

VSBLTY GROUPE TECHNOLOGIES CORP.
CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

(Expressed in United States dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of VSBLTY Groupe Technologies Corp.

Opinion

We have audited the consolidated financial statements of VSBLTY Groupe Technologies Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes events or conditions, that indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the 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 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 financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

April 29, 2020



An independent firm
associated with Moore
Global Network Limited

VSBLTY GROUPE TECHNOLOGIES CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in United States dollars)

| As at | Notes | December 31, 2019 | | December 31, 2018 | |
|---|--------------|--------------------------|--------------|--------------------------|-------------|
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash | | \$ | 499,435 | \$ | 832,827 |
| Trade and other receivables | 14 | | 44,191 | | 17,055 |
| Prepaid expenses | 6 | | 428,497 | | 28,899 |
| | | | 972,123 | | 878,781 |
| Equipment | 7 | | 59,450 | | 29,347 |
| Right-of-use assets | 11 | | 229,085 | | - |
| Deposits | 6 | | 10,916 | | 4,664 |
| Total assets | | \$ | 1,271,574 | \$ | 912,792 |
| LIABILITIES AND SHAREHOLDERS' DEFICIENCY | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued liabilities | 8, 14 | \$ | 566,180 | \$ | 634,299 |
| Deferred revenue | | | 3,825 | | 6,800 |
| Current portion of notes payable | 10, 14 | | - | | 150,000 |
| Current portion of lease liability | 11 | | 61,982 | | - |
| Convertible debentures | 9 | | - | | 1,079,606 |
| Embedded derivatives | 9 | | - | | 58,504 |
| | | | 631,987 | | 1,929,209 |
| Lease liability | 11 | | 181,073 | | - |
| Convertible debentures | 9 | | 2,357,980 | | - |
| Notes payable | 10 | | - | | 1,365,930 |
| Total liabilities | | | 3,171,040 | | 3,295,139 |
| SHAREHOLDERS' DEFICIENCY | | | | | |
| Share capital | 12 | | 9,948,497 | | 4,335,914 |
| Reserves | 12 | | 2,357,422 | | 87,996 |
| Obligation to issue warrants | 12 | | 19,127 | | - |
| Accumulated deficit | | | (14,173,281) | | (6,806,257) |
| Accumulated other comprehensive income | | | (51,231) | | - |
| Total shareholders' deficiency | | | (1,899,466) | | (2,382,347) |
| Total liabilities and shareholders' deficiency | | \$ | 1,271,574 | \$ | 912,792 |
| Nature of operations and going concern | 1 | | | | |
| Subsequent events | 20 | | | | |

APPROVED BY THE BOARD OF DIRECTORS:

"Jay Hutton"

Director

"Alnesh Mohan"

Director

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

VSBLTY GROUPE TECHNOLOGIES CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in United States dollars)

| | Notes | Year ended December 31, | |
|---|---------|-------------------------|-----------------------|
| | | 2019 | 2018 |
| Revenue | | | |
| License fees | \$ | 47,279 | \$ 38,523 |
| Connectivity | | 200 | 14,875 |
| Professional services | | 21,890 | 6,459 |
| Hardware and other | | 36,337 | 18,943 |
| | | 105,706 | 78,800 |
| Cost of sales | | (41,299) | (77,056) |
| Gross profit | | 64,407 | 1,744 |
| Sales and marketing expenses | 13,14 | (1,424,740) | (164,790) |
| General and administrative expenses | 13,14 | (2,828,227) | (1,734,097) |
| Research and development expenses | 13,14 | (1,181,997) | (440,974) |
| Share-based payments | 12(c) | (1,396,955) | - |
| Gain on disposal of equipment | 13 | 1,252 | - |
| Operating loss | | (6,766,260) | (2,338,117) |
| Listing expense | 5 | (491,568) | - |
| Finance costs | 9,10,12 | (241,932) | (140,567) |
| Change in fair value of derivative liability | 9 | 60,162 | (8,305) |
| Gain on settlement of debt | 9,10 | 102,095 | - |
| Interest income | | 5,186 | - |
| Foreign exchange (loss) gain | 9 | (34,707) | 37,607 |
| Net loss | | (7,367,024) | (2,449,382) |
| Other comprehensive income | | | |
| Exchange differences on translating foreign operations | | (51,231) | - |
| Total comprehensive loss | \$ | (7,418,255) | \$ (2,449,382) |
| Loss per share – Basic and diluted | \$ | (0.10) | \$ (0.07) |
| Weighted average shares outstanding – Basic and diluted | | 72,972,476 | 37,093,625 |

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

VSBLTY GROUPE TECHNOLOGIES CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

(Expressed in United States dollars)

| | Number of common shares | Share capital | Reserves | Obligation to issue warrants | Accumulated deficit | Accumulated other comprehensive income | Total shareholders' deficiency |
|---------------------------------------|-------------------------------|---------------|--------------|------------------------------------|------------------------|---|--------------------------------------|
| Balance, December 31, 2017 | 36,068,707 | \$ 3,964,972 | \$ 76,734 | \$ - | \$ (4,356,875) | \$ - | \$ (315,169) |
| Issuance of common shares | 1,106,588 | 331,121 | 19,943 | - | - | - | 351,064 |
| Warrants issued | - | - | 7,204 | - | - | - | 7,204 |
| Exercise of warrants | 131,783 | 39,821 | (15,885) | - | - | - | 23,936 |
| Loss | - | - | - | - | (2,449,382) | - | (2,449,382) |
| Balance, December 31, 2018 | 37,307,078 | \$ 4,335,914 | \$ 87,996 | \$ - | \$ (6,806,257) | \$ - | \$ (2,382,347) |
| Shares issued pursuant to Acquisition | 24,546,881 | 1,761,552 | (87,996) | - | - | - | 1,673,556 |
| Recapitalization of the Company | 14,600,000 | 2,751,370 | 652,255 | - | - | - | 3,403,625 |
| Exercise of warrants | 900,917 | 439,383 | (169,778) | - | - | - | 269,605 |
| Share-based payments | 174,996 | 76,715 | 1,396,955 | - | - | - | 1,473,670 |
| Convertible debt issuance | - | - | 511,478 | - | - | - | 511,478 |
| Convertible debt issuance costs | 283,199 | 65,590 | 38,454 | - | - | - | 104,044 |
| Convertible debt conversion | 2,500,000 | 517,973 | (71,942) | - | - | - | 446,031 |
| Obligation to issue warrants | - | - | - | 19,127 | - | - | 19,127 |
| Translation of foreign operations | - | - | - | - | - | (51,231) | (51,231) |
| Loss | - | - | - | - | (7,367,024) | - | (7,367,024) |
| Balance, December 31, 2019 | 80,313,071 | \$ 9,948,497 | \$ 2,357,422 | \$ 19,127 | \$ (14,173,281) | \$ (51,231) | \$ (1,899,466) |

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

VSBLTY GROUPE TECHNOLOGIES CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in United States dollars)

| | Year ended December 31, | |
|--|--------------------------------|--------------------|
| | 2019 | 2018 |
| Cash flows from operating activities | | |
| Loss for the year | \$ (7,367,024) | \$ (2,449,382) |
| Adjustments for non-cash items: | | |
| Depreciation | 46,682 | 11,070 |
| Accretion expense | 121,673 | 42,049 |
| Bad debt expense | - | 5,446 |
| Share-based payments | 1,396,955 | - |
| Consulting fees paid in shares | 76,715 | - |
| Listing expense | 491,568 | - |
| Change in fair value of derivative liability | (60,162) | 8,305 |
| Gain on settlement of debt | (102,095) | 345,420 |
| Gain on disposal of equipment | (1,252) | - |
| Obligation to issue warrants | 19,127 | - |
| Foreign exchange gain | - | (37,607) |
| Changes in non-cash working capital items: | | |
| Trade and other receivables | (20,022) | 20,660 |
| Prepaid expenses and deposits | (287,165) | (27,478) |
| Accounts payable and accrued liabilities | 19,353 | 354,491 |
| Deferred revenue | (2,975) | (4,132) |
| Net cash used in operating activities | (5,671,706) | (1,731,158) |
| Cash flows from investing activities | | |
| Acquisition of equipment | (49,760) | (1,548) |
| Cash acquired in reverse takeover | 1,854,451 | - |
| Net cash used in investing activities | 1,804,691 | (1,548) |
| Cash flows from financing activities | | |
| Principal portion of lease payments | (11,803) | - |
| Proceeds from convertible debentures | 3,682,612 | - |
| Convertible debt transaction costs | (406,791) | - |
| Proceeds from issuance of promissory notes | - | 1,050,000 |
| Proceeds from issuance of common shares | - | 351,064 |
| Proceeds from exercise of warrants | 269,605 | 23,936 |
| Net cash provided by financing activities | 3,533,623 | 2,231,230 |
| Net change in cash | (333,392) | 498,524 |
| Cash , beginning | 832,827 | 334,303 |
| Cash, ending | \$ 499,435 | \$ 832,827 |

Supplemental cash flow disclosure (Note 15)

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

VSBLTY Groupe Technologies Corp.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Expressed in United States dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

VSBLTY Groupe Technologies Corp. (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on August 1, 2018. The Company’s head office is located at Suite 206, 595 Howe Street, Vancouver, British Columbia, V6C 2T5 and its registered office is located at The Corporation Trust Center, 1201 Orange Street, City of Wilmington, New Castle County, DE 19801. The Company is a retail technology and marketing company with a variety of applications to drive brand engagement and puts insights in motion to drive sales. The Company’s shares trade on the Canadian Securities Exchange under the symbol “VSBY” and the Frankfurt stock exchange under the symbol “5VS”.

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and discharge of liabilities in the normal course of business. As at December 31, 2019, the Company had not yet achieved profitable operations and has an accumulated deficit of \$14,173,281 since its inception. The continuing operations of the Company are dependent upon its ability to develop a viable business and to attain profitable operations and generate funds there from. This indicates the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. Management intends to finance operating costs with capital market equity financings. If the Company is unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its statement of financial position.

Reverse takeover

On December 12, 2018, the Company, VSBLTY, Inc. and VSBLTY Merger Co., a wholly-owned subsidiary of the Company incorporated in Delaware, U.S. entered into a Merger Agreement (the “Agreement”) pursuant to which the Company acquired all of the issued and outstanding common shares of VSBLTY, Inc. (the “Acquisition” or the “RTO”) for 7.21228396 common shares of the Company for each VSBLTY, Inc. outstanding. The Acquisition closed on February 15, 2019 and VSBLTY, Inc. became a wholly-owned subsidiary.

As a result of the Acquisition, VSBLTY, Inc. is deemed as the acquirer for accounting purposes, and therefore its assets, liabilities and operations are included in the consolidated financial statements at their historical carrying value. VSBLTY, Inc.’s operations were considered to be a continuance of the business and operations of VSBLTY, Inc. The Company’s results of operations are those of VSBLTY, Inc., with the Company’s operations being included from February 15, 2019, the closing date of the Acquisition, onwards. Refer to note 5 for more details.

2. BASIS OF PRESENTATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements were authorized for issue by the Board of Directors on April 29, 2020.

b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, modified where applicable. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. The consolidated financial statements are presented in United States dollars, unless otherwise noted.

The preparation of these consolidated financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of expenses during the period. Actual results could differ from these estimates.

These consolidated financial statements include estimates which, by their nature, are uncertain. The impact of such estimates is pervasive throughout these consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

c) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, VSBLTY, Inc. All inter-company balances, transactions, income and expenses have been eliminated upon consolidation.

Subsidiaries are entities controlled by the Company. Control exists when the Company has power over an entity, when the Company is exposed, or has rights, to variable returns from the entity and when the Company has the ability to affect those returns through its power over the entity. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control. Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

a) Foreign currency transactions

Functional and presentation currency

The functional currency of the Company is determined based on the currency of the primary economic environment in which the Company operates. The functional currency of the Company, is the Canadian dollar. The functional currency of the Company's wholly owned subsidiary, VSBLTY, Inc. is the United States dollar. The presentation currency of the Company is the United States dollar.

VSBLTY Groupe Technologies Corp.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Expressed in United States dollars)

Transactions and balances

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into the relevant functional currency using the exchange rate in effect at that date. At the reporting period end date, monetary assets and liabilities are translated into the relevant functional currency using the exchange rate in effect at that date and the related translation differences are recognized in profit or loss.

Non-monetary assets and liabilities that are measured at historical cost are translated into the relevant functional currency by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated.

Translation into the presentation currency

The operating results and consolidated statements of financial position of entities with functional currencies different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities presented are translated at the year end closing rate as at the date of the consolidated statements of financial position;
- Income and expenses for the statements of loss are translated at average exchange rates, unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated at the rate on the dates of the transactions; and
- All resulting exchange differences from translating foreign operations are recognized in a separate component of shareholders' equity as other comprehensive income (loss).

b) Accounts receivable

Accounts receivable, net of allowances, are stated at the amount the Company expects to collect. The Company recognizes a loss allowance for expected credit losses on financial assets measured at amortized cost or fair value through other comprehensive income. The Company uses a matrix to determine the lifetime expected credit losses for trade receivables.

The Company uses historical patterns for the probability of default, the timing of collection and the amount of the incurred credit loss, which is adjusted based on management's judgment about whether current economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest. The amount of the impairment loss on a financial asset measured at amortized cost is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss, and applied against trade and other receivables through a loss allowance account.

c) Equipment

Equipment is recorded at cost and carried net of accumulated depreciation, amortization and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset to the location and condition necessary for operation. Subsequent expenditures are capitalized only if it is probable that the future economic benefits associated with the expenditures will flow to the Company.

Repairs and maintenance costs are expensed as incurred. Depreciation is provided over the related assets' estimated useful lives using the straight-line method at the following rates:

- Computer equipment – 3 years
- Equipment – 3 to 5 years

The Company reviews the estimated useful lives, residual values and depreciation method at the end of each reporting period, accounting for the effect of any changes in estimate on a prospective basis.

d) Impairment of tangible assets

Tangible assets with finite useful lives are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the cash-generating unit, which is the lowest group of assets which generates separately identifiable cash inflows that are largely independent of the cash inflows from other assets.

An impairment loss is charged to profit or loss except to the extent it reverses gains previously recognized in other comprehensive income. Where impairment losses subsequently reverse, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimated recoverable amount to the extent that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognized in profit or loss.

e) Valuation of equity units issued in private placements

The Company has adopted the residual value method with respect to the measurement of shares and warrants issued together as private placement units. The residual value method first allocates value to the most easily measured component based on fair value and then the residual value, if any, to the less easily measurable component.

f) Loss per share

Basic loss per share is calculated by dividing the Company's net loss by the weighted average number of shares outstanding and reduced by any shares held in escrow during the reporting period. Diluted loss per share is calculated by dividing the Company's net loss by the sum of the weighted average number of shares issued and outstanding assuming all additional shares that would have been outstanding if potentially dilutive instruments were converted and reduced by any shares held in escrow, unless the escrow shares are issuable dependent only on the passage of time with all other conditions having been satisfied.

g) Revenue recognition

Revenue represents the amount the Company expects to receive for products and services in its contracts with customers, net of discounts and sales taxes. The Company reports revenue under four revenue categories being, software license fees, connectivity, professional services, and hardware and other. Software license revenue is comprised of license fees charged for the use of software, licensed under fixed-term arrangements. Connectivity revenue is comprised of connectivity fees charged for hardware unit access to cellular data. Professional service revenue consists of fees charged for creative services provided to develop and execute brand messaging used in hardware units as well as installation and support for hardware units. Hardware and other revenue includes sale and delivery of hardware units.

Contracts with multiple products or services

The Company's contracts with customers often include multiple products and services such as software licenses, connectivity, creative development and hardware. The Company evaluates these arrangements to determine the appropriate unit of accounting (performance obligation) for revenue recognition purposes based on whether the product or service is distinct from some or all of the other products or services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Non-distinct products and services are combined with other goods or services until they are distinct as a bundle and therefore form a single performance obligation. Where a contract consists of more than one performance obligation, revenue is allocated to each based on their estimated stand-alone selling price.

Nature of products and services

Revenue from software licensing arrangements, which allows customers to use software over a term, are provided on a subscription basis and is recognized rateably over the term of the subscription. Where software licensing arrangements includes connectivity services, the connectivity services are non-distinct and recognized over the same term.

Professional services revenue for creative services provided to develop and execute brand messaging used in hardware units as well as installation and support for hardware units is recognized by the stage of completion of the performance obligation determined using the percentage of completion method or as such services are performed as appropriate in the circumstances. The Company uses the ratio of incurred labour hours to estimated total labour hours as the measure of its progress to completion on each performance obligation and the revenue and profit of fixed price contracts is recognized only when the outcome of a contract can be estimated reliably.

Hardware and other revenue is accounted for as product revenue. Product revenue is recognized when control of the product has transferred under the terms of an enforceable contract.

Amounts are billed as defined by individual contracts. Billings rendered in advance of performance under contracts are recorded as deferred revenue.

h) Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

If a hybrid contract contains a host that is not an asset, embedded derivatives are recorded at fair value separately from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host contract. Subsequent changes in fair value are recorded in the statements of loss and comprehensive loss.

The convertible debentures issued by the Company are a hybrid financial instrument that can be converted into common shares of the Company upon an automatic conversion event, where there is an obligation to issue a fixed number of common shares to settle an instrument whose book value is variable. The hybrid financial instrument is recognized as a liability, with the initial carrying value of the convertible debentures (host) being the residual amount of the proceeds after separating the derivative component, which is recognized at fair value. Any directly attributable transaction costs are allocated to the host and derivative components in proportion to their initial carrying amounts. Subsequent to initial recognition, the host component of the hybrid financial instrument is measured at amortized cost using the effective interest method.

The derivative component of the hybrid financial instrument is measured at fair value through profit and loss. Subsequent changes in fair value are recorded in the statements of loss and comprehensive loss.

i) Leases

Lessee

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to use an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for leases with a lease term of 12 months or less and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments and expected payments at the end of the lease, discounted using the rate implicit in the lease. If the rate implicit in the lease cannot be readily determined, the Company uses its incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability using the effective interest method and by reducing the carrying amount to reflect the lease payments made.

The right-of-use asset is measured at a cost that includes the lease liability, adjusted for any initial direct costs; prepaid lease payments; estimated costs to dismantle, remove or restore; and lease

incentives received. The right-of use asset is subsequently measured at cost less accumulated depreciation and impairment losses.

The Company re-measures the lease liability and makes a corresponding adjustment to the related right-of-use asset whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

j) Financial instruments

Recognition, classification and measurement

Financial assets are classified and measured based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 contains three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit and loss ("FVTPL"). Financial assets are recognized in the statements of financial position if the Company has a contractual right to receive cash or other financial assets from another entity. Financial assets are derecognized when the rights to receive cash flows from the asset have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership.

All financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instruments. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial instruments are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company has classified its cash, trade and other receivables, accounts payable and accrued liabilities, lease liabilities, convertible debentures and notes payable as financial assets and financial liabilities measured at amortized cost. Such assets and liabilities are recognized initially at fair value inclusive of any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment losses.

Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company's derivatives are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Changes in the fair values of derivative financial instruments are reported in the consolidated statements of loss and comprehensive loss.

Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost. Loss allowances for accounts receivables are always measured at an amount equal to lifetime expected credit losses if the amount is not considered fully recoverable. A financial asset carried at amortized cost is considered credit-impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Individually significant financial assets are tested for credit-impairment on an individual basis. The remaining financial assets are assessed collectively.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Losses are recognized in the statement of loss and comprehensive loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statements of comprehensive loss.

k) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

l) Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the instruments at the grant date and recognized in expense over the vesting periods. Equity-settled share-based payments to nonemployees are measured at the fair value of goods or services received or the fair value of the equity instruments issued if it is determined that the fair value of the goods or services received cannot be reliably measured. Nonemployee share-based payments are recognized in expense at the date the goods or services are received. The corresponding amount is recorded to reserves. Upon the exercise of stock options, consideration received on the exercise is recorded as share capital and the related amount in reserves is transferred to share capital.

m) Research and Development Expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. As at December 31, 2019, the Corporation had not recognized any internally-generated intangible assets.

n) Accounting standards adopted effective January 1, 2019

IFRS 16 Leases (“IFRS 16”)

Effective January 1, 2019, the Company adopted IFRS 16 which supersedes IAS 17 Leases (“IAS 17”). The Company has applied the new standard using the modified retrospective approach with no restatement of comparative periods. There were no adjustments to retained earnings required at the date of initial application as a result of adoption.

The Company has elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its previous assessment made under IAS 17 and IFRIC 4 Determining whether an arrangement contains a lease. The definition of a lease under IFRS 16 was applied only to contracts entered into or modified on or after January 1, 2019.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rate as of January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company applied the following practical expedients when adopting IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on previous assessments on whether leases are onerous;
- Applied the exemption not to recognize right-of-use assets and liabilities for leases where the lease term ends within 12 months of the date of initial application;
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight to determine the lease term where contracts contain options to extend or terminate the lease.

Under IFRS 16, the Company is required to assess the classification of a sublease with reference to the right-of-use asset, not the underlying asset. The Company does not have any subleases.

On transition to IFRS 16, the Company recognized lease assets and liabilities. The impact on transition is summarized below.

| | January 1, 2019 |
|--|------------------------|
| Operating lease commitment at December 31, 2018 | \$ 140,665 |
| Discounted using the incremental borrowing rate at January 1, 2019 | (32,827) |
| Lease asset and lease liability recognized at January 1, 2019 | \$ 107,838 |

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied was 10%.

o) Accounting standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective.

4. USE OF JUDGMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the applicable of the Company's accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Judgments

Judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements are outlined below.

Going concern

The Company's ability to execute its strategy by funding future working capital requirements requires significant judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, such as expectations of future events that are believed to be reasonable under the circumstances.

Functional currency

The functional currency for the Company and each of its subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of the functional currency involves certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

Contingencies

The assessment of contingencies involves the exercise of significant judgment and estimates of the outcome of future events. In assessing loss contingencies related to legal proceedings that are pending against the Company and that may result in regulatory or government actions that may negatively impact the Company's business or operations, the Company and its legal counsel evaluate the perceived merits of the legal proceeding or unasserted claim or action as well as the perceived merits of the nature and amount of relief sought or expected to be sought, when determining the amount, if any, to recognize as a contingent liability or when assessing the impact on the carrying value of the Company's assets. Contingent assets are not recognized in the consolidated financial statements.

Share-based payments

The cost of share-based payment transactions with directors, officers and employees are measured by reference to the fair value of the equity instruments. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, risk-free interest rate, expected forfeiture rate and dividend yield of the stock option.

Estimates

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods are outlined below.

Embedded derivatives

The 2018 Debentures, defined herein, include conversion features which are considered Level 3 financial instruments. The derivatives are measured at fair value through profit and loss and its fair value is measured at each reporting period with subsequent changes in fair value recorded in the statement of loss and comprehensive loss. The Black-Scholes option pricing model is used and includes management's assumptions to estimate the fair value. Detailed assumptions used in the model to determine the fair value of the embedded derivatives are provided in note 9.

Leases

As more fully described in note 3(n), on January 1, 2019, the Company adopted IFRS 16. Under IFRS 16, the Company assesses whether a contract contains a lease and, if so, recognizes a lease liability by discounting the future lease payments over the non-cancelable term of the lease, using the Company's estimated incremental borrowing rate. Differences in the estimated incremental borrowing rate could result in materially different lease liabilities and assets.

Business Combinations

The determination of whether a set of assets acquired and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits.

5. REVERSE TAKEOVER

As described in note 1, on February 15, 2019, the Company completed the RTO with VSBLTY, Inc. whereby each share of VSBLTY, Inc. was exchanged, on a 7.21228396 for one basis, for the issued and outstanding common shares of the Company, with VSBLTY, Inc. becoming a wholly-owned subsidiary of the Company.

At the time of the RTO, the Company did not constitute a business as defined under IFRS 3; therefore, the RTO is accounted under IFRS 2, where the difference between the consideration given to acquire the Company and the net asset value of the Company is recorded as a listing expense to net loss. As VSBLTY, Inc. is deemed to be the accounting acquirer for accounting purposes, these consolidated financial statements present the historical financial information of VSBLTY, Inc. up to the date of the RTO.

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The fair value of the consideration issued for the net assets of the Company is as follows:

| | | |
|--|-----------|----------------|
| Consideration: | | |
| Fair value of shares issued (14,600,001 shares at \$0.19) | \$ | 2,751,370 |
| Fair value of share purchase warrants and special warrants | | 652,255 |
| Settlement of debt | | (948,590) |
| Total consideration | | 2,455,035 |
| Fair value of net assets of the Company: | | |
| Cash | | 1,854,451 |
| Trade and other receivables | | 7,114 |
| Prepaid expenses | | 118,685 |
| Accounts payable | | (16,783) |
| Total net assets | | 1,963,467 |
| Listing expense | \$ | 491,568 |

In connection with the completion of the RTO, the Company issued the following:

- 14,600,000 units. Each unit consist of one common share and one-half of a warrant. Each warrant is exercisable into one share at a price of CAD\$0.40 per share for a period equal to the shorter of (i) one year after the date that the shares are listed on the Canadian Stock Exchange, and (ii) five years after the issue date of the special warrants.
- 760,426 warrants, each of which is exercisable to purchase one common share at a price of CAD\$0.40 per share for a period of 12 months from October 17, 2018.

The fair value of warrants and special warrants assumed in the Acquisition was determined to be \$652,255 and estimated using the Black-Scholes Option Pricing Model with the following assumptions:

| Assumptions | |
|-------------------------|-------------------|
| Risk-free interest rate | 2.50 - 2.55% |
| Expected volatility | 150% |
| Dividend yield | 0% |
| Expected life | 0.67 - 1.03 years |

6. PREPAID EXPENSES AND DEPOSITS

| | December 31, 2019 | December 31, 2018 |
|------------------------------------|--------------------------|--------------------------|
| Prepaid services and subscriptions | \$ 400,994 | \$ 28,889 |
| Prepaid insurance and rent | 9,367 | - |
| Deposits | 7,220 | - |
| | 428,497 | 28,889 |
| Lease deposit | 10,916 | 4,664 |
| | \$ 439,413 | \$ 33,553 |

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7. EQUIPMENT

| | Computer equipment | | Equipment | | Total |
|----------------------------|-------------------------------|----|------------------|----|--------------|
| Cost | | | | | |
| Balance, December 31, 2017 | \$ 9,998 | \$ | 35,666 | \$ | 45,664 |
| Additions | - | | 1,548 | | 1,548 |
| Balance, December 31, 2018 | 9,998 | | 37,214 | | 47,212 |
| Additions | 12,690 | | 37,070 | | 49,760 |
| Disposal | (1,511) | | (10,000) | | (11,511) |
| Balance, December 31, 2019 | \$ 21,177 | \$ | 64,284 | \$ | 85,461 |

| | Computer equipment | | Equipment | | Total |
|---------------------------------|-------------------------------|----|------------------|----|--------------|
| Accumulated depreciation | | | | | |
| Balance, December 31, 2017 | \$ 4,832 | \$ | 1,963 | \$ | 6,795 |
| Additions | 3,332 | | 7,738 | | 11,070 |
| Balance, December 31, 2018 | 8,164 | | 9,701 | | 17,865 |
| Additions | 5,790 | | 15,119 | | 20,909 |
| Disposal | (484) | | (12,279) | | (12,763) |
| Balance, December 31, 2019 | \$ 13,470 | \$ | 12,541 | \$ | 26,011 |

| | Computer equipment | | Equipment | | Total |
|----------------------------|-------------------------------|----|------------------|----|--------------|
| Net book value | | | | | |
| Balance, December 31, 2018 | \$ 1,834 | \$ | 27,513 | \$ | 29,347 |
| Balance, December 31, 2019 | \$ 7,706 | \$ | 51,743 | \$ | 59,450 |

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | December 31, 2019 | | December 31, 2018 |
|---------------------|--------------------------|----|--------------------------|
| Accounts payable | \$ 307,994 | \$ | 308,939 |
| Accrued liabilities | 161,877 | | 182,542 |
| Accrued interest | 96,309 | | 142,818 |
| | \$ 566,180 | \$ | 634,299 |

9. CONVERTIBLE DEBENTURES*2018 Debentures*

On August 24, 2018, the Company closed tranche 1 of a private placement of convertible debt (the "Tranche 1 Debentures"), issuing \$383,550 in debentures (CAD\$500,000). Of the proceeds raised, \$174,185 (CAD\$225,000) was concurrently paid as prepaid consulting fees to certain subscribers, which has been expensed and is included in consulting fees. The Tranche 1 Debentures are denominated in Canadian dollars, mature on August 24, 2019, bear interest at a rate of 10% per annum, payable at maturity, and are secured by all the assets of the Company. The Tranche 1 Debentures automatically convert upon closing of the Acquisition. The Tranche 1 Debentures convert into one share of the Company's publicly traded entity for each CAD\$0.05 principal amount

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outstanding of the Tranche 1 Debentures and the Holders shall forfeit any and all accrued and unpaid interest on the Holders of the Tranche 1 Debentures.

On September 17, 2018, the Company closed tranche 2 of a private placement of convertible debt (the “Tranche 2 Debentures” and collectively with the Tranche 1 Debentures, the “2018 Debentures”), issuing \$768,100 in debentures (CAD\$1,000,000). Of the proceeds raised, \$174,515 (CAD\$225,000) was concurrently paid as prepaid consulting fees to certain subscribers, of which \$161,714 has been expensed and is included in consulting fees. The Tranche 2 Debentures are denominated in Canadian dollars, mature on September 17, 2019, bear interest at a rate of 10% per annum, payable at maturity, and are secured by all the assets of the Company. The Tranche 2 Debentures automatically convert upon closing of the Acquisition. The Tranche 2 Debentures convert into one share of the Company's publicly traded entity for each CAD\$0.10 principal amount outstanding of the Tranche 2 Debentures and the Holders shall forfeit any and all accrued and unpaid interest on the Holders of the Tranche 2 Debentures.

As the debentures and embedded conversion feature are denominated in Canadian dollars and were issued by VSBLTY, Inc. which has a U.S. dollar functional currency, they were determined to be a financial instrument comprising an embedded derivative representing the conversion feature with a residual host debt component. On initial recognition, the Company used the residual value method to allocate the principal amount of the Debentures between the embedded derivative conversion feature and host debt components. The conversion feature was valued first with the residual allocated to the host debt component.

The fair value of the conversion features was determined based on the Black-Scholes Option Pricing Model using the assumptions set out as follows:

| Assumptions | At settlement | At December 31, 2018 | At initial recognition |
|-------------------------|----------------------|-----------------------------|-------------------------------|
| CAD/USD exchange rate | 1.3266 | 1.3642 | 1.3019 - 1.3036 |
| Risk-free interest rate | 2.50% | 2.56% | 2.44 - 2.57% |
| Expected volatility | 150% | 150% | 150% |
| Dividend yield | 0% | 0% | 0% |
| Expected life | 0.52 – 0.59 years | 0.65 – 0.71 years | 1.00 year |

A continuity of embedded derivative conversion feature related to the 2018 Debentures is as follows:

| | Embedded derivative conversion feature |
|-------------------------------------|---|
| Balance, December 31, 2017 | \$ - |
| Issued during the year | 53,030 |
| Change in fair value of derivatives | 8,305 |
| Foreign exchange loss | (2,831) |
| Balance, December 31, 2018 | 58,504 |
| Change in fair value of derivative | (60,162) |
| Foreign exchange loss | 1,658 |
| Balance, December 31, 2019 | \$ - |

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2019 Debentures

During the year ended December 31, 2019, the Company closed the following private placement offerings of convertible debentures:

- July 18, 2019 - unsecured convertible debentures for gross proceeds of \$570,956 (CAD\$745,500) (the “July 18, 2019 Debentures”) of which \$269,969 (CAD\$352,500) was issued to related parties (see note 14);
- August 29, 2019 - unsecured, brokered convertible debentures for \$875,952 (CAD\$1,165,000);
- September 19, 2019 - unsecured convertible debentures for gross proceeds of \$1,398,777 (CAD\$1,857,120); and
- October 22, 2019 unsecured convertible debentures for gross proceeds of \$836,927 (CAD\$1,095,598), of the proceeds received, \$250,000 was paid to subscribers for consulting and marketing fees expenses and \$204,500 is outstanding in prepaid expenses for service to be received.
(collectively, the “2019 Debentures”)

The 2019 Debentures are denominated in Canadian dollars, bear interest at a rate of 10% per annum, payable semi-annually and will mature two years from the date of issuance. The principal amount of the 2019 Debentures may be converted, in whole or in part, at any time before the maturity date, into units at CAD\$0.35 per unit, except for the July 18, 2019 Debentures which can be converted at CAD\$0.45 per unit, if converted at any time before one year from the closing date, or otherwise convertible at CAD\$0.60 per unit if converted after one year from the closing date but before the maturity date. Each unit issued upon conversion consists of one common share in the capital of the Company and one-half of a share purchase warrant. Each whole warrant will be exercisable at a price of CAD\$0.60 per warrant share for a period of 24 months from the closing date, subject to certain acceleration rights of the Company.

The 2019 Debentures were determined to be a financial instrument comprising an equity classified conversion feature with a host debt component. On initial recognition, the Company used the residual value method to allocate the principal amount of the 2019 Debentures between the two components. The host debt component was valued first, based on similar debt securities without an embedded conversion feature and the residual was allocated to the equity-classified conversion feature.

In connection with the issuance of the 2019 Debentures the Company:

- Issued 748,342 broker warrants, valued at CAD\$160,334 based on their grant date fair value determined using Black-Scholes Option Pricing Model with the following weighted average assumptions: expected dividend yield - 0%, expected volatility - 150%, risk-free interest rate – 1.51% and an expected life - 2 years. Each broker warrant issued in connection with the 2019 Debentures entitles the holder to purchase one share at a price of CAD\$0.35 per Share for a period of 24 months from the closing date;
- issued 283,199 broker shares, valued at CAD\$87,004 based on their grant date fair value; and
- incurred CAD\$539,825 in directly attributable cash transaction costs for consulting fees, agent commissions, legal fees and out-of-pocket expenses.

Transaction costs were allocated between the debt and equity components of the 2019 Debentures on a relative fair value basis.

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A continuity of the Company's convertible debt is as follows:

| | 2019 | 2018 | Total |
|-----------------------------------|---------------------|--------------------|---------------------|
| | Debtentures | Debtentures | |
| Balance, December 31, 2017 | \$ - | \$ - | \$ - |
| Issued during the period | - | 1,151,650 | 1,151,650 |
| Allocated to conversion feature | - | (53,030) | (53,030) |
| Accretion | - | 15,762 | 15,762 |
| Foreign exchange gain | - | (34,776) | (34,776) |
| Balance, December 31, 2018 | - | 1,079,606 | 1,079,606 |
| Issued during the period | 3,682,612 | - | 3,682,612 |
| Allocated to conversion feature | (511,478) | - | (511,478) |
| Transaction costs | (510,836) | - | (510,836) |
| Accretion | 111,653 | 6,526 | 118,179 |
| Foreign exchange loss | 32,060 | 14,430 | 46,490 |
| Converted to common shares | (446,031) | (1,100,562) | (1,546,593) |
| Balance, December 31, 2019 | \$ 2,357,980 | \$ - | \$ 2,357,980 |

On February 15, 2019, all the outstanding 2018 Debtentures were converted into 20,000,000 common shares in accordance with their terms and \$49,255 in accrued interest was forgiven. This resulted in settlement of the conversion feature embedded derivative. The conversion and related accrued interest forgiveness resulted in a gain on settlement of debt of \$18,513.

During the year ended December 31, 2019, \$662,793 (CAD\$875,000) in principal of 2019 Debtentures were converted in 2,500,000 common shares and 1,250,000 warrants of the Company. Upon conversion, the carrying value of debt and equity conversion feature were transferred to share capital with no gain or loss recorded.

The following is a schedule of future minimum repayments of convertible debtentures as of December 31, 2019:

| | |
|------|---------------------|
| 2020 | \$ - |
| 2021 | 3,063,645 |
| | \$ 3,063,645 |

10. NOTES PAYABLE

| | December 31, 2019 | December 31, 2018 |
|-----------------------------------|--------------------------|--------------------------|
| Balance, beginning | \$ 1,515,930 | \$ 446,847 |
| Issued during the period | - | 1,050,000 |
| Allocated to reserves | - | (7,204) |
| Accretion | 3,494 | 26,287 |
| Settled for common shares | (519,424) | - |
| Settled on Acquisition | (1,000,000) | - |
| Balance, ending | - | 1,515,930 |
| Balance, ending, current | - | (150,000) |
| Balance, ending, long-term | \$ - | \$ 1,365,930 |

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During the year ended December 31, 2019, the Company issued \$nil (2018 - \$50,000) in promissory notes (the “Notes”) with 1,557,853 (post-consolidated) attached warrants, some of which are related parties (see Note 14). Subscribers received 1.350659 (0.187272 prior to the Acquisition) warrants per dollar principal of Notes (see note 12). The Notes bear interest at prime rate plus 5.5% and mature three years after issuance. The Notes are secured by the accounts receivable of the Company.

The Notes are presented net of discounts and accreted at an effective interest rate such that the carrying amount of the Notes will equal the principal amount at maturity. The Notes were initially recognized at fair value. At initial recognition, the principal amount of the Notes less the initial fair value has been allocated to the warrants (see note 12).

On February 15, 2019, the Company’s Notes and accrued interest were settled in exchange for 2,853,956 common shares of the Company with a fair value of \$656,410 or \$0.23 per share. As a result of the unamortized discount, the carrying value of the Notes and accrued interest at settlement was \$625,834 and the settlement resulted in a loss on settlement of debt of \$30,576.

On December 12, 2018 and December 13, 2018, VSBLTY, Inc. received \$600,000 and \$400,000, respectively, from the Company pursuant to a promissory note agreement (the “Interest-Free Notes”). The Interest-Free Notes are non-interest bearing, except upon termination of the Agreement or an event of default, upon which the loan would bear interest at a rate of 10% per annum. The Interest-Free Notes will mature on the earlier of the date that is 24 months from the issuance date or three months from termination of the Agreement, by which the Company will acquire all of the issued and outstanding common shares of VSBLTY, Inc. and VSBLTY, Inc. will become a wholly-owned subsidiary of the Company. The Interest-Free Notes are recorded at their face value. On February 15, 2019, the Acquisition resulted in the effective settlement of the Interest-Free Notes (see note 5).

11. LEASES

The Company’s right-of-use asset relates to the lease of office space.

On adoption of IFRS 16, the group recognized lease liabilities which had previously been classified as ‘operating leases’ under IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments and discounted using the lessee’s incremental borrowing rate as of January 1, 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 10%.

The Company has an office lease which expires February 1, 2024:

| Right-of-use assets | |
|----------------------------|------------|
| At January 1, 2019 | \$ 107,838 |
| Additions | 147,020 |
| Depreciation expense | (25,773) |
| At December 31, 2019 | \$ 229,085 |

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At December 31, 2019, the Company's lease liability related to office leases is as follows:

| Lease liability | December 31, 2019 |
|------------------------|--------------------------|
| Current portion | \$ 61,982 |
| Long-term portion | 181,073 |
| Total lease liability | \$ 243,055 |

At December 31, 2019, the Company is committed to minimum lease payments as follows:

| Maturity analysis | December 31, 2019 |
|--------------------------------------|--------------------------|
| Less than one year | \$ 61,982 |
| One to five years | 243,778 |
| Total undiscounted lease liabilities | \$ 305,760 |

The adoption of IFRS 16 had the following impact for the year ended December 31, 2019:

| Amounts recognized in profit or loss | December 31, 2019 |
|---|--------------------------|
| Interest on lease liabilities | \$ 12,926 |

| Amounts recognized in the statement of cash flows | December 31, 2019 |
|--|--------------------------|
| Interest paid | \$ 12,926 |
| Principal payments on lease liabilities | 11,803 |
| Total cash outflows for leases | \$ 24,729 |

12. SHAREHOLDERS' EQUITY

Share capital

Authorized share capital of the Company consists of an unlimited number of common shares with no par value.

On February 15, 2019, the Company completed the Acquisition, pursuant to which the Company acquired all of the issued and outstanding common shares of VSBLTY, Inc. for 7.21228396 common shares the Company in a reverse takeover transaction. Immediately following the Acquisition, there were 61,853,959 common shares of the Company issued and outstanding. As the financial statements are considered a continuance of the operations of VSBLTY, Inc. and due to the reverse takeover, all of the share numbers, share price, and exercise prices in these financial statements have been adjusted, on a retroactive basis, to reflect this exchange.

During the year ended December 31, 2019, the Company issued:

- 20,000,000 common shares on conversion of the Company's 2018 Debentures (see note 9);
- 2,853,956 common shares for settlement of the Notes and related accrued interest (see note 10);
- 1,692,925 common shares pursuant to the exercise of warrants;

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- 14,600,000 common shares, pursuant to the automatic conversion of special warrants to one share and one-half share purchase warrant upon receipt of a final prospectus qualifying the distribution of the shares and warrants;
- 900,917 common shares for cash proceeds of \$269,605(CAD\$360,367), pursuant to the exercise of warrants;
- 174,996 common shares granted to a non-employee in exchange for services with a fair value of \$76,715 (CAD\$101,500);
- 283,199 common shares granted to brokers as transaction costs for the Company's 2019 Debentures (see note 9); and
- 2,500,000 common shares on conversion of the Company's 2019 Debentures (see note 9).

During the year ended December 31, 2018, the Company issued an aggregate of:

- 1,106,588 common shares for cash proceeds of \$351,064, \$19,943 of which was allocated to attached warrants (see note 12(b)); and
- 131,783 common shares for cash proceeds of \$23,936, pursuant to the exercise of warrants.

Warrants

On February 15, 2019, in connection with the Acquisition, the Company assumed 14,600,000 special warrants and 760,426 warrants of the accounting acquire (see note 5). On February 18, 2019, the special warrants were automatically converted into 14,600,000 common shares and 7,300,000 warrants.

During the year ended December 31, 2018, the Company issued Notes with attached warrants (see note 10) and shares with 1,557,853 (post-consolidated) attached warrants (see note 12). Each warrant issued with Notes entitles the holder to acquire one common share of the Company and is exercisable at a price of \$0.18 (\$1.31 prior to the Acquisition) per warrant for a period of three years. Each warrant issued with shares entitles the holder to acquire one common share of the Company and is exercisable at a price of \$0.18 (\$1.31 prior to the Acquisition) per warrant for a period of five years.

For the Notes issued during the year ended December 31, 2018, a value of \$7,204 has been attributed to attached warrants and was determined based on the Notes' principal value less the fair value attributed to the Notes.

For the shares issued during the year ended December 31, 2018, a value of \$19,943 has been attributed to attached warrants and was determined based on residual method after first estimating the fair value of the shares based on recent share issuances without attached warrants.

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Continuity of the Company's U.S. dollar denominated warrants is as follows:

| | Number of warrants | Weighted average exercise price |
|---------------------------------------|-----------------------|------------------------------------|
| Outstanding, December 31, 2017 | 675,329 | \$ 0.18 |
| Granted | 1,149,379 | 0.18 |
| Exercised | (131,783) | 0.18 |
| Outstanding, December 31, 2018 | 1,692,925 | 0.18 |
| Exercised | (1,692,925) | 0.18 |
| Outstanding, December 31, 2019 | - | \$ - |

Continuity of the Company's Canadian dollar denominated warrants is as follows:

| | Number of warrants | Weighted average exercise price (\$CAD) | Weighted average exercise price (\$USD) |
|---|-----------------------|---|---|
| Outstanding, December 31, 2018 and 2017 | - | \$ - | \$ - |
| Acquired upon Acquisition | 8,060,426 | 0.40 | 0.31 |
| Granted | 1,998,342 | 0.51 | 0.39 |
| Exercised | (900,917) | 0.40 | 0.31 |
| Expired | (752,426) | 0.40 | 0.31 |
| Outstanding, December 31, 2019 | 8,405,425 | \$ 0.43 | \$ 0.33 |

As at December 31, 2019, the following warrants were outstanding and exercisable:

| Number of warrants outstanding | Exercise price (\$CAD) | Exercise price (\$USD) | Expiry date | Number of warrants exercisable |
|--------------------------------------|---------------------------|---------------------------|--------------------|--------------------------------------|
| 6,407,083 | 0.40 | 0.31 | February 27, 2020 | 6,407,083 |
| 266,286 | 0.35 | 0.26 | August 29, 2021 | 266,286 |
| 386,513 | 0.35 | 0.26 | September 19, 2021 | 386,513 |
| 750,000 | 0.35 | 0.26 | September 20, 2021 | 750,000 |
| 95,543 | 0.35 | 0.27 | October 22, 2022 | 95,543 |
| 500,000 | 0.60 | 0.46 | October 22, 2022 | 500,000 |
| 8,405,425 | \$ 0.43 | \$ 0.33 | | 8,405,425 |

As at December 31, 2019, the weighted average remaining contractual life of outstanding warrants is 0.54 years.

Options

The Company has adopted an incentive stock option plan (the "Plan") under which the aggregate number of securities reserved for issuance will be 10% of the number of common shares of the Company issued and outstanding. The Plan is administered by the Board of Directors (the "Board"), which has full and final authority with respect to the granting of all options thereunder. Options may

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be granted under the Plan to such service providers of the Company and its affiliates, if any, as the Board may from time to time designate. The exercise prices will be determined by the Board, but will, in no event, be less than the closing market price of Common Shares on (a) the trading day prior to the date of grant of the stock options; and (b) the date of grant of the stock options. All options granted under the Plan will expire not later than the date that is ten years from the date that such options are granted. Options granted under the Plan are not transferable or assignable other than by testamentary instrument or pursuant to the laws of succession.

Continuity of the Company's Canadian dollar denominated stock options is as follows:

| | Number of options | Weighted average exercise price (\$CAD) | Weighted average exercise price (\$USD) |
|--|----------------------|---|---|
| Outstanding, December 31, 2018 and 2017 | - | \$ - | \$ - |
| Granted | 6,555,000 | 0.31 | 0.24 |
| Forfeited | (500,000) | 0.30 | 0.23 |
| Outstanding, December 31, 2019 | 6,055,000 | \$ 0.31 | \$ 0.24 |
| Exercisable, December 31, 2019 | 4,503,750 | \$ 0.31 | \$ 0.24 |

As at December 31, 2019, the following stock options were outstanding and exercisable:

| Number of options outstanding | Exercise price (\$CAD) | Exercise price (\$USD) | Expiry date | Number of options exercisable |
|----------------------------------|---------------------------|---------------------------|-------------------|-------------------------------------|
| 200,000 | \$ 0.60 | \$ 0.45 | April 23, 2020 | 200,000 |
| 25,000 | 0.50 | 0.38 | June 5, 2022 | 6,250 |
| 5,730,000 | 0.30 | 0.23 | February 15, 2023 | 3,922,500 |
| 75,000 | 0.41 | 0.31 | August 8, 2022 | - |
| 300,000 | 0.33 | 0.25 | August 20, 2022 | - |
| 125,000 | 0.30 | 0.23 | November 02, 2021 | - |
| 50,000 | 0.30 | 0.23 | November 07, 2021 | - |
| 50,000 | 0.30 | 0.23 | December 15, 2024 | - |
| 6,055,000 | \$ 0.31 | \$ 0.24 | | 4,128,750 |

As at December 31, 2019, the weighted average remaining contractual life of outstanding options is 2.98 years.

Employee options were measured at fair value on the grant date and recognized over the vesting period from the date of grant. Nonemployee options were measured indirectly with reference to the fair value of the equity instruments granted as the fair value of goods and services received cannot be measured reliably. Nonemployee options are measured at the end of each reporting period over the term that goods and services are received or over the vesting period if the term is not specified.

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During the year ended December 31, 2019, the Company granted 6,555,000 options to acquire common shares. Share-based payments relating to options vesting during the year using the Black-Scholes option pricing model was \$1,169,687.

The fair value of stock options granted during the period was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

| Assumptions | |
|-------------------------|-------------------|
| Risk-free interest rate | 1.38 - 2.50% |
| Expected volatility | 150% |
| Dividend yield | 0% |
| Expected life | 1.00 - 5.00 years |

Performance shares

On February 15, 2019, the Board agreed to issue to six executives, up to a total of 3,000,000 common shares of the Company with a grant date fair value of \$0.23 per share (CAD\$0.30 per share) upon the Company meeting the following criteria:

- 166,666 common shares in the capital of the Company to be issued to each recipient upon the Company achieving \$2,000,000 revenue in the 2019 fiscal year based on audited financial statements;
- 166,666 Common Shares to be issued to each recipient upon the Company achieving \$4,000,000 revenue in the 2020 fiscal year based on audited financial statements; and
- 166,667 Common Shares to be issued to each recipient when the Company releases the OPENVINO software to general availability.

The performance conditions are not related to the market price of the equity instruments of the Company and, as a result, they are non-market performance conditions. At December 31, 2019, management estimates that certain bonus criteria will be met, and 1,000,000 instruments will vest. As a result, \$227,268 (CAD\$300,000) has been recorded to share-based payments expense. Management will re-evaluate its assessment every reporting period and changes, if any, will be reflected in future periods.

On October 10, 2019, the Company executed a market software as a service agreement. Per the agreement, the Company shall issue 1,000,000 share purchase warrants when certain milestones are met:

- 100,000 warrants issued at execution
- 300,000 warrants issued upon the achievement of \$250,000 of cumulative license revenue to VSBLTY, Inc.
- 300,000 warrants issued upon the achievement of \$500,000 of cumulative license revenue to VSBLTY, Inc.
- 300,000 warrants issued upon the achievement of \$1,000,000 of cumulative license revenue.

The performance conditions are not related to the market price of the equity instruments of the Company and, as a result, they are non-market performance conditions. At December 31, 2019, management estimates that certain bonus criteria will be met, and has an obligation to issue 100,000 warrants. Each warrant is exercisable at the lowest price permitted by the policies of the CSE at the

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time of issuance for a period of three years from issuance. As a result, \$19,127 has been recorded to share-based payments expense. Management will re-evaluate its assessment every reporting period and changes, if any, will be reflected in future periods.

13. EXPENSES BY NATURE

| | Year ended December 31, 2019 | Year ended December 31, 2018 |
|---|---|---|
| Marketing expenses | \$ 980,232 | \$ 69,550 |
| Meals and entertainment | 70,199 | 28,767 |
| Tradeshaw expenses | 76,181 | 30,473 |
| General and administrative expenses | 215,375 | 133,249 |
| Bad debt expense | - | 5,446 |
| Professional fees | 404,016 | 399,840 |
| Consulting fees | 845,519 | 335,899 |
| Management fees | 530,188 | 304,375 |
| Rent | 17,314 | 26,281 |
| Salaries and wages | 794,977 | 857,702 |
| Travel | 231,786 | 104,384 |
| Depreciation (note 7) | 20,909 | 11,070 |
| Lease-related depreciation (note 11) | 25,773 | - |
| Utilities | 43,564 | 19,014 |
| Investor relations | 37,689 | - |
| Transfer agent and filing fees | 79,245 | - |
| Research and development materials | 1,061,997 | 13,811 |
| Total sales and marketing, general and administrative expense, and research and development expenses | \$ 5,434,964 | \$ 2,339,861 |

14. RELATED PARTY TRANSACTIONS*Key management compensation*

Key management includes members of the Board of Directors and executive officers of the Company. During the year ended December 31, 2019, remuneration of the Company's key management consisted of management fees in the amount of \$678,000 (2018 - \$304,375) and share-based payments of \$460,055 (2018 - \$nil). Management fees are included in general and administrative, sales and marketing and research and development expenses.

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Other related party transactions

During the years ended December 31, 2019 and 2018, other related party transactions consisted of the following:

| | December 31, 2019 | December 31, 2018 |
|--|------------------------------|------------------------------|
| Creative services paid to a related entity, included in cost of sales | \$ 15,043 | \$ 2,919 |
| Marketing expenses paid to a related entity controlled by a director, included in sales and marketing expenses | \$ 272,465 | \$ 29,476 |
| Accounting and administrative fees paid to a director and a related entity controlled by a director, included in general and administrative expenses | \$ 134,846 | \$ 298,988 |
| Contract project development labour paid to a related entity controlled by a director, included in research and development expenses | \$ 551,312 | \$ 156,225 |
| Bad debt expense recognized on related party receivables | \$ - | \$ 46 |
| Interest expense for convertible debentures and notes payable to directors, excluding discount accretion | \$ 18,964 | \$ 47,920 |

Related party balances

At December 31, 2019, \$4,768 (2018 - \$4,807) was due from related parties and is included in trade and other receivables. The amounts were non-interest bearing and due on demand.

At December 31, 2019, \$53,030 (2018 - \$142,938) was due to related parties and is included in accounts payable and accrued liabilities. The amounts were non-interest bearing and due on demand.

At December 31, 2019, \$nil (2018 - \$1,412,500) in notes payable were due to related parties, excluding discounts.

At December 31, 2019, \$270,781 (2018 - \$nil) in convertible debentures were due to related parties, excluding discounts.

15. SUPPLEMENTAL CASHFLOW DISCLOSURE

| | December 31, 2019 | December 31, 2018 |
|--|------------------------------|------------------------------|
| Interest paid | \$ - | \$ 6,218 |
| Interest paid - leases | 12,926 | - |
| Promissory notes settled for shares | 542,252 | - |
| Convertible debt converted into shares | 1,649,277 | - |
| Non-cash exercise of warrants | 87,996 | - |
| Settlement of intercompany loans and advances on acquisition | 948,590 | - |
| Initial recognition of IFRS 16 lease assets | 254,858 | - |
| Discount on notes payable allocated to reserves | - | 7,204 |
| Discount on convertible debentures allocated to embedded derivatives | \$ - | \$ 53,030 |

16. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue its operations and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. The Company considers its capital for this purpose to be its equity, promissory notes and convertible debt.

The Company's primary source of capital is through the issuance of common shares and debt. The Company manages and adjusts its capital structure when changes in economic conditions occur. To maintain or adjust the capital structure, the Company may seek additional funding. The Company may require additional capital resources to meet its administrative overhead expenses in the long term. The Company believes it will be able to raise capital as required in the long term but recognizes there will be risks involved that may be beyond its control. There are no external restrictions on the management of capital.

17. FINANCIAL RISK MANAGEMENT

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Foreign exchange risks are closely monitored and attempts are made to match foreign cash inflows and outflows. As at December 31, 2019, the Company is exposed to foreign exchange risk through a portion of its cash denominated in Canadian dollars. The Company mitigates foreign exchange risk by monitoring foreign exchange rate trends and evaluating reinvestment opportunities when possible. The Company does not currently hedge its foreign exchange risk. Based on current exposures as at December 31, 2019 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the United States dollar would result in a gain or loss of approximately \$26,870 in the Company's statements of loss and comprehensive loss.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and trade and other receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness. The Company mitigates credit risk by evaluating the creditworthiness of customers prior to conducting business with them and monitoring its exposure for credit losses with existing customers. Trade and other receivables also include refundable goods and services tax which bears minimal credit risk as it is receivable from the Canadian government. The Company has determined that no allowance is required as all amounts outstanding are considered collectible. During the year ended December 31, 2019, the Company incurred \$nil in bad debt expense (2018 - \$5,446).

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's outstanding convertible debt bears interest at fixed rates. As a result, at December 31, 2019, the Company is not exposed significant interest rate risk.

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Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. The Company addresses its liquidity by raising capital through the issuance of debt and equity. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

18. BASIS OF FAIR VALUE

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable marker data (unobservable inputs).

The Company's financial instruments consist of cash, trade and other receivables, accounts payable and accrued liabilities, lease liabilities, convertible debentures, embedded derivatives and notes payable. With the exception of convertible debentures, embedded derivatives and notes payable, the carrying value of the Company's financial instruments approximate their fair values due to their short-term maturities. The fair value of convertible debentures and notes payable approximate their carrying value, excluding discounts, due to minimal changes in interest rates and the Company's credit risk since issuance of the instruments. Embedded derivatives are classified as level 3 financial instruments and are remeasured at fair value every reporting period.

19. INCOME TAXES

The following table reconciles the expected income tax expense at United States statutory income tax rates to the amounts recognized in the statements of loss and comprehensive loss:

| | December 31, 2019 | December 31, 2018 |
|--|------------------------------|------------------------------|
| Net loss before taxes | \$ (7,418,255) | \$ (2,449,382) |
| Statutory tax rate | 29.7% | 29.7% |
| Expected income tax recovery | \$ (2,003,000) | \$ (514,000) |
| Income tax recovery allocated to partners | - | 403,000 |
| Non-deductible items | 486,000 | 3,000 |
| Change in foreign tax and foreign exchange rates | 443,000 | (32,000) |
| Share issue cost | (160,000) | - |
| Change in deferred tax assets not recognized | 1,234,000 | 140,000 |
| Total income tax expense (recovery) | \$ - | \$ - |

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Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes. Deferred tax assets (liabilities) as at December 31, 2019 and 2018 are as follows:

| | December 31, 2019 | December 31, 2018 |
|--|--------------------------|--------------------------|
| Convertible debentures and notes payable | \$ (191,000) | \$ (15,000) |
| Embedded derivatives | - | 12,000 |
| Share and debt issue costs | 161,000 | - |
| Leases | 3,000 | - |
| Tax loss carryforwards | 1,361,000 | 102,000 |
| | 1,334,000 | 99,000 |
| Unrecognized deferred tax asset | (1,334,000) | (99,000) |
| Net deferred tax asset | \$ - | \$ - |

The Company did not recognize deferred tax assets for the following deductible temporary differences because it is not probable that future taxable profit will be available against which the Company can use the benefits therefrom:

| | December 31, 2019 | December 31, 2018 |
|---|--------------------------|--------------------------|
| Embedded derivatives | \$ - | \$ 59,000 |
| Share issue costs | 596,000 | - |
| Debt | (706,000) | - |
| Leases | 14,000 | - |
| Tax loss carryforwards | 5,859,000 | 492,000 |
| Unrecognized deductible temporary differences | \$ 5,763,000 | \$ 551,000 |

As at December 31, 2019, the Company had net operating tax loss carryforwards in the United States of \$3,673,000 which can be applied to reduce future United States taxable income and will expire between 2026 and 2037. In addition, the Company had non-capital tax loss carryforwards in Canada of \$2,186,000 (CAD\$2,846,000) which can be applied to reduce future Canadian Taxable income and will expire between 2020 and 2033.

20. SUBSEQUENT EVENTS

Subsequent to December 31, 2019, \$189,762 (CAD\$250,000) in principal of 2019 Debentures were converted into 714,282 common shares and 357,139 warrants of the Company.

On February 26, 2020, the Company closed a private placement of unsecured convertible debentures for gross proceeds of CAD\$1,630,380. The principal amount of the debentures may be converted, in whole or in part, at any time before the maturity date, into units of the Company at CAD\$0.30 per unit, if converted at any time before one year from the closing date, or otherwise convertible at CAD\$0.60 per unit if converted after one year from the closing date but before the maturity date. Each unit issued upon conversion consists of one common share in the capital of the Company and one-half of a share purchase warrant. Each whole warrant will be exercisable into one Share at a price of CAD\$0.60 per warrant share for a period of 24 months from the closing date, subject to certain acceleration rights of the Company. The Company paid a cash commission to the agent of CAD \$69,600, a finance fee of 87,000 Shares and issued 232,000 non-transferable broker warrants. Each

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broker warrant entitles the Agent to purchase one Share at the price of \$0.30 per share for a period of 24 months from the closing date.

On April 9, 2020, the Company closed the second tranche of its private placement of unsecured convertible debentures for gross proceeds of CAD\$230,000. The principal amount of the debentures may be converted, in whole or in part, at any time before the maturity date, into units of the Company at CAD\$0.30 per unit, if converted at any time before one year from the closing date, or otherwise convertible at CAD\$0.60 per unit if converted after one year from the closing date but before the maturity date. Each unit issued upon conversion consists of one common share in the capital of the Company and one-half of a share purchase warrant. Each whole warrant will be exercisable into one Share at a price of CAD\$0.60 per warrant share for a period of 24 months from the closing date, subject to certain acceleration rights of the Company. The Company paid a cash commission to the agent of \$CAD \$16,000, a finance fee of 20,000 Shares and issued 53,333 non-transferable broker warrants. Each broker warrant entitles the Agent to purchase one Share at the price of \$0.30 per share for a period of 24 months from the closing date.

The recent outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures may have an adverse impact on global economic conditions as well as on the Company's business activities. The extent to which the coronavirus may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. These events are highly uncertain and as such, the Company cannot determine their financial impact at this time.