

# **Liquid Avatar Technologies Inc.**

**Interim Condensed Consolidated Financial Statements**

**(unaudited)**

**For the Three Month Period Ended March 31, 2022 and 2021**

**Expressed in Canadian Dollars**

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

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim condensed consolidated financial statements for the three month period ended March 31, 2022

**Liquid Avatar Technologies Inc.**  
**Interim Condensed Consolidated Statements of Financial Position**  
**(Unaudited, Expressed in Canadian Dollars)**  
**As at March 31, 2022 and December 31, 2021**

	March 31, 2022	December 31, 2021
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 104,991	\$ 646,096
Accounts receivable	11,001	713,284
Harmonized sales tax receivable	74,896	62,392
Prepaid expenses and other current assets	813,494	686,680
	<b>1,004,382</b>	2,108,452
Prepaid long-term expense and other assets	55,000	61,250
Investment (Note 4)	122,722	122,722
Computer and related equipment	21,363	24,433
Intangible assets (Note 6)	571,668	638,923
	<b>\$ 1,775,135</b>	<b>\$ 2,955,780</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued expenses	\$ 1,473,832	\$ 843,569
Due to KABN (Gibraltar) Ltd. (Note 11)	179,980	112,480
Deferred revenue	1,674,919	1,058,270
Short term loan payable (Note 5)	405,030	517,069
	<b>3,733,761</b>	2,531,388
<b>Shareholders' (Deficiency)/Equity</b>		
Share capital (Note 7)	10,561,492	10,486,492
Contributed surplus (Notes 8 and 10)	4,431,054	4,381,239
Broker compensation options (Note 9)	589,253	589,253
Warrants (Note 8)	2,583,964	2,583,964
Accumulated other comprehensive income	5,577	-
Deficit	(20,129,966)	(17,616,556)
	<b>(1,958,626)</b>	424,392
	<b>\$ 1,775,135</b>	<b>\$ 2,955,780</b>

*Going Concern (Note 1)*

Approved by the Board

“David Lucatch”

“Jeff Mesina”

Director (Signed)

Director (Signed)

**Liquid Avatar Technologies Inc.**  
**Interim Condensed Consolidated Statements of Loss and Comprehensive Loss**  
**(Unaudited Expressed in Canadian Dollars)**  
**For the Three Month Period Ended March 31, 2022 and 2021**

	Three Month Period Ended March 31, 2022	Three Month Period Ended March 31, 2021
<b>Revenue</b>		
Liquid Avatar Operations	\$ 14	\$ 109
Oasis Digital Studios Operations	90	-
	<b>104</b>	<b>109</b>
<b>Operating expenses</b>		
Amortization (Note 6)	67,255	67,255
Depreciation on tangible assets	3,070	2,917
Agent fees	-	15,689
Consulting fees	569,196	81,758
General and administrative costs	285,568	73,049
Interest expense	14,236	-
Legal and audit fees	67,815	85,212
Management and staff	466,165	404,201
Marketing and communications	438,725	498,264
Product development	439,116	437,154
Web and infrastructure	98,706	37,837
Financing fee	12,000	-
Stock based compensation (Note 10)	49,815	1,024,024
	<b>2,511,667</b>	<b>2,727,360</b>
<b>Other losses</b>		
Foreign exchange loss	(1,847)	(7,600)
	<b>(2,513,514)</b>	<b>(2,734,960)</b>
<b>Net loss</b>	<b>\$ (2,513,410)</b>	<b>\$ (2,734,851)</b>
<b>Other comprehensive income</b>		
Exchange differences from translation of foreign operations	5,577	-
<b>Comprehensive loss</b>	<b>\$ (2,507,833)</b>	<b>\$ (2,734,851)</b>
<b>Basic and diluted loss per share</b>		
Basic and diluted	\$ (0.018)	\$ (0.027)
<b>Weighted average number of common shares outstanding</b>		
Weighted average number of common shares	141,522,918	101,326,533

See accompanying notes

**Liquid Avatar Technologies Inc. Interim Condensed Consolidated Statements of Changes in Shareholders' (Deficiency)/Equity  
(Unaudited Expressed in Canadian Dollars)  
For the Three Month Period Ended March 31, 2022 and the Year ended December 31, 2021**

	Number of Common Shares	Amount	Reserve for Warrants	Broker Compensation Options	Contributed Surplus	Deficit	Total
Balance January 1, 2021	96,216,472	5,858,759	2,416,120	652,786	754,400	(6,252,624)	\$ 3,429,441
Issued for warrant exercises (Note 7)	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 7)	805,100	130,765	-	-	-	-	130,765
Stock based compensation (Note 10)	-	-	-	-	2,351,313	-	2,351,313
Issuance for broker unit exercise (Note 9)	184,155	27,623	30,938	(63,533)	32,595	-	27,623
Issued for early warrant exercise incentive and consultant warrant compensation (Note 7)	1,514,288	-	285,870	-	-	-	285,870
Issued in connection with private placement (Note 7)	25,800,001	1,387,269	1,093,967	-	-	-	2,481,236
Net loss	-	-	-	-	-	(11,363,932)	(11,363,932)
<b>Balance December 31, 2021</b>	<b>141,178,473</b>	<b>\$ 10,486,492</b>	<b>\$ 2,583,964</b>	<b>\$ 589,253</b>	<b>\$ 4,381,239</b>	<b>\$ (17,616,556)</b>	<b>\$ 424,392</b>
Issued in connection with option exercise (Note 7)	500,000	75,000	-	-	-	-	75,000
Stock based compensation (Note 10)	-	-	-	-	49,815	-	49,815
Net loss	-	-	-	-	-	(2,513,410)	(2,513,410)
<b>Balance March 31, 2022</b>	<b>141,678,473</b>	<b>\$ 10,561,492</b>	<b>\$ 2,583,964</b>	<b>\$ 589,253</b>	<b>\$ 4,431,054</b>	<b>\$ (20,129,966)</b>	<b>\$ (1,964,203)</b>
Accumulated other comprehensive income							5,577
							<b>(1,958,626)</b>

See accompanying notes

**Liquid Avatar Technologies Inc.**  
**Interim Condensed Consolidated Statements of Cash Flows**  
**(Unaudited Expressed in Canadian Dollars)**  
**For the Three Month Period Ended March 31, 2022 and 2021**

	<b>Three Month Period Ended March 31, 2022</b>	<b>Three Month Period Ended March 31, 2021</b>
<b>Cash provided by (used in)</b>		
<b>Operations</b>		
Net loss	\$ (2,513,410)	\$ (2,734,851)
Items not affecting cash		
Amortization	67,255	67,255
Depreciation	3,070	2,917
Foreign exchange loss	1,847	7,600
Expenses paid in shares	-	93,470
Stock based compensation	49,815	1,024,024
Net cash flows used in operating activities before changes in non-cash working capital items	<b>(2,391,423)</b>	<b>(1,539,585)</b>
<b>Net change in non-cash working capital</b>		
(Increase)/Decrease in prepaid expenses and other current assets	<b>(126,814)</b>	134,247
Decrease/(Increase) in prepaid long-term expenses and other assets	<b>6,250</b>	(23,750)
Increase/(Decrease) in accounts payable and accrued expenses	<b>639,023</b>	(66,444)
(Increase)/Decrease in harmonized sales tax recoverable	<b>(12,504)</b>	45,012
Decrease in accounts receivable	<b>702,283</b>	-
Increase in deferred revenue	<b>616,649</b>	-
Increase/(Decrease) in due to KABN (Gibraltar) Ltd.	<b>67,500</b>	(150,000)
Net cash flows used in operating activities	<b>(499,036)</b>	<b>(1,600,520)</b>
<b>Investing</b>		
Purchase of computer and related equipment	-	(16,382)
Net cash flows used in investing activities	-	(16,382)
<b>Financing</b>		
Repayment of short term loan payable	<b>(117,069)</b>	-
Net proceeds from common shares and unit issuances	<b>75,000</b>	1,142,333
Net cash flows (used in)/provided by financing activities	<b>(42,069)</b>	<b>1,142,333</b>
<b>Net change in cash</b>	<b>(541,105)</b>	<b>(474,569)</b>
<b>Cash, beginning of period</b>	<b>646,096</b>	<b>2,588,590</b>
<b>Cash, end of period</b>	<b>\$ 104,991</b>	<b>\$ 2,114,021</b>

# Liquid Avatar Technologies Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, Expressed in Canadian Dollars) For the Three Month Period Ended March 31, 2022 and 2021

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### 1. NATURE OF OPERATIONS AND GOING CONCERN

Liquid Avatar Technologies Inc. (the “Company”) was incorporated under the Company Act of British Columbia, 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. 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.

## Liquid Avatar Technologies Inc.

### Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, Expressed in Canadian Dollars) For the Three Month Period Ended March 31, 2022 and 2021

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#### 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.

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 with 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. There is no non-controlling interest position recorded in the interim condensed consolidated financial statements since there was nominal initial cost base for the non-controlling interest and there is a cumulative net loss in Aftermath Islands Metaverse Limited as at March 31, 2022.

## **Liquid Avatar Technologies Inc.**

### **Notes to the Interim Condensed Consolidated Financial Statements**

**(Unaudited, Expressed in Canadian Dollars) For the Three Month Period Ended March 31, 2022 and 2021**

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

The Company's interim condensed consolidated financial statements ("interim financial statements") as at March 31, 2022 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 three month period ended March 31, 2022, the Company has incurred a net loss of \$2,513,410 and as of March 31, 2022, had a deficit of \$20,129,966. 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 interim financial statements do not include any adjustments that might result from the outcome of this uncertainty. Such adjustments could be material.

These interim financial statements were authorized for issue by the Board of Directors on May 30, 2022.

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

These interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") on a basis consistent with the accounting policies disclosed in the audited financial statements for the year ended December 31, 2021.

These interim financial statements do not include certain information and disclosures normally included in annual financial statements prepared in accordance with IFRS and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2021.

These interim 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 interim financial statements have been prepared using the accrual basis of accounting except for cash flow information.

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



## Liquid Avatar Technologies Inc.

### Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, Expressed in Canadian Dollars) For the Three Month Period Ended March 31, 2022 and 2021

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### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Areas requiring a significant degree of estimation and judgment relate to the estimated useful life of intangibles, 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.

#### *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.

## Liquid Avatar Technologies Inc.

### Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, Expressed in Canadian Dollars) For the Three Month Period Ended March 31, 2022 and 2021

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#### 4. 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 March 31, 2022 was considered equal to its cost.

#### 5. SHORT TERM LOAN PAYABLE

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. \$14,236 in interest expense was recorded for the three month period ended March 31, 2022. The Company was unable to repay the short term loan payable 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, and further repaid \$50,000 in principal on March 8, 2022.

#### 6. INTANGIBLE ASSETS

<b>Cost</b>	<b>Total</b>
Licensing rights	\$ 1,345,100
<b>Balance at March 31, 2022 and December 31, 2021</b>	<b>\$ 1,345,100</b>
<b>Accumulated Amortization</b>	
Balance at January 1, 2021	437,157
Add: amortization for the year	269,020
Balance at January 1, 2022	706,177
Add: amortization for the three month period ended March 31, 2022	67,255
<b>Balance at March 31, 2022</b>	<b>\$ 773,432</b>
<b>Net Book Value at December 31, 2021</b>	<b>\$ 638,923</b>
<b>Net Book Value at March 31, 2022</b>	<b>\$ 571,668</b>

On May 15, 2019, the Company entered into a sublicensing agreement with KABN (Gibraltar) Ltd. (the "licensing agreement") which grants the Company an exclusive sublicense to KABN (Gibraltar) Ltd's financial services platform, with 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.

## Liquid Avatar Technologies Inc.

### Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, Expressed in Canadian Dollars) For the Three Month Period Ended March 31, 2022 and 2021

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## 7. 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 March 31, 2022, the Company had issued and outstanding 141,678,473 common shares (December 31, 2021 – 141,178,473).

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 8 and 9).

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 8). 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.

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 8). 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.

## Liquid Avatar Technologies Inc.

### Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, Expressed in Canadian Dollars) For the Three Month Period Ended March 31, 2022 and 2021

#### 7. SHARE CAPITAL (Cont'd)

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

During the three month period ended March 31, 2022, stock option holders exercised their right to acquire 500,000 common shares of the Company at \$0.15 per common share for a value of \$75,000.

#### 8. SHARE PURCHASE WARRANTS

	Weighted Average Exercise Price	Number Shares of Issuable on Exercise
Warrants outstanding as at January 1, 2021	\$ 0.193	41,779,617
Issuance of warrants during fiscal 2021 (Note 7)	0.300	900,000
Issuance of warrants during fiscal 2021	0.215	750,000
Issuance of warrants during fiscal 2021 (Note 9)	0.200	184,155
Issuance of warrants during fiscal 2021 (Note 7)	0.150	25,920,001
Exercise of warrants during fiscal 2021 (Note 7)	0.183	(16,325,563)
Expiry of warrants during fiscal 2021	0.200	(2,229,657)
<b>Balance at December 31, 2021</b>	<b>\$ 0.176</b>	<b>50,978,553</b>
<b>Balance at March 31, 2022</b>	<b>\$ 0.176</b>	<b>50,978,553</b>

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 7).

The relative fair value approach was used for the accounting of the warrants as described in Note 7, 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 7). 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.

## **Liquid Avatar Technologies Inc.**

### **Notes to the Interim Condensed Consolidated Financial Statements**

**(Unaudited, Expressed in Canadian Dollars) For the Three Month Period Ended March 31, 2022 and 2021**

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#### **8. SHARE PURCHASE WARRANTS (Cont'd)**

The relative fair value approach was used for the accounting of the warrants as described in Note 7, 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.

#### **9. BROKER COMPENSATION OPTIONS**

On December 23, 2020, the Company issued 990,800 Broker compensation options at an exercise price \$0.15 per unit. Each Broker compensation option upon exercise entitles the holder to one common share and one common share purchase warrant with an exercise price of \$0.20. The Broker compensation options and the underlying common share purchase warrants if exercised have an expiry of December 23, 2022.

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.

#### **10. STOCK BASED COMPENSATION**

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

## Liquid Avatar Technologies Inc.

### Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, Expressed in Canadian Dollars) For the Three Month Period Ended March 31, 2022 and 2021

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

	Weighted Average Exercise Price	Number of Shares Issuable on Exercise
Opening Balance at January 1, 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)
<b>Balance at December 31, 2021</b>	<b>\$ 0.247</b>	<b>17,268,900</b>
Exercise of stock options with immediate vesting terms	0.15	(500,000)
<b>Balance at March 31, 2022</b>	<b>\$ 0.249</b>	<b>16,768,900</b>

From the June 2020 stock option grant, \$32,419 in stock based compensation was recognized in the interim condensed consolidated statement of loss and comprehensive loss during the three month period ended March 31, 2021 and in the statement of financial position as contributed surplus. This expense was recorded based on a graded vesting schedule. No related expense was recorded during the three month period ended March 31, 2022 as the options from this grant were fully vested in 2021.

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. \$49,815 in stock based compensation was recognized in the interim condensed consolidated statement of loss and comprehensive loss during the three month period ended March 31, 2022, and in the statement of financial position as contributed surplus (\$680,805 for the three month period ended March 31, 2021). 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 interim condensed consolidated statement of loss and comprehensive loss during the three month period ended March 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.

## Liquid Avatar Technologies Inc.

### Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, Expressed in Canadian Dollars) For the Three Month Period Ended March 31, 2022 and 2021

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

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 in the statement of financial position as contributed surplus. This grant vested immediately, and no further stock base compensation was recorded for this grant after the issue date. 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 in the statement of financial position as contributed surplus. This grant vested immediately, and no further stock base compensation was recorded for this grant after the issue date. 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.

As at March 31, 2022, the stock options have a weighted average remaining life of 0.80 years (1.03 years as at December 31, 2021).

#### 11. RELATED PARTY TRANSACTIONS

The Company's related parties include its key management personnel, and companies related by way of directors or shareholders in common including KABN (Gibraltar) Ltd., which beneficially owns 9.07% 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.

An annual license fee of \$250,000 USD is due to KABN (Gibraltar) Ltd. each year on the anniversary date of the license agreement. 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.

During the three month period ended March 31, 2022, \$90,000 has been billed by KABN (Gibraltar) Ltd. for management services with \$15,000 in unpaid management services as at March 31, 2022 (\$90,000 billed and paid for the three month period ended March 31, 2021 related to management services).

During the three month period ended March 31, 2022 billings for product, technical development and usage were incurred by KABN (Gibraltar) Ltd. in the amount of \$105,000 none of which was paid during the three month period ended March 31, 2022. (\$112,975 billed and \$25,100 unpaid for the three month period ended March 31, 2021)

## Liquid Avatar Technologies Inc.

### Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, Expressed in Canadian Dollars) For the Three Month Period Ended March 31, 2022 and 2021

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

\$52,500 was paid to KABN (Gibraltar) Ltd. during the three month period ended March 31, 2022 from outstanding obligations as at December 31, 2021. \$179,980 is outstanding to KABN (Gibraltar) Ltd. as at March 31, 2022. There are no fixed terms of repayment.

\$175,100 outstanding to KABN (Gibraltar) Ltd. outstanding as of January 1, 2021 for product, technical development and operational services was paid during the three month period ended March 31, 2021.

#### 12. FINANCIAL INSTRUMENTS

##### Financial Assets and Liabilities

Information regarding the Company's financial assets and liabilities as at March 31, 2022 and December 31, 2021 is summarized as follows:

	March 31, 2022		December 31, 2021
<b>Financial Assets – carried at amortized cost</b>			
Cash	\$ 104,991	\$	646,096
Accounts receivable	11,001		713,284
<b>Financial Assets – at fair value to profit or loss</b>			
Investment	122,722		122,722
	<b>\$ 238,714</b>	\$	<b>1,482,102</b>

	March 31, 2022		December 31, 2021
<b>Financial Liabilities – carried at amortized cost</b>			
Due to KABN (Gibraltar) Ltd.	\$ 179,980	\$	112,480
Accounts payable and accrued expenses	1,473,832		843,569
Short term loan payable	405,030		517,069
	<b>\$ 2,058,842</b>	\$	<b>1,473,118</b>

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

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.



## Liquid Avatar Technologies Inc.

### Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, Expressed in Canadian Dollars) For the Three Month Period Ended March 31, 2022 and 2021

## 12. FINANCIAL INSTRUMENTS (Cont'd)

### Risk Exposure

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

#### *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 March 31, 2022 and December 31, 2021. The Company currently utilizes one third party service provider to manage the cash settlement of virtual island sales. This third party service provider could elect not to remit funds on a timely basis to the Company despite contractual obligations. The Company has received all accounts receivable outstanding as at March 31, 2022 from the third party subsequent to the three month period ended March 31, 2022 and collected all accounts receivable outstanding as at December 31, 2021 during the three month period ended March 31, 2022. 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 13. 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:

	March 31, 2022	December 31, 2021
<b>Financial Liabilities with contractual maturities</b>		
Within 90 days or less	\$ 2,058,842	\$ 1,473,118

#### *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 March 31, 2022 and December 31, 2021, the Company has no significant exposure to interest rate risk. The interest rate on the short term loan payable is fixed.

## Liquid Avatar Technologies Inc.

### Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, Expressed in Canadian Dollars) For the Three Month Period Ended March 31, 2022 and 2021

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#### 12. FINANCIAL INSTRUMENTS (cont'd)

##### Risk Exposure (Cont'd)

###### *Currency Risk*

Currency risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities. The Company is exposed to foreign currency risk on fluctuations related to cash accounts receivable, accounts payable and accrued expenses that are denominated in US dollars.

As at March 31, 2022 \$385,655 in net assets were denominated in United States Dollars and a 10% fluctuation in foreign exchange rates would impact the interim condensed consolidated statement of loss and comprehensive loss by \$38,566. 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 year end consolidated statement of loss and comprehensive loss by \$33,309.

#### 13. CAPITAL MANAGEMENT

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

#### 14. 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 interim financial statements of the Company as a whole.

#### 15. 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.

## **Liquid Avatar Technologies Inc.**

### **Notes to the Interim Condensed Consolidated Financial Statements**

**(Unaudited, Expressed in Canadian Dollars) For the Three Month Period Ended March 31, 2022 and 2021**

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#### **15. DIGITAL ASSET RISKS (Cont'd)**

##### *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.

##### *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.

#### **16. PRIOR PERIOD RECLASSIFICATIONS**

Certain comparative figures in the interim condensed consolidated statement of loss and comprehensive loss from the three month period ended March 31, 2021 have been reclassified for consistency with the current period presentation.