

**Nuran Wireless Inc.**  
**Consolidated Financial Statements**  
**October 31, 2019 and 2018**

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## Independent Auditor's Report

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To the Shareholders of  
Nuran Wireless Inc.

### Opinion

We have audited the consolidated financial statements of Nuran Wireless Inc. (hereafter the “Company”), which comprise the consolidated statements of financial position as at October 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to 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 financial position of the Company as at October 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### 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 2 to the consolidated financial statements, which indicates the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Information other than the consolidated financial statements and the auditor's report thereon**

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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 on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. 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 (IFRS), 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;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

The engagement partner on the audit resulting in this independent auditor's report is Ms. Mélanie Boyer.

*Raymond Chabot Grant Thornton LLP*<sup>1</sup>

Québec  
February 27, 2020

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<sup>1</sup> CPA auditor, CA public accountancy permit no. A119912

**Nuran Wireless Inc.**  
**Consolidated Statements of Comprehensive Income**

Years ended October 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
	\$	\$
<b>Revenue (Note 24)</b>	<b>2,122,167</b>	4,169,237
Cost of sales	<b>1,393,182</b>	2,722,540
<b>Gross profit</b>	<b>728,985</b>	1,446,697
Selling expenses	<b>1,105,283</b>	1,228,367
Administrative expenses	<b>1,634,168</b>	1,713,373
Financial expenses (Note 18)	<b>676,386</b>	1,358,373
Research and development costs, net of \$94,743 in tax credits (\$653,294 as at October 31, 2018)	<b>864,776</b>	647,214
	<b>4,280,613</b>	4,947,327
Loss before other elements	<b>(3,551,628)</b>	(3,500,630)
Other elements		
Gain on debt settlement	<b>145,178</b>	
Loss on debt settlement in shares (Note 13)		(129,700)
Gain (loss) on modifications of convertible debentures (Note 12)	<b>290,561</b>	(59,168)
Change in fair value of derivative liability (Note 12)	<b>(433,104)</b>	192,498
	<b>2,635</b>	3,630
<b>Net loss and total comprehensive income</b>	<b>(3,548,993)</b>	(3,497,000)
<b>Loss per share (Note 16)</b>		
Basic and diluted loss per share	<b>(0.02)</b>	(0.03)
Weighted average number of outstanding common shares	<b>155,566,842</b>	119,395,868

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

**Nuran Wireless Inc.**  
**Consolidated Statements of Changes in Equity**

Years ended October 31, 2019 and 2018

	2019					
	Number	Share capital	Contributed surplus	Fair value of the conversion option	Deficit	Total equity
		\$	\$		\$	\$
<b>Balance as at November 1, 2018</b>	<b>138,694,039</b>	<b>22,287,237</b>	<b>1,267,837</b>		<b>(23,452,442)</b>	<b>102,632</b>
Issue of shares (Note 13)	21,806,732	1,552,649	98,188			1,650,837
Share issue cost		(31,862)	3,434			(28,428)
Net loss and total comprehensive income					(3,548,993)	(3,548,993)
Amendment to the conversion option of the convertible debentures (Note 12)	1,377,142	129,542		108,967		238,509
Forbearance to the convertible debentures default (Note 12)			80,507	(79,289)		1,218
Debenture conversion in share capital	11,100,000	1,127,017		(28,460)		1,098,557
Warrants (Note 14)			6,899			6,899
Employee share-based compensation (Note 15)			31,042			31,042
Non-employee share-based compensation (Note 15)			17,678			17,678
<b>Balance as at October 31, 2019</b>	<b>172,977,913</b>	<b>25,064,583</b>	<b>1,505,585</b>	<b>1,218</b>	<b>(27,001,435)</b>	<b>(430,049)</b>
	2018					
	Number	Share capital	Contributed surplus	Fair value of conversion option	Deficit	Total equity
		\$	\$		\$	\$
<b>Balance as at November 1, 2017</b>	<b>106,778,871</b>	<b>19,439,376</b>	<b>708,989</b>		<b>(19,955,442)</b>	<b>192,923</b>
Issue of shares (Note 13)	31,915,168	3,959,522				3,959,522
Share issue cost		(1,111,661)				(1,111,661)
Net loss and total comprehensive income					(3,497,000)	(3,497,000)
Warrants (Note 14)			550,046			550,046
Employee share-based compensation (Note 15)			8,802			8,802
<b>Balance as at October 31, 2018</b>	<b>138,694,039</b>	<b>22,287,237</b>	<b>1,267,837</b>		<b>(23,452,442)</b>	<b>102,632</b>

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

## Nuran Wireless Inc.

### Consolidated Statements of Cash Flows

Years ended October 31, 2019 and 2018

	2019	2018
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss and total comprehensive income	(3,548,993)	(3,497,000)
Non-cash flow adjustments		
Depreciation of property, plant and equipment	108,110	132,477
Amortization of intangible assets	113,665	121,160
Gain on debt settlement	(145,178)	
Loss on debt settlement in shares (Note 13)		129,700
Loss (gain) on modifications of convertible debentures (Note 12)	(290,561)	59,168
Non-employee share-based transaction	17,678	
Employee share-based compensation	31,042	8,802
Accretion of convertible debentures (Note 12)	97,320	645,122
Change in fair value of derivative liability (Note 12)	433,104	(192,498)
Net change in working capital items		
Trade and other receivables	724,880	68,766
Scientific research and experimental development tax credits receivable	(287,636)	(1,728)
Inventories	(658,106)	88,487
Prepaid expenses	(6,293)	(95,351)
Security deposits and deposits on purchase of goods	(464,666)	12,057
Trade and other payables	701,908	(231,206)
Deferred revenue	2,398,534	225,828
Net cash from operating activities	(775,192)	(2,526,216)
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(16,092)	(34,571)
Purchase of intangible assets	(941,527)	(172,121)
Net cash from investing activities	(957,619)	(206,692)
<b>FINANCING ACTIVITIES</b>		
Net change in loan payable to companies under common control	(60,542)	(211,888)
Net change in loan payable to shareholders		190,000
Long-term debt	822,502	1,030,000
Repayment of long-term debt	(88,245)	(604,720)
Convertible debentures and derivative liability		50,000
Repayment of convertible debentures		(50,000)
Issue of common shares	1,375,935	2,978,122
Share issue cost	(28,428)	(580,937)
Net cash from financing activities	2,021,222	2,800,577
<b>Net increase in cash</b>	<b>288,411</b>	<b>67,669</b>
Cash, beginning of year	222,421	154,752
Cash, end of year	510,832	222,421
<b>Supplementary information</b>		
Interest paid included in operating activities	364,213	1,001,326

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



**Nuran Wireless Inc.**  
**Consolidated Statements of Financial Position**

October 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
	\$	\$
<b>ASSETS</b>		
Current		
Cash	510,832	222,421
Trade and other receivables (Note 5)	242,446	1,017,326
Scientific research and experimental development tax credits receivable	730,832	443,196
Inventories (Note 6)	2,374,851	1,716,745
Prepaid expenses	125,436	119,143
Security deposits and deposits on purchase of goods	483,688	19,022
Current assets	<u>4,468,085</u>	<u>3,537,853</u>
Non-current		
Property, plant and equipment (Note 7)	413,302	505,320
Intangible assets (Note 8)	3,946,881	3,506,555
Non-current assets	<u>4,360,183</u>	<u>4,011,875</u>
Total assets	<u>8,828,268</u>	<u>7,549,728</u>
<b>LIABILITIES</b>		
Current		
Trade and other payables (Note 9)	2,162,896	2,268,604
Deferred revenue	2,797,866	399,332
Loans payable (Note 10)	190,000	250,542
Convertible debentures and derivative liability (Note 12)	3,052,992	4,208,312
Current portion of long-term debt	421,652	113,649
Current liabilities	<u>8,625,406</u>	<u>7,240,439</u>
Non-current		
Long-term debt (Note 11)	632,911	206,657
Total liabilities	<u>9,258,317</u>	<u>7,447,096</u>
<b>EQUITY</b>		
Share capital (Note 13)	25,064,583	22,287,237
Contributed surplus (Notes 14 and 15)	1,505,585	1,267,837
Fair value of conversion option	1,218	
Deficit	<u>(27,001,435)</u>	<u>(23,452,442)</u>
Total equity	<u>(430,049)</u>	<u>102,632</u>
Total equity and liabilities	<u>8,828,268</u>	<u>7,549,728</u>

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

On behalf of the Board,

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Director

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Director

# Nuran Wireless Inc.

## Notes to Consolidated Financial Statements

October 31, 2019 and 2018

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### **1 - GOVERNING STATUTES AND NATURE OF OPERATIONS**

Nuran Wireless Inc. is incorporated under the *Business Corporations Act* (British Columbia). Nuran Wireless Inc. and its subsidiary (together, the “Company”) operate in the research, development, manufacturing and marketing of digital electronic circuits and wireless telecommunication products.

### **2 - GENERAL INFORMATION, STATEMENT OF COMPLIANCE WITH IFRS AND GOING CONCERN ASSUMPTION**

The Company's registered office is at 2150 Cyrille-Duquet Street, Québec, Quebec G1N 2G3.

The Company's consolidated financial statements have been prepared in accordance with International Financial Accounting Standards (IFRS). They are based on the assumption that the Company is a going concern, meaning it will be able to realize its assets and discharge its liabilities in the normal course of its operations.

In light of operating losses incurred during the year ended October 31, 2019 and the past years, there is significant doubt about the Company's ability to continue as a going concern. The Company's ability to realize its assets and discharge its liabilities, including the repayment of its senior secured convertible debentures by August 23, 2020, depends on the continued financial support of its shareholders, the growth and profitability of the future sales of its products and the obtainment of additional financing. If necessary, the Company may review the prioritization and, if needed, defer some of its research and development projects.

The carrying amounts of assets, liabilities, revenues and expenses presented in the consolidated financial statements and the consolidated statements of financial position's classification have not been adjusted as would be required if the going concern assumption were not appropriate.

The consolidated financial statements for the year ended October 31, 2019 (including comparatives) were approved and authorized for issue by the Board of Directors on February 27, 2020.

### **3 - SIGNIFICANT ACCOUNTING POLICIES**

#### **Overall considerations**

The consolidated financial statements have been prepared using the significant accounting policies and measurement bases summarized below.

#### **Basis of consolidation**

The Company financial statements consolidate those of the parent company and its wholly-owned subsidiary as at October 31, 2019. The subsidiary has a reporting date of October 31.

All transactions and balances between group companies are eliminated on consolidation, including unrealized gains and losses on transactions between group companies.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

# Nuran Wireless Inc.

## Notes to Consolidated Financial Statements

October 31, 2019 and 2018

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### 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Foreign currency translation

##### *Functional and presentation currency*

The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

##### *Foreign currency transactions and balances*

Foreign currency transactions are translated into the Company's functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at the exchange rates in effect at the end of the year are recognized in profit or loss.

Non-monetary items are not retranslated at the end of the year and are measured at historical cost (translated using the exchange rates at the transaction date).

#### Revenue

To determine whether to recognize revenue, the Company follows a five-step process :

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

Revenue arises from the sale of goods and the rendering of services and are measured at the consideration to which the Company expects to be entitled in exchange for transferring promised goods and services to customer, excluding sales taxes.

Revenue arising from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership, generally when the customer has taken undisputed delivery of the goods.

Revenue arising from the rendering of services is recognized when the services are provided. Consideration received prior to the services being rendered is deferred as a liability under "Deferred revenue" on the consolidated statements of financial position.

In obtaining these contracts, the Company incurs a number of incremental costs, such as commissions paid to sales staff. As the amortization period of these costs, if capitalized, would be less than one year, the Company makes use of the practical expedient in IFRS 15.94 and expenses them as they incur.

#### Property, plant and equipment

Property, plant and equipment are initially recognized at acquisition cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be operated in the manner intended by the Company's management. They are subsequently measured using the cost model, cost less accumulated depreciation and impairment losses.

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation is recognized according to the following methods to write down the cost less estimated residual value, if any. The following rates are applied:

	<u>Methods</u>	<u>Rates</u>
Leasehold improvements	Straight-line	25%
Equipment and furniture, telecommunication system, furniture and fixtures	Decreasing	20%
Computer equipment and computer equipment under capital lease	Decreasing	30%

The residual value, depreciation method and useful life of each asset are reviewed at least at each financial year-end.

Gains or losses arising from the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss when incurred.

#### Intangible assets

##### *Recognition of intangible assets*

The acquired computer software is capitalized on the basis of costs incurred to acquire and install the specific software. Trademarks acquired are recognized as intangible assets at their cost.

Expenditure on the research phase of projects is recognized as an expense as incurred. Costs that are attributable to a project's development phase are recognized as intangible assets, provided that they meet the following recognition requirements:

- The development costs can be measured reliably;
- The project is technically and commercially feasible;
- The Company intends and has sufficient resources to complete the project;
- The Company has the ability to use or sell the asset;
- The asset will generate probable future economic benefits.

Development costs not meeting these criteria for capitalization are expensed as incurred. Directly attributable costs include employee costs incurred on development along with an appropriate portion of relevant overheads.

##### *Subsequent measurement*

All intangible assets are accounted for using the cost model whereby capitalized costs (except for trademarks) are amortized over their estimated useful lives, as these assets are considered finite. The following amortization method and rate are applied:

	<u>Method</u>	<u>Rate</u>
Software	Straight-line	20%

# Nuran Wireless Inc.

## Notes to Consolidated Financial Statements

October 31, 2019 and 2018

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### **3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

As no finite useful life for trademarks can be determined, related carrying amounts are not amortized.

The residual value, depreciation method and useful life of each asset are reviewed at least at each financial year-end.

Gains or losses arising from the disposal of intangible assets are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss when incurred.

#### **Impairment of property, plant and equipment and intangible assets**

For impairment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. The case being, any impairment losses for cash-generating units are charged pro rata with the assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

#### **Financial instruments**

##### *Recognition and derecognition*

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

##### *Classification and initial measurement of financial assets*

Except for those trades receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

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#### **3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial assets are classified into the following categories :

- Amortized cost;
- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI).

For the periods considered, all financial assets of the Company are classified into the amortized cost category.

The classification is determined by both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets are recognized in profit or loss.

#### *Subsequent measurement of financial assets*

After initial recognition, these are measured at amortized cost using the effective interest method, minus, if any, an allowance for impairment loss. Discounting is omitted where the effect of discounting is immaterial. Cash and accounts receivable fall into this category of financial instruments.

#### *Impairment of financial assets*

IFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses. Instruments within the scope of the new requirements included accounts receivable. Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead, the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1'); and
- Financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'Twelve-month expected credit losses' are recognized for the first category while 'lifetime expected credit losses' are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

# Nuran Wireless Inc.

## Notes to Consolidated Financial Statements

October 31, 2019 and 2018

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### **3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Company assesses the impairment of accounts receivable on an individual basis since they originate from specific contracts. Refer to Note 22 for more details on the analysis of how the impairment provisions of IFRS 9 are applied.

In the prior year, the impairment of trade receivables was based on the incurred loss model under IAS 39. Individually significant receivables were considered for impairment when they were past due or when other objective evidence was received that a specific counterparty will default. Receivables that were not considered to be individually impaired were reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate was then based on recent historical counterparty default rates for each identified group.

#### *Classification and measurement of financial liabilities*

The Company's financial liabilities include accounts payable and accrued liabilities, loans payable, long-term debt (except for obligations under a financial lease), and convertible debentures and derivative liability.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit and loss are included within financial expenses.

#### **Financial leases**

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards of ownership of the leased asset. Where the Company is a lessee in this type of arrangement, the related asset is recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a financial lease liability.

See property, plant and equipment's accounting policy for the depreciation methods and useful lives for assets held under financial leases. The corresponding financial lease liability is reduced by lease payments net of financial charges. The interest element of lease payments represents a constant proportion of the outstanding capital balance and is charged to profit or loss as financial costs over the period of the lease.

# Nuran Wireless Inc.

## Notes to Consolidated Financial Statements

October 31, 2019 and 2018

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### 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Operating lease agreements

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease are recognized as an expense on a straight-line basis over the lease term. Related expenses, such as maintenance and insurance expenses, are charged as incurred.

#### Income taxes

The tax expense recognized in profit or loss comprises the sum of deferred taxes and current taxes not recognized directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current taxes are payable on taxable profit, which differs from profit or loss in the consolidated financial statements. The calculation of current taxes is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred taxes are not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided that those rates are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilized against future taxable income. This is assessed based on the Company's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Company has the right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are directly in equity, in which case the related deferred taxes are also recognized in equity.



# Nuran Wireless Inc.

## Notes to Consolidated Financial Statements

October 31, 2019 and 2018

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### **3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Investment tax credits and government assistance**

Investment tax credits and government assistance related to current expenses are accounted for as a reduction of research and development costs and as other revenue, respectively, while those related to the acquisition of property, plant and equipment or intangible assets are accounted for as a reduction of the cost of the related asset. Investment tax credits and government assistance are accrued in the year in which the related expenses or capital expenditures are incurred, provided that the Company is reasonably certain that the credits will be received. Investment tax credits must be examined and approved by tax authorities and it is possible that the amounts granted will differ from the amounts recorded.

#### **Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

#### **Equity, reserves and dividend payments**

Share capital represents the paid-up capital of shares that have been issued, net of share issue cost.

Retained earnings (deficit) include all current and prior period retained profits and losses.

Contributed surplus includes costs recognized in accordance with the share-based compensation and warrants.

#### *Unit placements*

The proceeds from the issued units are allocated between the shares and the warrants using the fair value method. Proceeds are allocated between shares and warrants based on the relative weight of the fair value of each component. The fair value of the shares is determined by the market price and the warrants by using Black-Scholes option pricing model.

#### **Share-based compensation**

The Company operates an equity-settled share-based remuneration plan for its employees, which is not cash-settled. Moreover, the Company may grant warrants to its suppliers as payment of goods and services. All goods and services received in exchange for the grant of any share-based payments are measured at their fair value.

Where employees are rewarded using share-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted.

Where suppliers are rewarded using share-based payments, the Company estimates the fair value of the goods or services received, unless such fair value cannot be estimated reliably. In such a case, the fair value of the goods or services is determined indirectly by reference to the fair value of the equity instruments granted.

# Nuran Wireless Inc.

## Notes to Consolidated Financial Statements

October 31, 2019 and 2018

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### **3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The fair value of the equity instruments granted is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognized as an expense in profit or loss with a corresponding credit to equity in "Contributed surplus". If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any adjustment to cumulative share-based compensation resulting from a revision is recognized in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

Upon exercise of warrants or share options, the proceeds received and the compensation costs previously recorded as contributed surplus, net of any directly attributable transaction costs, are allocated to share capital.

#### **Provisions, contingent assets and contingent liabilities**

Provisions for legal disputes, onerous contracts or other claims are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

No liability is recognized if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

# Nuran Wireless Inc.

## Notes to Consolidated Financial Statements

October 31, 2019 and 2018

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### 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Significant management judgment in applying accounting policies and estimation uncertainty

When preparing the consolidated financial statements, management makes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, revenue and expenses. The actual results may differ from the judgments, estimates and assumptions made by management and will seldom equal the estimated results. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, revenue and expenses are discussed below.

#### *Significant management judgments*

– Going concern:

The assessment of the Company's ability to continue as a going concern, to raise sufficient funds to pay for its ongoing operating expenditures and to discharge its liabilities for the ensuing year involves significant judgment based on historical experience and other factors, including the expectation of future events that are believed to be reasonable under the circumstances. See Note 2 for more information.

– Capitalization of internally developed software:

Distinguishing the research and development phases of a new customized software project and determining whether the recognition requirements for capitalization of development costs are met requires judgment. After capitalization, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalized costs may be impaired (see "Intangible assets").

#### *Estimation uncertainty*

– Inventories:

Management estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

– Derivative liability:

Estimating fair value for derivative liability transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the instrument. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life and volatility of the conversion feature.

– Recognition of investment tax credits:

Determining the amount of investment tax credits requires estimates and significant judgment as management needs to assess if research and development projects for which investment tax credits are claimed are eligible, as well as assessing if the expenses incurred are eligible.

– Allowance for impairment of trade accounts receivable:

Significant estimates and judgments are required in assessing the amount of allowance for impairment of trade accounts receivable.

# Nuran Wireless Inc.

## Notes to Consolidated Financial Statements

October 31, 2019 and 2018

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### 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

– Share-based compensation:

Significant estimates and judgments are required in determining the fair value of the equity instruments granted as share-based compensation or the fair value of goods or services received. The estimated value of share-based compensation requires the selection of an appropriate valuation model and data and consideration as to the volatility of the Company's own shares, the probable life of share options and warrants granted and the time of exercise of those share options and warrants. The model used by the Company is the Black-Scholes valuation model (Notes 12, 14 and 15).

– Impairment of non-financial assets:

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainties relate to assumptions about future operating results and the determination of a suitable discount rate.

### 4 - NEW OR REVISED STANDARDS OR INTERPRETATIONS

#### New standards adopted as at November 1, 2018

##### *IFRS 15, "Revenues from Contracts with Customers"*

In May 2014, the International Accounting Standards Board (IASB) published IFRS 15, which replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", and some revenue-related interpretations. IFRS 15 establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized at a point in time or over time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018.

When adopting IFRS 15, the Company applied the retrospective method without restatement. Nuran Wireless inc. management has assessed the impact of the new standard and has concluded that the accounting policies applied prior to the coming into force of the new standard comply with the requirements of IFRS 15. Adoption of IFRS 15 did not result in any changes to the classification and measurement of revenue from contracts with customers.

##### *IFRS 9, "Financial Instruments"*

In July 2014, the IASB published IFRS 9, which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 introduces improvements which include a logical model for classification and measurement of financial assets, a single, forward-looking "expected loss" impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018.

IFRS 9's impairment requirements use more forward-looking information to recognize credit losses – the "expected credit loss (ECL) model". This replaces IAS 39's "incurred loss model" instruments within the scope of the new requirements included accounts receivable.

# Nuran Wireless Inc.

## Notes to Consolidated Financial Statements

October 31, 2019 and 2018

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### **4 - NEW OR REVISED STANDARDS OR INTERPRETATIONS (Continued)**

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead, the Company considers a broader range of information when assessing credit risk and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

When adopting IFRS 9, the Company has applied transitional relief and opted not to restate prior periods. Financial assets classified as loans and receivables under IAS 39 are now presented as financial assets classified at amortized cost under IFRS 9. This reclassification and the new impairment model have no impact on the consolidated financial statements.

#### **Future accounting changes**

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Company.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of each pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have an impact on the Company's consolidated financial statements.

#### *IFRS 16, "Leases"*

In January 2016, the IASB published IFRS 16 which will replace IAS 17, "Leases". IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all lease, with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease, sets requirements on how to account for assets and liabilities, including complexities such as non-lease elements, variable lease payments and options periods, changes the accounting for sale and leaseback arrangements, largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019.

The Company will adopt IFRS 16 using the Standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. Comparative information is not restated. The Company decided to make use of the practical expedient not to perform a full review of existing leases and apply IFRS 16 only to new or modified contracts.

At the transition date, the Company has only one significant lease that will be recognized on the consolidated statement of financial position as a right-of-use asset and a lease liability. The Company expects to recognize an asset of approximately \$470,000 and a liability of the same amount. The Company also concludes that there will not be a significant impact to the finance leases currently held on the consolidated statement of financial position.

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 5 - TRADE AND OTHER RECEIVABLES

	<u>2019</u>	<u>2018</u>
	\$	\$
Trade accounts receivable, gross	2,185,417	2,855,656
Allowance for credit losses	<u>(1,993,020)</u>	<u>(1,953,656)</u>
	192,397	902,000
Indirect taxes receivable	50,049	41,325
Other receivables		74,001
	<u><u>242,446</u></u>	<u><u>1,017,326</u></u>

All amounts are short-term amounts. Accordingly, the carrying amount of trade and other receivables is considered a reasonable approximation of their fair value.

The above comparative information on impairment relates to the basis of valuation of IAS 39 using the incurred loss model, whereas for the current year the expected loss model of IFRS 9 will be applied.

The variation of the allowance for credit losses is presented below:

	<u>2019</u>	<u>2018</u>
	\$	\$
Opening balance	1,953,656	1,912,478
Write-off	(744)	(6,438)
Exchange difference on allowance for credit losses	3,016	35,273
Impairment loss	<u>37,092</u>	<u>12,343</u>
Closing balance	<u><u>1,993,020</u></u>	<u><u>1,953,656</u></u>

An analysis of unimpaired trade accounts receivable that are past due is presented in Note 22.

#### 6 - INVENTORIES

	<u>2019</u>	<u>2018</u>
	\$	\$
Raw materials	1,249,982	924,917
Finished goods	<u>1,124,869</u>	<u>791,828</u>
	<u><u>2,374,851</u></u>	<u><u>1,716,745</u></u>

For the year ended October 31, 2019, a total of \$691,544 (\$1,632,069 for the year ended October 31, 2018) of inventories was included in profit or loss as an expense. This includes an amount of \$66,453 (\$139,116 for the year ended October 31, 2018) resulting from the write-down of inventories.

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 7 - PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment and their carrying amounts are detailed as follows:

				2019
	Leasehold improvements	Equipment and furniture, tele- communication system, furniture and fixtures	Computer equipment	Total
	\$	\$	\$	\$
<b>Gross carrying amount</b>				
Balance as at November 1, 2018	11,414	788,453	347,718	1,147,585
Additions		13,372	2,720	16,092
Balance as at October 31, 2019	11,414	801,825	350,438	1,163,677
<b>Depreciation and impairment</b>				
Balance as at November 1, 2018	10,724	380,880	250,661	642,265
Depreciation	369	82,852	24,889	108,110
Balance as at October 31, 2019	11,093	463,732	275,550	750,375
<b>Carrying amount as at October 31, 2019</b>	<b>321</b>	<b>338,093</b>	<b>74,888</b>	<b>413,302</b>
				2018
	Leasehold improvements	Equipment and furniture, tele- communication system, furniture and fixtures	Computer equipment	Total
	\$	\$	\$	\$
<b>Gross carrying amount</b>				
Balance as at November 1, 2017	11,414	756,995	344,605	1,113,014
Additions		31,458	3,113	34,571
Balance as at October 31, 2018	11,414	788,453	347,718	1,147,585
<b>Depreciation and impairment</b>				
Balance as at November 1, 2017	9,990	282,121	217,677	509,788
Depreciation	734	98,759	32,984	132,477
Balance as at October 31, 2018	10,724	380,880	250,661	642,265
<b>Carrying amount as at October 31, 2018</b>	<b>690</b>	<b>407,573</b>	<b>97,057</b>	<b>505,320</b>

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 7 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation charges for each of the reporting periods are included in profit or loss and detailed as follows:

	<u>2019</u>	<u>2018</u>
	\$	\$
Selling expenses	11,989	14,120
Administrative expenses	29,056	36,796
Research and development costs	67,065	81,561
	<u>108,110</u>	<u>132,477</u>

A portion of the Company's computer equipment is held under financial lease agreements. As at October 31, 2019, the net carrying amount of this computer equipment is \$23,519 (\$33,599 as at October 31, 2018) and is included in computer equipment. Financial lease liabilities and future minimum financial lease payments are described in Note 20.

#### 8 - INTANGIBLE ASSETS

The Company's intangible assets and their carrying amounts are detailed as follows:

	<u>Software</u>	<u>Trademarks</u>	<u>2019</u>
	\$	\$	\$
<b>Gross carrying amount</b>			
Balance as at November 1, 2018	3,812,133	74,293	3,886,426
Additions			
Under development	539,566		539,566
Acquired	11,952	2,473	14,425
Balance as at October 31, 2019	<u>4,363,651</u>	<u>76,766</u>	<u>4,440,417</u>
<b>Depreciation and impairment</b>			
Balance as at November 1, 2018	379,871		379,871
Amortization	113,665		113,665
Balance as at October 31, 2019	<u>493,536</u>		<u>493,536</u>
<b>Carrying amount as at October 31, 2019</b>	<u>3,870,115</u>	<u>76,766</u>	<u>3,946,881</u>



## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 8 - INTANGIBLE ASSETS (Continued)

	Software	Trademarks	2018 Total
	\$	\$	\$
<b>Gross carrying amount</b>			
Balance as at November 1, 2017	3,572,136	61,796	3,633,932
Additions			
Under development	118,655		118,655
Acquired	121,342	12,497	133,839
Balance as at October 31, 2018	<u>3,812,133</u>	<u>74,293</u>	<u>3,886,426</u>
<b>Depreciation and impairment</b>			
Balance as at November 1, 2017	258,711		258,711
Amortization	121,160		121,160
Balance as at October 31, 2018	<u>379,871</u>		<u>379,871</u>
<b>Carrying amount as at October 31, 2018</b>	<u>3,432,262</u>	<u>74,293</u>	<u>3,506,555</u>

Amortization charges for each of the reporting periods are included in profit or loss and detailed as follows:

	2019	2018
	\$	\$
Cost of sales	90,782	97,834
Research and development costs	12,110	15,137
Administrative expenses	10,773	8,189
	<u>113,665</u>	<u>121,160</u>

As at October 31, 2019, software includes software under development at a cost of \$658,221 (\$118,655 as at October 31, 2018).

Income tax credits amounting to \$192,893 were accounted for as a reduction of the acquired software during the year (\$31,762 as at October 31, 2018).

#### 9 - TRADE AND OTHER PAYABLES

	2019	2018
	\$	\$
Accounts payable and accrued liabilities		
Companies under common control	71,462	50,000
Directors	106	18,089
Shareholders	151,741	93,441
Others	1,595,544	1,781,967
Salaries and payroll deductions payable	344,043	325,107
	<u>2,162,896</u>	<u>2,268,604</u>

As at October 31, 2019, accounts payable include \$111,860 relating to intangible asset purchases (\$499,396 as at October 31, 2018).

The carrying amount of trade and other payables is considered a reasonable approximation of their fair value, given that all amounts are short-term amounts.

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 9 - TRADE AND OTHER PAYABLES (Continued)

In 2018, the Company settled \$140,400 of accounts payable, \$144,300 of salaries and payroll deductions payable, \$42,000 of loans payable and \$525,000 of long-term debt (Notes 10, 11 and 13) for the issuance of 7,097,500 common shares. The fair value of the shares at their date of issuance was \$981,400.

During the year, the Company settled \$99,285 of accounts payable, \$157,052 of salaries and payroll deductions payable and \$6,565 of accounts payable to a company under common control (Note 13) for the issuance of 4,522,382 common shares. The fair value of the shares at their date of issuance was \$262,902.

#### 10 - LOANS PAYABLE

	<u>2019</u>	<u>2018</u>
	\$	\$
Loans payable		
Companies under common control (a)		60,542
Shareholders (b)	<u>190,000</u>	<u>190,000</u>
	<u><u>190,000</u></u>	<u><u>250,542</u></u>

Given its short-term maturity, the carrying amount of the loans payable is considered a reasonable approximation of its fair value.

- (a) The loan from companies under common control is secured by a chattel mortgage of \$1,000,000 on the universality of the Company's assets.

This loan relates to a factoring agreement for a maximum of \$1,000,000. As at October 31, 2019, the Company has \$0 (\$98,565 as at October 31, 2018) in accounts receivable that have been transferred in factoring to Finexcorp Inc. and 9134-8169 Québec inc., companies under common control, for which an amount of \$0 (\$38,023 as at October 31, 2018) has been retained as a factoring reserve.

These factoring agreements stipulate that the Company shall pay on time the government remittances and shall repay the loan received related to invoices that are past due over 105 days and 120 days, respectively. As at October 31, 2019, these terms are respected.

- (b) The loan from shareholders bears interest at 7% and is payable on demand.

#### 11 - LONG-TERM DEBT

	<u>2019</u>	<u>2018</u>
	\$	\$
Term loan from Canada Economic Development (a)	<u>233,325</u>	313,329
Term loan from Investissement Québec (b)	<u>496,488</u>	
Term loan from Investissement Québec (c)	<u>312,650</u>	
Obligations under a financial lease (d)	<u>12,100</u>	6,977
	<u><u>1,054,563</u></u>	<u>320,306</u>
Current portion	<u>421,652</u>	113,649
	<u><u>632,911</u></u>	<u><u>206,657</u></u>

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 11 - LONG-TERM DEBT (Continued)

- (a) The term loan from Canada Economic Development does not bear interest, is payable in monthly instalments of \$6,667 and matures in May 2022.
- (b) The term loan from Investissement Québec is secured by a hypothec on the universality of present and future property, plant, equipment and intangible assets of \$3,600,000, bears interest at prime rate plus 0,25% (4,20%), is payable in monthly instalments of \$35,715 beginning in November 2020 and matures in October 2027. The loan is issued in instalments according to the progress of a development project and can reach a maximum amount of \$3,000,000.
- (c) The term loan from Investissement Québec is secured by a hypothec on the universality of present and future trade accounts receivable and by a shareholder guarantee up to the principal and interest on the amount due, bears interest at prime rate plus 3,50% (7,45%) and is payable in one instalment no later than April 2020.
- (d) The obligation under a financial lease with DLL Financial Solution bears interest at a rate of 9,14%, is payable in blended monthly instalments of \$278 and matures in March 2024.

During the year, two obligations under a financial lease matured and were repaid in full.

Future minimum financial lease payments as at October 31, 2019 were as follows:

	Within 1 year	1 to 5 years	After 5 years	2019 Total
	\$	\$	\$	\$
Lease payments	2,330	9,770		12,100
Financial charges	1,009	1,641		2,650
Net present values	<u>3,339</u>	<u>11,411</u>		<u>14,750</u>

Using discount rates of 9% and 12%, based on the Company's estimated incremental borrowing rates for secured and unsecured loans at the reporting date, respectively, and therefore reflecting the Company's credit position, the fair value of the long-term debt is estimated by discounting the estimated future cash outflows and totals \$1,182,633 (\$394,259 as at October 31, 2018).

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 12 - CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY

As at October 31, 2019, the convertible debentures and derivative liability consist of the following:

	Convertible debentures	Derivative liability	Total
	\$	\$	\$
<b>Balance at October 31, 2017</b>	3,622,946	92,896	3,715,842
Loss on amendment of convertible debentures	(87,004)	146,172	59,168
Non-cash transaction costs – warrants amendment	(19,322)		(19,322)
Repayment of convertible debentures	(50,000)		(50,000)
Issuance of convertible debentures	50,000		50,000
Accretion of convertible debentures	645,122		645,122
Change in fair value of derivative liability		(192,498)	(192,498)
<b>Balance at October 31, 2018</b>	4,161,742	46,570	4,208,312
Change in fair value of derivative liability		<b>433,104</b>	<b>433,104</b>
Amendment of the down round feature of convertible debentures	<b>(2,026)</b>	<b>(479,674)</b>	<b>(481,700)</b>
Postponement of interest payments	<b>(3,805)</b>		<b>(3,805)</b>
Forbearance of the debenture default	<b>(51,682)</b>		<b>(51,682)</b>
Debenture annulment	<b>(50,000)</b>		<b>(50,000)</b>
Conversion of convertible debentures	<b>(1,098,557)</b>		<b>(1,098,557)</b>
Accretion of convertible debentures	<b>97,320</b>		<b>97,320</b>
<b>Closing balance, as at October 31, 2019</b>	<b>3,052,992</b>		<b>3,052,992</b>

On February 23, 2017, the Company issued senior secured convertible debentures for cash proceeds of \$3,500,000. On the same date, the Company also issued senior secured convertible debentures with a fair value of \$750,000 to settle long-term debts, accounts payable and loans payable (see Notes 9, 10 and 11). Each debenture matures on August 23, 2018 and bears interest at 12% per annum.

The principal amount is convertible, at the option of the debenture holder, into common shares of the Company at any time before the maturity date at a price of \$0.25 per common share. The conversion price is subject to adjustment in the event the Company issues common shares at a price below \$0.25 per share while the debentures are outstanding (the “down round adjustment provision”). The Company is entitled to prepay the full amount of the debentures without penalty.

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

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#### **12 - CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY (Continued)**

The debenture holders also received 8,500,000 share purchase warrants "A" ("A warrants") and 8,500,000 share purchase warrants "B" ("B warrants"). Each A warrant entitles the holder to acquire one common share at a price of \$0.30 per share until February 23, 2019 and each B warrant entitles the holder to acquire one common share at a price of \$0.45 per share until February 23, 2020. For the B warrants, in the event the closing price of a common share of the Company on the Canadian Securities Exchange is \$0.60 or greater during any 20 consecutive trading days period at any time until February 23, 2019, the B warrants will expire at the sole discretion of the Company.

In accordance with IFRS, because of the down round adjustment provision, the conversion option is a derivative liability measured at fair value with changes in fair value recognized in the consolidated statements of comprehensive income at each period-end. The derivative liability can only be converted into the Company's equity instruments when the convertible debentures are converted, or will be extinguished on the repayment of the debentures, and will not result in any additional cash outflows by the Company.

In July 2018, following a non-brokered private placement of units at a price of \$0.12 per unit (Note 13), the conversion price of the debentures was reduced from \$0.25 to \$0.12 in accordance with the terms of the convertible debentures. This change was recorded as change in fair value of derivative liability in net loss.

On August 23, 2018, the Company amended the terms of its previously issued 12% senior secured convertible debentures (the "debentures") to extend the maturity date of the debentures from August 23, 2018 to August 23, 2019 (the "debenture amendment"). In consideration of the extension of the maturity date, the Company agreed to extend the expiry date of the A warrants issued with the original debenture offering from February 23, 2019 to February 23, 2020 and the expiry date of the B warrants from February 23, 2020 to February 23, 2021. Except as outlined above, all other terms of the debentures and A and B warrants are unaltered and continue to be in force and effect.

In connection with the debenture amendment, certain debenture holders holding an aggregate of \$300,000 of debentures agreed to assign their debentures to new debenture holders pursuant to an assignment agreement. As consideration for the assignment and extension of the debentures, the Company issued to the new debenture holders an aggregate of 600,000 A special warrants and 600,000 B special warrants. Each of the A and B special warrants are subject to the same terms and conditions of the amended A and B warrants.

In accordance with IFRS, the debenture amendment was accounted for as a debt extinguishment of the initial debentures and the recognition of the amended debentures components at their respective fair value resulting in a \$59,168 loss recorded in net loss.

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 12 - CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY (Continued)

On August 23, 2018, date of amendment, the fair value of the derivative liability was estimated at \$146,172, which was derived using a Black-Scholes option pricing model with the following assumptions:

Share price	\$0.085
Time to maturity	1.0 year
Risk-free rate	1.96%
Expected volatility	65.00%
Dividend yield	Nil
Dilution factor	29.30%

The fair value of the amended debentures liability was determined by using an effective interest rate of 15%, which represents the estimated market rate that the Company would have obtained for a similar financing without the conversion option.

The values assigned to the amended A and B warrants of \$17,813 and to the new A and B warrants issued to the new debenture holders of \$1,509 were established using the Black-Scholes option pricing model. The A and B warrants are classified in equity.

Debentures totalling \$50,000 were repaid on August 23, 2018.

On October 12, 2018, the Company issued senior secured convertible debentures for cash proceeds of \$50,000. Each debenture matures on August 23, 2019 and bears interest at 3% per annum. The principal amount is convertible, at the option of the debenture holder, into common shares of the Company at any time before the maturity date at a price of \$0.12 per common share.

The fair value of the derivative liability as of October 31, 2018 was estimated at \$46,570, which was derived using a Black-Scholes option pricing model with the following assumptions:

Share price	\$0.07
Time to maturity	0.8 years
Risk-free rate	2.01%
Expected volatility	65.00%
Dividend yield	Nil
Dilution factor	29.30%

On January 10, 2019, the Company made an offer to holders of its Convertible Debentures to fix the conversion price at \$0.10 per common share (from \$0.12 per common share) and remove any adjustment provisions relating to future financings completed at a price lower than the conversion price.

In consideration of this amendment, the Company agreed to issue to debenture holders that accepted the debenture amendment offer (other than insiders) such number of common shares of the Company as is equal to 5% of the principal amount owing to the respective debenture holder under the debenture at a deemed price of \$0.07 per common share (Note 13).

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 12 - CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY (Continued)

Pursuant to the Agency and Interlender Agreement dated February, 23, 2017, once a majority of debentures holders accepted the modification, all the debentures were modified on January 18, 2019 and the Company issued 1,377,142 common shares at a price of \$0.095 (\$129,542 total) per share to holders who accepted the modification as consideration for their acceptance.

In accordance with IFRS, the debenture amendment was accounted for as a debt extinguishment of the initial debentures and the recognition of the amended debentures components at their respective fair value. Moreover, following the modification of the debentures the conversion option now meets the definition of an equity instrument which must be recognized separately from the debentures in the equity.

The fair value of the conversion option on January 18 prior to the amendment was estimated at \$479,674, which was derived using a Monte-Carlo pricing model with the following assumptions:

Share price	\$0.095
Exercise price	\$0.12
Time to maturity	0.6 years
Risk-free rate	1.81%
Expected volatility	60%
Probability of share issuance	90%

The fair value of the conversion option on January 18 following the amendment was estimated at \$108,967, which was derived using a Black-Scholes option pricing model with the following assumptions:

Share price	\$0.095
Exercise price	\$0.10
Time to maturity	0.6 years
Risk-free rate	1.75%
Expected volatility	65%
Dividend yield	Nil
Dilution factor	39.8%

The extinguishment and recognition of the debentures, accounting for the common share issued as consideration, resulted in a \$243,192 gain recorded in net loss.

On May 28, 2019, the Company obtained authorization from the majority of the holders to postpone the payment of interest due for the period of February 23 to May 23, 2019 to August 23, 2019. In accordance with the Agency and Interlender Agreement dated February, 23, 2017, once a majority of debentures holders accepted the postponement, interest payments on all debentures were postponed.

In accordance with IFRS, the postponement of the interest resulted in an adjustment of the book value of the convertible debentures with a \$3,805 gain recorded in net loss.

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 12 - CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY (Continued)

On August 23, 2019, the Company entered into a forbearance agreement with a majority of the debenture holders pursuant to which the majority holders agreed to waive any default in the payment of principal and interest due on August 23, 2019. The majority lenders also agreed to continue to forbear from declaring or acting upon, or exercising related rights or remedies under such creditor's financing agreement until February 23, 2020. In accordance with the Agency and Interlender Agreement dated February, 23, 2017, once a majority of debentures holders agreed to forbear any default, all debenture holders also waived the default.

In return for accepting this forbearance, the debentures holders received one warrant per \$1 par value of convertible debentures (3,090,000 warrants in total), granting them the right to acquire a share in the Company for \$0.10. The warrants are valid for a period of two years. The fair value of \$6,899 assigned to the warrants issued was established using a Black-Scholes pricing model.

In accordance with IFRS, the debenture postponement was accounted for as a an extinguishment of the initial debentures and the recognition of new convertible debentures with components at their respective fair value.

Following the January 18, 2019 modification, the conversion option met the definition of an equity instrument, to be recognized separately from the debentures in the equity. On August 23, 2019, prior to the agreement, the book value of the conversion option stood at \$80,507, and that amount was reclassified as contributed surplus.

The fair value of the conversion option on August 23, 2019, following the forbearance of the default was estimated at \$1,218, which was derived using a Black-Scholes option pricing model.

The Black-Scholes pricing model used for the warrants and the conversion options used the following assumptions:

Share price	\$0.03
Exercise price	\$0.10
Time to maturity	0 year
Risk-free rate	1.62%
Expected volatility	65%
Dividend yield	Nil
Dilution factor	39.63%

The extinguishment and recognition of the debentures, including the fair value of the warrants issued as consideration and the fair value of the conversion option resulted in a \$43,565 gain recorded in net loss.

The fair value of the conversion option is a level 3 fair value measurement (Note 22). The key level 3 inputs used by management to determine the fair value are the expected future volatility in the price of the Company's shares and the dilution factor.



## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 12 - CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY (Continued)

Given its short-term maturity, the carrying amount of the convertible debentures is considered a reasonable approximation of its fair value.

In 2018, the fair value of the derivative liability was estimated using Black-Scholes option pricing model, the most volatile significant input being the share value at valuation date. As at October 31, 2018, an increase of \$0.05 of the share value would have increased the derivative liability by \$315,758. A decrease of \$0.05 of the share value would have decreased the derivative liability by \$46,541.

In 2019, the debenture holders requested the conversion of debentures totalling a par value of \$1,110,000 in common shares of the Company. The book value of the converted debentures was \$1,098,557 (Note 13).

#### 13 - SHARE CAPITAL

The Company's share capital consists only of fully paid shares of each of the following categories, each of an unlimited amount and without nominal value.

Common shares, voting and participating

Preferred shares

	<u>2019</u>	<u>2018</u>
	\$	\$
Common shares (a)	<u>25,064,583</u>	<u>22,287,237</u>

(a) The number of issued common shares totals 172,977,913 as at October 31, 2019 (138,694,039 as at October 31, 2018).

On June 4, 2018, the Company completed a non-brokered private placement of units of the Company at a price of \$0.12 per unit for total gross proceeds of \$2,519,600. Each unit consisting of one common share and one share purchase warrant (Note 14). In connection with the offering, the Company also completed a debt settlement agreement of \$809,700 of debt owed to various insiders, employees and consultants of the Company in consideration of an aggregate of 6,747,500 units (Notes 9, 10 and 11). The Company issued an aggregate of 27,744,168 units pursuant to the offering and debt settlement. In connection with the offering, the Company paid finder's fees totalling \$567,389 in cash.

On July 10, 2018, the Company completed its second and last tranche of previously announced non-brokered private placement of units of the Company at a price of \$0.12 per unit for total gross proceeds of \$458,522. Each unit consisting of one common share and one share purchase warrant. In connection with the offering, the Company also completed a debt settlement agreement of \$42,000 of debt owed to a company controlled by directors for a consideration of 350,000 units (Notes 9, 10 and 11). The Company issued an aggregate of 4,171,000 units pursuant to the offering and debt settlement. In connection with the offering, the Company paid finder's fees totalling \$13,548 in cash.

For all debts settled in shares in 2018, the difference between the fair value of the shares at issuance and the notional value of the debts was \$129,700.

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

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#### 13 - SHARE CAPITAL (Continued)

On January 18, 2019, the Company made an offer to holders of its previously issued 12% senior secured convertible debentures to fix the conversion price of the debentures at \$0.10 per common share (from \$0.12 per common share) and remove any adjustment provisions relating to future financings completed at a price lower than the conversion price (Note 12). In consideration of the debenture amendment the Company issued to debenture holders that accepted the amendment offer (other than insiders) 1,377,142 shares for a total value of \$129,542.

On February 26, 2019, the Company completed a non-brokered private placement of units of the Company at a price of \$0.10 per unit for total gross proceeds of \$1,033,435. Each unit consisting of one common share and one-half of one share purchase warrant (Note 14). In connection with the offering, the Company also completed a debt settlement agreement of \$73,565 of debt owed to various insiders of the Company and to a company under common control in consideration of an aggregate of 735,650 units (Notes 9 and 11). The Company issued an aggregate of 11,070,000 units pursuant to the offering and debt settlement. In connection with the offering, the Company paid finder's fees totalling \$28,228 in cash.

On August 22, 2019, the Company completed a non-brokered private placement of units of the Company at a price of \$0.05 per unit for total gross proceeds of \$342,500. Each unit consisting of one common share and one share purchase warrant (Note 14). In connection with the offering, the Company also completed a debt settlement agreement of \$189,337 of debt owed to various insiders, employees and consultants of the Company in consideration of an aggregate of 3,786,732 units (Notes 9 and 11). The Company issued an aggregate of 10,636,732 units pursuant to the offering and debt settlement. In connection with the offering, the Company paid finder's fees totalling \$200 in cash.

Private placement expenses relating to the above-mentioned offerings totalled \$31,862 (\$1,111,661 in 2018), of which a \$3,434 (\$530,724 in 2018) amount was paid by the issue of warrants (Note 14).

During the year, the Company issued 100,000 units of the Company at a price of \$0.12 per unit for a total gross proceeds of \$12,000. Each unit consisting of one common share and one share purchase warrant. These units are related to the non-brokered private placement on June 4, 2018, since they had been subscribed but had not been issued.

As stated in Note 12, the debenture holders requested the conversion of debentures totalling a par value of \$1,110,000 in common shares of the Company. Taking into account the book value of the debentures converted, as well as the value of the conversion option, the carrying value recorded for these shares was \$1,098,557.

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 14 - WARRANTS

The following is a summary of the activity of warrants:

	Number of warrants	2019 Weighted average exercise price \$
Opening balance	52,537,660	0.26
Granted during the period	19,817,732	0.10
Expired during the period	(1,707,240)	0.25
Closing balance, as at October 31, 2019	<u>70,648,152</u>	<u>0.21</u>
		2018
	Number of warrants	Weighted average exercise price \$
Opening balance	24,078,652	0.37
Granted during the period	34,430,420	0.20
Exercised during the period	(5,971,412)	0.40
Closing balance, as at October 31, 2018	<u>52,537,660</u>	<u>0.26</u>

The following is a summary of warrants outstanding, all of which are exercisable, as at October 31, 2019:

Exercise price	Number	Weighted average contractual life (years)
\$0.06	300,000	1.81
\$0.07	10,636,732	2.81
\$0.10	3,246,000	1.79
\$0.12	1,415,252	0.60
\$0.15	5,535,000	1.37
\$0.20	31,915,168	0.61
\$0.30	8,500,000	0.32
\$0.45	9,100,000	1.32
	<u>70,648,152</u>	<u>1.11</u>

As stated in Note 13, the Company closed on June 4, 2018 a non-brokered private placement of units of the Company at a price of \$0.12 per unit. 27,744,168 units were issued, each of them consisting of one common share and one share purchase warrant. Each warrant issued entitles the holder to acquire one additional share at a price of \$0.20 per share for a period of 24 months from closing. In connection with the offering, the Company issued an aggregate of 1,203,182 finder's warrants exercisable at a price of \$0.12 per share for a period of 24 months from closing. All securities issued are subject to a hold period expiring four months and one day from closing in accordance with applicable securities laws.

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

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#### 14 - WARRANTS (Continued)

The warrants were assigned a value of \$458,682 using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate of 1.93%; expected volatility of 65%; expected dividend yield of 0%; expected life of two years and an exercise price of \$0.20. Expected volatility was based on the historical volatility of other comparable listed companies. The share price upon issuance was \$0.14.

The finder's warrants were assigned a value of \$36,605 using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate of 1.93%; expected volatility of 65%; expected dividend yield of 0%; expected life of two years and an exercise price of \$0.12. Expected volatility was based on the historical volatility of other comparable listed companies. The share price upon issuance was \$0.14.

As stated in Note 13, the Company closed on July 10, 2018 a non-brokered private placement of units of the Company at a price of \$0.12 per unit. 4,171,000 units were issued, each of them consisting of one common share and one share purchase warrant. Each warrant issued entitles the holder to acquire one additional share at a price of \$0.20 per share for a period of 24 months from closing. In connection with the offering, the Company issued an aggregate of 112,070 finder's warrants exercisable at a price of \$0.12 per share for a period of 24 months from closing. All securities issued are subject to a hold period expiring four months and one day from closing in accordance with applicable securities laws.

The warrants were assigned a value of \$33,579 using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate of 1.94%; expected volatility of 65%; expected dividend yield of 0%; expected life of two years and an exercise price of \$0.20. Expected volatility was based on the historical volatility of other comparable listed companies. The share price upon issuance was \$0.105.

The finder's warrants were assigned a value of \$1,858 using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate of 1.94%; expected volatility of 65%; expected dividend yield of 0%; expected life of two years and an exercise price of \$0.12. Expected volatility was based on the historical volatility of other comparable listed companies. The share price upon issuance was \$0.105.

As stated in Note 13, the Company closed on February 26, 2019 a non-brokered private placement of units of the Company at a price of \$0.10 per unit. 11,070,000 units were issued, each of them consisting of one common share and one-half of one share purchase warrant. Therefore, the Company issued an aggregate of 5,535,000 warrants. Each warrant issued entitles the holder to acquire one additional share at a price of \$0.15 per share for a period of 24 months from closing. In connection with the offering the Company issued an aggregate of 156,000 finder's warrants exercisable at a price of \$0.10 per share for a period of 24 months from closing. All securities issued are subject to a hold period expiring four months and one day from closing in accordance with applicable securities laws.

The warrants were assigned a value of \$38,281 using the fair value method. A value of \$39,652 was obtained using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate 1.75%; expected volatility 65%; expected dividend yield of 0%; expected life of two years and an exercise price of \$0.15. Expected volatility was based on the historical volatility of other comparable listed companies. The share price upon issuance was \$0.10.

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

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#### **14 - WARRANTS (Continued)**

The finder's warrants were assigned a value of \$1,975 using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate 1,75%; expected volatility 65%; expected dividend yield of 0%; expected life of two years and an exercise price of \$0.10. Expected volatility was based on the historical volatility of other comparable listed companies. The share price upon issuance was \$0.10.

As stated in Note 13, the Company closed on August 20, 2019 a non-brokered private placement of units of the Company at a price of \$0.05 per unit. 10,636,732 units were issued, each of them consisting of one common share and one share purchase warrant. Each warrant issued entitles the holder to acquire one additional share at a price of \$0.07 per share for a period of 36 months from closing. In connection with the offering the Company issued an aggregate of 300,000 finder's warrants exercisable at a price of \$0.06 per share for a period of 24 months from closing. All securities issued are subject to a hold period expiring four months and one day from closing in accordance with applicable securities laws.

The warrants were assigned a value of \$59,498 using the fair value method. A value of \$66,992 was obtained using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate 1,29%; expected volatility 65%; expected dividend yield of 0%; expected life of three years and an exercise price of \$0.07. Expected volatility was based on the historical volatility of other comparable listed companies. The share price upon issuance was \$0.05.

The finder's warrants were assigned a value of \$1,459 using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate 1,34%; expected volatility 65%; expected dividend yield of 0%; expected life of two years and an exercise price of \$0.07. Expected volatility was based on the historical volatility of other comparable listed companies. The share price upon issuance was \$0.05.

As stated in Note 12, the Company asked the debenture holders to forbear from exercising enforcement rights in relation to event of non-repayment of maturity proceeds for a period of six months. In consideration of the confirmation from a majority of holders, the Company granted a share purchase warrant entitling the holder to purchase one common share of the Company at an exercise price of \$0.10 for a term of 24 months from the maturity date for each \$1.00 of principal amount owing to the holder under the debenture.

As of August 23, 2019, there remained \$3,090,000 in principal amount owed to the holders under the debenture. Therefore, the Company issued an aggregate of 3,090,000 share purchase warrants.

The warrants were assigned a value of \$6,899 using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate 1,37%; expected volatility 65%; expected dividend yield of 0%; expected life of two years and an exercise price of \$0.10. Expected volatility was based on the historical volatility of other comparable listed companies. The share price upon issuance was \$0.05.

As stated in Note 13, the Company issued 100,000 units related to the non-brokered private placement on June 4, 2018 since they had been subscribed but had not been issued at that time. Each unit consisting of one common share and one share purchase warrant.

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 14 - WARRANTS (Continued)

The warrants were assigned a value of \$409 using the fair value method. A value of \$423 was obtained using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate 1.62%; expected volatility 65%; expected dividend yield of 0%; expected life of two years and an exercise price of \$0.12. Expected volatility was based on the historical volatility of other comparable listed companies. The share price upon issuance was \$0.06.

#### 15 - OPTIONS

In 2016, the Company implemented a stock option plan for its employees, officers, directors and consultants for up to 10% of the issued and outstanding shares at the grant date. The maximum number set by the Board of Directors as at October 31, 2016 was 4,510,000 options. The exercise price of each option is equivalent to the price set at the time that each option is awarded. This price cannot be less than the share price at the grant date. Each option has a maximum term of five years and stock options can be only be settled by issuance of share capital. Upon implementation of the plan in 2016, the Company granted 4,510,000 options at an exercise price of \$0.20 per option shares.

The following is a summary of the activity of stock options:

	<b>2019</b>	
	Number of options	Weighted average exercise price \$
Opening balance	5,310,000	0.22
Granted during the period	3,050,000	0.10
Forfeited during the period	(680,000)	0.29
Closing balance, as at October 31, 2019	<u>7,680,000</u>	<u>0.16</u>
Closing balance of exercisable options, as at October 31, 2019	<u>7,280,000</u>	<u>0.16</u>
		<b>2018</b>
	Number of options	Weighted average exercise price \$
Opening balance	5,310,000	0.22
Closing balance, as at October 31, 2018	<u>5,310,000</u>	<u>0.22</u>
Closing balance of exercisable options, as at October 31, 2018	<u>5,210,000</u>	<u>0.21</u>

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 15 - OPTIONS (Continued)

The following is a summary of stock options outstanding and exercisable as at:

	Options outstanding		Options exercisable	
	Number	Weighted average contractual life (years)	Number	Weighted average contractual life (years)
October 31, 2019				
Exercise price				
\$0.10	3,050,000	2.53	2,650,000	2.42
\$0.20	4,430,000	1.70	4,430,000	1.70
\$0.30	200,000	2.45	200,000	2.45
	7,680,000		7,280,000	
October 31, 2018				
Exercise price				
\$0.20	4,510,000	2.70	4,510,000	2.70
\$0.30	800,000	1.58	700,000	1.31
	5,310,000		5,210,000	

On January 25, 2019, the Company agreed to authorize and grant an aggregate of 2,550,000 options at an exercise price of \$0.10 per option shares. Of this total, 1,750,000 options have a lifespan of three years, while 800,000 options have a lifespan of four years.

The options with a three-year lifespan were assigned a value of \$28,804, while those with a four-year lifespan were assigned a value of \$16,507, using the Black-Scholes option pricing model that takes into account factors specific to the share incentive plans, such as the vesting period. The following principal weighted assumptions were used in the valuations.

Three-year lifespan:	2019
Share price at grant date	\$0.095
Volatility	65.00%
Options life	3 years
Dividend yield	0.00%
Risk-free investment rate	1.87%
Fair value at grant date	\$0.017
Exercise price at grant date	\$0.100
Four-year lifespan:	2019
Share price at grant date	\$0.095
Volatility	65.00%
Options life	4 years
Dividend yield	0.00%
Risk-free investment rate	1.89%
Fair value at grant date	\$0.021
Exercise price at grant date	\$0.100

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 15 - OPTIONS (Continued)

On March 28, 2019, the Company agreed to authorize and grant a further 500,000 options at an exercise price of \$0.10 per option shares.

The options were assigned a value of \$5,334 using the Black-Scholes option pricing model that takes into account factors specific to the share incentive plans, such as the vesting period. The following principal weighted assumptions were used in the valuations.

	<u>2019</u>
Share price at grant date	\$0.075
Volatility	65.00%
Options life	3 years
Dividend yield	0.00%
Risk-free investment rate	1.48%
Fair value at grant date	\$0.011
Exercise price at grant date	\$0.100

No options were granted in 2018.

The underlying expected volatility was determined by reference to historical volatility of other comparable listed companies for a period that is generally commensurate with the expected option term. No special features inherent to the options granted were incorporated into measurement of fair value.

In total, a \$48,720 (\$8,802 in 2018) amount of employee remuneration expense and consultation fees (all of which related to equity-settled share-based payment transactions) has been included in profit or loss and credited to contributed surplus.

#### 16 - LOSS PER SHARE

Basic and diluted loss per share have been calculated based on the net loss available for common shareholders by the weighted average number of common shares outstanding during the period. There were no adjustments to the numerator and denominator of basic earnings used in calculating diluted earnings.

Details of share options and warrants issued that could potentially dilute earnings per share in the future are given in Notes 14 and 15.



# Nuran Wireless Inc.

## Notes to Consolidated Financial Statements

October 31, 2019 and 2018

### 17 - INCOME TAXES

#### Current tax expense

The reconciliation of income taxes computed at the Canadian statutory rates with the income tax expense recorded is as follows:

	<u>2019</u>	<u>2018</u>
	\$	\$
Income tax recovery calculated on the basis of the statutory rate in Canada of 26.50% (26.50% in 2018)	<b>(940,483)</b>	(926,705)
Increase (decrease) of the following items:		
Non-deductible expenses and non-taxable income	<b>68,099</b>	22,757
Change in unrecognized deferred tax assets	<b>878,634</b>	1,004,327
Unrecognized future income tax assets on share capital transaction costs	<b>(7,533)</b>	(153,948)
Other	<b>1,283</b>	53,569
Income tax expense in the statements of comprehensive income	<u><u>1,283</u></u>	<u><u>53,569</u></u>

The major component of tax reconciliation of the expected tax expense based on the domestic tax rate for the Company (26.50% in 2019; 26,50% in 2018) and the reported tax expense in profit or loss (nil for each of the reporting years) is the increase of unused tax losses and deductible temporary differences for which no deferred tax assets are recognized and prior year adjustment.

#### Deferred income taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred income tax assets (liabilities) are as follows:

	<b>Balance as at</b>	<b>Recognized in</b>	<b>Balance as at</b>
	<b>October 31,</b>	<b>profit and loss</b>	<b>October 31,</b>
	<b>2018</b>	<b>2019</b>	<b>2019</b>
	\$	\$	\$
Property, plant and equipment and intangible assets	<b>(470,932)</b>	<b>(130,476)</b>	<b>(601,408)</b>
Convertible debentures and derivative liability	<b>(11,047)</b>	<b>1,240</b>	<b>(9,807)</b>
Unused tax losses (b)	<b>481,979</b>	<b>129,236</b>	<b>611,215</b>
	<u><u>481,979</u></u>	<u><u>129,236</u></u>	<u><u>611,215</u></u>

# Nuran Wireless Inc.

## Notes to Consolidated Financial Statements

October 31, 2019 and 2018

### 17 - INCOME TAXES (Continued)

	Balance as at October 31, 2017	Recognized in profit and loss	Balance as at October 31, 2018
	\$	\$	\$
Property, plant and equipment and intangible assets	(421,199)	(49,733)	(470,932)
Convertible debentures and derivative liability	(141,552)	130,505	(11,047)
Unused tax losses (b)	562,751	(80,772)	481,979
	<u>562,751</u>	<u>(80,772)</u>	<u>481,979</u>

Unrecognized deductible temporary differences and unused tax losses consist of the following:

	2019	2018
	\$	\$
Research and development expenses (a)	<b>12,298,843</b>	11,629,665
Undeducted accounting reserve	<b>404,540</b>	
Unused tax losses (b)	<b>29,886,230</b>	27,401,440
Financing expenses	<b>900,533</b>	1,166,017
Charitable donations carried forward	<b>52,668</b>	52,668
Unrecognized deferred tax assets	<b>43,542,814</b>	40,249,790

(a) Temporary differences from unused research and development expenses shown in this table are those from the federal. For the provincial, the differences total \$12,423,814 as at October 31, 2019 and \$11,692,770 as at October 31, 2018.

(b) The Company has unused tax losses from its operations totalling \$31,191,866 for the federal and \$32,162,413 for the provincial that may be carried forward and applied against taxable income over the following years:

	Federal	Provincial
	\$	\$
Years ending October 31		
2026	4,002,728	4,002,728
2027	7,111,602	7,111,602
2028	839,160	839,160
2029	1,011,425	1,011,425
2030		
2031	1,733,354	1,733,354
2032	319,624	319,624
2033	1,909,838	1,915,411
2034	5,191,898	5,163,379
2035	203,350	204,894
2036	1,633,722	1,633,586
2037	2,283,254	2,283,653
2038	2,863,446	2,854,021
2039	3,088,465	3,089,576
	<u>32,191,866</u>	<u>32,162,413</u>

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 18 - FINANCIAL EXPENSES

Financial costs consist of the following:

	<u>2019</u>	<u>2018</u>
	\$	\$
Foreign exchange loss	8,441	68,898
Factoring fees	16,161	57,894
Bank charges	8,878	14,812
Penalties	57,421	
Financing cost	7,876	
Interest expenses for financial liabilities at amortized cost		
Current liabilities	33,644	6,479
Non-current liabilities and convertible debentures	542,683	1,205,111
	<u>675,104</u>	<u>1,353,194</u>
Interest expense on financial lease agreements	1,282	5,179
	<u>676,386</u>	<u>1,358,373</u>

#### 19 - EMPLOYEE REMUNERATION

Expenses recognized for employee benefits such as wages, salaries and social security costs total \$2,077,053 for the year ended October 31, 2019 (\$2,670,975 for the year ended October 31, 2018).

#### 20 - OPERATING LEASES

The Company leases an office and furniture under operating leases. The future lease payments are as follows:

	<u>\$</u>
Years ending October 31	
2020	178,970
2021	182,374
2022	184,701
	<u>546,045</u>

The office's lease agreement expires in October 2022 and the furniture's lease agreement expires in January 2020.

The lease expense during the period amounts to the following, representing the minimum lease payments:

	<u>2019</u>	<u>2018</u>
	\$	\$
	<u>179,399</u>	<u>178,944</u>

Also, under a software licence agreement, the Company committed to pay annual subscription fees for an amount of \$60,000 and royalties of US\$20 or US\$30 for each unit of licence products sold.

# Nuran Wireless Inc.

## Notes to Consolidated Financial Statements

October 31, 2019 and 2018

### 21 - RELATED PARTY TRANSACTIONS

The Company's related parties include companies under common control as well as key management personnel.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received.

#### Transactions with key management personnel

The Company's key management consists of the directors and executives. The key management personnel remuneration totals \$552,691, including \$119,475 of salaries converted into shares, for the year ended October 31, 2019 (\$725,765 for the year ended October 31, 2018).

The number of shares held personally or through a company by key management personnel is 4,343,000 shares as at October 31, 2019 (13,883,325 for the year ended October 31, 2018).

#### Other related party transactions

During the year, the Company entered into the following transactions with related parties:

	2019 \$	2018 \$
Shareholders		
Interest expenses	66,807	65,292
Companies under common control		
Revenues		
Rent	7,200	8,400
Expenses		
Administrative expenses	137,029	120,988
Financial expenses	78,736	122,956

Convertible debentures (including derivative liability) owed to a company under common control and to shareholders total \$429,790 and \$370,509 respectively as at October 31, 2019 (\$430,733 and \$371,322 respectively as at October 31, 2018).

### 22 - FINANCIAL INSTRUMENTS RISK

#### Risk management objectives and policies

The Company is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Company's risk management is coordinated by its executives and focuses on actively securing the Company's short to medium-term cash flows.

The Company does not actively engage in the trading of financial assets for speculative purposes and it does not write options.

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 22 - FINANCIAL INSTRUMENTS RISK (Continued)

The carrying amounts of the Company's financial assets and liabilities by category are as follows:

	<u>2019</u>	<u>2018</u>
	\$	\$
Financial assets classified at amortized costs (loans and receivables in 2018)		
Cash	510,832	222,421
Trade accounts receivable	192,397	976,001
Security deposits and deposits on purchase of goods	483,688	19,022
	<u>1,186,917</u>	<u>1,217,444</u>
	<u>2019</u>	<u>2018</u>
	\$	\$
Financial liabilities carried at amortized cost		
Trade accounts payable	1,818,853	1,943,497
Loans payable	190,000	250,542
Convertible debentures	3,052,992	4,161,742
Long-term debt	1,042,463	313,329
	<u>6,104,308</u>	<u>6,669,110</u>
Financial liabilities carried at fair value through profit or loss		
Derivative liability		<u>46,570</u>

The most significant financial risks to which the Company is exposed are described below.

#### Market risk analysis

The Company is exposed to market risk through its use of financial instruments and specifically to interest rate risk and foreign currency risk which result from its operating and financing activities.

##### – Interest rate risk and interest rate sensitivity:

The Company is exposed to changes in market interest rates through its loan payable to companies under common control at a variable interest rate.

The loan from shareholders bears interest at fixed rate and the Company is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations.

The term loans from Investissement Québec bear interest at a variable rate and the Company is, therefore, exposed to the risk of cash flow resulting from interest rate fluctuations.

A change in interest rates of 1% is considered to be reasonably possible based on the observation of current market conditions. Such a change in interest rates would not have a significant impact on the Company's loss or deficit for each reporting period.

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 22 - FINANCIAL INSTRUMENTS RISK (Continued)

- Foreign currency risk and foreign currency sensitivity:

The exposure to currency exchange rate fluctuations arises from the Company's sales and expenses outside Canada, which are primarily denominated in US dollars.

To mitigate the Company's exposure to foreign currency risk, non-Canadian cash flows are monitored, but no forward exchange contracts or other derivative financial instruments are entered into.

Foreign currency-denominated financial assets and liabilities which expose the Company to currency risk are disclosed below. The amounts shown are those reported by key management, translated into Canadian dollars at the closing rate:

	<u>2019</u>	<u>2018</u>
	\$	\$
Cash	<b>366,741</b>	198,874
Trade accounts receivable and deposits	<b>662,375</b>	821,878
Trade and other payables	<b>752,978</b>	1,090,076

A change in exchange rates of 5% is considered to be reasonably possible based on the observation of current market conditions and the market risk volatility in exchange rates in the previous 12 months. All other things being equal, such a change in exchange rates would have increased or decreased the net loss and deficit by \$13,800 for the year ended October 31, 2019 (\$3,500 for the year ended October 31, 2018) based on the Company's foreign currency financial instruments held at each reporting date.

#### Credit risk analysis

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company. The Company is exposed to this risk mainly due to trade accounts receivable from its customers. The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized as at its reporting date.

The Company continuously monitors defaults of customers, and incorporates this information into its credit risk controls.

To assess the expected credit losses, trade receivables have been assessed on an individual basis since they originate from specific contracts. There are few contracts, therefore, this gives a more precise assessment than using a calculation matrix and grouping all trade receivables according to certain criteria.

The Company takes into account economic perspectives of regions served by its clients as well as economic decisions affecting the telecommunication industry in Canada and worldwide. Therefore the Company adjusted the hypothesis of assessment according to expected changes in these factors.

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 22 - FINANCIAL INSTRUMENTS RISK (Continued)

Trade receivables are written off when there is no reasonable expectation of recovery. Failure to make payments within 120 days from the invoice date and failure to engage with the Company on alternative payment arrangement for instance are considered indicators of no reasonable expectation of recovery.

The Company's management considers that all of its financial assets that are not impaired or past due are of good credit quality. As at its reporting date, the Company has certain trade accounts receivable that have not been settled by the contractual due date but that are not considered to be impaired. The amounts analyzed by the length of time past due are the following:

	<u>2019</u>	<u>2018</u>
	\$	\$
No more than three months	59,316	721,249
More than three months but no more than six months	435	130,091
More than six months but no more than one year	40,754	40,065
More than one year	<u>91,892</u>	<u>84,596</u>
	<u><u>192,397</u></u>	<u><u>976,001</u></u>

The Company is exposed to a credit risk concentration because respectively 61%, 18% and 17% of its trade accounts receivable are due from three customers (26% and 22% from two customers as at October 31, 2018).

The credit risk for cash is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

#### Liquidity risk analysis

Liquidity risk is the risk that the Company might be unable to meet its obligations. The Company manages its liquidity needs by monitoring forecasts of cash inflows and outflows due in day-to-day business. Net cash requirements on day-to-day, week-to-week and 30-day projections are compared to available borrowing facilities in order to determine headroom or any shortfalls.

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade accounts receivables. The Company's existing cash resources and its trade accounts receivable are insufficient to cover the current cash outflow requirement and, therefore, the Company is actively exploring possible sources of financing on the market. Cash flows from trade and other receivables are all contractually due within six months.

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 22 - FINANCIAL INSTRUMENTS RISK (Continued)

The Company's financial liabilities have contractual maturities (including interest payments, where applicable) which are summarized below:

					2019
	Within	Current	Non-current		Total
	6 months	6 to 12	1 to 5	Later than	
\$	months	years	5 years		
	\$	\$	\$	\$	\$
Trade and other payables	1,818,853				1,818,853
Loans payable	217,154				217,154
Long-term debt	380,990	41,672	665,671		1,088,333
Convertible debentures	3,206,827				3,206,827
	<u>5,623,824</u>	<u>41,672</u>	<u>665,671</u>		<u>6,331,167</u>
					2018
	Within	Current	Non-current		Total
	6 months	6 to 12	1 to 5	Later than	
	\$	months	years	5 years	
	\$	\$	\$	\$	\$
Trade and other payables	1,943,496				1,943,496
Loans payable	268,830				268,830
Long-term debt	72,665	41,497	206,657		320,819
Convertible debentures	254,301	4,452,603			4,706,904
	<u>2,539,292</u>	<u>4,494,100</u>	<u>206,657</u>		<u>7,240,049</u>

These amounts reflect the contractual undiscounted cash flows, and therefore may differ from the carrying amounts of the liabilities at the reporting date.

#### Fair value measurement

Financial assets and financial liabilities measured at amortized cost which fair value is disclosed in the consolidated statements of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: unobservable inputs for the asset or liability.

All of the Company's financial liabilities are included into level 2, except the derivative liability that is included in level 3. The fair value was determined based on discounted cash flows using effective interest rates available to the Company at the closing date for similar instruments, except for the derivative liability (Note 12).



## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 23 - CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide an adequate return to its shareholders by pricing its services commensurately with the level of risk.

The Company monitors capital on the basis of the carrying amount of equity and management assesses the Company's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. In order to adjust its capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

#### 24 - SEGMENT INFORMATION

The Company has examined its activities and has determined that, based on information reviewed on a regular basis by the main decision-makers, it has a single reportable segment.

The following information provides the required entity-wide disclosures:

	<u>2019</u>	<u>2018</u>
	\$	\$
Rendering of services	685,670	1,127,935
Sale of goods	1,436,497	3,041,302
Total	<u>2,122,167</u>	<u>4,169,237</u>

The Company's revenue from external customers is divided into the following geographical areas:

	<u>2019</u>	<u>2018</u>
	\$	\$
Canada	54,954	70,897
United States	1,177,300	2,546,988
Europe	630,063	810,499
Africa	166,152	249,233
Other areas	93,698	491,620
Total	<u>2,122,167</u>	<u>4,169,237</u>

The Company is exposed to a credit risk concentration because 17% of its revenues are from one customer for the year ended October 31, 2019 (33% from one customer for the year ended October 31, 2018).

All of the Company's non-current assets are located in Canada.

## Nuran Wireless Inc.

### Notes to Consolidated Financial Statements

October 31, 2019 and 2018

#### 25 - RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The changes in the Company liabilities arising from financing activities can be classified as follows:

	Loans payable	Convertible debentures and derivative liability	Long-term debt	Total
	\$	\$	\$	\$
<b>November 1, 2018</b>	250,542	4,208,312	320,306	4,779,160
<b>Cash flows</b>				
Repayment			(88,245)	(88,245)
Proceeds			822,502	822,502
Net change from factoring	(60,542)			(60,542)
<b>Non-cash</b>				
Accretion of convertible debentures		97,320		97,320
Change in fair value of derivative liability		433,104		433,104
Forbearance to the convertible debentures default		(51,682)		(51,682)
Debenture annulment		(50,000)		(50,000)
Amendment of the down round feature of the convertible debentures		(481,700)		(481,700)
Postponement of interest payments		(3,805)		(3,805)
Conversion of convertible debentures		(1,098,557)		(1,098,557)
<b>October 31, 2019</b>	<u>190,000</u>	<u>3,052,992</u>	<u>1,054,563</u>	<u>4,297,555</u>
		Convertible debentures and derivative liability	Long-term debt	Total
	Loans payable	liability	debt	Total
	\$	\$	\$	\$
<b>November 1, 2017</b>	314,430	3,715,842	420,026	4,450,298
<b>Cash flows</b>				
Repayment		(50,000)	(604,720)	(654,720)
Proceeds	190,000	50,000	1,030,000	1,270,000
Net change from factoring	(211,888)			(211,888)
<b>Non-cash</b>				
Accretion		645,122		645,122
Fair value		(211,820)		(211,820)
Loss on amendment		59,168		59,168
Settlement in shares	(42,000)		(525,000)	(567,000)
<b>October 31, 2018</b>	<u>250,542</u>	<u>4,208,312</u>	<u>320,306</u>	<u>4,779,160</u>

# **Nuran Wireless Inc.**

## **Notes to Consolidated Financial Statements**

October 31, 2019 and 2018

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### ***26 - POST-REPORTING DATE EVENTS***

#### **Grant of stock options**

As at December 19, 2019, the Company has granted stock options pursuant to its incentive stock option plan to certain directors and officers of the Company to purchase up to an aggregate of 2,500,000 common shares in the share capital of the Company, at an exercise price of \$0.06 per share. The options will vest three months after the date of the grant. All options expire 48 months from the grant date.

#### **Extension to senior secured convertible debentures**

As at February 26, 2020, the Company entered into a forbearance agreement in connection with its previously issued 12% senior secured convertible debentures pursuant to which the majority lenders agreed to waive any default in payment of principal and interest due and payable as of this date, and continue to forbear from declaring or acting upon, or exercising related rights or remedies under such creditor's financing agreement until August 23, 2020.

In consideration of the situation above-mentioned, the Company offered to grant holders a decrease of the debenture conversion price from \$0.10 to \$0.05, as well as a share purchase warrant entitling the holder to purchase one common share of the Company at an exercise price of \$0.05 for a term of three years for each \$0.50 of principal amount owing to the holder under the debenture for an aggregate total of 6,180,000 warrants. In addition to the above, the Company offered to pay cash compensation equal to 3% of debenture principal owed, to be paid along with principal and accrued interests.