Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)

Financial Statements
For the Years Ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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Adam Kim

ADAM SUNG KIM LTD.
CHARTERED PROFESSIONAL ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

To: the Shareholders of
Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)

Opinion

I have audited the financial statements of Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.) (the "Company"), which comprise the statements of financial position as at December 31, 2019 and December 31, 2018, and the statements of loss and comprehensive loss, statements of cash flows and statements of changes in equity for the years ended December 31, 2019 and December 31, 2018, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

I draw attention to Note 1 in the financial statements, which indicates that the Company incurred a net loss of $5,146,870 during the period ended December 31, 2019 and, as of that date, the Company had not yet achieved profitable operations, had accumulated losses of $15,779,705 since its inception, and expects to incur further losses in the development of its business. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. My opinion is not modified in respect of this matter.

Other Information

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

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

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I are required to report that fact. I have nothing to report in this regard.

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

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements
My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

• Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my 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 I conclude that a material uncertainty exists, I are required to draw attention in my auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I 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 I identify during my audit.

I also provide those charged with governance with a statement that I 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 my independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Adam Kim, CPA, CA.

“Adam Sung Kim Ltd.”
Chartered Professional Accountant

Unit# 168 – 4300 North Fraser Way
Burnaby, BC, Canada V5J 5J8
June 10, 2020

Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)
Statements of Financial Position
As at
(Expressed in Canadian Dollars)

	Note	December 31, 2019	December 31, 2018
		$	$
Assets			
Current Assets			
Cash		86,499	37,502
Prepaid and deposits		319,447	16,382
Amounts receivable		66,596	5,159
		472,542	59,043
Non-Current Assets			
Equipment	**6**	171,676	210,938
Intangible assets	**5**	4,950,134	4,950,134
		5,121,810	5,161,072
Total Assets		5,594,352	5,220,115
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		1,082,958	133,391
Advances payable	**8**	233,671	115,000
Promissory Note	**8**	5,174,688	-
		6,491,317	248,391
Promissory Note	**8**	-	4,104,558
Total Liabilities		6,491,317	4,352,949
Shareholders' Equity (deficiency)			
Share capital	**7**	13,885,838	11,500,001
Subscriptions received		21,000	-
Contributed surplus	**7**	975,902	-
Deficit		(15,779,705)	(10,632,835)
		(896,965)	867,166
Total Liabilities and Shareholders' Equity		5,594,352	5,220,115

Nature of operations (Note 1)
Contingencies (Note 12)
Subsequent events (Note 13)

Approved and authorized by the Board on June 10, 2020

"Ron MacDonald"	Director	*"Michael Reimann"*	Director
Ron MacDonald		Michael Reimann	

The accompanying notes are an integral part of these financial statements

Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)
Statements of Loss and Comprehensive Loss
For the Years Ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Note	2019	2018
		$	**$**
Revenue			
Grant Revenue		525,632	-
Expenses			
Amortization	**6**	39,261	16,435
General and administrative		122,239	107,906
Interest		601,891	210,592
Filing and listing fees		167,421	-
Management fees		234,500	-
Marketing		1,121,020	106,366
Payroll	**8**	258,531	285,996
Professional fees		111,311	160,989
Research and development		1,857,466	1,502,473
Rent		192,973	204,787
Share-based compensation		944,107	-
Travel		21,782	-
		5,672,502	2,595,544
Net and Comprehensive loss for the year		**(5,146,870)**	**(2,595,544)**
Basic and diluted loss per share		(0.14)	(0.09)
Weighted average shares outstanding		37,106,604	30,000,000

Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)
Statements of changes in Equity
For the Years Ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Common shares	**Share Capital**	**Contributed Surplus**	**Deficit**	**Total**
	#	**$**	**$**	**$**	**$**
Balance, December 31, 2017	**30,000,000**	**11,500,001**	**-**	**(8,037,291)**	**3,462,710**
Net loss for the year	-	-	-	(1,839,560)	(1,839,560)
Balance, December 31, 2018	**30,000,000**	**11,500,001**	**-**	**(10,632,835)**	**867,166**
Shares issued pursuant to					
Private placement	16,353,329	2,505,000	-	-	2,505,000
Share issue costs	-	(87,368)	-	-	(87,368)
Finders shares	770,200	-	-	-	-
Broker warrants	-	(31,795)	31,795	-	-
Share-based compensation	-	-	944,107	-	944,107
Subscriptions received	-	21,000	-	-	21,000
Net loss for the year	-	-	-	(5,146,870)	(5,146,870)
Balance, December 31, 2019	**47,123,529**	**13,906,838**	**975,902**	**(15,779,705)**	**(896,965)**

Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)
Statements of Cash flows
For the Years Ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	2019	2018
	$	**$**
Cash provided by (used in):		
Operating activities		
Net income loss for the year	(5,146,870)	(2,595,544)
Items not affecting cash:		
Amortization	39,261	16,435
Accrued interest	582,591	210,592
Share-based compensation	944,107	-
Changes in non-cash working capital items:		
Prepaid expense	(303,065)	6,132
Amounts receivable	(61,437)	6,450
Accounts payable and accrued liabilities	949,569	241,776
Net cash used in operating activities	(2,995,844)	(2,114,159)
Investing activity		
Purchase of equipment	-	(227,372)
Net cash from investing activity	-	(227,372)
Financing activities		
Proceeds from Private placement	2,505,000	-
Share issue costs	(87,368)	-
Subscriptions received	21,000	
Advances payable	118,671	-
Loan repayment	(251,499)	-
Loan received	739,038	2,376,744
Net cash from financing activity	3,044,841	2,376,744
Change in cash for the year	48,997	35,213
Cash, beginning of year	37,502	2,289
Cash, end of year	86,499	37,502
Supplemental information	**$**	**$**
Interest paid	-	-
Taxes paid	-	-

1. NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS

Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.) ("Zinc8" or the "Company") was incorporated on December 8, 2011 in Canada under the legislation of the Province of British Columbia. Zinc8's head office is located at Unit 1 – 8765 Ash Street, Vancouver, BC, V6P 6T3, Canada. Zinc8 is a development-stage company and in the process of developing zinc-air batteries. The Company's shares trade on the Canadian Stock Exchange ("CSE").

At the date of the statements, the Company has not yet realized profitable operations and it has relied on non-operational sources of financing to fund operations. The ability of the Company to achieve its objectives, meet its ongoing obligations and recover its investment in its technology and assets will depend on management's ability to successfully execute its business plan, achieve profitable operations and obtain additional financing, if or when required. There is no assurance that these initiatives will be successful.

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. As at December 31, 2019, the Company had an accumulated deficit of $15,779,705 (December 31, 2018 - $10,632,835) and expects to incur further losses in the development of its business, all of which casts significant doubt about the Company's ability to continue as a going concern. The continued operations of the Company are dependent on its ability to generate future cash flow or obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from external financing and loans from a shareholder of the Company to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These financial statements do not reflect any adjustments to the carrying values of assets and liabilities, the reported expenses, and the balance sheet classifications used that may be necessary if the Company is unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis of Measurement and Functional and Presentation Currency

These financial statements have been prepared on the historical cost basis, as explained in the accounting policies.

The functional currency of a company is the currency of the primary economic environment in which the company operates. The presentation currency for a company is the currency in which the company chooses to present its consolidated financial statements. These financial statements are presented in Canadian dollars, which is the Company's presentation and functional currency.

Income taxes

Provision for income taxes consists of current and deferred tax expense. Income tax expense is recognized in the income statement except to the extent that it relates to items recognized either in other comprehensive income or directly in equity, in which case it is recognized in other comprehensive income or in equity, respectively. Current tax expense is the expected tax payable on the 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. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences associated with the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss and temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Financial Instruments
(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

(ii) Measurement

Financial assets at FVTOCI
Elected investments in equity investments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transactions costs expensed in the statements of net (loss) income. Realized and unrealized gains or losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of net (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of net (loss) income in the period in which they arise.

(iii) Impairment of financial assets at amortized cost

The Company recognized a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of net (loss) income. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Financial liabilities
The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of net (loss) income.

Intangible assets
Intangible assets with finite lives are measured at cost less accumulated amortization and impairment charges. These intangible assets are amortized on a straight-line basis over their estimated useful lives. Useful lives, residual values and amortization for intangible assets with finite useful lives are reviewed at least annually.

Indefinite life intangible assets are measured at cost less any impairment charges. These intangible assets are tested for impairment on an annual basis or more frequently if there are indicators that intangible assets may be impaired.

Impairment
The Company assesses at the end of each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flow of the financial asset that can be reliably estimated.

An impairment loss in respect of a financial asset carried at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted using the instrument’s original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. In the case of equity instruments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset that was previously recognized in profit or loss, is removed from equity and recognized in the income statement.

All impairment losses are recognized in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. Impairment losses recognized for equity securities are not reversed.

Loss per share
Basic earnings or loss per share is computed by dividing the earnings or loss for the period by the weighted average number of common shares outstanding during the relevant period. The treasury stock method is used for the calculation of diluted earnings or loss per share. Stock options, share purchase warrants, and other equity instruments are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options, warrants and other equity instruments. When a loss has been incurred, basic and diluted loss per share is the same because the exercise of options and warrants would be anti-dilutive.

Research and Development
Research and development costs are expensed as incurred to the statement of comprehensive loss. Development costs are expensed as incurred unless capitalization criteria under IFRS are met for deferral and amortization. No development costs have been capitalized to date.

Related party transactions
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3. CHANGES IN ACCOUNTING STANDARDS

The following standards were adopted during the period.

IFRS 16 Leases

IFRS 16 will replace IAS 17 Leases. IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard became effective on January 1, 2019. As the Company does not currently have any leases, the adoption of this standard did not have an impact on the Company’s financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year. Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include valuation of share-based payments and recognition of deferred income tax amounts and provision for restoration, rehabilitation and environmental costs.

Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Going concern

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

5. INTELLECTUAL PROPERTY

On March 6, 2015, the Company entered into a technology development agreement with 8230137 Canada Inc. ("8230137 Canada") whereby 8230137 Canada agreed to provide funding not exceeding $6,000,000 for the development of intellectual property comprising the zinc regenerative fuel cell systems and zinc fuel cells (the "Zinc Technology"). The Company recognized funding of $448,682 (2016 - $1,480,177) received from 8230137 Canada on statement of loss during the year ended December 31, 2017.

On January 1, 2016 the Company entered into a technology purchase agreement with 8230137 Canada to purchase the Zinc Technology for $11,500,000. In exchange, the Company issued 13,500,000 common shares in the capital of the Company. The Company incurred a transaction cost of $3,500 related to an acquisition of intellectual property.

During the year ended December 31, 2017 the Company recorded an impairment charge of $6,553,366 on the Zinc Technology.

(Expressed in Canadian Dollars)

6. EQUIPMENT

	Lab Equipment $	Equipment $	Software $	Total $
Cost:				
Balance, December 31, 2019 and December 31, 2018	**204,691**	**2,373**	**20,309**	**227,373**
Accumulated Depreciation:				
Balance, December 31, 2018	**11,132**	**396**	**4,907**	**16,435**
Amortization	28,532	575	10,154	39,262
Balance, December 31, 2019	**39,664**	**971**	**15,061**	**55,696**
Net Book Value:				
December 31, 2018	**193,559**	**1,977**	**15,402**	**210,938**
December 31, 2019	**165,026**	**1,402**	**5,247**	**171,676**

7. SHARE CAPITAL

a) Authorized

Unlimited number of common shares without par value.
Unlimited number of preferred shares without par value.

On June 11, 2019 Zinc8 completed a private placement of 8,020,000 Units at a price of $0.25 per Unit for gross proceeds of $2,005,000. Each Unit was comprised of one common share of Zinc8 and one-half share purchase warrant with each whole warrant exercisable at a price of $0.35 until November 30, 2020. The Company fair valued the warrants using the residual method and allocated 100% of the value to the common shares.

In connection with the private placement the Company issued 770,200 finders shares and 347,500 broker warrants and incurred $90,198 of cash issue costs. The Company fair valued the broker warrants at $31,795 using the Black-Scholes option pricing model using the following assumption: Volatility 100%; risk-free rate – 1.9%, forfeiture – nil; dividend rate – nil.

On September 11, 2019 the Company completed a private placement of 8,333,329 Units at $0.06 per Unit for gross proceeds of $500,000. Each Unit was comprised of one common share of the Company and one share purchase warrant. The warrants expire on September 11, 2021 and are exercisable at $0.08 per warrant for the first year and $0.10 per warrant thereafter. The Company fair valued the warrants using the residual method, allocating 100% of the value to the common shares.

b) Options

The Company has adopted a Stock Option Plan, which is a rolling stock option plan under which options may be granted equal in number to 10% of the issued and outstanding capital of the company at the time of grant of the stock option. No single participant may be granted options to purchase a number of Company shares equaling more than 5% of the issued shares of the Company in any 12-month period. The Board may determine the term of the options, but the term shall in no event be greater than five years from the date of issuance. Terms of vesting of the options, eligibility of directors, officers, employees, management company employees and consultants to receive options and the number of options issued to each participant shall be determined at the discretion of the Board of Directors.

(Expressed in Canadian Dollars)

On September 13, 2019 the Company granted 4,688,000 stock options to directors, officers, employees and consultants of the Company. Each option is exercisable at $0.21 per share for a period of five years. The Company fair valued the options granted during the year at $944,107 using the Black-Scholes option pricing model based on the following assumptions: risk free rate – 1.90%; expected dividend - nil; expected life – 5 years; expected volatility – 114%. The options expire on September 13, 2024.

As at December 31, 2019 the Company had 4,688,000 options outstanding. The options expire on September 13, 2024 and have an exercise price of $0.21.

c) Warrants

The balance of warrants outstanding as at December 31, 2019 and December 31, 2018 and the changes for the years then ended is as follows:

	Number of Warrants #	Weighted Average Exercise Price $	Weighted Average Life Remaining (years)
Balance, December 31, 2018	**-**	**-**	**-**
Issued	12,690,829	0.17	-
Balance, December 31, 2019	**12,690,829**	**0.17**	**1.43**

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

Expiry Date	Number Outstanding	Exercise Price $
November 30, 2020	4,357,500	0.35
September 11, 2021	8,333,329	0.08
	12,690,829	

Subsequent to December 31, 2019, 2,459,531 warrants were exercised for gross proceeds of $332,086.

(Expressed in Canadian Dollars)

8. RELATED PARTY TRANSACTIONS

Compensation paid to key management during the years ended December 31, 2019 and 2018 was as follows:

	2019 **$**	**2018** **$**
Management fees	234,500	-
Payroll expense	132,000	280,476
Share-based compensation	520,697	-
	887,197	**280,476**

Key management includes the CFO, CEO, VP of Engineering and the Board of Directors. All related party transactions are in the normal course of operations and have been measured at the agreed to amounts, which is the amount of consideration established and agreed to by the related parties. As at December 31, 2019 the Company had $113,460 (2018 - $nil) owing to related parties included in accounts payable. The amounts owing are non-interest bearing and due on demand.

During the year ended December 31, 2018 the Company received $2,376,744 (2017 - $nil) in loans from MGX. On June 30, 2018 the Company entered into a promissory note agreement with MGX in the amount of $2,952,222 (the "Promissory Note"). The Promissory Note replaced the existing loans payable that were owing to MGX. The Promissory Note bears interest at 12%, is unsecured and due on December 31, 2020. Additional loans received from MGX subsequent to the Promissory Note have the same terms as the Promissory Note.

	$
Balance, December 31, 2017	**-**
Initial promissory note	2,952,222
Additions	941,744
Interest	210,592
Balance, December 31, 2018	**4,104,558**
Additions	739,038
Repayments	(251,499)
Interest	582,591
Balance, December 31, 2019	**5,174,688**

Subsequent to December 31, 2019 the Company settled the amount owing on the Promissory Note for $1,500,000 (Note 12).

As at December 31, 2019 the Company had $68,500 in advances payable to a related party of the Company, the amounts owing are due on demand and non-interest bearing. Subsequent to December 31, 2019 the advances were repaid.

(Expressed in Canadian Dollars)

9. INCOME TAXES

A reconciliation between the Company's income tax provision, computed at statutory rates, to the reported income tax provision is as follows:

	2019 **$**	**2018** **$**
	27%	27%
Expected tax expense (recovery)	(1,389,655)	(700,797)
Share issuance costs	(23,589)	-
Items not deductible for tax purposes	255,311	(596)
Income tax benefit not recognized	1,157,933	701,392
Income tax recovery	-	-

The significant components of the Company's net deferred tax assets and liabilities as at December 31, 2019 and 2018 are as follows:

	2019 **$**	**2018** **$**
Deferred Tax Assets		
Equipment	3,406	3,887
Tax losses	2,245,185	1,099,534
Share issuance costs	18,871	-
Offset against deferred tax liabilities	(30,098)	(23,989)
Unrecognized deferred tax assets	(2,237,364)	(1,079,431)
Deferred Tax Assets	-	-
Deferred Tax liabilities		
Intangible	(30,098)	(23,989)
Deferred revenue	-	-
Offset with deferred tax assets	30,098	23,989
Deferred tax liability	-	-

As at December 31, 2019 the Company had estimated non-capital loss for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years. Their expiry dates are as follow:

2036	1,426,358
2037	6,000
2038	2,639,990
2039	4,241,910
	8,314,258

As at December 31, 2019, deferred tax assets have not been recognized because it is not probable that future taxable income will be available against which the Company can utilize the benefits from the deductible temporary differences and unused tax losses.

10. FINANCIAL INSTRUMENTS

(a) Fair values

The Company has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

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

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

As at December 31, 2019, the fair values of financial instruments measured on a recurring basis include cash, determined based on level one inputs and consisting of quoted prices in active markets for identical assets. The fair values of other financial instruments, which include accounts payable and accrued liabilities, loan payable, approximate their carrying values due to the relatively short-term maturity of these instruments.

(b) 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 currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. As at December 31, 2019, the Company had a working capital deficit of $6,018,775.

(c) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Company's cash is largely held in large Canadian financial institutions. The Company does not have any asset-backed commercial paper. The Company's receivables consist of GST receivable due from the Federal Government of Canada. The Company maintains cash deposits with Schedule A financial institutions, which from time to time may exceed federally insured limits. The Company has not experienced any significant credit losses and believes it is not exposed to any significant credit risk.

(d) Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not hold any financial liabilities with variable interest rates. The Company does maintain bank accounts which earn interest at variable rates but it does not believe it is currently subject to any significant interest rate risk.

(e) Foreign currency exchange rate risk

The Company's functional and reporting currency is the Canadian dollar and major purchases are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal.

11. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain optimal capital structure to reduce the cost of capital. The Company's capital is composed of shareholder's equity in the statement of financial position.

The Company is not subject to externally imposed capital requirements. In managing capital structure, the Company manages its capital through regular reports to the Board of Directors and management review of monthly and quarterly financial information. There were no changes to the Company's management of capital during the period.

12. CONTINGENCIES

On September 5, 2019, Market One Media Group Inc. filed a claim against the Company for unpaid invoices of $207,900 relating to a media advertising and promotion services agreement from May 2019. The Company's position is that it has not received any of the services discussed in the contract. The full amount of $207,900 has been recorded as accounts payable at December 31, 2019.

13. SUBSEQUENT EVENTS

On January 10, 2020, Dig Media filed a claim against the Company for unpaid invoices relating to media and promotion services from May 2019. It is the Company's position that it has not received any of the services. The full amount of $60,900 has been recorded as accounts payable at December 31, 2019.

On February 11, 2020 the Company closed a non-brokered private placement issuing 27,879,513 units at $0.11 per unit for gross proceeds of $3,066,746. Each unit consists of one common share and one non-transferrable share purchase warrant. The warrants have a two-year life and an exercise price of $0.155 during the year first year and $0.40 for the balance of the term. The Company paid $186,893 in finders fees and issued 632,887 finders shares. As at December 31, 2019 the Company had received $21,000 in subscriptions related to the private placement.

On February 18, 2020 the Company granted 2,787,951 stock options to directors, officers, employees and consultants of the Company. The options are exercisable for a 5-year period at $0.32 per option.

On March 11, 2020 the Company settled its debt with MGX Minerals by agreeing to a payment of $1,500,000 to be made over the following four months. As part of the debt settlement, Jared Lazerson, a former director of the Company, agreed to resign from his board position. Mr. Lazerson agreed to a severance agreement with the Company whereby the Company issued 800,000 units with each unit consisting of one common share and one share purchase warrant. Each warrant is exercisable for 2 years at a price of $0.50 per warrant.

Since March 2020, several measures have been implemented in Canada and the rest of the world in response to the increased impact from novel coronavirus ("COVID-19"). The Company continues to operate and move its business activity forward at this time. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on business operations cannot be reasonably estimated at this time. The Company anticipates this could have an adverse impact on its business, results of operations, financial position and cash flows in 2020.