

EYEfi Group Technologies Inc.

Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

Independent Auditor's Report



To the Shareholders of EYEfi Group Technologies Inc.:

Opinion

We have audited the consolidated financial statements of EYEfi Group Technologies Inc. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Other Matter

The consolidated financial statements for the year ended December 31, 2019 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on November 9, 2020.

Other Information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

MNP LLP

Toronto, Ontario
April 29, 2021

Chartered Professional Accountants
Licensed Public Accountants

MNP

EYefi Group Technologies Inc.
Expressed in Canadian Dollars
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EYefi Group Technologies Inc.
Expressed in Canadian Dollars
Consolidated statements of financial position
As at December 31, 2020

	Note	December 31, 2020 \$	December 31, 2019 \$
Assets			
Current assets			
Cash	7	654,666	111,053
Trade and other receivables	8	84,839	42,359
Research and development tax credits receivable	9	220,014	-
Income tax refund due		37,930	-
Amounts receivable for the issue of preference shares	19	-	419,612
Total current assets		<u>997,449</u>	<u>573,024</u>
Non-current assets			
Derivative financial instruments	10	34,436	-
Property, plant and equipment	11	35,808	48,596
Right-of-use assets	12	12,743	119,152
Intangibles	13	50,594	47,817
Lease bond		31,554	-
Total non-current assets		<u>165,135</u>	<u>215,565</u>
Total assets		<u>1,162,584</u>	<u>788,589</u>
Liabilities			
Current liabilities			
Trade and other payables	14	176,839	40,566
Lease liabilities	15	18,968	36,698
Income tax		-	4,485
Short-term employee benefits	17	124,126	150,711
Contract liabilities	18	331,203	307,192
Convertible preference shares	19	-	912,200
Total current liabilities		<u>651,136</u>	<u>1,451,852</u>
Non-current liabilities			
Facility loan payable	20	853,672	-
Lease liabilities	21	-	85,709
Total non-current liabilities		<u>853,672</u>	<u>85,709</u>
Total liabilities		<u>1,504,808</u>	<u>1,537,561</u>
Equity			
Issued capital		3,649,090	2,378,763
Contributed surplus		50,180	-
Cumulative translation adjustment		(8,874)	21,026
Accumulated deficit		<u>(4,032,620)</u>	<u>(3,148,761)</u>
Total deficiency in equity		<u>(342,224)</u>	<u>(748,972)</u>
		<u>1,162,584</u>	<u>788,589</u>

Signed on behalf of the Board:

“Simon Langdon”
Director

“James Hope”
Director

The above consolidated statements of financial position should be read in conjunction with the accompanying notes

EYefi Group Technologies Inc.
Expressed in Canadian Dollars
Consolidated statements of loss and comprehensive loss
For the years ended December 31, 2020 and 2019

	Note	December 31, 2020 \$	December 31, 2019 \$
Revenue			
Sales from rendering services	6	236,246	260,430
Cost of Sales		<u>(189,435)</u>	<u>(50,115)</u>
Gross profit		<u>46,811</u>	<u>210,315</u>
Other income		6,472	1,967
Government subsidies	9	167,709	-
Research and development tax credits	9	220,014	468,033
Expenses			
Administration		(504,830)	(178,988)
Listing expense	22	(326,879)	-
Employee benefits expense		(367,168)	(244,886)
Depreciation and amortization expense	11,12,13	(57,688)	(25,059)
Interest expense		(46,217)	-
Marketing		-	(211,438)
Share based payments	23	<u>(22,083)</u>	<u>(73,820)</u>
Operating loss		(883,859)	(53,876)
Debt forgiveness expense	25	<u>-</u>	<u>(103,963)</u>
Loss before income tax expense		(883,859)	(157,839)
Income tax expense	16	<u>-</u>	<u>(203,057)</u>
Loss after income tax expense for the year		(883,859)	(360,896)
Other comprehensive loss (income)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		<u>(29,900)</u>	21,026
Cumulative translation (losses) income		<u>(29,900)</u>	21,026
Total comprehensive loss for the year		<u><u>(913,759)</u></u>	<u><u>(339,870)</u></u>
Basic and diluted loss per share	26	(0.04)	(0.02)

The above consolidated statements of loss and comprehensive loss should be read in conjunction with the accompanying notes

EYefi Group Technologies Inc.
Expressed in Canadian Dollars
Consolidated statements of changes in equity
For the years ended December 31, 2020 and 2019

	Note	Number of shares	Issued capital \$	Contributed surplus \$	Cumulative translation adjustment \$	Accumulated deficit \$	Total deficiency in equity \$
Balance at January 1, 2019		2,500,014	2,378,763	-	-	(2,787,865)	(409,102)
Loss after income tax expense for the year		-	-	-	-	(360,896)	(360,896)
Other comprehensive income for the year, net of tax		-	-	-	21,026	-	21,026
Balance at December 31, 2019		<u>2,500,014</u>	<u>2,378,763</u>	<u>-</u>	<u>21,026</u>	<u>(3,148,761)</u>	<u>(748,972)</u>

	Note	Number of shares	Issued capital \$	Contributed surplus \$	Cumulative translation adjustment \$	Accumulated deficit \$	Total deficiency in equity \$
Balance at January 1, 2020		2,500,014	2,378,763	-	21,026	(3,148,761)	(748,972)
Loss after income tax expense for the year		-	-	-	-	(883,859)	(883,859)
Other comprehensive loss for the year, net of tax		-	-	-	(29,900)	-	(29,900)
Share-based compensation	23	46,249	22,083	-	-	-	22,083
Issue of share capital	23	12,501	18,196	-	-	-	18,196
Conversion of preference shares	23	625,003	909,800	-	-	-	909,800
Adjustment to reflect the shares issued to former shareholders of EYefi	23	(3,183,767)	-	-	-	-	-
Shares issued to former shareholders of EYefi	23	19,002,500	-	-	-	-	-
EYEFi common shares issued and outstanding	23	4,003,100	320,248	-	-	-	320,248
Stock options	24	-	-	50,180	-	-	50,180
Balance at December 31, 2020		<u>23,005,600</u>	<u>3,649,090</u>	<u>50,180</u>	<u>(8,874)</u>	<u>(4,032,620)</u>	<u>(342,224)</u>

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes

EYefi Group Technologies Inc.
Expressed in Canadian Dollars
Consolidated statements of cash flows
For the years ended December 31, 2020 and 2019

	Note	December 31, 2020 \$	December 31, 2019 \$
Cash flows from operating activities			
Net loss for the year		(883,859)	(360,896)
<i>Adjustments for items not affecting cash</i>			
Depreciation and amortization		57,688	25,059
Share based payments	23	22,083	73,820
Listing expense	22	326,879	-
Accretion of derivative financial instruments		3,702	-
Loan forgiveness		-	103,963
		<u>(473,507)</u>	<u>(158,054)</u>
<i>Net changes in non-cash working capital balances</i>			
Trade and other receivables		(42,480)	17,709
Research and development tax credits receivable		(220,014)	-
Income tax refund due		(37,930)	-
Lease bond		(31,554)	-
Trade and other payables		118,420	(189,278)
Income tax payable		(4,485)	(61,272)
Employee benefits provisions		<u>(26,585)</u>	<u>87,256</u>
Net cash used in operating activities		<u>(718,135)</u>	<u>(303,639)</u>
Cash flows from investing activities			
Payments for property, plant and equipment	11	(3,045)	-
Payments for intangibles	13	<u>(5,475)</u>	<u>(4,227)</u>
Net cash used in investing activities		<u>(8,520)</u>	<u>(4,227)</u>
Cash flows from financing activities			
Cash acquired from acquisition	22	23,815	-
Proceeds for issue of common shares	23	18,196	-
Lease payments		(33,268)	(17,888)
Facility loan	20	865,480	-
Proceeds for issue of preference shares	19	<u>412,615</u>	<u>424,468</u>
Net cash from financing activities		<u>1,286,838</u>	<u>406,580</u>
Net increase in cash and cash equivalents		560,183	98,714
Cash and cash equivalents at the beginning of the financial year		111,053	6,490
Effects of exchange rate changes on cash and cash equivalents		<u>(16,570)</u>	<u>5,849</u>
Cash and cash equivalents at the end of the financial year	7	<u><u>654,666</u></u>	<u><u>111,053</u></u>
Supplemental disclosure of cash flow information			
Interest paid on facility loan		<u><u>86,548</u></u>	<u><u>-</u></u>

The above consolidated statements of cash flows should be read in conjunction with the accompanying notes

EYefi Group Technologies Inc.
Expressed in Canadian Dollars
Notes to the consolidated financial statements
For the years ended December 31, 2020 and 2019

Note 1. Incorporation and operation

EYefi Group Technologies Inc. (the "Company") was incorporated under the laws of the Province of British Columbia, Canada on October 4, 2018. The Company's registered office and principal place of business are: Registered Office #390-825 Homer Street, Vancouver BC, V6B 2W2 Canada and 17/71 Victoria Crescent, Abbotsford, Victoria 3067 Australia. The Company became a Reporting Issuer on November 10, 2020. On December 4, 2020, the Company commenced trading on the Canadian Stock Exchange under the symbol "EGTI" at a share price of \$0.08 per common share.

The Company's principal business activity is a software and engineering entity that has developed, patented and commercialized innovative spatial, predictive, approximation and radial convolution technology called SPARC and an associated product suite that turns any sensor, camera or smartphone device (fixed, mobile, airborne, portable or handheld) into a target co-ordinate acquisition system.

The Board of Directors approved the financials on April 29, 2021.

Note 2. Basis of preparation

Statements of compliance

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

The financial report includes the consolidated results of EYefi Pty Ltd and Conxsme Pty Ltd. The consolidated financial reports reflect the consolidated results of both entities due to their underlying common shareholding interest.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for certain financial instruments carried at fair value.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Basis of consolidation

The consolidated financial statements include the consolidated results of all entities considered to be part of the consolidated entity due to their underlying common shareholding interest. These entities include EYefi Group Technologies Inc. ("EYEFI") as a consolidated Entity with its wholly owned subsidiaries, EYefi Pty Ltd ("EYEFI") and Conxsme Pty Ltd ("Conxsme"). EYEFI was consolidated by a reverse takeover ("RTO") on May 27, 2020 and Conxsme was consolidated on June 30, 2020. All intercompany transactions and balances are eliminated on consolidation. Pursuant to the RTO transaction, these financial statements are deemed to be a continuation of EYefi.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

Effective January 1, 2020, the Company changed its presentation currency to Canadian Dollars from Australian Dollars. The financial statements as of December 31, 2020 and for the year ended December 31, 2019, have been translated into Canadian Dollars in accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates", as follows:

- Assets and liabilities presented and previously reported in Australian Dollars and have been translated into Canadian Dollars using the period-end-exchange rate of 0.9835;
- Statements of profit or loss and other comprehensive income or loss have been translated using average exchange rates prevailing during the reporting period of 0.9247 for the year-to-date average;
- Shareholders' equity balances have been translated using historical exchange rates in effect on the date that transactions occurred; and
- Resulting exchange differences have been recorded to the reserve of exchange differences account on translation.

EYefi Group Technologies Inc.
Expressed in Canadian Dollars
Notes to the consolidated financial statements
For the years ended December 31, 2020 and 2019

Note 2. Basis of preparation (continued)

Foreign currency transactions

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Note 3. Summary of significant accounting policies

The following Accounting Standards and Interpretations are most relevant to the company:

Revenue from Contracts with Customers

Revenue is recognized at an amount that reflects the consideration to which the Company is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Company: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognizes revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised. Revenue which has been invoiced and/or received in advance for which services are yet to be performed is recorded as income in advance or contract liabilities.

The Company has two primary revenue streams:

- Software and hardware solution services; and
- Professional services

All revenue for services rendered to customers is billed over time.

Leases

Effective January 1, 2019 (hereafter referred to as the “date of initial application”), the Company adopted IFRS 16 Leases as issued by the IASB in January 2016. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and lessor. The standard supersedes the requirements in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2019 has not been restated. It remains as previously reported under IAS 17 and related interpretations. On initial application, the Company has elected to record right-of-use assets based on the corresponding lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019.

Cost of sales

Cost of sales consists of the cost of hardware, labour costs associated with installation, development and maintenance of the software.

Operating segments

The Company has one operating segment: software and electronics engineering services. In identifying the operating segment, management generally follows the Company’s service line representing Spatial Video Platform and IIoT Sensor Cloud services. The Company aims to solve critical problems for government and industry customers operating in infrastructure and asset management, emergency management and incident response markets. The Company operates in the Oceania region, which is situated in the Asia-Pacific region.

EYefi Group Technologies Inc.
Expressed in Canadian Dollars
Notes to the consolidated financial statements
For the years ended December 31, 2020 and 2019

Note 3. Summary of significant accounting policies (continued)

Interest

Interest revenue is recognized as interest accrues using the effective interest method. This is a method of calculating the amortized cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognized when it is received or when the right to receive payment is established.

Contract liabilities

Contract liabilities (refer to Consolidated Statements of Financial Position) represents deferred revenue relating to server licenses of EYefi's Spatial Video/SPARC platform deployed in Telstra Corporation Limited ("Telstra") data centre, which have not yet been activated or configured for customer use. There is further configuration required once Telstra starts connecting cameras and customers (subscriptions) to those servers. This activity, when it occurs, will take less than a week and will be a one-off exercise. The Company has the resources to finish this configuration work and does not expect there to be significant costs associated with completing this work.

Income tax

Income tax expense is comprised of current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the asset and liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

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. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

Current and non-current classification

Assets and liabilities are presented in the statements of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the company's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the company's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash

Cash includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

EYefi Group Technologies Inc.
Expressed in Canadian Dollars
Notes to the consolidated financial statements
For the years ended December 31, 2020 and 2019

Note 3. Summary of significant accounting policies (continued)

The Company has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Compound financial instruments

Compound financial instruments with options and derivatives are evaluated to determine whether any embedded derivatives need to be separated from the host instrument. In accordance with IAS 32.31 for compound financial instruments, because equity instruments are defined as contracts evidencing a residual interest in the assets of an entity after deducting all of its liabilities, the options are assigned the residual amount of the consideration after deducting the fair value of the liability and derivative components and are subsequently not revalued.

Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment	3-10 years
Motor vehicle	8 years

Financial Instruments

IFRS 9 contains three principal classifications for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL") and eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Classification of financial assets under IFRS 9 is generally based on a business model and its contractual cash flow characteristics.

The following table shows the classification categories under IFRS 9 for each class of the Company's financial assets and financial liabilities.

Asset/Liability	Measurement Category	Subsequent Measurement
Cash and cash equivalents	FVTPL	Fair value
Trade and other payables	Amortized cost	Amortized cost
Facility loan payable	Amortized cost	Amortized cost
Derivative asset	FVTPL	Fair value

Financial assets

Recognition and initial measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Note 3. Summary of significant accounting policies (continued)

Classification and subsequent measurement

On initial recognition, financial assets are classified and subsequently measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of trade receivables.
- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive income.
- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash and cash equivalents.
- Designated at fair value through profit or loss - On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets designated to be measured at fair value through profit or loss.

The Company measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. The entity does not hold any equity investments.

Business model assessment

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

Note 3. Summary of significant accounting policies (continued)

Financial liabilities

Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss

Derecognition of financial liabilities

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

Right-of-use assets

A right-of-use asset is recognized at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the company expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

Right-of-use assets that meet the definition of investment property are measured at fair value where the company has adopted a fair value measurement basis for investment property assets.

The Company has elected not to recognize a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognized at cost. Indefinite life intangible assets are not amortized and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortization and any impairment. The gains or losses recognized in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortization method or period.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortized on a straight-line basis over the period of their expected benefit, being their finite life of 20 years.

Software

Significant costs associated with software are deferred and amortized on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Note 3. Summary of significant accounting policies (continued)

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. Due to their short-term nature, they are measured at amortized cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Convertible preference shares

Convertible preference shares have variable share conversion rights based on EBITDA and revenue forecast targets or a fundraising event. As they have variable conversion rights, they have been classified as a financial liability in the financial statements and held at cost at initial recognition. This is the best approximation of their fair value at that date, and thereafter held at cost. On May 27, 2020, 625,003 convertible preference shares were converted to EYefi common shares. See note 19 and note 23.

Issued capital

Common shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognized net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognized as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statements of financial position.

Note 3. Summary of significant accounting policies (continued)

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

COVID-19 virus disruption

The respiratory illness COVID-19 (also referred to as the “coronavirus”) has resulted in a widespread health crisis that has already adversely affected the economies and financial markets of many countries around the world. The international response to the spread of COVID-19 has led to significant restrictions on travel; temporary business closures; quarantines; global stock market and financial market volatility; a general reduction in consumer activity; operating, supply chain and project development delays and disruptions; and declining trade and market sentiment; all of which have and could further affect commodity prices, interest rates, credit ratings and credit risk.

Despite the COVID-19 disruptions, the directors still believe the Company is a going concern due to the position of the Company’s working capital (excluding preference shares and deferred revenue), and its ability to capture and fulfil its order book. The Company’s major customers have not been significantly disrupted by COVID-19 nor have they altered their contracts with the Company, as such the Company does not expect significant COVID-19 financial or operational disruptions. COVID-19 disruptions have had no impact on the Company’s operations for the years ended December 31, 2020 and 2019.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Accounting Standards that have recently been issued or amended but are not yet mandatory, have not been early adopted by the company for the annual reporting period ended December 31, 2020. The company’s assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the company, are set out below.

IFRS 3 – Business Combinations (Amendments to IFRS 3)

The amendments clarify the definition of a business, permitting a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The Company has adopted this standard effective January 1, 2020. There was no impact to the Company’s financial statements as a result of this adoption.

Note 4. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Fair value measurement hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

Income tax

Income tax expense is comprised of current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Note 4. Critical accounting judgements, estimates and assumptions (continued)

Recognition of Research and Development tax credits

Recognition of government grant income in relation to Research and development expenditure credits is made when the Company has reasonable assurance that all unfulfilled conditions and contingencies attached to those grants will be complied with. In making this assessment, the director(s) have considered the following matters:

- The research and development expenditure is permitted research and development expenditure as established by AusIndustry, the Australian government body that reviews and approves research and development claims. In considering this, the director(s) considered the methodology used in assessing such expenditures as qualifying expenditures, as to be consistent with the methodology applied to like-for-like claims it has lodged in previous years dating back to 2014. The director(s) also considered the expertise and experience of the research and development consultant it contracted to assist in the formulation and lodgment of those claims; and
- The expenditure is claimable through the Australian Taxation Office (ATO), which requires the submission of annual taxation returns. The Company has consistently met lodgment deadlines for submitting those tax returns in previous financial years and has no reason to expect this condition will not continue to be met in future reporting periods.

Recovery of deferred tax assets

Deferred tax is recorded using the asset and liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Employee benefits provision

As discussed in note 3, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognized and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Contract liabilities

Contract liabilities (refer to Consolidated Statements of Financial Position) represents deferred revenue relating to server licenses of EYefi's Spatial Video/SPARC platform deployed in client's data centre, which have not yet been activated or configured for customer use. There is further configuration required once client starts connecting cameras and customers (subscriptions) to those servers. This activity, when it occurs, will take less than a week and will be a one-off exercise. The Company has the resources to finish this configuration work and does not expect there to be significant costs associated with completing this work.

Facility loan payable

The facility loan payable includes an option which can be settled in the entity's common shares. It required estimates with respect to the inputs and assumptions surrounding the derivative asset and the host debt, including determining a market rate of interest.

Note 5. Operating segments

The Company has one operating segment: software and electronics engineering services. In identifying the operating segment, management generally follows the Company's service line representing Spatial Video Platform and IIoT Sensor Cloud services. The Company aims to solve critical problems for government and industry customers operating in infrastructure and asset management, emergency management and incident response markets. The Company operates in the Oceania region, which is situated in the Asia-Pacific region

The operations of the segment are monitored by the Company's Chief Operating Decision Maker and strategic decisions are made based on reporting results. During the year ended December 31, 2020, there have been no changes from prior periods to measurement methods used to determine the segment's profit or loss.

Major customers

During the year ended December 31, 2020, at least 84% (2019: At least 67%) of the Company's service revenue was derived from Telstra. Telstra is an Australian telecommunications company which builds and operates telecommunications networks and markets voice, mobile, internet access, pay television and other products and services.

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Note 6. Sales from rendering services

	December 31, 2020	December 31, 2019
	\$	\$
Ilot Sensor Cloud	1,663	54,180
Spatial Video Platform	234,583	206,250
	<u>236,246</u>	<u>260,430</u>
Revenue	<u><u>236,246</u></u>	<u><u>260,430</u></u>

Ilot Sensor Cloud, Spatial Video Platform and other consulting revenue have all been recognized over the time the services have been rendered.

Major customer revenue contribution

	December 31, 2020	December 31, 2019
Revenue portion of total service revenue		
Telstra	<u>198,687</u>	<u>178,687</u>

Note 7. Current assets - cash

	December 31, 2020	December 31, 2019
	\$	\$
Cash at bank	<u>654,666</u>	<u>111,053</u>

Note 8. Current assets - trade and other receivables

	December 31, 2020	December 31, 2019
	\$	\$
Other receivables	31,216	1,441
Goods and services tax credits	6,911	40,918
Prepaid interest	46,712	-
	<u>84,839</u>	<u>42,359</u>

Note 9. Current assets - research and development tax credits receivable

Government grants

Government grants are recognized in the profit or loss on a systematic basis over the periods in which the consolidated entity recognizes, as expenses, the related costs for which the grants are intended to compensate. The consolidated entity uses the income approach and presents research and development grant income separately as part of the profit or loss as "research and development tax credits". The consolidated entity has been lodging research and development applications with the Australian governing bodies since 2014 and has reasonable assurance that all of the expenditures qualify for the grants and that all conditions have been met when they are recorded. There are no unfulfilled conditions or other contingencies attached to these grants.

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Note 9. Current assets - research and development tax credits receivable (continued)

The research and development expenditures are permitted as established by AusIndustry, the Australian government body that reviews and approves research and development claims. In considering this, the directors considered the methodology used in assessing such expenditures as qualifying expenditures to be consistent with the methodology applied to like-for-like claims it has lodged in previous years since 2014. The directors also considered the expertise and experience of the research and development consultant contracted to assist in the formulation and lodgment of those claims.

	December 31, 2020	December 31, 2019
	\$	\$
Research and development tax credits	<u>220,014</u>	<u>-</u>

Government subsidies

The consolidated entity also received other one-off COVID-19 grants during the year ended December 31, 2020 which have been disclosed as Government subsidies in the profit and loss. The consolidated entity receives three types of government subsidies to ease financial pressure arising from the COVID 19 downturn.

- Australian Government cash flow boost at the total amount of \$85,874
- Australian Government Jobkeeper payment at the total amount of \$54,094
- Victorian Government business grant at the total amount of \$27,741

	December 31, 2020	December 31, 2019
	\$	\$
Government subsidies	<u>167,709</u>	<u>-</u>

Note 10. Non-current assets - derivative financial instruments

	December 31, 2020	December 31, 2019
	\$	\$
Derivative financial assets	<u>34,436</u>	<u>-</u>

For discussion on accounting for the facility loan payable that gave rise to this asset, refer to note 24.

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Note 11. Non-current assets - property, plant and equipment

Reconciliations

Reconciliations of the values at the beginning and end of the current and previous financial year are set out below:

	Plant and equipment \$	Vehicles \$	Low value pool \$	Total \$
Balance at January 1, 2019	1,618	55,631	-	57,249
Exchange differences	(99)	(2,645)	-	(2,744)
Depreciation expense	(308)	(5,601)	-	(5,909)
Balance at December 31, 2019	1,211	47,385	-	48,596
Additions	2,080	-	965	3,045
Exchange differences	131	2,282	-	2,413
Depreciation expense	(1,531)	(15,750)	(965)	(18,246)
Balance at December 31, 2020	<u>1,891</u>	<u>33,917</u>	<u>-</u>	<u>35,808</u>

Note 12. Non-current assets - right-of-use assets

The right-of-use asset is depreciated over 4 year and a lease liability are measured at the present value of the lease payments unpaid at commencement date, discounted using the consolidated entity's incremental borrowing rate of 6%.

Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred. The Company has two further options to extend the lease (2 x two years) with the last day to exercise the first option being 2 April 2021.

Given the uncertainty as to whether or not these options will be exercised at the end of the lease term, they have not been factored into the lease liability calculation.

Due to the lease in current location no longer being extended, the Company adjusted the right-of-use asset carrying value.

	Total \$
Balance at January 1, 2019	-
Additions	140,054
Exchange differences	(3,684)
Depreciation expense	(17,218)
Balance at December 31, 2019	119,152
Exchange differences	2,393
Adjustment	(76,134)
Depreciation expense	(32,668)
Balance at December 31, 2020	<u>12,743</u>

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Note 13. Non-current assets - intangibles

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Total \$
Balance at January 1, 2019	48,186
Additions	4,228
Exchange differences	(2,665)
Amortisation expense	<u>(1,932)</u>
Balance at December 31, 2019	47,817
Additions	5,475
Exchange differences	4,076
Amortisation expense	<u>(6,774)</u>
Balance at December 31, 2020	<u><u>50,594</u></u>

Note 14. Current liabilities - trade and other payables

	December 31, 2020 \$	December 31, 2019 \$
Trade payables	46,135	-
Post-employment benefits payables	14,213	6,575
Employee withholding taxes payables	55,455	26,400
Other payables	<u>61,036</u>	<u>7,591</u>
	<u><u>176,839</u></u>	<u><u>40,566</u></u>

Refer to note 27 for further information on financial instruments and risk management.

Note 15. Current liabilities - lease liabilities

A lease liability is recognized at the commencement date of a lease. The lease liability is initially recognized at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Company's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

The right-of-use asset and a lease liability are measured at the present value of the lease payments unpaid at commencement date and lease extension options, discounted using the Company's incremental borrowing rate of 6%. The Company has two further options to extend the lease (2 x two years) with the last day to exercise the first option being 2 April 2021.

Due to the lease in current location no longer being extended, the Company adjusted the lease liability value.

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Note 15. Current liabilities - lease liabilities (continued)

	December 31, 2020	December 31, 2019
	\$	\$
Lease liability	<u>18,968</u>	<u>36,698</u>

Refer to note 27 for further information on financial instruments and risk management.

Note 16. Current liabilities - income tax

For the years ended December 31, 2020 and 2019, the reconciliation of the consolidated Australian statutory income tax rate of 26% and 27.5% as follows:

	December 31, 2020	December 31, 2019
	\$	\$
Net loss before tax	<u>(883,859)</u>	<u>(157,839)</u>
Statutory tax rate		
Expected income tax recovery	(229,803)	(43,405)
Entertainment expenses	3,123	2,446
Cost of issuing convertible preference shares	-	20,301
Penalties and fines	88	232
Timing differences that have not been recognized as deferred tax assets	(4,926)	25,281
Debt forgiveness	-	28,590
R&D expenditure not deductible as applied in deriving R&D income credits	124,168	123,003
Non-deductible expenses	88,264	46,609
Share based payments	5,742	-
Non-assessable income	(22,327)	-
Change in tax benefits not recognized	35,671	-
Income tax expense	<u>-</u>	<u>203,057</u>
	December 31, 2020	December 31, 2019
	\$	\$
Current income tax expense	<u>-</u>	<u>203,057</u>

Current income tax liability included in the consolidated statements of financial position is comprise of income tax advances payable.

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Note 17. Current liabilities - short-term employee benefits

	Total \$
Balance at January 1, 2019	62,958
Movement for the year	92,766
Exchange differences	(5,013)
Balance at December 31, 2019	<u>150,711</u>
Movement for the year	(36,348)
Exchange differences	9,763
Balance at December 31, 2020	<u><u>124,126</u></u>

Note 18. Current liabilities - contract liabilities

Contract liabilities (refer to Consolidated Statements of Financial Position) represents deferred revenue relating to server licenses of EYefi's Spatial Video/SPARC platform deployed in Telstra Corporation Limited ("Telstra") data center, which have not yet been activated or configured for customer use. There is further configuration required once Telstra starts connecting cameras and customers (subscriptions) to those servers. This activity, when it occurs, will take less than a week and will be a one-off exercise. The Company has the resources to finish this configuration work and does not expect there to be significant costs associated with completing this work.

	December 31, 2020 \$	December 31, 2019 \$
Contract liabilities	<u>331,203</u>	<u>307,192</u>

Note 19. Current liabilities - convertible preference shares

	December 31, 2020 \$	December 31, 2019 \$
Convertible preference shares	<u>-</u>	<u>912,200</u>

On August 12, 2019, the Company issued 1 million convertible preference shares with a par value of AUD\$1 per share, of which:

- AUD\$460,000 was paid on issue date;
- AUD\$460,000 was deferred, and received on January 9, 2020 (AUD\$325,000) and January 15, 2020 (AUD\$135,000); and
- The remaining AUD\$80,000 as non-cash share based payments earned by corporate advisors for services rendered.

Conversion date of preference shares to common shares is 3 years from the date of agreement or at any time before that date subject to the following:

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Note 19. Current liabilities - convertible preference shares (continued)

- Either EBITDA or Revenue of the Company is equal to or greater than 75% of AUD\$7,395,267 or AUD\$11,329,217 respectively, such that the total of all common shares held by new shareholders is equal to 20% of the total common shares in the Company;
- Both EBITDA and Revenue of the Company are each less than 75% of AUD\$7,395,267 or AUD\$11,329,217 respectively, such that the total of all common shares held by the new shareholders is equal to 25% of the total common shares in the Company; or
- The Company completes a fundraising act on or before conversion date, with the Company or business being valued (immediately before the fundraising act) at:
 - Greater than or equal to \$5 million (on an equity-based valuation), such that the total of all common shares held by new shareholders is equal to 20% of the total common shares in the Company subsequent to the fundraising act; or
 - Less than \$5 million (on an equity-based valuation), such that the total of all common shares held by new shareholders is equal to 25% of the total common shares in the Company subsequent to the fundraising act.

There convertible preference shares have no cash redemption requirements.

Pursuant to the Share Swap Agreement dated March 4, 2020, the reverse takeover of EYefi was completed on May 27, 2020 with the Company becoming the wholly owned subsidiary of EYefi Group Technologies Inc. On this date, the \$909,800 preference shares were converted to common shares in accordance with the Agreement.

Note 20. Non-current liabilities - facility loan payable

In July 16, 2020, EYefi received the following funds as “escrow agent” for EYefi Group Technologies Inc relating to loan facility agreements, with an interest rate of 10% and a term of 2 years:

- Loan with Shape Capital Pty Ltd, in the amount of AUD\$80,000
- Loan with Chajasa Pty Ltd (as trustee for Lorback Family Trust 2), in the amount of AUD\$200,000
- Loan with Gilkat Pty Ltd, in the amount of AUD\$100,000
- Loan with 958 Consulting Pty Ltd, in the amount of AUD\$100,000
- Loan with Simon Langdon, in the amount of AUD\$100,000
- Loan Cheryl Hargrave-Hill, in the amount of AUD\$300,000

In accordance with the term of the facility, options were also issued alongside the debt to each of the debt holders outlined in the agreement. 640,000 options were granted, note that for Shape Capital, 200,00 options were granted for their role in facilitating the loan facility agreement. See note 24.

The loan providers were paid 10% of the first year interest (AUD\$80,000) within 5 business days of the Commencement Date. There is no accrued interest as at December 31, 2020.

	December 31, 2020	December 31, 2019
	\$	\$
Facility loan payable	<u>853,672</u>	<u>-</u>

For discussion on accounting for the facility loan payable, refer to note 24.

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Note 21. Non-current liabilities - lease liabilities

	December 31, 2020	December 31, 2019
	\$	\$
Lease liability	-	<u>85,709</u>

Refer to note 27 for further information on financial instruments and risk management.

Note 22. Equity - reverse take-over

Cost of acquisition

Shares of the resulting issuer issued to shareholder of EYEFI (see note 23)	<u>320,248</u>
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Cost allocated as follows

Net assets acquired

Cash and cash equivalents	23,815
Other assets	<u>35,032</u>

Total net assets of EYEFI acquired	<u><u>58,847</u></u>
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RTO expense*	261,401
Transactional expense	<u>65,478</u>

Total listing expense	<u><u>326,879</u></u>
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*EYEFI did not constitute a business as defined by IFRS 3. Accordingly, the excess of the consideration paid was recorded as share based payment under IFRS 2.

Share capital in the Company

Issue of new share capital per financing

The Company completed the RTO on May 27, 2020 and issued 4,003,100 shares at share price of \$0.08 based on equity raised by EYefi Group Technologies Inc. immediately prior to the RTO.

Note 23. Share reconciliation after merger

	Number of shares pre-share swap	Number of shares effected for share consolidation	Amount \$
Balance, December 31, 2019	2,500,014	14,921,480	2,378,763
Share-based compensation	46,249	276,040	22,083
Issue of share capital	12,501	74,613	18,196
Conversion of preference shares	625,003	3,730,367	909,800
Adjustment to reflect the shares issued to former shareholders of EYEFI	(3,183,767)	(19,002,500)	-
Shares issued to former shareholders of EYEFI	19,002,500	19,002,500	-
EYEFI common shares issued per RTO	4,003,100	4,003,100	<u>320,248</u>
Share capital in EYEFI	<u>23,005,600</u>	<u>23,005,600</u>	<u>3,649,090</u>

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Note 23. Share reconciliation after merger (continued)

2,500,014 EYEFi shares as at December 31, 2019, are effected for share consolidated to be 14,921,480 Company shares given the share swap agreement and conversion at a ratio of 5.9686:1.

Issue of new share capital in EYEFi

On May 27, 2020, EYEFi issued 33,750 shares to DLK Investments Group Pty Ltd ('DLK'). 33,750 EYEFi shares are restated to be 201,439 Company shares, given the share swap agreement and conversion at a ratio of 5.9686:1.

DLK paid \$18,196 for 12,501 EYEFi shares (74,613 based on the post-consolidation ratio). 21,249 shares (126,826 based on the post consolidation ratio) were issued for professional services and were valued at the fair value of the equity given up of \$10,146.

On May 27, 2020, EYEFi issued 25,000 shares to an employee as part of remuneration package at the total value of \$11,937. 25,000 EYEFi shares are restated to be 149,214 Company shares (at \$0.08 per share) given the share swap agreement and conversion at a ratio of 5.9686:1.

Conversion of preference shares in EYEFi

On May 27, 2020, 625,003 preference shares at the total value of \$909,800 were converted to EYEFi common shares, as disclosed in note 19. The 625,003 EYEFi shares are restated to be 3,730,367 Company shares (at \$0.24 per share) given the share swap agreement and conversion at a ratio of 5.9686:1.

Share capital in the Company

Issue of new share capital per financing

The Company completed the RTO on May 27, 2020 and issued 4,003,100 shares at share price of \$0.08 based on equity raised by EYefi Group Technologies Inc. immediately prior to the RTO.

Note 24. Stock options

Options from loan facility agreements

In July 2020, the Company granted stock options which were attached to the loan facility agreements. See note 20.

- Shape Capital Pty Ltd granted 40,000 options
- Chajasa Pty Ltd (as trustee for Lorback Family Trust 2) granted 100,000 options
- Gilkat Pty Ltd granted 50,000 options
- 958 Consulting Pty Ltd granted 50,000 options
- Simon Langdon granted 50,000 options
- Cheryl Hargrave-Hill granted 150,000 options

Options from engagement fee

To facilitate the loan facility agreement, Shape Capital was engaged and was granted 200,000 options at ten cents with a 2-year expiry as the engagement fee.

Stock options have been granted with an exercise price of AUD\$0.10 and have a 2-year contractual term. The stock options were granted on July 16, 2020 with an effective date on December 4, 2020. The options will expire on December 4, 2022.

The terms of the loan facility agreement are such that the debentures, denominated in AUD, have the option to be settled into common shares at CAD 10 day VWAP at the option of the borrower. This meets the definition of a derivative according to IAS, in that the settlement option represents a derivative that will not be settled for a fixed amount of cash for a fixed amount of shares as both the currency of the debt is in an amount that is different from the entity's functional currency and the settlement price is based on VWAP.

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Note 24. Stock options (continued)

In accordance with IFRS, the derivative settlement option is separated from its host contract on the basis of its stated terms and initially measured at fair value, with the host debt contract being the residual amount after separation.

Consistent with the guidance in IAS for compound financial instruments, because equity instruments are defined as contracts evidencing a residual interest in the assets of an entity after deducting all of its liabilities, the options should be assigned the residual amount of consideration, after deducting the fair value of the liability components and subsequently should be carried at historical cost.

The derivative asset was valued by determining the market value of settlement option for the host debt. The value of the early settlement option was measured first which resulted in a derivative asset of \$34,436. See note 10. The value of the host debt instrument was recognized second, with the fair value being the present value of the future cash flows, discounted at a rate of 12%, (representing similar debt with no prepayment option or options attached) which resulted in a value of \$849,736. The Company then allocated the residual amount of \$50,180 to the options.

Note 25. Debt forgiveness

The forgiveness of amounts advanced in 2019 were made in accordance with the preference share agreement disclosed in note 19.

Note 26. Loss per share

	December 31, 2020	December 31, 2019
	\$	\$
Loss after income tax attributable to the owners of EYefi Group Technologies Inc.	<u>(883,859)</u>	<u>(360,896)</u>
	Number	Number
Weighted average number of common shares used in calculating basic earnings per share	<u>19,731,612</u>	<u>14,921,480</u>
Weighted average number of common shares used in calculating diluted earnings per share	<u>19,731,612</u>	<u>14,921,480</u>
Basic and diluted loss per share	(0.04)	(0.02)

Accounting policy

Basic earnings (loss) per share

Basic earnings per share is calculated by dividing the profit/loss attributable to owners of the Company by the weighted average number of common shares outstanding during the financial period.

Diluted earnings (loss) per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential common shares; and
- the weighted average number of additional common shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

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Note 27. Financial instruments and risk management

Capital Management

The Company's objective when managing capital is to maintain its ability to continue as a going concern, in order to provide returns for the shareholders and benefits for other stakeholders. The Company includes equity, comprised of share capital and deficit, in the definition of capital.

The Company's primary objective, with respect to its capital management, is to ensure that it has sufficient cash resources to fund the identification and evaluation of potential acquisitions. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

Fair value

Fair value represents the price at which an asset and liability could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of assets and liabilities according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.

Level 2: Fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices).

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 market data.

As at December 31, 2020, the fair value of cash held by the Company was based on level 1 inputs of the fair value hierarchy. The Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities, and facility loan payable. The carrying values of accounts payable and accrued liabilities approximate fair value because of the short-term nature of these instruments.

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company will achieve this by maintaining sufficient cash and seeking equity financing when needed.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

	0-30 Days \$	30-60 Days \$	60-90 Days \$	90-365 Days \$	1-5 Years \$	Total \$
2020						
Trade and other payables	176,839	-	-	-	-	176,839
Facility loan payable	-	-	-	-	853,672	853,672
	0-30 Days \$	30-60 Days \$	30-90 Days \$	90-365 Days \$	1-5 Years \$	Total \$
2019						
Trade and other payables	40,566	-	-	-	-	40,566

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Note 28. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the company is set out below:

	December 31, 2020	December 31, 2019
	\$	\$
Salaries	217,280	84,655
Short-term benefits	(29,100)	19,701
Other long-term benefits	(16,141)	31,734
Post-employment benefits	20,642	8,041
Loan forgiveness	-	103,963
	<u>192,681</u>	<u>248,094</u>

Note 29. Related party transactions

Conxsme Pty Ltd, a related party previously owned by Simon Langdon, joined the EYEFI Consolidated Group on June 30, 2020. Conxsme was originally set up for the purposes of research and development and has been dormant since the IIoT Sensor Cloud intellectual property was legally transferred to EYefi on December 31, 2019 in accordance with the Preference Share Agreement dated August 12, 2019.

On May 27, 2020, the Company issued 33,750 shares to DLK (a company related to the CFO) at the total fair value of \$28,342. As consideration, DLK paid \$18,196 for 12,501 shares and the balance of \$10,146 was taken as shares for professional services in lieu of cash.

Key management personnel

Disclosures relating to key management personnel are set out in note 28.

Transactions with related parties

During the year ended December 31, 2020, the Company has approximately \$505 (2019 - \$7,539) of accrued payables to a Director of the Company for expenses incurred on the Company's behalf and approximately \$3,874 (2019 - \$NIL) in loan receivables to a Director.

Additionally, two Directors of the Company entered into the loan facility agreement with the Company in the amount of AUD\$200,000 which come with options. Refer to note 20 and note 24 for further information on facilities loan payable and options.

There was also \$162,000 of expenses paid to a company related to the CFO. \$10,000 are in accounts payable at year end.

There were no other transactions with related parties during the year ended December 31, 2020.

Note 30. Events after the reporting period

On February 22, 2021, EYEFI announced a private placement offering of Canadian \$2,200,000 with an offering of up to 4,400,000 units of the Company (the "Offering") at \$0.50 per unit ("Unit"). Each Unit consists of one common share ("Share") and one Share purchase warrant to purchase one additional Share at a price of \$0.75 per additional Share for a one-year term from the date of closing ("Closing") of the Offering (a "Warrant"). The Warrants are subject to an acceleration clause: If the volume weighted average closing price of the Shares on the CSE equals or exceeds \$1.00 or more for a minimum of ten consecutive trading days at any time after Closing, then the Issuer may, by providing written notice (the "Acceleration Notice"), accelerate the Expiry Date of the Warrants to that date which is 30 days from the date of providing the Acceleration Notice.

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Note 30. Events after the reporting period (continued)

The funds raised will be used to assist with the Company's growth plans, including employing new sales and support staff to service the increasing demand for the Company's product suite from resellers such as Fujitsu and Telstra, along with accelerating product development. The Company also intends to pay down its loan to strengthen its balance sheet and to provide general working capital.

The placement closed on March 31, 2021 with \$2,200,000 raised and commissions paid of \$176,000 (8% of fund raised).

Upon completion of the private placement, as part of the loan facility agreement, the Company was required to repay the loan within 10 business days after the placement closing date. On April 12, 2021, the company fully repaid the AUD\$880,000 facility loan, refer note 20.

No other matter or circumstance has arisen since December 31, 2020 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the company's state of affairs in future financial years.

Note 31. Reclassification of comparative figures

Certain comparative figures have been reclassified to conform to the current year presentation.