Liquid Avatar Technologies Inc.

Consolidated Audited Financial Statements

For the Years Ended December 31, 2021 and 2020

Expressed in Canadian Dollars

RSM

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Liquid Avatar Technologies Inc.

Opinion

We have audited the consolidated financial statements of Liquid Avatar Technologies Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, 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, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended 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 $11,363,932 during the year ended December 31, 2021 and, as of that date, the Company has a deficit of $17,616,556. 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
May 3, 2022
Toronto, Ontario

Liquid Avatar Technologies Inc.
Consolidated Statements of Financial Position (Expressed in Canadian Dollars)
As at December 31, 2021 and 2020

	December 31, 2021	December 31, 2020
Assets		
Current		
Cash	**$ 646,096**	$ 2,588,590
Accounts receivable	**713,284**	-
Harmonized sales tax receivable	**62,392**	91,390
Prepaid expenses and other current assets	**686,680**	458,004
	2,108,452	3,137,984
Prepaid long-term expense and other assets	**61,250**	56,250
Investment (Note 6)	**122,722**	-
Computer and related equipment	**24,433**	18,497
Intangible assets (Note 8)	**638,923**	907,943
	$ 2,955,780	$ 4,120,674
Liabilities		
Current		
Accounts payable and accrued expenses	**$ 843,569**	$ 516,133
Due to KABN (Gibraltar) Ltd. (Note 13)	**112,480**	175,100
Deferred revenue	**1,058,270**	-
Short term loan payable (Note 7)	**517,069**	-
	2,531,388	691,233
Shareholders' Equity		
Share capital (Note 9)	**10,486,492**	5,858,759
Contributed surplus (Notes 10 and 12)	**4,381,239**	754,400
Broker compensation options (Note 11)	**589,253**	652,786
Warrants (Note 10)	**2,583,964**	2,416,120
Deficit	**(17,616,556)**	(6,252,624)
	424,392	3,429,441
	$ 2,955,780	$ 4,120,674

Going Concern *(Note 1)*
Subsequent Events *(Note 19)*

Approved by the Board **"David Lucatch"** **"Jeff Mesina"**

Director (**Signed**) Director (**Signed**)

Liquid Avatar Technologies Inc.
Consolidated Statements of Loss and Comprehensive Loss (Expressed in Canadian Dollars)
For the Years Ended December 31, 2021 and 2020

	Year Ended December 31, 2021	Year Ended December 31, 2020
Revenue		
Liquid Avatar Operations	$ 954	$ 80
Oasis Digital Studios Operations	14,972	-
	15,926	80
Operating expenses		
Amortization (Note 8)	269,020	269,020
Depreciation on tangible assets	12,281	129
Agent fees	38,417	337,500
Consulting fees	1,117,309	339,636
General and administrative costs	577,404	44,269
Interest expense	17,569	2,540
Legal and audit fees	322,699	348,578
Loan fee (Note 7)	10,000	15,000
Management and staff	1,794,864	749,545
Marketing and communications	1,549,766	1,038,643
Product development	2,869,135	664,899
Web and infrastructure	156,710	60,177
Annual license fee	250,000	140,940
Stock based compensation (Note 12)	2,351,313	671,741
	11,336,487	4,682,617
Other losses		
Charge for public company listing (Note 5)	-	(951,504)
Foreign exchange loss	(43,371)	(5,155)
	(43,371)	(956,659)
Comprehensive loss	$ (11,363,932)	$ (5,639,196)
Basic and diluted loss per share		
Basic and diluted	$ (0.098)	$ (0.097)
Weighted average number of common shares outstanding		
Weighted average number of common shares	115,944,720	58,342,249

Liquid Avatar Technologies Inc. Consolidated Statements of Changes in Shareholders' Equity (Expressed in Canadian Dollars)
For the Years Ended December 31, 2021 and 2020

	Number of Common Shares	Amount	Reserve for Warrants	Broker Compensation Options	Contributed Surplus	Deficit	Total
Balance January 1, 2020	45,287,030	$ 1,238,911	$ 364,792	$ -	$ -	$ (613,428)	$ 990,275
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 5)	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
Stock based Compensation (Note 12)	-	-	-	-	671,741	-	671,741
Comprehensive loss	-	-	-	-	-	(5,639,196)	(5,639,196)
Balance December 31, 2020	**96,216,472**	**5,858,759**	**2,416,120**	**652,786**	**754,400**	**(6,252,624)**	**$ 3,429,441**
Issued for warrant exercises (Note 9)	**16,325,563**	**2,980,606**	**(1,242,931)**	**-**	**1,242,931**	**-**	**2,980,606**
Issued in connection with consultant obligations (Note 9)	**332,894**	**101,470**	**-**	**-**	**-**	**-**	**101,470**
Issued in connection with option exercise (Note 9)	**805,100**	**130,765**	**-**	**-**	**-**	**-**	**130,765**
Stock based compensation (Note 12)	**-**	**-**	**-**	**-**	**2,351,313**	**-**	**2,351,313**
Issuance for broker unit exercise (Note 11)	**184,155**	**27,623**	**30,938**	**(63,533)**	**32,595**	**-**	**27,623**
Issued for early warrant exercise incentive and consultant warrant compensation (Note 9)	**1,514,288**	**-**	**285,870**	**-**	**-**	**-**	**285,870**
Issued in connection with private placement (Note 9)	**25,800,001**	**1,387,269**	**1,093,967**	**-**	**-**	**-**	**2,481,236**
Comprehensive loss	**-**	**-**	**-**	**-**	**-**	**(11,363,932)**	**(11,363,932)**
Balance December 31, 2021	**141,178,473**	**$ 10,486,492**	**$ 2,583,964**	**$ 589,253**	**$ 4,381,239**	**$ (17,616,556)**	**$ 424,392**

See accompanying notes

Liquid Avatar Technologies Inc.
Consolidated Statements of Cash Flows (Expressed in Canadian Dollars)
For the Years Ended December 31, 2021 and 2020

		Year Ended December 31, 2021		Year Ended December 31, 2020
Cash provided by (used in)				
Operations				
Net loss and comprehensive loss	$	(11,363,932)	$	(5,639,196)
Items not affecting cash				
Amortization		269,020		269,020
Depreciation		12,281		129
Foreign exchange loss		43,371		5,155
Expenses paid in shares		222,220		876,658
Stock based compensation		2,351,313		671,741
Charge for public company listing		-		951,504
Net cash flows used in operating activities before changes in non-cash working capital items		(8,465,727)		(2,864,989)
Net change in non-cash working capital				
(Increase)/Decrease in prepaid expenses and other current assets		(228,676)		3,732
Increase in prepaid long-term expenses and other assets		(5,000)		(56,250)
Increase in accounts payable and accrued expenses		331,133		164,953
Decrease/(Increase) in harmonized sales tax recoverable		28,998		(33,139)
Increase in accounts receivable		(713,284)		-
Increase in deferred revenue		1,058,270		-
Increase in due from Pegasus Fintech Canada Inc.		-		6,350
(Decrease)/Increase in due to KABN (Gibraltar) Ltd.		(62,620)		52,345
Net cash flows used in operating activities		(8,056,906)		(2,726,998)
Investing				
Cash from reverse takeover transaction		-		2,484
Acquisition of investment		(122,722)		-
Purchase of computer and related equipment		(18,216)		(18,627)
Net cash flows used in investing activities		(140,938)		(16,143)
Financing				
Proceeds from issuance of short term loan payable		500,000		150,000
Net proceeds from common shares and unit issuances		5,755,350		5,181,731
Net cash flows provided by financing activities		6,255,350		5,331,731
Net change in cash		(1,942,494)		2,588,590
Cash, beginning of year		2,588,590		-
Cash, end of year	$	646,096	$	2,588,590

See accompanying notes

1. NATURE OF OPERATIONS AND GOING CONCERN

Liquid Avatar Technologies Inc. (the “Company”) was incorporated under the Company Act of British Colombia, Canada on September 10, 2014. The Company wholly owns Liquid Avatar Operations Inc. (formerly KABN Systems North America Inc. or “Opco”) as a result of the reverse takeover transaction completed on June 4, 2020. Pursuant to the Amalgamation Agreement arising out of the reverse takeover transaction, the Company acquired all of the issued and outstanding shares of Opco in exchange for issuance of common shares of the Company. The transaction resulted in the business of Opco becoming the business of the Company (Note 5). Opco is the exclusive licensee of KABN (Gibraltar) Ltd’s intellectual property for use in the United States and Canada.

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. On March 9, 2021, the Company incorporated and wholly owns Oasis Digital Studios Limited.

On November 25, 2021, Aftermath Islands Metaverse Limited was incorporated. Oasis Digital Studios Limited (“Oasis”) owns 50% ownership interest in Aftermath Islands Metaverse Limited.

The address of the Company’s head office is 7030 Woodbine Avenue Suite 500, Markham, Ontario L3L 6G2 and the registered and records office is 2200 HSBC Building, 885 West Georgia Street, Vancouver B.C., V6C 3E8, Canada.

The Company has three business lines: Digital Identity, Non-Fungible Token (NFT) Agency and Mixed Reality.

- Digital Identity - consists of the services provided by the Company’s Liquid Avatar Verifiable Credential Ecosystem (LAVCE) and Liquid Avatar Mobile App (LAMA). The Digital Identity business line is pre-revenue. and in the planning stage.

- NFT Agency - Starting in 2021, the Company’s subsidiary Oasis has been engaged by artists or intellectual property owners (the “Talent”) to provide management, creative services and work with producers of NFTs, avatars and related digital credentials on behalf of the Talent.

- Mixed Reality - This business line consists of mixed reality activities and programs and will include the metaverse for an integration opportunity with LAVCE for Digital Identity services. This business was started in 2021.

1. NATURE OF OPERATIONS AND GOING CONCERN (cont'd)

Under the Mixed Reality business line, the Company's subsidiary is developing Aftermath Islands, which is a planned metaverse. The metaverse will ultimately provide online users with theme-based first-person, Augmented Reality (AR), Extended Reality (XR) and Virtual Reality (VR) experiences, quests, games, and integrated eCommerce activities, creating a virtual world supported by users and brands. Additional items such as thematic dwellings, accessories, avatars, wearables, etc. designed for each island, community and estate and users are in the planning stage or under development along with other interactive items. In 2021, the Company contracted a third party to create a website where customers can purchase implied rights to a future plot of virtual land inside the metaverse that is still being developed. These rights are delivered in the form of NFTs only after a customer purchases a virtual plot of land on the website. NFTs are not minted and therefore do not exist until a purchase is made from the website. The NFTs represent an implied right to exclusive access to and use of a particular plot of virtual land to be developed within the hosted Aftermath Islands metaverse, but do not provide the buyer with intellectual property rights or licensing rights (i.e. rights to restrict the use or reproduction of the virtual land in the metaverse). The NFTs do not represent a contractual obligation on part of the Company to deliver the metaverse game or virtual land plots, but they do represent ownership over the digital art metadata underlying the NFT, irrespective of whether the metaverse game is delivered. Buyers can hold their NFTs in their digital asset wallets or trade their NFTs on third party trading platforms in advance of the launch of the metaverse.

The Company engages a third party provider to facilitate the listing of parcels for sale on the website and the minting and transfer of the NFTs to the customers after purchase. The Company has a publicly predefined number of virtual land plots that are for sale and will be created within the metaverse, but the corresponding metaverse game data for the virtual land plots does not yet exist, nor do any NFTs exist for the unsold virtual land plots that would be under the custody of The Company prior to a sale.

The Company has incurred development costs in relation to the planned metaverse. Development costs include costs related to employees and technical and creative sub-contractors and specific consultants directly involved in the development of the metaverse. These costs are expensed in accordance with the Company's accounting policy for research and development costs.

1. NATURE OF OPERATIONS AND GOING CONCERN (Cont'd)

The Company's consolidated financial statements as at December 31, 2021 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, 2021, the Company has incurred a net loss of $11,363,932 and as of December 31, 2021, had a deficit of $17,616,556. 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 and to comply with securities regulations. 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 May 3, 2022.

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 years ended December 31, 2021 and 2020, unless otherwise stated.

These consolidated financial statements have been prepared on a historical cost convention, except for certain investment that is measured at fair value to profit or loss. 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 prior include the historical results of Liquid Avatar Operations Inc. (formerly KABN Systems North America Inc.) prior to June 4, 2020.

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

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on January 1, 2021 that have a material effect on the consolidated financial statements of the Company.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2021, and have not been early adopted in preparing these consolidated financial statements. None of these are expected to have a material effect on the consolidated financial statements of the Company.

Principles of Consolidation

The consolidated financial statements include the accounts of Liquid Avatar Technologies Inc. and its wholly owned subsidiaries Liquid Avatar Operations Inc., Oasis Digital Studios Limited and controlled subsidiary Aftermath Islands Metaverse Limited. 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 subsidiaries 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.

Investment is classified under this category.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 accounts receivable are classified under this category.

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, short term loan payable 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 development costs are expensed in the period in which they are incurred unless capitalization criteria under IAS 38 is met for development costs. No development costs were capitalized for the year ended December 31, 2021.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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. 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 share capital. For those warrants that expire unexercised on maturity, the recorded value is transferred to contributed surplus.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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. The following is a description of the Company's current revenue streams recorded through Oasis Digital Studios Ltd.

Revenue from sale of rights to future virtual land

The Company is currently pre-selling the rights to the future virtual land plots to be developed in a metaverse described in Note 1 as NFTs. Payments from customers in relation to pre-launched NFTs are non-refundable. The satisfaction of the performance obligations in respect of the sale of virtual goods in hosted virtual environment depends on the future delivery and manner of consumption of the virtual items inside the hosted virtual environment. Proceeds from pre-selling of rights to future virtual land plots of $1,058,270 were recorded as deferred revenue as at December 31, 2021.

Agency fees

The Company earns agency fees from facilitating artists (the "Talent") in converting their artworks into digital collectibles in the form of NFTs and selling them via a third-party platform. These arrangements are evidenced by legally binding written agency agreements with the Talent, which outline the nature of the services to be provided and the amount of fees to be earned. As an agent certain direct costs may be incurred which are reimbursable first from any NFT sales (after platform and processing fees) before any remittance to the Talent. Agency fee is calculated as a certain percentage of net sale proceeds (as defined in the agreements). These agency fees are recognized at a point in time in the period when the Company receives confirmation from the third-party platform that the sale of NFTs has been completed. The Company has determined all of its current agency arrangements qualify for accounting treatment as an agent as opposed to a principal and continues to assess each new agency agreement to ensure the appropriate accounting treatment is made. $14,787 in revenue was recognized from Agency fees for the year ended December 31, 2021.

Geographic concentration

Due to the nature of the agency fee revenues being derived from numerous end customers there is no practical geographic information to disclose nor does geography relate to a significant risk factor given the online virtual nature of the revenue streams.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income Taxes (cont'd)

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.

Foreign Currency Translation

The Company's consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency. For each entity, the Company determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

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, monetary items in foreign currencies other than the functional currency are translated at the period-end exchange rate. Non-monetary items in foreign currencies other than the functional currency 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign Currency Translation (Cont'd)

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

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position,
- income and expenses for each statement of loss and comprehensive loss are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognized in other comprehensive loss.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities and of borrowings are recognized in other comprehensive loss. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 the COVID-19 pandemic's impact on the Company's business.

Useful lives of intangibles

The useful lives could change significantly as a result of technical innovations or some other event. The amortization charge will increase where the useful life are less than previously estimated lives, or technically obsolete that have been abandoned will be written off or written down.

Valuation of the components of equity

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.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Cont'd)

Accounting for unsold virtual land plots

The Company assessed that no value should be assigned to unsold plots of virtual land because these unsold plots do not represent digital assets, have not been minted as NFTs on a given blockchain, and do not have any intellectual property created over it yet.

COVID-19 pandemic's impact on the Company's business

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 delays in raising financing 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 Opco, an arm's length private company, whereby the Company would acquire Opco (the "Transaction"). The Transaction is structured as a "three-cornered amalgamation" whereby Opco 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 Opco in exchange for issuance of common shares of the Company. The Transaction would result in the business of Opco becoming the business of the Company.

Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)

5. REVERSE TAKEOVER TRANSACTION (cont'd)

Because the former shareholders of Opco obtained control of the Company, the Transaction is considered a purchase of the Company by Opco 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 Opco 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

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**

6. INVESTMENT

On June 16, 2021, the Company made an investment in Indicio PBC ("Indicio") of $100,000 USD or $122,722 CAD. The Company currently uses the services of Indicio in its product development activities. The investment is in the form of a convertible promissory note whereby the maturity date is June 16, 2023, carrying an interest rate of 4% per annum. Interest is only payable on maturity or on conversion will form part of the conversion consideration. Upon an equity financing in Indicio, meeting certain valuation criteria, the promissory note and any accrued interest will automatically convert into common shares of Indicio. The Company has accounted for this investment as fair value through profit and loss, which at December 31, 2021 was considered equal to its cost.

Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)

7. SHORT TERM LOAN PAYABLE

On February 3, 2020, the Company received a short term loan of $150,000. The loan carried 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.

On November 18, 2021, the Company received a short term loan of $500,000 due on February 18, 2022. The loan carries an arrangement fee of 2% ($10,000) and interest at 12% per annum due on maturity. $7,069 in interest expense and the arrangement fee expense was recorded as part of this loan as at December 31, 2021.

8. INTANGIBLE ASSETS

Cost		**Total**
Licensing rights	$	1,345,100
Balance at December 31, 2021 and 2020	**$**	**1,345,100**
Accumulated Amortization		
Balance at January 1, 2020		**168,137**
Add: amortization for the year		**269,020**
Balance at December 31, 2020		**437,157**
Add: amortization for the year		**269,020**
Balance at December 31, 2021	**$**	**706,177**
Net Book Value at December 31, 2020	**$**	**907,943**
Net Book Value at December 31, 2021	**$**	**638,923**

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 identity and verified credential intellectual property 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.

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, 2021, the Company had issued and outstanding 141,178,473 common shares (December 31, 2020 – 96,216,472).

9. SHARE CAPITAL (Cont'd)

Issued Share Capital (Cont'd)

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.

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. 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.

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.

9. SHARE CAPITAL (Cont'd)

Issued Share Capital (Cont'd)

In connection with the agreement of November 9, 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.

During the year ended December 31, 2021, warrant holders exercised their right to acquire 16,325,563 common shares of the Company at prices ranging between $0.15 and $0.20 per common share for a value of $2,980,606. As part of an incentive program to exercise warrants early, additional shares were issued to participating warrant holders. The incentive program was approved by the Canadian Stock Exchange prior to its launch and had an initial eligible period for participation from June 10, 2021 to July 15, 2021. The early warrant exercise incentive program deadline was later extended to July 29, 2021. The total number of warrants exercised from this program was 3,165,600 which resulted in 1,514,288 incentive common shares being issued. The total proceeds from this program were $633,120.

During the year ended December 31, 2021, consultants were compensated at the Company's option in the form of 332,894 common shares with a value of $101,470. Stock option holders exercised their right to acquire 805,100 common shares of the Company at prices ranging between $0.15 and $0.17 per common share for a value of $130,765. Broker compensation option holders exercised their right to acquire 184,155 common shares of the Company at $0.15 per common share or 27,623 in value, which also entitles the issuance of a warrant at the exercise price of $0.20 per common share to the holder (Notes 10 and 11).

On May 14, 2021, the Company closed a non brokered private placement priced at $0.20 per unit and issued 1,800,000 units for gross proceeds of $360,000. Each unit consists of one common share and one half common share purchase warrant. Each whole warrant entitles a holder to purchase one common share at $0.30 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 $360,000, $273,913 was allocated to share capital with $86,087 allocated to share purchase warrants (Note 10). There were no share issuance costs associated with this financing.

On August 24, 2021, the Company closed a brokered private placement priced at $0.1125 for gross proceeds of $2,700,000 in exchange for the combination of 24,000,001 common shares and 24,000,001 common share purchase warrants. Each warrant entitles a holder to purchase one common share at $0.15 per share expiring five years following the closing date of the private placement. Broker Compensation for this private placement included 8% cash and 8% of the warrants issued which totaled 1,920,000 broker warrants. No securities were offered or sold to Canadian residents in connection with the private placement.

Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)

9. SHARE CAPITAL (Cont'd)

Issued Share Capital (Cont'd)

Under the relative fair value approach, of the total financing of $2,700,000, $1,417,127 was allocated to share capital with $1,282,873 allocated to common share purchase warrants (Note 10). Share issuance costs for the August 24, 2021 private placement totaled $578,764, of which $216,000 was in the form of broker cash compensation and $165,120 representing the fair value of the issued broker warrants. The remainder of the closing costs were legal fees. Under the relative fair value approach $303,771 of the share issuance costs were allocated against share capital and $274,993 of the share issuance costs were allocated against common share purchase warrants.

10. SHARE PURCHASE WARRANTS

		Weighted Average Exercise Price	Number Shares of Issuable on Exercise
Warrants outstanding as at January 1, 2020	$	0.150	6,393,515
Issuance of warrants during fiscal 2020 (Note 9)		0.200	36,573,117
Exercise of warrants during fiscal 2020 (Note 9)		0.170	(1,187,015)
Balance at December 31, 2020		**0.193**	**41,779,617**
Issuance of warrants during fiscal 2021 (Note 9)		0.300	900,000
Issuance of warrants during fiscal 2021		0.215	750,000
Issuance of warrants during fiscal 2021 (Note 11)		0.200	184,155
Issuance of warrants during fiscal 2021 (Note 9)		0.150	25,920,001
Exercise of warrants during fiscal 2021 (Note 9)		0.183	(16,325,563)
Expiry of warrants during fiscal 2021		0.200	(2,229,657)
Balance at December 31, 2021	**$**	**0.176**	**50,978,553**

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 and June 1, 2020 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 20th and June 1st 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.

10. SHARE PURCHASE WARRANTS (Cont'd)

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 9, 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.

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 9, 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.

During the year ended December 31, 2021, warrant holders exercised their right to acquire 16,325,563 common shares of the Company at prices ranging from $0.15 to $0.20 per common share for a value of $2,980,606 and 2,229,657 warrants expired unexercised. As a result of these warrant exercises and expiries a value of $1,242,931 was removed from warrants with a corresponding addition of $1,242,931 to contributed surplus as a classification entry within Shareholders' Equity. The Company also issued 184,155 warrants carrying a value of $30,938 with an exercise price of $0.20 and a maturity date of December 21, 2022 in conjunction with the exercise of broker compensation options.

On May 14, 2021, the Company issued 900,000 share purchase warrants in conjunction with the private placement closing. A value of $86,067 was allocated to share purchase warrants (Note 9).

10. SHARE PURCHASE WARRANTS (Cont'd)

The relative fair value approach was used for the accounting of the warrants as described in Note 9, 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 0.32%, 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.

On August 24, 2021, the Company issued 24,000,001 share purchase warrants in conjunction with the private placement closing having a gross value of $1,282,873 was allocated to share purchase warrants with $274,993 of the share issuance costs allocated against share purchase warrants (Note 9). Included in the share issuance costs is $165,120 in broker warrants value from 1,920,000 broker warrants issued in conjunction with the private placement. The broker warrants carry the same terms as the warrants issued under the private placement.

The relative fair value approach was used for the accounting of the warrants as described in Note 9, 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 0.84%, an expected volatility of 156%, an expected life of five years and no dividends expected. The expected volatility was determined using the Company's historically traded prices, using share prices available since June 4, 2020.

On November 15, 2021, the Company issued 750,000 share purchase warrants for consulting services with a fair value of $120,750 recorded in the consolidated statement of comprehensive loss.

The fair value of the warrants was estimated using the Black-Scholes Option Pricing Model. The assumptions include a risk-free interest rate of 1.00%, an expected volatility of 161%, an expected life of 24 months and no dividends expected. The expected volatility was determined using the Company's historically traded prices, using share prices available since June 4, 2020.

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.

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.

Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)

11. BROKER COMPENSATION OPTIONS (Cont'd)

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.

During the year ended December 31, 2021, 184,155 Broker compensation options were exercised. As a result of the exercise, 184,155 common shares and 184,155 warrants with an exercise price of $0.20 per share were issued. Value attributed to Broker compensation units of $32,595 was removed from this category and reclassified to contributed surplus as a result of the exercise.

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.

		Weighted Average Exercise Price	Number of Shares Issuable on Exercise
Opening Balance at January 1, 2020	$	-	-
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)
Balance at December 31, 2020		**0.16**	**6,825,000**
Issuance of stock options with graded vesting terms		0.345	5,400,000
Issuance of stock options with immediate vesting terms		0.345	1,400,000
Issuance of stock options with immediate vesting terms		0.215	4,349,000
Issuance of stock options with immediate vesting terms		0.175	100,000
Exercise of stock options with graded vesting terms		0.15	(305,100)
Exercise of stock options with immediate vesting terms		0.17	(500,000)
Balance at December 31, 2021	**$**	**0.247**	**17,268,900**

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. $53,550 in stock based compensation was recognized in the statement of loss and comprehensive loss during the year ended December 31, 2021, ($411,950 for 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. All 305,100 of the exercises of stock options with graded vesting terms that occurred during the year ended December 31, 2021 were from the June 1, 2020 stock option grant.

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 of 2020, 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 of 2020, 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 of 2020, 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. All of these stock options were exercised during the year ended December 31, 2021.

During the fourth quarter of 2020, 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, 2021, the stock options have a weighted average remaining life of 1.03 years (1.39 years as at December 31, 2020).

The fair value of the stock options issued during the third and fourth quarter of 2020 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.

12. STOCK BASED COMPENSATION (Cont'd)

On February 15, 2021, the Company issued 5,400,000 stock options with an exercise price of $0.345 per common share which have a total fair value of $1,328,400. $1,278,585 in stock based compensation was recognized in the statement of loss and comprehensive loss during the year ended December 31, 2021, 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 February 15, 2021, the Company issued 1,400,000 stock options with an exercise price of $0.345 per common share which have a total fair value of $310,800 which is recognized as stock based compensation in the statement of loss and comprehensive loss during the year ended December 31, 2021, 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.

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 0.19%, 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.

On May 13, 2021, the Company issued 100,000 stock options with an exercise price of $0.175 per common share which have a total fair value of $10,800 which is recognized as stock based compensation in the statement of loss and comprehensive loss during the year ended December 31, 2021, 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.

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 0.32%, an expected volatility of 150%, have an expected life equivalent to the term of maturity 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.

On November 15, 2021, the Company issued 4,349,000 stock options with an exercise price of $0.215 per common share which have a total fair value of $697,579 which is recognized as stock based compensation in the statement of loss and comprehensive loss during the year ended December 31, 2021, 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. 4,175,000 of the stock options have an expiry term of 24 months from the grant date and 174,000 of the stock options have an expiry term of 18 months from the grant date.

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 rates ranging between of 0.97% to 1.00%, an expected volatility of 161%, 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 Company's historically traded prices, using share prices available since June 4, 2020.

Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)

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 including KABN (Gibraltar) Ltd., which beneficially owns 9.1% of the issued and outstanding common shares and which is beneficially owned by David Lucatch, the Company's Chief Executive Officer and President, and a director.

During the year ended December 31, 2020, the initial license fee of $1,345,100 ($ 1,000,000 USD) recorded as an intangible asset has been paid in full to KABN (Gibraltar) Ltd.

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. The Company was provided a discount to the May 15, 2021 license fee payment of $250,000 USD that enabled the obligation to be settled for $250,000 CAD as opposed to $250,000 USD. The only consideration for the discount was that the payment be made in April 2021 instead of May 15, 2021.

Management services were provided to the Company by its founding shareholder KABN (Gibraltar) Ltd. for a maximum period of nine months from May 15, 2019 to February 15, 2020 which carried an option to extend this deadline by mutual agreement.

On February 15, 2020, the maximum period of no cash compensation paid for management services of nine months had expired. KABN (Gibraltar) Ltd. commenced billing from that time going forward. $360,000 was billed by KABN (Gibraltar) Ltd. for the period from February 15, 2020 to December 31, 2020 and was paid during the year ended December 31, 2020. During the year ended December 31, 2021, $360,000 has been billed by KABN (Gibraltar) Ltd. and was paid during this period.

During the year ended December 31, 2021, billings for product, technical development and usage were incurred by KABN (Gibraltar) Ltd. in the amount of $427,975, of which $112,480 was outstanding and payable as at December 31, 2021 with $315,495 being paid during the year. ($150,000 was billed for the year ended December 31, 2020 none of which was paid during the year). There are no fixed terms of repayment.

$175,100 outstanding to KABN (Gibraltar) Ltd. as at December 31, 2020 for product, technical development and operational services was paid during the year ended December 31, 2021. $122,755 outstanding to KABN (Gibraltar) Ltd. as at January 1, 2020 for the initial license fee was paid during the year ended December 31, 2020.

Compensation to key management personnel is as follows:

	2021	2020
Salaries and benefits	**$ 1,244,200**	$ 359,545
Share-based payments	**958,822**	356,248
	$ 2,203,022	$ 715,793

Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)

14. INCOME TAXES

a) Provision for income taxes

	2021	2020
Loss for the year	**$ (11,363,932)**	$ (5,639,196)
Expected income tax recovery at 26.5%	**(3,011,441)**	(1,494,387)
Non-deductible expenditures	**623,696**	178,565
Share issuance costs	**152,745**	(102,178)
Change in deferred tax assets not recognized	**2,235,000**	1,418,000
	$ -	$ -

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:

	2021	2020
Non-capital loss carryforwards	**$ 3,473,000**	$ 1,131,000
Share issuance costs	**153,000**	82,000
Intangibles	**190,000**	368,000
Total	**3,816,000**	1,581,000
Deferred tax assets not recognized	**(3,816,000)**	(1,581,000)
Deferred Taxes	**$ -**	$ -

c) Loss carry-forwards

As at December 31, 2021 the Company's unused tax loses for which no deferred tax asset is recognized totals $13,105,222. These losses expire as follows:

2039	$ 445,291
2040	3,764,057
2041	8,895,874
	$ 13,105,222

Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)

15. FINANCIAL INSTRUMENTS

Financial Assets and Liabilities

Information regarding the Company's financial assets and liabilities as at December 31, 2021 and 2020 is summarized as follows:

		2021		2020
Financial Assets – carried at amortized cost				
Cash	**$**	**646,096**	$	2,588,590
Accounts receivable		**713,284**		-
Financial Assets – at fair value to profit or loss				
Investment		**122,722**		-
	$	**1,482,102**	$	2,588,590

		2021		2020
Financial Liabilities – carried at amortized cost				
Due to KABN (Gibraltar) Ltd.	**$**	**112,480**	$	175,100
Accounts payable and accrued expenses		**843,569**		516,133
Short term loan payable		**517,069**		-
	$	**1,473,118**	$	691,233

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.

The fair value of the investment was determined based on the most recent financing round of the investee, which is indicative of being the fair market value. Management has determined that there are no reasonably possible alternative assumptions that would change the fair value significantly. This is categorized under Level 3 fair value hierarchy.

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 16).

15. FINANCIAL INSTRUMENTS (cont'd)

Risk Exposure (Cont'd)

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, 2021 and 2020. The Company currently utilizes one third party service provider to manage the cash settlement of virtual island sales. This party could elect not to remit funds on a timely basis to the Company despite contractual obligations. The Company has received all receivables as of December 31, 2021 from the third party subsequent to the year end and receivables aging was always under 60 days. Cash is deposited in creditworthy financial institutions.

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 16. The Company's financial liabilities are comprised of its accounts

payable and accrued expenses, short term loan payable and due to KABN (Gibraltar) Ltd. The contractual maturities of which are summarized as follows:

	2021	2020
Financial Liabilities with contractual maturities		
Within 90 days or less	**$ 1,473,118**	$ 691,233

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.

As at December 31, 2021 and 2020, the Company has no significant exposure to interest rate risk. The interest rate on the short term loan payable is fixed.

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 cash accounts receivable, accounts payable and accrued expenses that are denominated in US dollars.

15. FINANCIAL INSTRUMENTS (Cont'd)

Risk Exposure (Cont'd)

As at December 31, 2021 $333,093 in net assets were denominated in United States Dollars and a 10% fluctuation in foreign exchange rates would impact the consolidated statement of loss and comprehensive loss by $33,309. As at December 31, 2020, the Company had 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. SEGMENTED INFORMATION

For management purposes, the Company is organized into one main operating segment. The Company describes itself as a global blockchain and fintech solutions company, focused on digital identity, integrated avatars and the Metaverse and while the company is pre-revenue in certain lines of business, integration of the offerings and revenue streams is contemplated. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment. The financial results from this segment are equivalent to the consolidated financial statements of the Company as a whole.

18. DIGITAL ASSET RISKS

Loss of access risk

The loss of access to the private keys associated with the Company's minting of NFTs may be irreversible and could adversely affect the future operation. Digital assets are controllable only by an individual that possesses both the unique public key and private key or keys relating to the "digital wallet" in which the digital asset is held. To the extent a private key is lost, destroyed or otherwise compromised and no backup is accessible the Company may be unable to mint NFTs.

Irrevocability of transactions

Digital asset transactions are irrevocable and if stolen or incorrectly transferred digital assets may be irretrievable. Once a transaction has been verified and recorded in a block that is added to the blockchain, an incorrect transfer or theft generally will not be reversible, and the Company may not be capable of seeking compensation. The Company seeks to mitigate risk by establishing policies and procedures to require a careful review of each transaction before execution.

18. DIGITAL ASSET RISKS (cont'd)

Regulatory oversight risk

Regulatory changes or actions may restrict the use of digital assets or the operation of digital asset networks or exchanges in a manner that adversely affects investments held by the Company. The Company consistently engages with external legal counsels or regulatory advisors to understand any updates on the regulatory landscape which might have impacts on its businesses.

19. SUBSEQUENT EVENTS

On January 1, 2022 the Company commenced the operations of Aftermath Islands through its subsidiary Aftermath Islands Metaverse Limited. Aftermath Islands Metaverse Limited is a controlled subsidiary of Oasis Digital Studios Limited with a 50% ownership interest and has a 50% non-controlling interest shareholder. The business and activities of Aftermath Islands continue to be fully controlled and operated by Oasis Digital Studios Limited through as governed by the shareholder agreement entered into between Oasis Digital Studios Limited and the non-controlling interest shareholder.

The Company was unable to repay the Short term loan payable described in Note 7 by the maturity date. The Company repaid $50,000 in principal, the $10,000 arrangement fee and $6,274 in Interest on February 24, 2022.