

Aether Catalyst Solutions, Inc.

Condensed Interim Financial Statements

For the nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

Corporate Head Office

*Unit 104, 8337 Eastlake Drive
Burnaby, BC
V5A 4W2*

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Aether Catalyst Solutions, Inc.
Condensed Interim Statements of Financial Position
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

	September 30, 2020	December 31, 2019
ASSETS		
Current assets		
Cash	\$ 6,098	\$ 145,204
Prepaid expenses	15,890	17,375
Receivables (Note 7)	44,775	46,754
	66,763	209,333
Right-of-use asset (Note 2)	113,318	138,192
Equipment (Note 3)	42,565	45,620
	\$ 222,646	\$ 393,145
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities		
Accounts payable and accrued liabilities (Note 4)	\$ 159,309	\$ 123,671
Lease liability (Note 2)	27,170	25,892
Loans payable (Note 5)	2,300	30,010
	188,779	179,573
Long-term loans payable (Note 5)	40,000	-
Long-term lease liability (Note 2)	98,804	119,111
	327,583	298,684
Shareholders' equity (deficiency)		
Share capital (Note 6)	1,743,546	1,553,663
Contribution surplus (Note 6)	284,000	284,000
Deficit	(2,132,483)	(1,743,202)
	(104,937)	94,461
	\$ 222,646	\$ 393,145

Nature and continuance of operations (Note 1)

Commitment (Note 10)

Subsequent event (Note 11)

APPROVED ON BEHALF OF THE DIRECTORS:

<u>"Paul Woodward"</u>	Director	<u>"Jason Moreau"</u>	Director
Paul Woodward		Jason Moreau	

These accompanying notes form an integral part of these condensed interim financial statements.

Aether Catalyst Solutions, Inc.
Condensed Interim Statements of Net Income (Loss) and Comprehensive Income
(Loss)
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

	Three month period ended, September 30,		Nine month period ended, September 30,	
	2020	2019	2020	2019
Expenses				
Amortization (Note 2, 3)	\$ 12,201	\$ 2,771	\$ 36,091	\$ 7,882
Consulting fees (Note 7)	15,000	14,260	86,170	39,180
Interest and accretion (Note 2)	8,178	-	19,903	-
Office, supplies and miscellaneous	31,013	21,077	110,443	57,354
Filing and issuer fees	2,421	2,600	13,376	35,448
Professional fees	5,562	27,560	17,631	57,318
Rent	248	8,384	1,245	20,373
Travel	-	-	1,208	-
Wages and benefits (Note 7)	76,065	75,693	232,291	233,212
	(150,688)	(152,345)	(518,358)	(450,767)
Other income				
Grants and government tax credits	34,745	198,682	118,664	300,505
Gain on settlement of debt	10,413	-	10,413	-
Net income (loss) and comprehensive income (loss) for the period	\$ (105,530)	\$ 46,337	\$ (389,281)	\$ (150,262)
Income (Loss) per share – basic and diluted	\$ (0.00)	\$ 0.00	\$ (0.01)	\$ (0.00)
Weighted average number of shares outstanding – basic and diluted	41,780,764	41,071,712	41,772,060	41,071,712

These accompanying notes form an integral part of these condensed interim financial statements.

Aether Catalyst Solutions, Inc.
Condensed Interim Statement of Changes in Equity (Deficiency)
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

	Number of shares	Share Capital	Subscriptions received in advance (receivable)	Contribution Surplus	Deficit	Total
Balance, December 31, 2018	41,071,712	\$ 1,452,413	\$ (450)	\$ -	\$ (1,200,480)	\$ 251,483
Write-off of subscription receivable	-	-	450	-	-	450
Loss for the period	-	-	-	-	(150,262)	(150,262)
Balance, September 30, 2019	41,071,712	1,452,413	-	-	(1,350,742)	101,671
Shares issued for warrant	675,000	101,250	-	-	-	101,250
Share-based compensation	-	-	-	284,000	-	284,000
Loss for the period	-	-	-	-	(392,460)	(392,460)
Balance, December 31, 2019	41,746,712	1,553,663	-	284,000	(1,743,202)	94,461
Shares issued for warrants	34,000	5,100	-	-	-	5,100
Shares issued for private placement	260,000	39,000	-	-	-	39,000
Shares issued for debt	1,041,307	145,783	-	-	-	145,783
Loss for the period	-	-	-	-	(389,281)	(389,281)
Balance, September 30, 2020	43,082,019	\$ 1,743,546	\$ -	\$ 284,000	\$ (2,132,483)	\$ (104,937)

These accompanying notes form an integral part of these condensed interim financial statements.

Aether Catalyst Solutions, Inc.
Condensed Interim Statements of Cash Flows
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

	Nine months ended	
	2020	September 30, 2019
Cash flows from operating activities		
Net loss for the period	\$ (389,281)	\$ (150,262)
Changes in non-cash items:		
Accretion of lease liability	16,941	-
Amortization	36,090	4,882
Interest on loans payable	3,253	-
Gain on settlement of debt	(10,413)	-
Changes in non-cash working capital items:		
Receivables	1,979	(13,381)
Prepaid	1,485	(983)
Accounts payable and accrued liabilities	120,871	11,158
Cash used in operating activities	(219,075)	(145,586)
Cash flows from investing activities		
Purchase equipment	(8,161)	(20,858)
Cash used in financing activities	(8,161)	(20,858)
Cash flows from financing activities		
Lease payments	(35,970)	-
Shares issued - warrants exercised	5,100	-
Shares issued – private placement	39,000	-
Proceeds from loans	80,000	29,543
Repayment of loans	-	(30,843)
Cash provided by (used in) financing activities	88,130	(1,300)
Change in cash	(139,106)	(167,744)
Cash, beginning of the period	145,204	334,942
Cash, end of the period	\$ 6,098	\$ 167,198
Supplementary cash flow information		
Non-cash financing activities		
Shares issued for debt settlement	\$ 145,783	\$ -

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Aether Catalyst Solutions, Inc.
Notes to the Condensed Interim Financial Statements
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)
FOR THE PERIOD ENDED SEPTEMBER 30, 2020 AND 2019

1. NATURE AND CONTINUANCE OF OPERATIONS

Aether Catalyst Solutions, Inc. (“Aether” or the “Company”) was incorporated under the British Columbia Business Corporations Act (“BCBCA”) on July 8, 2011. The Company’s principal business activity is commercializing patent pending catalyst technology, first for use in automotive emissions abatement.

These condensed interim financial statements have been prepared on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company’s ability to continue as a going concern is dependent upon achieving profitable operations and/or obtaining additional financing.

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future which is at least, but not limited to, 12 months from September 30, 2020. Management is aware, in making its assessment, of material uncertainties relating to events or conditions that may cast significant doubt upon the Company’s ability to continue as a going concern, as explained in the following paragraph.

The Company has sustained losses from operations and does not have sufficient cash to finance its current plans for at least 12 months from the date of this document. The Company expects that it will need to raise substantial additional capital to accomplish its business plan over the next several years. The Company expects to seek additional financing through equity financing. There can be no assurance as to the availability or terms upon which such financing might be available.

In March 2020, there was a global pandemic outbreak of COVID-19. The actual and threatened spread of the virus globally has had a material adverse effect on the global economy and; specifically, the regional economies in which the Company operates. The pandemic could continue to have a negative impact on the stock market, including trading prices of the Company’s shares and its ability to raise new capital. These factors, among others, could have a significant impact on the Company’s operations

These condensed interim financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

Statement of compliance

These condensed interim financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value. These condensed interim financial statements are prepared using the accrual basis of accounting, except for cash flow information. These condensed interim financial statements are presented in Canadian dollars, which is the functional currency of the Company. These condensed interim financial statements were approved for issuance by the Company’s Board of Directors on November 23, 2020.

These condensed interim financial statements, including comparatives, have been prepared in accordance with IAS 34, Interim Financial Reporting (“IAS 34”), as issued by the International Accounting Standards Boards (“IASB”), and its interpretations, using accounting policies consistent with International Financial Reporting Standards (“IFRS”).

The preparation of condensed interim financial statements in accordance with IFRS requires the use of certain critical accounting estimates and judgments when applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

Aether Catalyst Solutions, Inc.
Notes to the Condensed Interim Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates and judgments

The preparation of these condensed interim financial statements in conformity with IFRS requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the condensed interim financial statements and reported amounts of revenues and expenses during the reporting periods. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates.

Significant accounting judgments

Significant accounting judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements include, but are not limited to, the following:

- i) The ability of the Company to continue as a going concern.

Critical accounting estimates

Key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year include, but are not limited to, the following:

Income taxes

The Company is periodically required to estimate the tax basis of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the financial statements.

Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period that the changes occur. Each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will not be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax assets and liabilities, and tax planning initiatives.

Cash and cash equivalents

Cash and cash equivalents consist of cash held with banks and highly liquid short-term investments in high interest saving accounts which can be withdrawn at any time, which, in the opinion of management, is subject to an insignificant risk of changes in value. As at September 30, 2020 and 2019, the Company held only cash.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Financial Instruments

Financial assets are classified at initial recognition as: amortized cost, fair value through profit or loss ("FVTPL"), or fair value through other comprehensive income ("FVTOCI"). The classification depends on the Company's business model for managing the financial assets and the contractual cash flow characteristics. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI.

Fair value through profit or loss ("FVTPL") – Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the income statement. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the income statement in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated as hedges.

Fair value through other comprehensive income ("FVTOCI") - Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Financial assets at amortized cost - A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL or the Company has opted to measure at FVTPL. The following table summarizes the classification and measurement changes under IFRS 9 for each financial instrument:

Financial Assets and Liabilities	IFRS 9 Classification and Measurement
Cash	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Loans payable	Amortized cost
Lease liability	Amortized cost

Measurement

Financial assets and liabilities at FVTPL are initially recognized at fair value and transaction costs are expensed in profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets or liabilities held at FVTPL are included in profit or loss in the period in which they arise. Where the Company has opted to designate a financial liability at FVTPL, any changes associated with the Company's credit risk will be recognized in OCI.

Financial assets and liabilities at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost less any impairment.

Impairment

The Company assesses on a forward-looking basis the expected credit loss ("ECL") associated with financial assets measured at amortized cost, contract assets and debt instruments carried at FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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. Losses are recognized in profit or 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 profit or loss.

Government Contributions

Government funding of eligible research and development expenditures is recognized when there is reasonable assurance that the Company will comply with the conditions attached to the grant and the grant will be received. The Company presents the grant in the statement of comprehensive loss. Tax credits are recognized in the statement of comprehensive loss when received.

Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The operating segment's operating result is reviewed regularly by the Company's management, including the Chief Executive Officer, to make decisions about resources to be allocated to the segment, assess its performance, and for which discrete financial information is available.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equipment

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Equipment is depreciated over its estimated useful lives. The cost of an item includes the purchase price and directly attributable costs to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income and comprehensive income during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Depreciation is recognized using the following rate and method:

Equipment	straight-line over 5 years
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Depreciation methods, useful lives and residual values are reviewed at each financial year end and are adjusted if appropriate. Plant and equipment costs are not amortized until the asset is available for use.

Share capital

The proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company. The Company's common shares are classified as equity instruments.

Commissions paid to agents, and other directly attributable share issuance costs, such as legal, auditing, and printing, on the issue of the Company's shares are charged directly to share capital.

When units are issued during a private placement, which include both common shares and share purchase warrants, the warrants are valued by comparing the total unit price to the fair value of the shares on the day of the announcement of the private placement. Any premium above the fair value of the shares issued would be allocated to the warrants and credited to the warrant reserve.

Loss per share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

Where equity settled share purchase options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period using the graded vesting method. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payments cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

All equity-settled share-based payments are reflected in share-based payment reserve, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in share-based payment reserve is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest, except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

Leases

In January 2016, the IASB issued IFRS 16 Leases which replaces the previous leases standard, IAS 17 Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessors continue to classify leases as operating leases or finance leases, and account for those two types of leases differently. IFRS 16 is effective for periods beginning on or after January 1, 2019.

On adoption of IFRS 16, the Company would recognize lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities would be measured at the present value of the remaining lease payments excluding renewal options as they are not expected to be exercised, discounted using the Company's incremental borrowing rate as of January 1, 2019.

The Company did not have any leases as at January 1, 2019. The Company entered into a premise lease agreement effective March 1, 2019.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The following is the lease liabilities recognized at March 1, 2019:

Lease entered into on March 1, 2019 before discounting	\$	239,263
Discounted using incremental borrowing rate of 16%		(73,433)
Total lease liabilities recognized under IFRS 16 at March 1, 2019	\$	165,830

For the period ending September 30, 2020 depreciation of the right of use asset was \$16,583. The right of use asset is depreciated on a straight-line basis over the term of the lease.

Right of use asset, March 1, 2019	\$	165,830
Depreciation of right of use asset		(27,638)
Right of use asset, December 31, 2019	\$	138,192
Depreciation of right of use asset		(24,874)
Right of use asset, September 30, 2020	\$	113,318

For the period ending September 30, 2020, finance charges on the lease liability were \$16,941. The lease term matures on February 29, 2024.

Balance, December 31, 2018	\$	-
Lease liability recognized on March 1, 2019		165,830
Lease payments		(39,373)
Accretion		18,546
Balance, December 31, 2019		145,003
Lease payments		(35,970)
Accretion		16,941
Balance, September 30, 2020	\$	125,974
Current lease liability		27,170
Long-term lease liability		98,804
Total lease liability at September 30, 2020	\$	125,974

Aether Catalyst Solutions, Inc.
Notes to the Condensed Interim Financial Statements
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3. EQUIPMENT

	Total
Cost	
Balance, December 31, 2018	\$ 42,291
Addition	28,404
Balance, December 31, 2019	70,695
Additions	8,161
Balance, September 30, 2020	\$ 78,856
Amortization	
Balance, December 31, 2018	\$ 13,811
Amortization	11,264
Balance, December 31, 2019	25,075
Amortization	11,216
Balance, September 30, 2020	\$ 36,291
Net Book Value, December 31, 2019	\$ 45,620
Net Book Value, September 30, 2020	\$ 42,565

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Payables and accrued liabilities for the Company are broken down as follows:

2	September 30, 2020	December 31, 2019
Trade payables	\$ 116,595	\$ 70,744
Accrued liabilities	23,550	14,100
Due to government	19,163	6,453
Due to related parties (Note 7)	2,300	32,344
Total	\$ 161,608	\$ 123,671

5. LOANS PAYABLE

During the year ended December 31, 2018, the Company received non-interest bearing loans with no fixed terms of repayment totaling \$51,710. The Company repaid \$24,000 of the loan payable during the year ended December 31, 2018. There is a balance of \$27,710 remaining at September 30, 2020 (December 31, 2019 – \$27,710).

During the year ended December 31, 2017, the Company received non-interest bearing unsecured loans with no fixed terms of repayment totaling \$15,800. The Company repaid \$8,500 during the year ended December 31, 2017 and \$5,000 during the year ended December 31, 2018. There is a balance of \$2,300 remaining at September 30, 2020 (December 31, 2019 – \$2,300).

During the period ended September 30, 2020, the Company entered into a \$43,253 promissory note with a company controlled by the Chief Executive Officer of the Company for a period of 6 months at an interest rate of 15% per annum. The Company settled the debt in full during the period ended September 30, 2020.

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5. LOANS PAYABLE (continued)

During the period ended September 30, 2020, the Company received an interest-free loan of \$40,000 through Canada Emergency Business Account. Repaying the balance of the loan on or before December 31, 2022 will result in loan forgiveness of \$10,000. If the balance is not paid by December 31, 2022, the remaining balance will be converted to a 3-year term loan at 5% annual interest, effective January 1, 2023.

6. SHARE CAPITAL

Authorized

Unlimited common shares without par value

Issued

During the period ended September 30, 2020, the Company:

- i) issued 34,000 shares for total proceeds of \$5,100 for warrants exercised.
- ii) issued 1,301,307 units for gross proceeds of \$195,196. Each unit consists of one common share and one-half common share purchase warrant exercisable at \$0.25 for a period 12 months.

During the year ended December 31, 2019, the Company issued 675,000 shares for total proceeds of \$101,250 for warrants exercised in the year.

Escrow shares

On March 31, 2019, the Company entered into a share escrow agreement where a total of 34,673,338 shares were initially held in escrow to be released according to a pre-determined release schedule. As at September 30, 2020, there were 20,804,001 shares in escrow.

Options

During the year ended December 31, 2019, the Company granted 1,900,000 stock options to employees, officers and directors of the Company. The options are valued at \$284,000, exercisable at a price of \$0.20 per share, expiring on November 28, 2024.

A summary of changes in options during the year is as follows:

	Number of Options	Weighted average exercise price
Outstanding, December 31, 2018	-	\$ -
Granted	1,900,000	0.20
Outstanding, December 31, 2019	1,900,000	0.20
Cancelled	(150,000)	0.20
Outstanding, September 30, 2020	1,750,000	\$ 0.20

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6. SHARE CAPITAL (continued)

Options (continued)

The following options were outstanding at September 30, 2020:

Number of Options	Exercise Price	Expiry Date
1,750,000	\$0.20	November 28, 2024

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of options granted for the period ended September 30, 2020 and year ended December 31, 2019:

	Period ended September 30, 2020	Year ended December 31, 2019
Risk-free interest rate	-	1.50%
Expected life of options	-	5.00 years
Expected annualized volatility	-	100.00%
Exercise price	-	\$0.20
Expected dividend rate	-	-

Warrants

A summary of changes in warrants during the year is as follows:

	Number of Warrants	Weighted average exercise price
Outstanding, December 31, 2018	3,000,000	\$ 0.15
Exercised	(675,000)	0.15
Expired	(75,000)	0.15
Outstanding, December 31, 2019	2,250,000	0.15
Granted - expiring on September 29, 2021	650,653	0.25
Expired	(2,216,000)	0.15
Exercised	(34,000)	0.15
Outstanding, September 30, 2020	650,653	\$ 0.25

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7. RELATED PARTY TRANSACTIONS

	Period ended September 30, 2020	Period ended September 30, 2019
Transactions with Key Management Personnel		
Consulting fees paid to a director, officers, a company with common directors and a company owned by a director and officer	\$ 45,000	\$ 31,000
Wages paid to officers	\$ 75,000	\$ 75,000

As at September 30, 2020, accounts payable and accrued liabilities include \$53,378 (December 31, 2019 – \$32,344) owing to a company owned by a director, officers and companies with common directors. The amounts are unsecured, non-interest bearing and have no specific terms of repayment.

As at September 30, 2020, other receivable includes \$33,088 (December 31, 2019 – \$29,347) owing from a director and companies with common directors. The amounts are unsecured, non-interest bearing and have no specific terms of repayment.

As at September 30, 2020, loans payable included \$2,300 (December 31, 2019 – \$Nil) owing to a company controlled by the Chief Executive Officer of the Company.

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value Hierarchy

Financial instruments recorded at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on inputs other than quoted prices included in 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 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

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 is exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness. As at September 30, 2020, the Company is not exposed to any significant credit risk.

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8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 rate. The Company does not believe it is exposed to significant currency risk as funds are held in Canadian currency and there are no significant foreign exchange currency transactions.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to the risk that the value of financial instruments will change due to movement in market interest rates. The Company does not hold interest-bearing debt with long-term maturities and therefore does not believe that interest rate risk is significant. The Company does not use derivative instruments to reduce its interest rate risk as the Company's management believes that the likely financial impact of interest rate changes does not justify using derivatives.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the Company's financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. Accounts payable and accrued liabilities are current. The Company addresses its liquidity risk through equity financing obtained through the sale of common shares and the exercise of warrants and options.

9. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. There were no changes in the Company's approach to capital management during the period ended September 30, 2020. The Company is not subject to externally imposed capital requirements.

10. COMMITMENT

The Company has entered into lease agreement for a premise expiring February 29, 2024.

Future minimum annual lease payments for the next five years and beyond are as follows:

2020	\$	7,930
2021		32,644
2022		32,727
2023		32,727
2024		5,455
	\$	<u>111,483</u>