany balances, transactions, income, expenses, profits and losses, including unrealized gains and losses have been eliminated on consolidation. The financial statements of the subsidiary are prepared for the same reporting period as the Company's reporting period using consistent accounting policies.

**Financial Instruments**

Financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortized cost, fair value through other comprehensive income or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

*Financial assets at fair value through profit or loss*

Financial assets not classified at amortized cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognized in profit or loss.

*Financial assets at amortized cost*

The Company classifies its financial assets as at amortized cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

Cash and Due from Pegasus Fintech Canada Inc. are classified under this category.

**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Financial Instruments (Cont'd)**

*Financial liabilities*

Financial liabilities classified as other financial liabilities are measured at amortized cost using the effective interest rate method.

Accounts Payable and Accrued expenses and Due to KABN (Gibraltar) Ltd. represent liabilities incurred for goods and services provided to the Company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortized cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

**Impairment of Financial Assets**

The Company recognizes a loss allowance for expected credit losses on financial assets which are either measured at amortized cost or fair value through other comprehensive income. To measure the expected credit losses, receivables will be grouped based on days overdue.

**Intangible Assets**

Intangible assets acquired separately are initially recognized at cost. Indefinite life intangible assets are not amortized and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less accumulated amortization and any impairment. The gains or losses recognized in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortization method or period.

Research and developments costs are expensed in the period in which they are incurred.

*Licensing rights - KABN Platform Software*

Significant costs associated with the licensing rights are deferred and amortized on a straight-line basis over the period of their expected benefit, being their useful life of 5 years.

**Impairment of Non-Financial Assets**

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Share-based Payments**

Share-based payments to officers, directors and consultants are measured at the fair value of the instruments issued and recognized 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.

**Issuance of Units**

Cash consideration received on the sale of a share and share purchase warrant (i.e. unit) classified as equity is allocated, within equity, to its respective equity accounts on a reasonable basis. The proceeds from the issuance of units are allocated between share capital and reserve for warrants.

The Company follows the relative fair value method with respect to the measurement of common shares and share purchase warrants issued as private placement units since the date the Company's securities are publicly traded on a recognized stock exchange. The fair value from the issuance of units is allocated on a pro-rata basis to the share purchase warrants reserve and share capital up to a maximum combined value equaling the gross proceeds from the private placement. Warrants are valued using the Black-Scholes option-pricing model. Share Capital is valued using the quoted market price on the Canadian Securities Exchange on the date of the financing.

In circumstances where finder's warrants or compensation units are issued coincidentally with a unit offering, the finder's warrants or compensation units are valued using the Black-Scholes option pricing model.

If and when the warrants are exercised, the applicable amounts of reserve for warrants are transferred to contributed surplus. Any consideration paid on the exercise of the warrants is credited to capital stock. For those warrants that expire unexercised on maturity, the recorded value is transferred to contributed surplus.

**Revenue Recognition**

Revenue is recognized at an amount that reflects the consideration to which the Company is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Company: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative standalone selling price of each distinct good or service to be delivered; and recognizes revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised. Fee revenues are recognized over time as services are rendered based on a fixed price.

**Loss Per Share**

*Basic loss per share*

Basic loss per share is calculated by dividing the loss attributable to the shareholders of the Company excluding any costs of servicing equity other than common shares, by the weighted average number of common shares outstanding during the financial year, adjusted for bonus elements in common shares issued during the financial year.

**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Loss Per Share (Cont'd)**

*Diluted loss per share*

Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential common shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential common shares.

**Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

**Income Taxes**

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognized for prior periods, where applicable.

Deferred tax assets and liabilities are recognized for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The carrying amount of recognized and unrecognized deferred tax assets are reviewed at each reporting date. Deferred tax assets recognized are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognized deferred tax assets are recognized to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Foreign Currency Translation**

The functional currency of the Company is measured using the currency of the primary economic environment in which the Company operates.

*Transactions and Balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. After initial recognition, foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

**Fair Value Measurement**

Where fair value is used to measure assets and liabilities in preparing these consolidated financial statements, it is estimated at the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Fair values are determined from inputs that are classified within the fair value hierarchy defined under IFRS as follows:

Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

**Provisions**

Provisions are recognized when the Company has a present (legal or constructive) obligation as a result of a past event, it is probable the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognized as a finance cost.

**Computer and Related Equipment**

Computer and related equipment are carried at cost less accumulated depreciation and impairment losses. The cost of an asset is capitalized when the economic benefits associated with that asset are probable and when the cost can be measured reliably. All other maintenance and repair costs are expensed in the consolidated statement of loss and comprehensive loss as incurred. Depreciation is recorded on a straight-line bases over the estimated useful lives of the assets which had been determined to be three years.

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

The preparation of the Company's Consolidated 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 consolidated 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, impairment of intangibles and valuation of the components of equity 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. From time to time the Company issues common shares for services or non-cash assets. The Company's Board of Directors determines the fair market value of the services or non-cash assets received in exchange for common shares. These transactions are typically valued using the fair value of common shares issued.

The Company uses the Black Scholes option pricing model to determine the fair value of stock options in order to calculate stock based compensation expense. The Black Scholes model involves six key inputs to determine fair value of a stock option: risk-free interest rate, exercise price, market price at the date of issue, expected dividend yield, expected life and expected volatility. Certain of the inputs are estimates that involved considerable judgment and are or could be affected by significant factors that are out of the Company's control.

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 year ended December 31, 2020 for most of the year but otherwise did not have any other significant impact on the Company's consolidated 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. RECENT ACCOUNTING PRONOUNCEMENTS**

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

In January 2020, the IASB issued amendments to IAS 1, "Presentation of Financial Statements" to clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and is unaffected by expectations about whether or not an entity will exercise their right to defer settlement of a liability. The amendments further clarify requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

These amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

## **6. 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 KABN Systems NA Holdings Corp. (and later to Liquid Avatar Technologies Inc). 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.

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 consisted 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 fully diluted 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.



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

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

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 \$ 0.15

\$ 895,843

**Total Purchase Price**

**\$ 895,843**

Allocation of purchase price

Net liabilities assumed (55,661)

Charge related to public company listing 951,504

**Total Purchase Price**

**\$ 895,843**

**7. 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 9).

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.

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**8. INTANGIBLE ASSETS**

	<b>Total</b>
Licensing rights - at cost May 1, 2019	\$ 1,345,100
Less: accumulated amortization	(168,137)
<b>Balance at December 31, 2019</b>	<b>1,176,963</b>
<b>Less: accumulated amortization</b>	<b>(269,020)</b>
<b>Balance at December 31, 2020</b>	<b>\$ 907,943</b>

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, 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 9 and 13).

**9. 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 December 31, 2020 the Company had issued 96,216,472 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 8).

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.

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

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

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 6. The completed transaction resulted in 5,972,286 common shares to the former shareholders of Torino Power Solutions Inc.

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 7). 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 10).

On December 21, 2020, the Company closed a non-brokered private placement priced at \$0.15 per unit and issued 19,999,997 units for gross proceeds of \$2,855,100 and settlement of debt and service agreements of \$144,900. Proceeds raised in advance of the closing are included in the closing. Each unit consists of one common share and one share purchase warrant. Each whole warrant entitles a holder to purchase one common share at \$0.20 per share and expires at 24 months following the closing date of the private placement.

Under the relative fair value approach, of the total financing of \$3,000,000, \$1,733,668 was allocated to share capital with \$1,266,332 allocated to share purchase warrants (Note 10). Share issuance costs for the December 21, 2020 private placement totaled \$554,725, of which \$341,826 was in the form of broker compensation options (Note 11). Under the relative fair value approach \$320,570 of the share issuance costs were allocated against share capital and \$234,155 of the share issuance costs were allocated against share purchase warrants.

On December 23, 2020, the Company closed a brokered private placement priced at \$0.15 per unit and issued 7,666,667 units for gross proceeds of \$1,150,000. Each unit consists of one common share and one share purchase warrant. Each whole warrant entitles a holder to purchase one common share at \$0.20 per share and expires at 24 months following the closing date of the private placement.

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

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

Under the relative fair value approach, of the total financing of \$1,150,000, \$647,887 was allocated to share capital with \$502,113 allocated to share purchase warrants (Note 10). Share issuance costs for the December 23, 2020 private placement totaled \$435,320, of which \$310,960 was in the form of broker compensation options (Note 11). Under the relative fair value approach \$245,250 of the share issuance costs were allocated against share capital and \$190,070 of the share issuance costs were allocated against share purchase warrants.

In connection with the agreement of November 11, 2020 with Mackie Research Capital Corporation ("Mackie") as a financial and capital markets advisor to the Company, 500,000 common shares were issued at \$0.15 per common share for a total amount of \$75,000. Further to this agreement on December 23, 2020 an additional 830,000 shares were issued at \$0.15 per common share for a total amount of \$124,500. These amounts were recorded as an agent expense in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2020.

During the year ended December 31, 2020, warrant holders exercised their right to acquire 1,187,015 common shares of the Company at prices ranging between \$0.15 and \$0.20 per common share for a value of \$202,227. In addition, a consultant was compensated at the Company's option in the form of 282,565 common shares with a value of \$42,940.

**10. 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 9)	\$ 0.15	6,393,515
Issuance of warrants during fiscal 2020 (Note 9)	0.20	36,573,117
Exercise of warrants during fiscal 2020 (Note 9)	0.17	(1,187,015)
<b>Balance at December 31, 2020</b>	<b>\$ 0.193</b>	<b>41,779,617</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.

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 second quarter 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.

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

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.

Mackie was granted 1,500,000 warrants on November 11, 2020. the fair value of \$138,000 recognized in the statement of loss and comprehensive loss was estimated using the Black-Scholes Option Pricing Model. The assumptions include a risk-free interest rate of 0.24%, an expected volatility of 150%, an expected life of 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. Once the Company has at least one year of trading data the Company will use its own share price history as consideration for the estimated volatility for future fair value exercises where the Black-Scholes Options Pricing Model is used.

On December 21, 2020, the Company issued 19,999,997 share purchase warrants in conjunction with the private placement closing having a gross value of \$1,266,332 was allocated to share purchase warrants with \$234,155 of the share issuance costs allocated against share purchase warrants (Note 9).

The relative fair value approach was used for the accounting of the warrants as described in Note 10, with the gross fair value of the warrants being estimated using the Black-Scholes Option Pricing Model. The assumptions include a risk-free interest rate of 0.23%, an expected volatility of 150%, an expected life of 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 (see above re: timing for using Company's own trading history).

On December 23, 2020, the Company issued 7,666,667 share purchase warrants in conjunction with the private placement closing having a gross value of \$502,113 was allocated to share purchase warrants with \$190,070 of the share issuance costs allocated against share purchase warrants (Note 9).

The relative fair value approach was used for the accounting of the warrants as described in Note 10, with the gross fair value of the warrants being estimated using the Black-Scholes Option Pricing Model. The assumptions used are identical to those of the December 21, 2020 warrants.

During the year ended December 31, 2020, warrant holders exercised their right to acquire 1,187,015 common shares of the Company at prices ranging from \$0.15 to \$0.20 per common share for a value of \$202,227. As a result of these warrant exercises a value of \$82,659 was removed from warrants with a corresponding addition of \$82,659 to contributed surplus as a classification entry within Shareholders' Equity.

**11. BROKER COMPENSATION OPTIONS**

On December 21, 2020, in conjunction with the Company's private placement closing, issued 990,800 Broker compensation options which allows the holder the right to acquire a unit on the same terms as a private placement subscription at an exercise price \$0.15 per unit (Note 9). Each Broker compensation option upon exercise entitles the holder to one common share and one common share purchase warrant. The common share purchase warrant has an exercise price of \$0.20 and expires in 24 months.

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**11. BROKER COMPENSATION OPTIONS (Cont'd)**

The fair value of the Broker compensation options was \$341,826 and was recorded as a share issuance cost and was allocated on a relative fair value basis between share capital and share capital purchase warrants with the total recorded as a separate component of Shareholders' Equity. The fair value for the option and the underlying warrant was estimated using the Black-Scholes Option Pricing Model. The assumptions include a risk-free interest rate of 0.23%, an expected volatility of 150%, an expected life of 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. Once the Company has at least one year of trading data the Company will use its own share price history as consideration for the estimated volatility for future fair value exercises where the Black-Scholes Options Pricing Model is used.

On December 23, 2020, in conjunction with the Company's private placement closing, issued 613,333 Broker compensation options on the same terms as the December 21, 2020 issuance.

The fair value of the Broker compensation options was \$310,960 and was recorded as a share issuance cost and was allocated on a relative fair value basis between share capital and share capital purchase warrants with the total recorded as a separate component of Shareholders' Equity. The fair value for the option and the underlying warrant was estimated using the Black-Scholes Option Pricing Model. The assumptions are identical to those used in the December 21, 2020 issuance.

**12. 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 of Shares Issuable on Exercise</b>
Opening Balance	\$ -	-
Issuance of stock options with graded vesting terms	0.15	4,350,000
Issuance of stock options with immediate vesting terms	0.15	1,580,000
Issuance of stock options with immediate vesting terms	0.17	500,000
Issuance of stock options with immediate vesting terms	0.26	500,000
Cancellation of stock options with graded vesting terms	0.15	(105,000)
<b>Balance at December 31, 2020</b>	<b>\$ 0.16</b>	<b>6,825,000</b>

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**12. 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. \$411,950 in stock based compensation was recognized in the statement of loss and comprehensive loss during the year ended December 31, 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.

During the year ended December 31, 2020, 105,000 stock options were cancelled for the unvested portion for departures from the Company.

During the third quarter, the Company issued 500,000 stock options with an exercise price of \$0.15 per common share 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 year ended December 31, 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.

During the fourth quarter, the Company issued 1,080,000 stock options with an exercise price of \$0.15 per common share which have a total fair value of \$100,790 which is recognized as stock based compensation in the statement of loss and comprehensive loss during the year ended December 31, 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 between 18 and 24 months from the grant date.

During the fourth quarter, the Company issued 500,000 stock options with an exercise price of \$0.17 per common share which have a total fair value of \$33,500 which is recognized as stock based compensation in the statement of loss and comprehensive loss during the year ended December 31, 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 12 months from the grant date.

During the fourth quarter, the Company issued 500,000 stock options with an exercise price of \$0.26 per common share which have a total fair value of \$83,500 which is recognized as stock based compensation in the statement of loss and comprehensive loss during the year ended December 31, 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 December 31, 2020 the stock options have a weighted average remaining life of 1.39 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 12 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.

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**13. 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 year ended December 31, 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.

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 year ended December 31, 2020, \$360,000 has been billed by KABN (Gibraltar) Ltd. for management services of which \$360,000 has been paid as at December 31, 2020. KABN (Gibraltar) Ltd. has continued to provide certain management and support services to the Company during the year ended December 31, 2020.

For the year ended December 31, 2020, product and technical development and operational services were incurred by KABN (Gibraltar) Ltd for the benefit of the Company in the amount of \$475,000, of which \$175,100 was outstanding and payable as at December 31, 2020. There are no fixed terms of repayment.

For the year ended December 31, 2020 compensation to key management personnel included \$339,545 in cash compensation and \$301,510 in stock option compensation.

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.

**14. INCOME TAXES**

a) Provision for income taxes

	<b>2020</b>	2019
Loss for the year	<b>\$ (5,639,196)</b>	\$ (613,428)
Expected income tax recovery at 26.5%	<b>(1,494,387)</b>	(162,558)
Non-deductible expenditures	<b>178,565</b>	(442)
Share issuance costs	<b>(102,178)</b>	-
Change in deferred tax asset not recognized	<b>1,418,000</b>	163,000
	<b>\$ -</b>	\$ -



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**14. INCOME TAXES (Cont'd)**

b) Deferred income taxes

The Company's deferred income tax assets are valued using the future income tax rate of 26.5% which is the effective rate when they are expected to be realized and are as follows:

	2020	2019
Non-capital loss carryforwards	\$ 1,131,000	\$ 118,000
Share issuance costs	82,000	-
Intangibles	368,000	45,000
Total	1,581,000	163,000
Deferred tax assets not recognized	(1,581,000)	(163,000)
Deferred Taxes	\$ -	\$ -

c) Loss carry-forwards

As at December 31, 2020 the Company's unused tax losses for which no deferred tax asset is recognized totals \$4,269,208. These losses expire as follows:

2039	\$ 445,291
2040	3,823,917
	\$ 4,269,208

**15. FINANCIAL INSTRUMENTS**

**Financial Assets and Liabilities**

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

	2020	2019
<b>Financial Assets – at amortized cost</b>		
Cash	\$ 2,588,590	\$ -
Due from Pegasus Fintech Canada Inc.	-	6,350
	\$ 2,588,590	\$ 6,350
<b>Financial Liabilities – at amortized cost</b>		
Due to KABN (Gibraltar) Ltd.	\$ 175,1000	\$ 122,755
Accounts payable and accrued expenses	516,133	363,444
	\$ 691,233	\$ 486,199

**Liquid Avatar Technologies Inc. (formerly KABN Systems NA Holdings Corp.)**  
**Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)**  
**Year ended December 31, 2020**

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

**Financial Assets and Liabilities (Cont'd)**

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

**Risk Exposure**

The Company's consolidated 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 15).

*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 December 31, 2020 and 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 15. 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>2020</b>
<b>Financial Liabilities with contractual maturities</b>	
Within 90 days or less	<b>\$ 691,233</b>

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

**Risk Exposure (Cont'd)**

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

*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 December 31, 2020 and 2019, the Company has no significant exposure to foreign currency risk.

**16. 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.

**17. SUBSEQUENT EVENTS**

On March 1, 2021, the Company changed its name from KABN Systems NA Holdings Corp. to Liquid Avatar Technologies Inc. and its ticker symbol from KABN to LQID.