

Metamaterial Technologies Inc.

Restated consolidated financial statements

For the year ended December 31, 2019, and 2018



KPMG LLP
1959 Upper Water Street, Suite 1500
Halifax NS B3J 3N2
Canada
Telephone 902-492-6000
Fax 902-492-1307

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Metamaterial Technologies Inc.

Opinion

We have audited the restated consolidated financial statements of Metamaterial Technologies Inc. (the "Entity"), which comprise:

- the restated consolidated statement of financial position as at December 31, 2019
- the restated consolidated statement of loss and comprehensive loss for the year then ended
- the restated consolidated statement of changes in shareholders' deficiency for the year then ended
- the restated consolidated statement of cash flows for the year then ended
- and notes to the restated consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Restatement of Financial Statements

We draw attention to Note 25 to the financial statements which describes i) that the financial statements that we originally reported on May 18, 2020 have been



amended, and ii) the matter that gives rise to the amendment of the financial statements.

Our opinion is not modified in respect of this matter.

Other Matter - Comparative Information

The financial statements for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on September 17, 2019.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Entity has incurred losses and negative cash flows from operations for the year ended December 31, 2019.

As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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



In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are/is free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity 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.
- 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants

The Engagement Partner on the audit resulting in this auditors' report is Jamie O'Neil.

Halifax, Canada

July 23, 2020

Metamaterial Technologies Inc.

Restated consolidated statements of financial position

[expressed in Canadian dollars]

As at

	(As restated-note 25) December 31, 2019	(As restated-note 25) December 31, 2018
	\$	\$
Assets		
Current		
Cash and cash equivalents	528,691	850,623
Grants receivable [note 16]	242,705	266,851
Other receivables	79,072	15,429
Inventory [note 5]	438,726	415,572
Prepaid expenses	365,602	277,221
HST receivable	262,512	187,422
Total current assets	1,917,308	2,013,118
Intangible assets, net [note 7]	6,404,812	7,434,929
Property and equipment, net [note 6]	3,558,675	3,724,669
Right-of- use assets [note 21]	66,951	—
Total non-current assets	10,030,438	11,159,598
Total assets	11,947,746	13,172,716
Liabilities and shareholders' deficiency		
Current		
Trade payables	3,176,642	1,314,362
Due to related parties [note 8]	345,033	346,362
Current portion of long-term debt [note 11]	104,376	71,429
Current portion of deferred revenue [note 19]	1,819,797	1,694,108
Derivative liabilities [note 9]	1,175,056	—
Promissory notes [note 9]	4,595,975	1,254,494
Current portion of lease liabilities [note 21]	71,947	—
Total current liabilities	11,288,826	4,680,755
Deferred revenue [note 19]	3,089,921	4,311,845
Deferred government assistance [note 11]	369,221	470,509
Deferred tax liability [note 14]	658,481	777,845
Unsecured convertible debentures [note 10]	760,145	—
Funding obligation [note 20]	808,298	—
Long-term debt [note 11]	3,139,301	3,108,273
Total non-current liabilities	8,825,367	8,668,472
Total liabilities	20,114,193	13,349,227
Shareholders' deficiency		
Common shares [note 12]	7,598,670	6,628,293
Preferred shares [note 12]	12,748,100	12,748,100
Contributed surplus [note 12 and 13]	3,928,306	2,052,359
Accumulated other comprehensive loss	(159,512)	(406,510)
Deficit	(32,282,011)	(21,198,753)
Total shareholders' deficiency	(8,166,447)	(176,511)
Total liabilities and shareholders' deficiency	11,947,746	13,172,716

Going concern (note 2)

Subsequent events (note 24)

See accompanying notes

On behalf of the Board:

Director

Director

Metamaterial Technologies Inc.

Restated consolidated statements of loss and comprehensive loss
[expressed in Canadian dollars]

	(As restated-note 25)	(As restated-note 25)
	Year ended December 31	
	2019	2018
	\$	\$
Product sales <i>[note 19]</i>	31,426	—
Development revenue <i>[note 19]</i>	1,163,632	1,585,191
Revenue, net	1,195,058	1,585,191
Cost of goods sold <i>[notes 5 and 23]</i>	12,138	—
Gross Profit	1,182,920	1,585,191
Expenses (income)		
Salaries and benefits	3,040,775	3,130,176
Depreciation and amortization <i>[notes 6, 7 and 21]</i>	3,178,485	2,037,338
Impairment <i>[note 7]</i>	87,166	—
Travel and entertainment	493,800	571,760
Other expenses <i>[note 22]</i>	507,980	474,916
Rent and utilities	414,958	398,114
Interest and bank charges <i>[notes 9, 10 and 11]</i>	521,591	325,967
Consulting <i>[note 8]</i>	548,922	319,190
Investor relations	30,936	—
Research and development	788,476	304,577
Professional fees	846,418	275,418
Non-cash interest accretion <i>[notes 9, 11, and 21]</i>	415,844	254,444
Share-based compensation expense <i>[note 13]</i>	1,710,952	66,191
Unrealized loss on derivative liability <i>[notes 9 and 10]</i>	862,176	—
Technology license fees <i>[note 8]</i>	50,807	51,879
Realized foreign currency exchange loss (gain)	1,290	50,558
Interest income	(776)	(2,749)
Unrealized foreign currency exchange (gain) loss	417,135	(491,288)
Government assistance <i>[note 16]</i>	(1,000,433)	(1,070,066)
Other income <i>[note 20]</i>	(530,960)	—
	12,385,542	6,696,425
Net loss before tax	(11,202,622)	(5,111,233)
Income tax recovery <i>[note 14]</i>	119,364	4,586
Net loss for the period	(11,083,258)	(5,106,647)
Other comprehensive income (loss), net of income taxes		
Items that may be subsequently reclassified to income:		
Unrealized foreign currency translation adjustment	246,998	(639,977)
Comprehensive loss for the period	(10,836,260)	(5,746,624)
Basic and diluted loss per share	(1.12)	(0.56)
Weighted average number of shares outstanding		
- basic and diluted	9,879,371	9,150,670

See accompanying notes

Metamaterial Technologies Inc.

Restated consolidated statements of changes in shareholders' deficiency

[expressed in Canadian dollars]

Year ended December 31

	Common shares	Preferred shares	Contributed surplus	Deficit	Accumulated other comprehensive income/(loss)	Total Shareholders' deficiency
	\$	\$	\$	\$	\$	\$
Balance, January 1, 2019	6,628,293	12,748,100	2,052,359	(21,198,753)	(406,510)	(176,511)
Net loss (As restated-note 25)	—	—	—	(11,083,258)	—	(11,083,258)
Other comprehensive loss (As restated-note 25)	—	—	—	—	246,998	246,998
Issuance of units [note 12]	1,145,472	—	—	—	—	1,145,472
Issuance of warrants [note 12]	(175,095)	—	175,095	—	—	—
Conversion of deferred share units [note 13]	—	—	(80,100)	—	—	(80,100)
Share-based compensation [note 13]	—	—	1,780,952	—	—	1,780,952
Balance, December 31, 2019	7,598,670	12,748,100	3,928,306	(32,282,011)	(159,512)	(8,166,447)
Balance, January 1, 2018	2,848,293	12,278,100	1,965,187	(16,092,105)	233,467	1,232,942
Net loss (As restated-note 25)	—	—	—	(5,106,648)	—	(5,106,648)
Other comprehensive income (As restated-note 25)	—	—	—	—	(639,977)	(639,977)
Issuance of common shares	4,000,000	—	—	—	—	4,000,000
Issuance of preferred shares	—	470,000	—	—	—	470,000
Cancellation of common shares	(220,000)	—	—	—	—	(220,000)
Conversion of deferred share units	—	—	—	—	—	—
Share-based compensation	—	—	87,172	—	—	87,172
Balance, December 31, 2018	6,628,293	12,748,100	2,052,359	(21,198,753)	(406,510)	(176,511)

Metamaterial Technologies Inc.

Restated consolidated statements of cash flows

[expressed in Canadian dollars]

Year ended December 31	(As restated-note 25) 2019	(As restated-note 25) 2018
	\$	\$
Operating activities		
Net loss for the year	(11,083,258)	(5,106,647)
Add (deduct) items not affecting cash:		
Government assistance [note 16]	(1,000,433)	(1,070,066)
Deferred income tax [note 14]	(119,364)	(4,586)
Depreciation [notes 6, 7, and 21]	3,121,654	2,079,717
Impairment of intangible assets [notes 7]	87,166	—
Non-cash interest accretion [notes 9, 11 and 21]	415,844	254,444
Unrealized foreign currency exchange loss	417,135	(488,326)
Interest expense [notes 9, 10, and 11]	287,954	91,884
Unrealized loss on derivative liability [notes 9 and 10]	862,176	—
Change in deferred revenue [note 19]	(1,098,094)	(1,296,568)
Other income [note 20]	(530,960)	—
Share-based compensation expense [note 13]	1,780,952	87,172
Stock based expense [note 12]	51,750	—
Net change in non-cash working capital items [note 17]	1,179,094	(48,493)
Cash used in operating activities	(5,628,386)	(5,501,470)
Investing activities		
Employee receivable	—	416
Additions to intangible assets [note 7]	(220,480)	(384,362)
Additions to property and equipment [note 6]	(1,449,951)	(2,003,382)
Business combination, net of cash	—	51,294
Cash used in investing activities	(1,670,430)	(2,336,034)
Financing activities		
Proceeds from long-term debt [note 11]	879,860	2,397,230
Repayment of long-term debt [note 11]	(77,024)	(71,429)
Proceeds from promissory notes [note 9]	3,185,760	1,162,610
Proceeds from funding obligation [note 20]	1,300,000	—
Deferred revenue, net	—	3,944,726
Proceeds from units [note 12]	1,013,622	—
Proceeds from convertible debentures [note 10]	750,000	—
Advances from/to related parties	—	(108,693)
Payment of lease liabilities [note 21]	(75,335)	—
Cash provided by financing activities	6,976,883	7,324,444
Net (decrease) increase in cash and cash equivalents	(321,932)	(513,059)
Cash and cash equivalents, beginning of the period	850,623	1,363,683
Cash and cash equivalents, end of the period	528,690	850,624
Supplemental cash flow information		
Interest on debt paid	20,335	4,521

See accompanying notes

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

1. Corporate information

Metamaterial Technologies Inc. (the "Company" or "MTI") was originally incorporated on August 15, 2011 in the Province of New Brunswick, Canada. On April 30, 2013, the Company was continued under the *Canada Business Corporations Act* with its registered office located at 1 Research Drive, Halifax, Nova Scotia, Canada. The Company was formerly named Lamda Guard Canada Inc. On March 28, 2013, The Company federally incorporated Lamda Guard Inc., Lamda Lux Inc., and Lamda Solar Inc., as wholly owned subsidiaries of the Company. These subsidiaries have minimal operational activity. The Company is a smart materials and photonics company specializing in metamaterial research, nanofabrication, and computational electromagnetics. The Company's principal shareholder is Lamda Guard Technologies Ltd. ("LGTL"). LGTL is incorporated in the United Kingdom, and as at December 31, 2019, LGTL owned 16.69% (December 31, 2018 – 19.39%) of the Company's fully diluted equity including; convertible promissory notes, issued and outstanding warrants, deferred share units ("DSUs"), and employee stock options ("ESOPs").

On September 7, 2015, the Company incorporated Metamaterial Technologies USA Inc. ("MTI USA") as a wholly owned subsidiary and on May 25, 2016 MTI USA acquired the assets and operations of a business operating as Rolith Inc. On March 31, 2018, the Company acquired 100% of the common shares of a business, owned by related parties, operating as Medical Wireless Sensing Ltd ("MediWise") incorporated in the United Kingdom.

On March 5, 2020, Metamaterial Inc. ("META") (formerly known as Continental Precious Minerals Inc., "CPM") and the Company completed a business combination by way of a three-cornered amalgamation pursuant to which the Company amalgamated with Continental Precious Minerals Subco Inc. ("CPM Subco"), a wholly owned subsidiary of META to become "Metacontinental Inc." (the "RTO"). In connection with the RTO, CPM changed its name effective March 2, 2020 from Continental Precious Minerals Inc. to Metamaterial Inc.

The RTO was completed pursuant to the terms and conditions of an amalgamation agreement dated August 16, 2019 between CPM, the Company and CPM Subco, as amended March 4, 2020. Following completion of the RTO, Metacontinental Inc. will carry-on the business of the former Company, as a wholly-owned subsidiary of META. The common shares of CPM were delisted from the NEX board of the TSX Venture Exchange on March 4, 2020 and were posted for trading on the Canadian Securities Exchange ("CSE") on March 9, 2020 under the trading symbol "MMAT".

These financial statements were authorized for issue in accordance with a resolution of the Company's Board of Directors on July 23, 2020.

2. Basis of presentation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements are prepared in Canadian dollars, which is the Company's functional currency, and all amounts are rounded to the nearest dollar, except when otherwise indicated.

Going concern

These consolidated financial statements have been prepared on the basis of International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. There are material uncertainties that may cast significant doubt about the appropriateness of the going concern assumption, as the Company incurred a net loss

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

of \$11,018,448 for the year ended December 31, 2019, negative cash flow from operations of \$5,628,384, and has a deficit of \$32,062,994 as at December 31, 2019.

The ability of the Company to continue as a going concern, and to realize its assets and discharge its liabilities when due, is dependent upon its ability to secure sufficient financing to fund ongoing operations and to achieve and maintain profitable operations in the future. Subsequent to December 31, 2019, the Company raised additional equity of \$875,614, completed the RTO and received META's cash and cash equivalent of \$4,173,186, received additional unsecured convertible debentures of \$950,000, raised gross proceeds of \$5,000,000 through the issuance of convertible debentures and converted promissory notes into common shares. The Company has begun to generate revenue from commercial launch of products, however, achievement of sales forecasts in the near term may be negatively impacted by the economic environment as a result of the COVID-19 pandemic as more fully explained in note 25. There is no certainty that the Company will ultimately achieve profitable operations, become cash flow positive, or raise additional debt and/or equity capital.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, except for the derivative liability, which is measured at fair value (*note 9*).

Basis of consolidation

These consolidated financial statements include the financial position and operating results of the Company and its wholly owned subsidiaries: Lamda Guard Inc., Lamda Lux Inc., Lamda Solar Inc., Metamaterial Technologies USA Inc. and Medical Wireless Sensing Limited (the "Subsidiaries"). Subsidiaries are entities controlled by the Company.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

Functional and presentation currency

The Company determines its functional currency based on the currency of the primary economic environment in which it operates. The Company's functional and presentation currency is the Canadian dollar ("CAD"), while the functional currencies of its subsidiaries are the CAD, United States dollar ("USD") and the British pound ("GBP").

Management judgment and estimation uncertainty

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events that affect the application of policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

values of the assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and further periods if the review affects both current and future periods. Critical accounting judgments are made in respect of accounting policies that have been identified as being complex or involving subjective judgments or assessments. Critical accounting estimates include the following:

Share-based payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share options or appreciation right, volatility and dividend yield and making assumptions about them. The assumptions and model used for estimating fair value for share-based payment transactions are disclosed in note 12.

Valuation of derivative liability

The conversion options embedded within the unsecured debentures and promissory notes are recorded as derivative liabilities at fair value. This requires determination of the most appropriate valuation model and the most appropriate inputs to the valuation model including the probability of conversion, and discount rate to be used.

Impairment of non-financial assets

Assessment of impairment triggers are based on management's judgement of whether there are sufficient internal and external factors that would indicate an asset or cash generating unit ("CGU") is impaired, or any indicators of impairment reversal. The determination of the Company's CGUs is also based on management's judgement and is an assessment of the smallest group of assets that generate cash inflows independently of other assets.

The Company's estimate of the recoverable amount for the purpose of impairment testing requires management to make assumptions regarding future cash flows before taxes. Future cash flows are estimated based on budgets and a terminal value calculated by discounting the final year in perpetuity. The future cash flows are then discounted to their present value using an appropriate discount rate.

Income taxes

The Company is subject to income tax in various jurisdictions. Significant judgement is required to determine the consolidated tax provision. The tax rates and tax laws used to compute income tax are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

3. Summary of significant accounting policies

Fair value measurements

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments and all other financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using arm's-length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Government grants and assistance

Government grants are recognized at their fair value in the period when there is reasonable assurance that the conditions attaching to the grant will be met and that the grant will be received. Grants are recognized as income over the periods necessary to match them with the related costs that they are intended to compensate. When the grant relates to an asset, it is recognized as income over the useful life of the depreciable asset by way of a government assistance.

Revenue from contracts with customers

Revenue from the sale of prototypes and finished product is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of goods. The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of prototypes, the Company considers the effects of variable consideration, the existence of significant financial components, noncash consideration and consideration payable to the customer (if any).

Revenue from research activities are recognized over time, using an input method to measure progress towards complete satisfaction of the research activities and once confirmation of milestone achievement has been received from the customer.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short-term bank deposits with an original maturity of three months or less, and other short-term deposits.

Inventories

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for on a first-in/first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Foreign currency translation

Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the consolidated statements of financial position date. Non-monetary items measured at historical cost are translated using the exchange rates prevailing on the transaction date. Revenue and expenses are translated at the exchange rate in effect at the time the transaction occurred. Exchange gains or losses resulting from these translations are reflected in the consolidated statements of loss and comprehensive loss.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

Subsidiaries

On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rate prevailing at the reporting date and their statements of profit or loss are translated at month end using average monthly exchange rates. The exchange differences arising on translation for consolidation are recognized in other comprehensive income (loss) ("OCI"). On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit of loss.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of property and equipment includes the cost of materials and direct labor and any other costs directly attributable to bringing the assets to a working condition for their intended use, including borrowing costs.

Depreciation is calculated over the depreciable amount, which is the cost of the asset, less its residual value. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of the assets as follows:

Computer equipment	3 to 5 years
Computer software	1 year
Office furniture	5 to 7 years
Manufacturing equipment	2 to 5 years
Enterprise resource planning	5 years

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of loss and comprehensive loss when the asset is derecognized. The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

Intangible assets

Intangible assets acquired and internally generated intangible assets that meet the criteria for recognition are measured on initial recognition at cost. Intangible assets with finite lives are amortized over their estimated useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Following initial recognition, finite life intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The Company's intangible assets are amortized over their estimated useful lives of 5-10 years, which may be less than their legal life. Amortization for licenses and patents is recognized in profit or loss on a straight-line basis over the estimated useful lives of the assets. The Company commences amortization for the assets when they are available for use.

The amortization period is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of loss and comprehensive loss. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognized in the consolidated statements of loss and comprehensive loss when the asset is derecognized.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

Research and development costs

Research and development costs include all costs relating to the activities that support the development and manufacturing of new or improved products or processes and do not meet the criteria to be capitalized. Research activity costs are expensed as incurred. Development costs are expensed as incurred until it can be demonstrated that the conditions for capitalization as described in IAS 38, Intangible Assets, are met. Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated impairment loss. Once it is readily available for use, it is then amortized on a straight-line basis over the asset's estimated useful life. During the period of development, the asset is tested for impairment annually by comparing its carrying amount with its recoverable amount.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at the acquisition date fair value. Acquisition-related costs are expensed as incurred and included in professional fees in the consolidated statements of loss and comprehensive loss. When the Company acquires a business, it assesses the financial assets acquired and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Any excess of the consideration transferred over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the consideration transferred below the fair value of the net assets acquired is recorded as a gain in net income.

Financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Company initially measures a financial asset at its fair value including related transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15, Revenue from Contracts with Customers. In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding, which is the Company's business model. This assessment is referred to as the SPPI test and is performed at an instrument level. All financial liabilities are recognized initially at fair value, and in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Measurement in subsequent periods depends on whether the financial instrument has been classified as: (i) financial asset at fair value through profit or loss, (ii) financial assets at fair value through other comprehensive income, (iii) financial assets at amortized cost, (iv) financial liabilities at fair value through profit or loss, or (v) financial liabilities at amortized cost.

Assets at amortized cost

Financial assets at amortized cost are non-derivative financial assets which are classified as such if the following conditions are met: (i) the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate ("EIR") method, less any impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in interest income in the consolidated statements of loss and comprehensive loss. Any losses arising from impairment are recognized in the consolidated statements of loss and comprehensive loss.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

Financial liabilities at amortized cost

Financial liabilities at amortized cost generally include interest-bearing loans and borrowings. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statements of loss and comprehensive loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Transaction costs are combined with the fair value of the financial liability on initial recognition and amortized using the EIR method.

Financial liabilities at fair value through profit or loss [“FVTPL”]

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or if it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Derecognition of financial instruments

A financial asset is derecognized when the rights to receive cash flows from the asset have expired, the Company transfers its contractual rights to receive cash flows without retaining control or substantially all the risks and rewards of ownership of the asset, or the Company enters into a pass-through arrangement. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially different, such an exchange or substantial modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of loss and comprehensive loss. Transaction costs related to the original financial liability are expensed in the event of an exchange or substantial modification, or if the terms of a modification are not substantially different, the transaction costs related to the original financial liability are combined with the new carrying amount, and amortized over the new term of the financial liability using the EIR method.

Impairment of financial assets

For trade receivables and contract assets, the Company applies a simplified approach in calculating expected credit losses (“ECLs”). Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

The Company considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Deferred revenue

Deferred revenue consists of consideration received in advance of the performance obligations being satisfied or government grants for which recognition criteria has not been met. If the Company receives consideration in advance in a foreign currency, before the recognition of the related revenue, the Company initially recognizes the consideration as non-monetary liability as Deferred Revenue at the prevailing exchange rate at the date of the transaction.

After initial recognition, the related income is accounted at the prevailing exchange rate at the date of the transaction and are not remeasured for changes in exchange rates occurring between the date of initial recognition

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

of the deferred income liability and the date of recognition of revenue, following IFRIC 22 Foreign currency transaction and advance consideration.

Income taxes

Income tax expense comprises current and deferred income tax. Current tax and deferred income tax are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive loss. Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. Taxable earnings differ from earnings as reported in the consolidated statements of loss and comprehensive loss because of items of income or expense that are taxable or deductible in years other than the current reporting period or items that are never taxable or deductible.

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 liabilities are not recognized for taxable temporary differences arising on the initial recognition of goodwill or an asset or liability in a transaction that is not part of a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss or in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences 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 tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be utilized, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit of loss. In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against with the temporary differences can be utilized. The carrying amount of 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. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Share-based payments

Deferred share units

Equity-settled (DSUs) granted to employees, officers and directors providing similar services are measured at the fair value of the equity instruments at the grant date. The fair values of the DSUs are measured by reference to the fair value of the equity instruments granted.

The fair value of equity settled DSUs is recognized in the consolidated statements of loss and comprehensive loss over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. Vesting assumptions are reviewed at each reporting date to ensure they reflect current expectations.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

Employee Stock Option Plan

Equity-settled share-based payments are measured at fair value, excluding the effect of non-market-based vesting conditions, at the date of grant. Fair value is estimated using the Black-Scholes option pricing model and requires the exercise of judgment in relation to variables such as expected volatilities which are based on information available at the time the fair value is measured.

The cost is recognized in the consolidated statements of loss and comprehensive loss, together with a corresponding increase in equity, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the consolidated statements of loss and comprehensive loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that its non-financial assets may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use.

Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

For assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term of the leased asset.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its 15% incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Determining the lease term of contracts with renewal and termination option:

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company's right-of-use asset and lease liability is calculated for its current facilities in the United Kingdom.

New accounting standards and interpretations issued and adopted

The International Accounting Standards Board ("IASB") issued IFRS 16 for leases, which requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and was adopted by the Company on January 1, 2019.

The Company adopted IFRS 16 using the modified retrospective method of adoption. The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at January 1, 2019.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets). The Company applied IFRS 16 for the first time as of January 1, 2019. As a result of adopting the standard, the consolidated statement of financial position was grossed-up through the recognition of right-of-use assets and lease liabilities, however there was no material impact to opening deficit. Depreciation expense on the right-of-use assets and interest expense on the lease liabilities replaced the previously recognized operating lease expense. There was no material impact to the consolidated statement of cash flows, except that the principal repayment of the lease liabilities is presented in financing activities under IFRS 16, whereas previously it was presented in operating activities. The nature and effect of the changes as a result of adoption of IFRS 16 are described below:

Impact on the consolidated statement of financial position (increase/(decrease)) at initial adoption:

	As at January 1, 2019 \$
Assets	
Right-of-use assets	149,378
Increase in assets	149,378
Liabilities	
Lease liabilities	149,378
Increase in liabilities	149,378

The undiscounted operating lease commitments of the Company as of December 31, 2018 amounted to \$341,430, as presented in the audited consolidated financial statements as at and for the year ended December 31, 2018. The undiscounted value of lease liabilities as at January 1, 2019 was \$171,991 (discounted to \$149,378 as at January 1, 2019 using the Company's estimated incremental borrowing rate of 15%). The difference between the previously disclosed \$341,430 as of December 31, 2018 and the \$171,991 undiscounted value of lease liabilities as at January 1, 2019 is due to short term leases, which are excluded from the lease liability, but were part of the operating lease commitments.

IFRIC Interpretation 23, Uncertainty over Income Tax Treatments

The interpretation clarifies the application of recognition and measurement requirements in IAS 12, Income Taxes, where there is uncertainty over income tax treatments. It addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. The interpretation was adopted by the Company effective January 1, 2019 and resulted in no significant adjustments.

New accounting standards not yet adopted

The IASB issued the following standards that has not been applied in preparing these consolidated financial statements as their effective date falls within annual periods beginning subsequent to the current reporting period.

IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Estimates and Errors

On October 31, 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These amendments clarify the definition of

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

'material' and aligns the definition used within the IFRS Standards. The effective date of the amendment is for annual periods beginning on or after January 1, 2020 and is to be applied prospectively.

The application of this amendment is not expected to have a material impact to the Company.

IFRS 3 – Business Combinations

On October 22, 2018 the IASB issued an amendment to IFRS 3 *Business Combinations* to narrow the definition of a business and introduce a screening test, which eliminates the requirement for a detailed assessment of the definition, when met. The effective date of the amendment is for annual periods beginning on or after January 1, 2020 and is to be applied prospectively.

The application of this amendment is not expected to have a material impact to the Company.

4. Business combination

On March 31, 2018, the Company acquired the assets and operations of a related party, MediWise based in London, United Kingdom. MediWise has common shareholders and a common management team. The primary reason for the business acquisition was to bring the management team, medical applications, and the related intellectual property and equipment of the MediWise platform technology under one company.

The following table summarizes the allocation of the purchase price consideration to the assets acquired as at March 31, 2018 based on their fair values, using the March 31, 2018 exchange rate of £1.00 GBP = \$1.8106 CAD.

Purchase price consideration	(As restated – note 25)	
	Amount in GBP £	Amount in CAD \$
Purchase price [1]	2,209,212	4,000,000
Effective settlement of intercompany loans [1]	393,906	713,205
Consideration paid	2,603,118	4,713,205
Cash	28,330	51,294
HST receivable	8,573	15,522
Property and Equipment, net	61,388	111,149
Grant receivable	118,998	215,458
Due to related party [2]	(198,639)	(359,656)
Deferred tax liability [3]	(432,139)	(782,431)
Trade payable	(6,254)	(11,323)
Shareholder loan	(25,905)	(46,904)
Long-term debt [4]	(62,924)	(113,930)
Intangible assets [5]	3,111,690	5,634,026
Net fair value of assets acquired	2,603,118	4,713,205

[1] The purchase price was \$4,000,000, which was satisfied through the issuance of 2,352,941 common shares of the Company at a price of \$1.70 per share to the shareholders. The Company had \$713,205 in outstanding intercompany loans from MediWise which were effectively settled on acquisition at the consolidated financial statements, however, it was kept as is on standalone balance sheet of respective entities.

[2] Due to related party includes balances owed to LGTL.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

[3] The Company has recorded the following net deferred tax liability as a result of the MediWise acquisition as at March 31, 2018:

	(As restated – note 25) Amount in CAD \$
Temporary difference	
Intangible assets	5,588,253
Property and equipment	(69,175)
Non-capital losses	<u>(1,401,022)</u>
Total temporary difference	<u>(4,118,056)</u>
Expected UK tax at statutory rate	19%
Deferred tax liability	<u>782,431</u>

[4] On December 17th, 2014, MediWise entered into an agreement with BGI, SA to receive a loan in the amount of \$296,647 (€190,000). In 2015, MediWise received \$234,039 (€149,900) from BGI, SA. The loan was recognized at fair value on acquisition.

[5] The Company has used the multi-period access earnings methodology (“MEEM”) to estimate the fair value of the patents. The MEEM estimates the value of the asset based on the expected future excess earnings attributable to the subject asset. The excess earnings are determined by estimating future revenue and cash flows for the subject asset and deducting any portion of cash flows that can be attributed to supporting or contributory assets.

5. Inventory

Inventory consists of photosensitive materials, lenses, laser protection film and finished eyewear. Inventory classification is as follows:

	December 31, 2019 \$	December 31, 2018 \$
Raw materials [1]	251,556	409,798
Supplies	25,505	5,774
Semi-finished goods	158,469	—
Finished goods	3,033	—
Spare parts	163	—
Total inventories (at cost)	<u>438,726</u>	<u>415,572</u>

[1] The Company has a contract with a primary raw material supplier and the contract outlines certain restrictions for use of the material. Raw material inventory as at December 31, 2019 includes \$167,670 (December 31, 2018-\$179,051) that is restricted.

Following the terms of the contract, the Company has written off \$291,995 of restricted raw materials inventory to research and development expense during the year ended December 31, 2019 (December 31, 2018-Nil).

The Company started producing metaAIR during 2019. During the year ended December 31, 2019, the Company has recognized \$10,568 (December 31, 2018-Nil) of the inventory cost in the cost of goods sold in the consolidated statement of loss and comprehensive loss.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

6. Property and equipment

Property and equipment consist of the following:

Cost	2019			
	As at December 31, 2018	Additions	Foreign exchange differences	As at December 31, 2019
	\$	\$	\$	\$
Computer equipment	174,881	—	(1,041)	173,840
Computer software	21,716	304,927	—	326,643
Manufacturing equipment	5,475,108	1,636,653	(84,005)	7,027,756
Office furniture	125,178	2,244	(773)	126,649
Enterprise Resource Planning	221,836	45,858	—	267,694
	6,018,719	1,989,682	(85,819)	7,922,582
Accumulated depreciation	2019			
	As at December 31, 2018	Depreciation	Foreign exchange differences	As at December 31, 2019
	\$	\$	\$	\$
Computer equipment	101,850	35,389	(537)	136,702
Computer software	21,716	140,687	—	162,403
Manufacturing equipment	2,105,533	1,861,780	(43,524)	3,923,789
Office furniture	64,951	24,502	(325)	89,128
Enterprise Resource Planning	—	51,885	—	51,885
	2,294,050	2,114,243	(44,386)	4,363,907
Net book value	3,724,669			3,558,675

Cost	2018			
	As at December 31, 2017	Additions	Foreign exchange differences	As at December 31, 2018
	\$	\$	\$	\$
Computer equipment	135,524	37,610	1,747	174,881
Computer software	21,716	—	—	21,716
Manufacturing equipment	3,499,806	1,845,793	129,509	5,475,108
Office furniture	114,589	9,291	1,298	125,178
Enterprise Resource Planning	—	221,836	—	221,836
	3,771,635	2,114,530	132,554	6,018,719

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

Accumulated depreciation

	2018			
	As at December 31, 2017	Depreciation	Foreign exchange differences	As at December 31, 2018
	\$	\$	\$	\$
Computer equipment	61,977	39,251	622	101,850
Computer software	21,342	374	—	21,716
Manufacturing equipment	877,065	1,175,503	52,965	2,105,533
Office furniture	42,706	21,848	397	64,951
	1,003,090	1,236,976	53,984	2,294,050
Net book value	2,768,545			3,724,669

Manufacturing equipment additions include capitalized machinery, components and labour of \$420,967 (December 31, 2018-\$1,566,304) related to the metaAIR production facility and \$1,395,000 (December 31, 2018-Nil) related to augmented reality production equipment in Nova Scotia net of \$212,268 (December 31, 2018-Nil) related to investment tax credits.

Depreciation for the year was reduced by reimbursement of \$24,278 (December 31, 2018-\$42,378) by the grants related to Innovate UK projects (*note 16*).

No item of property and equipment is pledged nor treated as security to outstanding liabilities as at December 31, 2019 other than the General Security Agreement (a "GSA") signed in favor of the Royal Bank of Canada ("RBC") on July 14, 2014, which is related to the Company's corporate bank account and credit card and includes all property and equipment and intangible assets, a GSA signed in favor of a private individual, who is an existing shareholder (*note 9*) and a GSA signed in favor of a Canadian bank for an equipment loan (*note 11*).

7. Intangible assets

Intangibles assets consist of the following:

Cost

	2019 (As restated – note 25)				
	As at December 31, 2018	Additions	Impairment	Foreign exchange differences	As at December 31, 2019
	\$	\$	\$	\$	\$
License rights and patents	8,769,572	225,722	(149,946)	(200,896)	8,644,452

Accumulated amortization

	2019 (As restated – note 25)				
	As at December 31, 2018	Amortization	Impairment	Foreign exchange differences	As at December 31, 2019
	\$	\$	\$	\$	\$
License rights and patents	1,334,643	1,009,321	(62,780)	(41,544)	2,239,640
Net book value	7,434,929				6,404,812

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

Cost	2018 (As restated – note 25)			As at December 31, 2018 \$
	As at December 31, 2017 \$	Additions \$	Foreign exchange differences \$	
License rights and patents	2,763,777	6,018,389	(12,594)	8,769,572

Accumulated amortization	2018 (As restated – note 25)			As at December 31, 2018 \$
	As at December 31, 2017 \$	Amortization \$	Foreign exchange differences \$	
License rights and patents	442,337	842,740	49,565	1,334,643
Net book value	2,321,440			7,434,929

Additions to intangible assets during the current year relate to \$225,722 (2018– \$384,362) of capitalized legal fees for renewal of patents and new patent applications.

On March 28, 2013, the Company entered into an Exclusive Technology License Agreement (the “Technology Agreement”) with LGTL, whereby LGTL has granted the Company an exclusive license to all of its licensed patents, intellectual property, technical information and improvements as they relate to the manipulation of light using metamaterial substances with respect to (i) the aeronautical, police, military and security industries, (ii) the lighting industry, and (iii) the solar industry. The Agreement will continue until the Company delivers notice of termination to LGTL. Payments made related to the license have been capitalized as License rights.

A monthly maintenance fee of £2,500 will be paid to LGTL for the term of the Agreement and is expensed in the period incurred in the consolidated statement of loss. There are no royalties payable to LGTL by the Company pursuant to the terms of the Agreement.

During the year ended December 31, 2019, the Company recognized impairment losses on patents held of \$87,166 considering the maintenance cost in relation to commercial value of these patents.

8. Related party transactions

During the year, the Company entered into several related party transactions in the normal course of business. These transactions have been recorded at the agreed upon amounts between the parties.

Amount due to related parties are as follows:

	December 31, 2019 \$	December 31, 2018 \$
Due to LGTL– other, net [1]	345,033	344,784
Due to a shareholder [2]	—	1,578
Total due to related party, net – current	345,033	346,362

Transactions with related parties were as follows:

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

	December 31, 2019	December 31, 2018
	\$	\$
Technology license fees [3]	50,807	51,879
Consulting fees [4]	186,982	14,400
Rent and utility reimbursement from LGTL [5]	(41,153)	(49,133)
	<u>196,636</u>	<u>17,146</u>

[1] Amounts due to LGTL are unsecured and repayable in full on demand.

[2] The shareholder loan for \$1,578 as at December 31, 2018 was acquired through the MediWise acquisition and settled on March 15, 2019.

[3] On March 28, 2013, the Company entered into an Technology Agreement with LGTL. The Technology Agreement will continue until the Company delivers notice of termination to LGTL. Under the agreement, the Company pays a monthly technology license fee (*note 7*).

[4] The Consulting fees includes \$45,000 to a former director related to advisory services, \$127,582 payable to a director and a former director, including related taxes payable to CRA, related to advisory services and their contribution during the RTO and \$14,400 (2018-\$14,400) to Versa Tech Consulting Ltd., which is owned by a director of the Company.

[5] LGTL uses a portion of MediWise's premises in the UK and reimburses MediWise for the rent and utilities for that space.

Key management personnel remuneration

The remuneration of directors and other key management personnel, which include the chief executive officer, and directors, of the Company during the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
	\$	\$
Salaries, including benefits	854,287	1,023,634
Share-based compensation expense [1]	1,236,365	36,811
Total	<u>2,090,652</u>	<u>1,060,445</u>

[1] During 2018, employee stock options issued to previous employees were forfeited upon termination and previously recognized expense attributable to unvested options of terminated key management personnel was recognized as a recovery within stock compensation expense in the amount of \$450,224 in the year ended December 31, 2018.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

9. Promissory notes

	2019 \$			2018 \$	
	Principal Amount	Promissory note liability	Derivative liability	Principal Amount	Promissory note liability
Beginning balance	1,162,610	1,254,494	—	—	—
Issued	3,185,760	2,872,880	312,880	1,162,610	1,162,610
Accrued Interest	—	259,969	—	—	91,884
Accretion	—	208,632	—	—	—
Unrealized loss	—	—	862,176	—	—
Ending balance	4,348,370	4,595,975	1,175,056	1,162,610	1,254,494

In January 2019, the Company received \$550,000 (2018 - \$1,100,000) of convertible loans from private individuals and received \$355,750 (2018 - \$62,610) of convertible loans from two companies. The loans bear interest at a fixed rate of 8% simple interest. The loans, including interest, are automatically convertible into equity, at a 20% discount of the share price from treasury upon the Company issuing and selling equity resulting in aggregate gross proceeds to the Company of \$5,000,000 including conversion of the loans. The loans have a maturity date of January 25, 2020. In the event of sale of the Company, the Company will (i) give the holder at least fifteen days prior written notice of the anticipated closing date of such sale of the Company in order that the holder may consider and effect a voluntary conversion of this note into common shares of the Company in advance of the sale of the Company, and (ii) If the holder has not exercised its option to convert in clause (i) above then (ii) pay the holder an aggregate amount equal to 1.5 times the principal amount and all accrued and unpaid interest outstanding under the note in full satisfaction of the Company's obligations under this note.

During April to September 2019, the Company received \$2,280,010 of convertible loans from a private individual who is also an existing shareholder. The loans bear interest at a fixed rate of 8% compounded annually. The holder has an option to convert the loans, including interest, into equity, at a 20% discount of the share price from treasury upon the Company issuing and selling equity resulting in aggregate gross proceeds to the Company of \$4,000,000 including conversion of the loans, or to ask for the repayment at any time, upon not less than 21 days' prior written notice to the Company. On August 12, 2019, the Company signed a GSA with the private individual to secure the payment and performance of the Company's obligations under the convertible promissory notes issued between April and September 2019. The loans shall be due and payable on demand by the Holder (a) at any time, upon not less than 21 days' prior written notice to the Company, or (b) upon the earlier to occur of (i) April 30, 2020, (ii) an Event of Default, (iii) a Change of Control or (iv) a Qualified Financing as defined in the promissory notes signed on August 31, 2019.

The Company has recognized an embedded derivative related to the conversion option for all of the promissory notes. The Company allocated \$312,880 of the proceeds to the promissory notes as a derivative liability at initial recognition, which is measured at fair value at each reporting date. The Company has remeasured the derivative liability for the year ended December 31, 2019 and recognized \$862,176 as unrealized loss on derivative liability in the consolidated statement of loss and comprehensive loss (December 31, 2018-nil). In December 2019, the Company issued conversion notices to the holders of the promissory notes. The fair value of the embedded derivative at December 31, 2019 reflects the fair value of the 20% discount of the share price on conversion of the notes.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

10. Unsecured convertible debentures

Unsecured convertible debentures ("Debentures") consist of the following:

	<u>Principal Amount</u>
Beginning balance	—
Issued	750,000
Unrealized loss	10,145
Ending balance	<u>760,145</u>

On December 10, 2019, an agreement was signed to convert an existing \$250,000 short-term loan to a Debenture. During December 2019, the Company issued an additional \$500,000 in Debentures to the same investor, under the same terms. The Debentures have a maturity date of April 30, 2025.

The Debentures bear interest at a fixed rate of 1% per month, compounding monthly and have a maturity date of April 30, 2025. Each Debenture is convertible at the option of the holder into common shares of the Company at a price of \$1.92 per share. Following completion of the RTO, the Company may elect to repay the outstanding amounts owing under the Debentures in cash or in META's common share at conversion price of \$0.70 upon meeting certain conditions or the holder can convert the Debentures in META's common shares at \$0.70 or the Debentures can be converted at maturity at the greater of 80% of 10 day volume-weighted average price of the META's common shares or the closing price the META's common shares on preceding trading day less the maximum permitted discount by the exchange.

The conversion option is an embedded derivative that is subsequently measured at fair value through profit or loss. The Company has chosen to record the entire convertible debentures at fair value through profit or loss rather than to separately account for the debt instrument and the derivative liability separately. The Company has remeasured the derivative liability for the year ended December 31, 2019 and recognized \$10,145 as unrealized loss on derivative liability in the statement of loss and comprehensive loss (December 31, 2018-nil).

11. Long-term debt

ACOA interest-free loan (Business Development Program)	December 31, 2019	December 31, 2018
	<u>\$</u>	<u>\$</u>
Loan outstanding principal [1]	190,482	261,910
Interest-free component [1]	(113,169)	(113,169)
Principal adjusted for interest-free component	77,313	148,741
Accumulated non-cash interest accretion [2]	97,517	84,559
Carrying amount	174,830	233,300
Less current portion [2]	(71,428)	(71,429)
	<u>103,402</u>	<u>161,871</u>

[1] On April 13, 2012, the Company entered into the Business Development Program with the Atlantic Canada Opportunities Agency (the "ACOA"). The program offers an interest-free loan to further develop eyewear that utilizes the Company's metamaterial technology. As the loan is on an interest-free basis, the loan has been fair-valued by applying the effective interest rate method on the date the loan was received. The Company has

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

concluded that the expected life of the loan, on which the effective interest rate method of recognizing the non-cash accretion expense is based, is the agreed-upon repayment schedule with ACOA as at that date, which is over a period of approximately three years.

As at December 31, 2019, principal of \$190,482 (2018 – \$261,910) is outstanding. The Company has set up an automatic withdrawal of required monthly principal repayments of \$5,952 until September 1, 2022.

[2] In accordance with the loan agreement, the Company is required to maintain a minimum of \$83,250 in equity throughout the term of the loan. However, on November 14, 2019, ACOA waived this requirement for the period ended on June 30, 2019 and for each period thereafter until the loan is fully repaid.

ACOA interest-free loan (Atlantic Innovation Fund)	December 31, 2019	December 31, 2018
	\$	\$
Loan outstanding principal [1]	3,000,000	3,000,000
Interest-free component [2]	(2,355,856)	(2,034,131)
Principal adjusted for interest-free component	644,144	965,869
Accumulated non-cash interest accretion [3]	614,355	641,721
Carrying amount	1,258,499	1,607,590
Less current portion [3]	—	—
	1,258,499	1,607,590

[1] On March 23, 2015, the Company entered into an agreement with ACOA (“ACOA AIF Loan”) to receive contributions up to the lesser of 75% of eligible costs or \$3,000,000. The principal amount of the loan was received in separate tranches totaling \$3,000,000 with the final tranche being received in 2016 and repayment of the loan is based on a percentage of gross revenue for the fiscal years immediately preceding the due date of the respective payment. In accordance with an amendment dated November 4, 2019, the first repayment is due on June 1, 2021, in place of September 1, 2020 and subsequent repayments are due annually until the contribution has been repaid in full.

The Company has concluded that the expected life of the loan, on which the effective interest rate method of recognizing the non-cash accretion expense is based, is the agreed-upon repayment schedule with ACOA as at that date, which is over the period of approximately eight years.

[2] As the loan with ACOA is on an interest-free basis, the loan was fair-valued at initial recognition by applying the effective interest rate method on the date the loan was received. During year ended December 31, 2019, changes to the estimated repayment schedule required a change in the value of the interest free component of the loan which resulted in \$321,725 (December 31, 2018– \$268,929) being recorded as government assistance in the consolidated statement of loss and comprehensive loss.

[3] In accordance with the loan agreement, the Company is required to maintain a minimum of \$783,938 in equity throughout the term of the loan. However, on November 14, 2019, ACOA waived this requirement for the period ended on June 30, 2019 and for each period thereafter until the loan is fully repaid.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

ACOA interest-free loan (Business Development Program)	December 31, 2019	December 31, 2018
	\$	\$
Loan outstanding principal [1]	2,985,136	2,397,230
Interest-free component [2]	(1,281,240)	(801,138)
Deferred government assistance [3]	(548,055)	(470,509)
Principal adjusted for interest-free component	1,155,841	1,125,583
Accumulated non-cash interest accretion [4]	251,194	88,141
Carrying amount	1,407,035	1,213,724
Less current portion [4]	—	—
	1,407,035	1,213,724

[1] On March 27, 2018, the Company entered into an agreement with ACOA Business Development Program ("ACOA BDP Loan 2018") to receive contributions up to the lesser of 50% of eligible cost or \$3,000,000. The program offered an interest-free loan to commercially launch the metaAIR related product and acquire and operationalize the advanced manufacturing equipment to produce its products. Amounts are payable to the Company from ACOA as costs are incurred against the project up to a maximum of \$3,000,000. In accordance with an amendment dated November 4, 2019, the first repayment is due on June 1, 2021, in place of January 1, 2020 and subsequent principal repayments of \$31,250 are due monthly, until the contribution has been repaid in full. The principal amount of the loan was received in separate tranches totaling \$2,985,136 as at December 31, 2019.

[2] As the loan with ACOA is on an interest-free basis, the loan was fair-valued at initial recognition by applying the effective interest rate method on the date the loan was received. An additional \$480,102 was recorded as government assistance in the consolidated statement of loss and comprehensive loss related to the value of the interest-free component (December 31, 2018 – \$801,138) on the additional proceeds received during the period. During year ended December 31, 2019, changes to the estimated repayment schedule required a change in the value of the interest free component of the loan which resulted in \$77,546 (December 31, 2018– Nil) being recorded as government assistance in the consolidated statement of loss and comprehensive loss.

The Company has concluded that the expected life of the loan, on which the effective interest rate method of recognizing the non-cash accretion expense is based, is the agreed-upon repayment schedule with ACOA as at that date, which is over the period of approximately ten years.

[3] The Company determined that a portion of the loan was used to finance the acquisition and construction of manufacturing equipment, accordingly \$548,055 (2018 – \$470,509) was recorded in the consolidated statement of financial position as deferred government assistance. The Company amortized the deferred government assistance and for the year ended December 31, 2019 and recorded \$178,834 (December 31, 2018 – Nil) as government assistance in the consolidated statement of loss and comprehensive loss. The deferred government assistance as at December 31, 2019 is \$369,221 (2018 - \$470,509).

[4] In accordance with the loan agreement, the Company is required to maintain a minimum of \$710,293 in equity throughout the term of the loan. However, on November 14, 2019, ACOA waived this requirement for the period ended on June 30, 2019 and for each period thereafter until the loan is fully repaid.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

ACOA interest-free loan (Business Development Program)	December 31, 2019
	\$
Loan outstanding principal [1]	41,954
Interest-free component [2]	(19,772)
Principal adjusted for interest-free component	22,182
Accumulated non-cash interest accretion [3]	2,459
Carrying amount	24,641
Less current portion [3]	(1,748)
	22,893

[1] On November 28, 2019, the Company entered into an agreement with ACOA Business Development Program ("ACOA BDP Loan 2019) to receive contributions up to the lesser of 75% of eligible costs or \$100,000. The program offered an interest-free loan to assist with marketing rebrand of metaAIR, including packaging, website design, and support material to launch the eyewear into the global market. Amounts are payable to the Company from ACOA as costs are incurred against the project up to a maximum of \$100,000. The Company is required to make monthly principal repayments of \$1,400 beginning October 1, 2020.

[2] As the loan with ACOA is on an interest-free basis, the loan was fair-valued at initial recognition by applying the effective interest rate method on the date the loan was received and \$19,772 related to the fair value of the interest-free component (December 31, 2018 – Nil) was recorded as government assistance in the consolidated statement of loss and comprehensive loss related to the proceeds received during the year ended December 31, 2019.

The Company has concluded that the expected life of the loan, on which the effective interest rate method of recognizing the non-cash accretion expense is based, is the agreed-upon repayment schedule with ACOA as at that date, which is over the period of approximately six years.

[3] In accordance with the loan agreement, the Company is required to maintain a minimum of \$553,709 in equity throughout the term of the loan. However, on November 14, 2019, ACOA waived this requirement for the period ended on June 30, 2019 and for each period thereafter until the loan is fully repaid.

Bank equipment loan

	December 31, 2019
	\$
Loan outstanding principal [1]	250,000
Interest accrued [1]	20,335
Interest paid	(19,160)
Principal paid	(5,600)
Balance outstanding	245,575
Less current portion	(31,200)
	214,375

[1] On January 16, 2019, the Company received a bank loan for \$250,000, the loan is secured against two assets of the Company along with a personal guarantee of 50% of the value of the loan from a director of the Company. The loan is repayable over a period of 8 years beginning November 1, 2019, at a floating interest rate which includes the bank's base floating rate plus a variance of 2.50% per year. The interest rate, including base floating rate and variance at the date of the signing of the loan agreement and as of December 31, 2019 was 8.55% per year. As at December 31, 2019, the net book value of the two secured assets is \$191,277.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

Shareholder Loan from BGI, SA.	December 31, 2019 \$	December 31, 2018 \$
Loan from BGI, SA	218,600	234,039
Fair value of below market interest rate component	(117,730)	(123,317)
Fair value of loan	100,870	110,722
Non-cash interest accretion	32,227	14,366
Carrying amount	133,097	125,088
Less current portion	—	—
	133,097	125,088

The loan bears interest at a rate of 6 months Euribor rate plus 2% point spread until January 17, 2020 and thereafter interest at a rate of 6 months Euribor rate plus 4% point spread until the maturity date of January 17, 2025. Interest is being accreted until the date of repayment or prepayment of the shareholder loan. The shareholder loans provided shall be repaid within 10 years, with the respective accrued interest paid on the same date. During 2019, the Company has accrued interest of \$17,861 (2018-\$14,366). The loan was fair valued at the date of acquisition.

The minimum principal computed portion of repayments of the long-term debt for each of the next five years and thereafter are as follows:

	ACOA BDP 2015 \$	ACOA AIF \$	ACOA BDP Loan 2018 \$	ACOA BDP Loan 2019 \$	BGI, SA. Loan \$	Bank equipment loan \$	Total \$
2020	71,424	—	—	4,200	—	31,200	106,824
2021	71,424	246,726	218,750	16,800	—	31,200	584,900
2022	47,634	150,000	375,000	16,800	—	31,200	620,634
2023	—	250,000	375,000	4,154	—	31,200	660,354
2024	—	480,000	375,000	—	—	31,200	886,200
Thereafter	—	1,873,274	1,641,386	—	218,600	88,400	3,821,660
	190,482	3,000,000	2,985,136	41,954	218,600	244,400	6,680,572

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

12. Capital stock

Common shares

Authorized: Unlimited number of common shares, no par value

The following table summarizes the change in issued common shares of the Company:

	2019		2018	
	Number of shares #	Amount \$	Number of shares #	Amount \$
Balance, beginning of period	9,724,476	6,628,293	7,500,317	2,848,293
Issued [1], net	780,097	970,377	2,353,571	4,000,000
Cancellation of shares	—	—	(129,412)	(220,000)
Balance, end of period	10,504,573	7,598,670	9,724,476	6,628,293

[1] During 2019, the Company settled 153,000 (2018 – Nil) DSUs through common shares for a total value of \$80,100 (2018 – Nil) and shares are expected to be held in treasury pending payment of taxes by the DSU holders following the Company's DSU plan.

During 2019, the Company issued 30,441 units from treasury at \$1.70 per share for total non-cash consideration of \$51,750 to a former director related to advisory services. The shares were issued in lieu of payment of consulting fees totaling \$51,750. One unit includes one common share and one warrant, and for every two warrants, warrant holders shall have the right to purchase one common share for \$2.475. The Company has allocated the consideration of \$51,750 to warrants and common shares based on the relative fair value of the warrant and the shares. Accordingly, \$43,250 has been allocated to common shares and \$8,500 has been allocated to warrants.

During 2019, the Company issued 596,656 units from treasury at \$1.70 per unit for total cash consideration of \$1,014,545. One unit includes one common share and one warrant, and for every two warrants, warrant holders shall have the right to purchase one common share for \$2.475. The Company has allocated the consideration of \$1,014,545 to warrants and common shares based on the relative fair value of the warrant and the shares. Accordingly, \$847,950 has been allocated to common shares and \$166,595 has been allocated to warrants.

During 2019, \$923 (2018 – Nil) was recognized as common share issuance cost.

On March 31, 2018, the Company- issued 2,352,941 additional shares from treasury on the acquisition of MediWise (note 4).

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

Warrants

For every two warrants, warrant holders shall have the right to purchase one common share for \$2.475.

The following table summarizes the changes in warrants of the Company:

	2019	
	Number of warrants #	Amount \$
Balance, beginning of period	—	—
Issued [1]	627,097	175,095
Balance, end of period	627,097	175,095

[1] During 2019, the Company issued 30,441 warrants to former director related to advisory services and 596,656 warrants to investors as a part of its private placement of shares.

The fair value of warrants has been estimated using the Black-Scholes option pricing model with the following assumptions:

Weighted average risk free interest rate	1.5796%
Expected volatility	133%
Expected dividend yield	0%
Expected forfeiture rate	0%
Common share fair value at the measurement date	\$1.70
Exercise price for one common share	\$2.475
Expected term of warrants	September 30, 2020

Preferred shares

Authorized: Unlimited number of Class A-1 and Class A-2 voting, non-retractable preferred shares.

Each A-1 preferred share is convertible into one common share of the Company and each A-2 preferred share is convertible into 1.5 common shares pursuant to the articles of amendment upon completion of certain events and has first rights upon liquidation.

The following table summarizes the changes in issued preferred shares of the Company:

	2019		2018	
	Number of shares #	Amount \$	Number of shares #	Amount \$
Balance, beginning of period	9,398,984	12,748,100	9,122,513	12,278,100
Issued	—	—	276,471	470,000
Balance, end of period	9,398,984	12,748,100	9,398,984	12,748,100

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

13. Share-based payments

DSU Plan

On March 28, 2013, the Company implemented a DSU Plan for its directors, employees and officers. Directors, employees and officers are granted DSUs of the Company as a form of compensation. Each unit is convertible at the option of the holder into one common share of the Company. Eligible individuals are entitled to receive all DSUs (including dividends and other adjustments) no later than December 1 of the first calendar year commencing after the time of termination of their services. The value to be received is the market value of the common shares issued in equity. The value of the DSUs is included in equity. Information concerning units outstanding is as follows:

Issue price \$	2019	2018
	Number of units #	Number of units #
0.50	755,000	900,000
0.95	29,000	37,000
	784,000	937,000

No DSUs were issued during the year ended December 31, 2019 or December 31, 2018.

During 2019, the Company converted 153,000 DSUs of former directors (2018 – Nil) through equity and shares are expected to be held in treasury upon payment of required taxes.

Employee Stock Option Plan

Each share option is convertible at the option of the holder into one common share of the Company.

The Company has an Employee Stock Option Plan (the "Plan") for directors, officers, and employees. Unless otherwise determined by the Board of Directors, 25% of the options shall vest and become exercisable on the first anniversary of the grant date and 75% of the shares issuable under the Plan shall vest and become exercisable in equal monthly installments over the three-year period commencing immediately after the first anniversary of the grant date. The option exercise price shall not be less than the fair market value of a share on the grant date, as determined by the Board of Directors, taking into account any considerations which it determines to be appropriate at the relevant time.

The exercise price of the share options is equal to the market price of the underlying shares on the date of the grant. The contractual term of the share options is 10 years and there are no cash settlement alternatives for the employees.

During 2019, the Company granted 859,143 (2018 – 1,673,536) employee stock options to employees and directors under the Plan, of which 306,499 will vest as per the Plan, 230,015 options were pre-vested upon issuance, and 322,629 will vest upon closing of the RTO (*Note 1*). During 2019, 229,223 employee stock options issued to previous employees were forfeited upon termination (2018 - 1,522,988). Previously recognized expense attributable to unvested options of terminated employees was recognized as a recovery within stock compensation expense in the amount of \$19,124 in the year ended December 31, 2019 (2018 - \$570,306).

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

The following table summarizes the change in outstanding share options of the Company:

	Number outstanding	
	2019 #	2018 #
Outstanding, beginning of period	2,228,380	2,077,832
Grants to employees and directors	859,143	1,673,536
Forfeitures	(229,223)	(1,522,988)
Outstanding, end of period	2,858,300	2,228,380

Below is a summary of the outstanding options as at December 31, 2019:

Exercise price \$	Number outstanding		Number exercisable	
	2019 #	2018 #	2019 #	2018 #
0.50	—	20,000	—	20,000
0.75	110,000	110,000	105,208	86,042
1.70	2,748,300	2,098,380	1,132,409	365,123
	2,858,300	2,228,380	1,237,617	471,165

During 2019, the Company has recognized \$1,780,952 (2018 – \$87,172) as stock based compensation expense, out of which \$1,710,952 (2018 - \$66,191) was recognized as share-based compensation expense and \$70,000 (2018 -\$20,981) as consulting expenses in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019. At December 31, 2019, the value of the options exercisable total \$2,004,001 (2018 – \$889,074) is included as contributed surplus under total shareholders' equity. The weighted average remaining contractual life for the share options outstanding as at December 31, 2019 was 8.38 (2018 – 9.45) years. The weighted average fair value of options granted during the year was \$1.13 (2018 – \$1.12).

The fair value of options granted during the year ended December 31, 2019 was estimated on the date of grant using the Black-Scholes option pricing model with the following inputs and assumptions:

	Employee Stock Option Plan 2019	Employee Stock Option Plan 2018
Weighted average common share fair value at the measurement date	\$1.42	\$1.70
Dividend yield	—	—
Expected volatility for options having 10 years expiry	84%	55%
Expected volatility for options having 3 years expiry	130%	—
Weighted average risk-free interest rate	1.21%	2.24%
Weighted average expected life of the options	8.67 years	9.8 years

The expected life of the options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

Other

On August 9, 2019, the Company approved director fees of \$50,000, net of taxes, to be paid in units, consisting of a share and a warrant, from treasury, upon closing of the RTO. The Company has recognized \$35,000 as consulting fees, based on expected probability of 70% for the completion of the RTO at December 31, 2019.

On November 13, 2019, the Company approved advisory fees for a director of \$50,000, net of taxes, to be paid in units, consisting of a share and a warrant, from treasury, upon closing of the RTO. The Company has recognized \$35,000 as consulting fees, based on expected probability of 70% for the completion of the RTO at December 31, 2019.

14. Income taxes

A reconciliation of the income tax attributable to the operations for the year using the statutory tax rate of 31.0% is as follows:

	(As restated – note 25)	
	2019	2018
	\$	\$
Net loss before tax	(11,202,622)	(5,111,234)
Tax rate	31%	31%
Expected tax at statutory rate	(3,472,813)	(1,584,483)
Share based compensation, not deductible for tax purposes	530,395	27,023
Temporary differences not recognized	2,679,357	1,561,449
Impact of lower rate in foreign jurisdiction	127,479	(16,066)
Other	16,218	7,491
Income tax recovery	(119,364)	(4,586)

The Company has recognized the following deferred tax assets and liabilities in the Consolidated Statement of Financial Position:

	(As restated – note 25)	
	2019	2018
	\$	\$
Non-capital losses	1,595,729	156,145
Intangible assets	(1,021,489)	(946,649)
Property and equipment	(626,633)	12,659
Funding obligation	(76,214)	—
Long-term debt	(529,875)	—
	(658,481)	(777,845)

The following temporary differences and non-capital losses have not been recorded in the Consolidated Statement of Financial Position:

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

	2019	2018
	\$	\$
Non-capital losses	27,997,982	25,604,259
Intangible assets	246,962	150,086
Due from MTI USA	27,163	—
Derivative liabilities	1,070,808	—
Deferred government assistance	369,221	470,509
	29,712,136	26,224,854

The losses begin to expire in 2028.

15. Capital management

The primary objective of the Company's capital management is to achieve healthy capital ratios to support its business and maximize shareholder value. The Company's capital structure consists of share capital, promissory notes, unsecured debentures, derivative liabilities, funding obligation and long-term debt, which as at December 31, 2019 was \$30,929,921 (December 31, 2018 - \$23,810,589) The Company monitors equity on the basis of the carrying amount of equity as presented on the consolidated statements of financial position.

No changes were made to the objectives, policies and processes for capital management for the years ended December 31, 2019 and 2018.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

16. Government grants

The government grants consist of the following:

	2019				
	Grants Receivable December 31, 2018 \$	Received \$	Recognized as offset to expenses \$	Foreign currency exchange difference \$	Grants Receivable December 31, 2019 \$
ACOA-PBS [1]	13,455	64,677	72,366	—	21,144
Nova Scotia LAE-Training [2]	40,000	40,000	—	—	—
Nova Scotia LAE Co-Op [3]	21,580	69,786	61,706	—	13,500
Innovate UK – R&D tax credit [4]	76,729	76,967	—	238	—
Innovate UK – MetaSurface [5]	33,767	65,501	32,050	(316)	—
Innovate UK – Glucose sensor [6]	56,241	292,370	283,174	(1,945)	45,100
Innovate UK – Microwave tech [7]	25,079	153,438	237,000	(298)	108,343
Innovate UK – Diabet [8]	—	12,961	67,151	428	54,618
	266,851	775,700	753,447	(1,893)	242,705
	2018				
	Grants Receivable as at December 31, 2017 \$	Received \$	Recognized as offset to expenses \$		Grants Receivable as at December 31, 2018 \$
ACOA-PBS [1]	—	—	13,455		13,455
Nova Scotia LAE-Training [2]	—	—	40,000		40,000
Nova Scotia LAE Co-Op [3]	10,598	22,219	33,201		21,580
Innovate UK – R&D tax credit [4]	—	69,129	145,858		76,729
Innovate UK – MetaSurface [5]	—	238,664	272,431		33,767
Innovate UK – Glucose sensor [6]	—	377,603	433,844		56,241
Innovate UK – Microwave tech [7]	—	23,292	48,371		25,079
NSBI Export Growth [9]	4,240	3,013	(1,227)		—
NSBI SBDP [10]	11,810	10,894	(916)		—
Aerospace Industries Association of Canada [11]	1,530	1,530	—		—
	28,178	746,344	985,017		266,851

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

The government assistance consists of the following:

	2019 \$	2018 \$
Amortization of deferred government assistance [12]	178,834	—
Interest-free component of long-term debt [12]	821,599	1,070,066
Total government assistance	<u>1,000,433</u>	<u>1,070,066</u>

The Company entered into an agreement with the Canada Foundation for Sustainable Development Technology Canada (“SDTC”) and received \$1,990,225 in contributions during 2018, which were recorded as deferred revenue (*note 19*). The Company has incurred \$254,865 (2018-\$171,707) in eligible project costs during the year, and therefore a corresponding amount of the deferred revenue has been recorded as an offset to the related cost in the consolidated statement of loss and comprehensive loss.

- [1] On November 21, 2018, ACOA approved two non-repayable contribution of \$50,000 each to the Company under Business Development Program – Productivity and Business skills (“PBS”) for the cost to create product and commercialization strategies.
- [2] On November 19, 2018, Nova Scotia Labour and Advanced Education (“Nova Scotia LAE”) approved a reimbursement up to \$40,000 to subsidize the cost of the enterprise resource planning training program under the Workplace Innovation & Prod Skills Incentive program.
- [3] During 2019 and 2018, the Company applied for received grants related to co-op students and recent graduates under the Co-Op Subsidy and Graduate Opportunity Program with Nova Scotia LAE.
- [4] The UK Government has a R&D relief program to support companies that work on innovative projects in science, and technology.
- [5] On January 30, 2017 Innovate UK approved a grant to MediWise of \$685,769 for a total eligible cost of \$1,304,950 for the project “Metamaterial manufacturing: A MetaSurface for medical application”.
- [6] On August 1, 2017, Innovate UK approved a grant to MediWise of \$1,026,878 for a total eligible cost of \$2,219,742 for the project “A compact portable non-invasive glucose sensor”.
- [7] On November 7, 2017, Innovate UK approved a grant to MediWise of \$788,037 for a total eligible cost of \$1,567,407 for the project “Monitoring stroke using microwave technologies”.
- [8] On February 13, 2019, Innovate UK approved a grant to MediWise of up to \$305,222 for total eligible costs of \$1,690,095 incurred during the period from March 1, 2019 to February 28, 2021 for the project “Diabet – Innovate wrist device for high accuracy non-invasive blood glucose monitoring”.
- [9] On November 15, 2017, the Nova Scotia Business Institute (“NSBI”) approved a reimbursement up to a maximum of \$10,950 for marketing activities under its export growth program. The company has received \$3,013 relating to this program.
- [10] During 2017, NSBI approved a reimbursement up to a maximum of \$15,000 under its Small Business Development Program for two programs. The Company has received \$10,894 relating to this program.
- [11] On April 20, 2016, the Company received a grant under a Can Export Program, up to a maximum of \$86,600, for spending before January 1, 2017 to reimburse 50% of marketing activities of the Company relating to travel and contractor fees. The Company has received \$52,133 relating to this program.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

- [12] This Company recorded \$321,725 (December 31, 2018-\$268,929) of the interest-free component for ACOA AIF loan, \$480,102 (December 31, 2018-\$801,138) of the interest free component for ACOA BDP Loan 2018, and \$19,772 (December 31, 2018-nil) of the interest free component for ACOA BDP Loan 2019 as government assistance in the consolidated statement of loss and comprehensive loss (*note 11*). The Company also amortized the deferred government assistance and for the year ended December 31, 2019 recorded \$178,834 (December 31, 2018 – Nil) as government assistance in the consolidated statement of loss and comprehensive loss.

17. Additional cash flow information

The net changes in non-cash working capital balances related to operations consist of the following:

	2019 \$	2018 \$
Grants receivable	21,485	(31,285)
Other receivables	(14,185)	(13,013)
Inventory	(23,154)	(415,572)
Prepaid expenses	(89,331)	3,603
HST receivable	(75,528)	(86,575)
Trade payables	1,357,794	494,349
Due to related parties	2,013	—
	<u>1,179,094</u>	<u>(48,493)</u>

The net changes in liabilities arising from financing activities consist of the following:

	2019 \$	2018 \$
Current portion of long-term debt, beginning of period	71,429	338,735
Long-term debt, beginning of period	3,108,273	1,691,710
Carrying amount, beginning of period	3,179,702	2,030,445
Scheduled repayments of long-term debt	(77,024)	(56,505)
Net proceeds from loans, net of financing costs	879,860	2,631,269
Non-cash changes in long-term debt:		
Interest accrued	1,175	—
Interest accretion	168,943	238,665
Fair market value adjustment	(899,146)	(1,663,893)
Foreign exchange (gain) loss on long-term debt	(9,833)	(279)
Carrying amount, end of period	3,243,677	3,179,702
Less current portion	(104,376)	(71,429)
	<u>3,139,301</u>	<u>3,108,273</u>

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

18. Financial instruments

The Company's principal financial liabilities include trade payables, due to related parties, derivative liability and long-term debt. The Company's financial assets include trade receivables, and grants receivable. The Company's financial instruments have been classified as either assets or liabilities at amortized cost, or financial liabilities at fair value. The following table illustrates how the positions in the consolidated statements of financial position are classified and measured:

<u>Financial asset/liability</u>	<u>Classification and measurement</u>
Grants receivable	Amortized cost
Other receivables	Amortized cost
Trade payables	Other financial liabilities at amortized cost
Due to related parties	Other financial liabilities at amortized cost
Derivative liability	Fair value
Long-term debt	Loans and borrowings at amortized cost

The risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, and liquidity risk.

Fair value

The fair values of grants receivable, other receivables, and trade payables approximate their carrying values due to the short-term maturity of these financial instruments. The fair value of due to related parties approximates their carrying value due to the market-based rates. The Company uses a fair value hierarchy, based on the relative objectivity of inputs used to measure fair value, with Level 1 representing inputs with the highest level of objectivity and Level 3 representing the lowest level of objectivity. The fair value of long-term debt is classified at Level 3 in the fair value hierarchy as it is estimated based on unobservable inputs including discounted cash flows using the market rate, which is subject to similar risks and maturities with comparable financial instruments as at the reporting date. The fair value of the derivative liability resulting from the embedded conversion feature related to the promissory notes is classified as Level 3 in the fair value hierarchy and is measured using the contractual conversion rate and the estimated probability of conversion.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is minimized through management's decision to primarily obtain fixed rate or interest free debt. The interest rate exposure in respect of cash balances, the long-term debt and the convertible notes on the consolidated statement of financial position is immaterial. The long-term debt, except bank equipment loan and Shareholder Loan from BGI, SA., are at a nil or fixed interest rate and the interest on the cash balances is insignificant. As a result, the Company is not exposed to material cash flow interest rate risk.

Foreign currency risk

Foreign currency risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Company has transactional currency exposures that arise from loans and receivables in currencies other than its functional currency. The Company has transactional currency exposures that arise from purchases in currencies other than their functional currency, including US dollars and Euros. The Company does not enter into derivatives to hedge the exposure.

The impact of foreign currency sensitivity on the Company's loss before tax is due to the changes in the fair value of monetary assets and liabilities as at the date of financial position. With all other variables held constant the

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

increase or decrease in exchange rates by 5% will result in below mentioned decrease or increase respectively in net loss before tax for the year ended December 31, 2019:

- by \$34,476 (December 31, 2018-\$26,905) on account of change in USD exchange rate;
- by \$8,114 (December 31, 2018-\$2,236) on account of change in GBP exchange rate;
- by \$15,911 (December 31, 2018-Nil) on account of change in EURO exchange rate.

Liquidity risk

Liquidity risk represents the risk that the Company will have difficulty meeting obligations of financial liabilities. There can be significant fluctuation in the timing of the Company's cash receipts due to various external factors. The Company mitigates this risk by regular monitoring of its cash position. Liquidity risk is also related to the possibility of insufficient debt and equity financing available to fund the desired growth of the Company and to refinance the current and long-term debt as they become due. The Company's financial condition and results of operations could be adversely affected if it were not able to obtain appropriate levels of financing. Liquidity risk also relates to the potential for early retirement of debt.

Contractual maturities of financial liabilities:

	2019						Total \$
	Long-term debt \$	Trade payables \$	Derivative Liability \$	Due to related parties \$	Promissory notes \$	Unsecured convertible debentures \$	
2020	106,824	3,176,640	1,175,056	345,033	4,595,975	—	9,399,528
2021	584,900	—	—	—	—	—	584,900
2022	620,634	—	—	—	—	—	620,634
2023	660,354	—	—	—	—	—	660,354
2024	886,200	—	—	—	—	—	886,200
Thereafter	3,821,660	—	—	—	—	760,145	4,581,805
	6,680,572	3,176,640	1,175,056	345,033	4,595,975	760,145	16,733,421

19. Deferred revenue

Deferred revenue consists of the following:

	As at December 31, 2018 \$	Received \$	Recognized in revenue \$	Recognized as offset to expenses \$	Foreign exchange \$	As at December 31, 2019 \$
SDTC [1]	1,818,518	—	—	254,865	—	1,563,653
Satair A/S-exclusive rights [2]	1,299,700	—	129,970	—	—	1,169,730
Satair A/S-advance against PO [3]	654,801	1,545	31,430	—	—	624,916
LM Aero-metaSOLAR commercialization [4]	2,232,934	—	705,138	—	—	1,527,796
Innovate UK-R&D tax credit	—	22,867	—	—	756	23,623
Carrying amount	6,005,953	24,412	866,538	254,865	756	4,909,718
Less current portion						1,819,797
						3,089,921

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

	2018					As at December 31, 2018 \$
	As at December 31, 2017 \$	Received \$	Recognized in development revenue \$	Recognized as offset to expenses \$	Foreign exchange \$	
SDTC [1]	—	1,990,225	—	171,707	—	1,818,518
Satair A/S-exclusive rights [2]	—	1,299,700	—	—	—	1,299,700
Satair A/S-advance against PO [3]	—	654,801	—	—	—	654,801
BCIP visors [5]	—	432,119	419,560	12,559	—	—
LM Aero-metaSOLAR commercialization [4]	3,098,914	—	1,124,861	—	258,881	2,232,934
Other	—	25,341	40,770	—	—	15,429
	3,098,914	4,402,186	1,585,191	184,266	258,881	6,021,382
Less current portion						1,694,108
Less Other receivables						15,429
						4,311,845

The current portion of deferred revenue includes LM Aero-metaSOLAR commercialization \$705,138 (December 31, 2018-\$705,137), Satair A/S-advance against PO \$624,914 (December 31, 2018-\$654,799), SDTC related \$336,152 (December 31, 2018-\$171,707), Satair A/S-exclusive rights \$129,970 (December 31, 2018-\$162,465) and Innovate UK R&D tax credit \$23,623 (December 31, 2018-Nil).

- [1] On May 15, 2018, the Company entered into an agreement with the Canada Foundation for SDTC for \$5,395,000. The contribution provides funding for eligible costs incurred relating to the further development and demonstration of technology related to solar cells in connection with the project entitled "Enabling solar flight a testing ground for lightweight and efficient solar panels". Amounts recognized in the year of \$254,865 (2018 - \$171,707) have been accounted for as government grants and were recorded as an offset against eligible project costs incurred.
- [2] On September 18, 2018, the Company signed an exclusive distribution agreement with Satair A/S for a term of 10 years. According to this agreement, the Company grants Satair A/S the exclusive right to sell, market, and distribute eyewear and visor products incorporating metamaterial-based laser protection technology that are developed or manufactured by the Company for use in aviation, military and defense. On September 13, 2018, the Company received a fee of \$1,299,700 (\$1,000,000 USD) for the exclusive distribution rights granted under this agreement and the payment was recognized as deferred revenue on the consolidated statements of financial position. It will be accounted as development revenue over a period of 8 years and no repayment of the \$1,000,000 USD is required if the contract termination is after the 8th anniversary of the effective date. During the year ended December 31, 2019, the Company has recognized \$129,970 (2018-nil) as development revenue related to this agreement.
- [3] On July 20, 2018, the Company received a purchase order for MetaVisor (eyewear/eye protection) from Satair A/S for \$2,000,000 USD. On November 7, 2018, the Company received a partial advance payment of \$654,801 (\$500,000 USD) against this purchase order. The Company has set up a guarantee/standby letter of credit with RBC. In the event the Company fails to deliver the product as per the contract or refuse to accept the return of the product as per the buyback clause of the contract or fails to repay the advance payment in accordance with the conditions of the agreement signed with Satair on September 18, 2018, Satair shall draw from the letter of credit with RBC. Borrowings from the letter of credit with RBC are repayable on demand. The letter of credit from RBC is secured by a performance security guarantee cover issued by Export Development of Canada. Further, this guarantee/standby letter of credit expired on October 5, 2019 and was renewed until October 5, 2020. As at December 31, 2019, no amount has been drawn from the letter of credit with RBC.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

- [4] On April 13, 2017, the Company entered into an Offset Project Agreement (“OPA”) with Lockheed Martin Aeronautics Corporation (“LM Aero”) for research and development (“R&D”) and commercialization of MetaSOLAR technology for \$4,150,000 USD. The purpose of the OPA is to document the agreement between LM Aero and the Company with respect to the Company’s planned growth through R&D and commercialization activities, as defined in the OPA, and the contribution that LM Aero will make to the Company in return for the Company’s effective assistance in obtaining credit arising from the project as set forth in the OPA. On April 26, 2017, the Company received \$5,641,095 (\$4,150,000 USD) from LM Aero to fund the project, and as required by the OPA, the Company has set up an irrevocable standby letter of credit with RBC. In the event the Company fails to meet the obligations under the OPA, LM Aero shall draw from the letter of credit with RBC. Borrowings from the letter of credit with RBC are repayable on demand. The letter of credit from RBC is secured by a performance security guarantee cover issued by Export Development of Canada. Further, LM Aero will issue a certificate of reduction of the letter of credit on an annual basis over the next five years. The performance obligations for the milestone are satisfied through-out the period and the Company records development revenue in an amount equal to the certificate of reduction evenly throughout the period. Further, after the issuance of the certificate of reduction, the letter of credit with RBC will decrease for the corresponding amount. As at December 31, 2019, the letter of credit with RBC has been reduced in accordance with the agreement and no amounts have been drawn by LM Aero. During the year the Company recognized development revenue of \$705,138 (2018 – \$1,124,861) related to the agreement.
- [5] On November 15, 2017, the Company entered into a contract with Build in Canada Innovation Program (“BCIP”) to provide metaAir helmet visors to the Royal Canadian Mounted Police along with training, technical support, oversight services and consultation in support of testing procedures. On March 27, 2018 the Company delivered the helmet visors and recognized development revenue of \$419,560.

20. Funding obligation

	December 31, 2019
	\$
Outstanding obligation [1]	1,300,000
Fair value of interest-free component [2]	(530,960)
Principal adjusted for interest-free component	769,040
Accumulated non-cash interest accretion	39,258
Carrying amount	808,298
Less current portion	—
	<u>808,298</u>

- [1] In June 2019, the Company entered into a statement of work (“SOW”) with a third party for the purchase of manufacturing equipment. The SOW was initiated based on the Industrial and Regional Benefits general investment funding between the third party and the Government of Canada. The Company is expected to receive the funds in two tranches after achieving two milestones as per the SOW. The funds are repayable, commencing three years from date of receipt, based on 10% of revenue from the sale of holographic film that is produced using the related manufacturing equipment paid under this funding obligation.

In June 2019, the Company achieved the first milestone and accordingly received \$325,000 and in October 2019, the Company achieved the second milestone and accordingly received \$975,000. The Company has not sold holographic film related to this SOW to date.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

[2] The amounts received under the agreement have been fair-valued by applying the effective interest rate method on the dates the funding was received, using an estimated market interest rate of 15%. Accordingly, the interest free portion of the funding obligation amounting to \$530,960 has been recognized as other income in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2019.

21. Leases

The carrying amounts and the movements during the year ended December 31, 2019 are as follows:

Right-of-use Assets	December 31, 2019
	\$
Initial recognition as at January 1, 2019	<u>149,378</u>
Amortization	<u>(79,222)</u>
Unrealized foreign exchange gain/loss	<u>(3,205)</u>
As at December 31, 2019	<u>66,951</u>
Lease liabilities	December 31, 2019
	\$
Initial recognition of liability and interest as at January 1, 2019	<u>149,378</u>
Payments	<u>(92,388)</u>
Non-cash interest accretion	<u>17,053</u>
Unrealized foreign exchange gain/loss	<u>(2,096)</u>
As at December 31, 2019	<u>71,947</u>
Less: current portion	<u>(71,947)</u>
	<u>—</u>

The amounts recognized in the consolidated statement of loss and comprehensive loss are as follows:

	2019	2018
	\$	\$
Amortization expense of right-to-use assets	<u>79,222</u>	—
Interest expense on lease liabilities	<u>17,053</u>	—
	<u>96,275</u>	<u>—</u>

The Company had total cash outflows for leases of \$213,309 for the year ended on December 31, 2019, including short-term leases. The Company has a month to month lease for its facilities in Canada, and leases less than 12 months in duration for its facilities in the USA (note 23).

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

22. Other expenses

	2019	2018
	\$	\$
Subscriptions and licenses	238,168	151,470
Office supplies	94,587	82,400
Postage and shipping	78,063	55,343
Insurance	57,939	55,126
Repairs and maintenance	19,992	45,495
Janitorial services	26,577	38,126
Telephone	8,217	30,725
Training	18,097	11,468
IT support	7,493	4,763
Related party cross charge	(41,153)	—
	<u>507,980</u>	<u>474,916</u>

23. Commitments

Operating lease commitments

The Company has entered into various lease commitments for its Canadian, US and UK facilities, for which monthly lease payments are recorded as an expense.

	2019	2018
	\$	\$
Within one year	309,491	263,252
After one year but not more than five years	—	78,178
More than five years	—	—
	<u>309,491</u>	<u>341,430</u>

Other commitments

On December 8, 2016, the Company entered into a cooperation agreement with a large aircraft manufacturer to co-develop laser protection filters for space and aeronautical civil and military applications, metaAIR, and support the setup of manufacturing facilities for product certification and development. The cooperation agreement includes financial support provided to the Company in the form of non-recurring engineering costs of up to \$4,000,000 USD to be released upon agreement of technical milestones in exchange for a royalty fee due by the Company on gross profit after sales and distribution costs. The total royalty fee to be paid may be adjusted based on the timing of the Company's sales and the amount ultimately paid to the Company by large aircraft manufacturer to support the development. In 2016, the Company received and recognized \$1 million USD as revenue under the cooperation agreement. During the year ended December 31, 2019, the Company has accrued royalties of \$1,570 (2018 – Nil) in cost of goods sold in the consolidated statement of loss and comprehensive loss with this agreement.

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

24. Subsequent events

- (a) Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. In response to this, the Company's management implemented a Work From Home policy for management and non-engineering employees in all three locations, which will remain in place until further notice. Engineering staff in all three locations are continuing to work on given tasks and are following strict safety guidelines. Although the Company's supply chain has slowed down, the Company is currently able to maintain inventory of long lead items and is working with its suppliers to optimize future supply orders. The Alameda County in the State of California where the Company's wholly owned subsidiary operates is currently on lockdown and it has been declared a "major disaster" area. The Company is planning to seek business relief as per California announced relief plans.

The Company expects that COVID-19 will impact its 2020 sales of metaAIR® laser protection eyewear product in the near term. Worldwide restrictions on travel are significantly impacting the airline industry and purchasing of metaAIR eyewear may not be the primary focus of airlines post COVID-19, however, the Company is pursuing sales in adjacent markets such as consumer, military and law enforcement. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on our business is not known at this time.

- (b) In January 2020, the Company received an additional \$875,614 for subscriptions of 515,067 units, comprised of 515,067 common shares and 515,067 of the Company's warrants as part of a private placement, expiring on the second anniversary of the RTO as per the extended expiry approved by the board on February 28, 2020. Additionally, in relation to the private placement completed in January 2020, the Company paid commission to brokers, amounting to \$32,683 and also issued 19,225 Company's broker warrants as finder's fees. Broker warrants expire on the second anniversary of the RTO as per the extended expiry approved by the board on February 28, 2020. For every broker warrant, warrant holders shall have the right to purchase one common share at a post RTO exercise price of \$1.70.
- (c) During January 2020, 103,000 Company DSUs were converted into 103,000 Company common shares and the common shares are held in treasury pending payment of taxes by the DSU holders following the Company's DSU plan.
- (d) During January 2020, the Company received unsecured convertible debentures with an aggregate principal of \$950,000 in favour of existing equity investors, out of which \$500,000 was held in trust, which was released to the Company on April 3, 2020 upon closing of BDC financing, as mentioned below. The terms and conditions of the unsecured convertible debentures are the same as the Debentures issued during the year ended December 31, 2019 (*note 10*).
- (e) On February 24, 2020, the promissory note holders and the Company entered into agreements to pay all interest accrued on the promissory notes after January 28, 2020 in cash to the holders. On February 26, 2020, the aggregate principal, interest accrued on the promissory notes up to January 28, 2020, and the embedded derivative liability were converted into common shares of the Company and accordingly 3,498,825 Company's common shares were issued to the promissory note holders.
- (f) As mentioned above in Company Overview Section, on March 5, 2020, the amalgamation was completed, and the common shares of META started trading on CSE on March 9, 2020 under the trading symbol "MMAT".

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

- g) On March 23, 2020, the META issued 4,575,000 stock options to directors and officers. The exercise price of the options is \$0.62 and vesting period is between 2 to 4 years.
- h) On March 23, 2020, the Company paid bonus of \$216,000 to CEO to enter into a non-compete arrangement with the Company in relation with the RTO and on April 13, 2020, the Company paid \$41,628 in taxes to CRA, on behalf a current director and former director, who were each granted \$50,000 bonuses, net of applicable taxes, that related to fees approved by the Company's board on August 9, 2019 and November 13, 2019. (note 13).
- i) On April 3, 2020, the META closed a \$5 Million secured convertible debentures ("Secured Debenture") financing from BDC Capital Inc., a wholly-owned subsidiary of the Business Development Bank of Canada. The maturity date for the Secured Debenture is October 31, 2024 and it bear interest at a rate of 10.0% per annum, payable monthly in cash. In addition to the cash interest a non-compounding payment in kind ("PIK") interest of 8% per annum will accrue. This PIK may get reduced to 5% per annum upon certain conditions being met. The Secured Debenture are convertible in full or in part, at BDC Capital Inc's option, into META's Common Shares at any time prior to their maturity at a conversion price of \$0.70 (the "Conversion Price") or the META may force the conversion of Secured Debenture if Common Shares are trading on the CSE on a volume-weighted average price greater than 100% of the Conversion Price i.e. greater than \$1.40) for any 20 consecutive trading days with a minimum daily volume of at least 100,000 Common Shares.

25. Restatement

The comparative information as at December 31, 2018 and for the year then ended was restated for the correction of an error relating to the accounting for deferred taxes on the acquisition of MediWise (note 4). It was subsequently determined that the original accounting for the acquisition was correct and did not require restatement. The 2018 comparative financial information has been updated in these financial statements to reflect the original accounting for the Mediwise acquisition, as follows:

	2018		
	As previously reported	Correction of error	As restated
	\$	Increase (decrease)	\$
Intangible assets	6,737,843	697,086	7,434,929
Goodwill	564,858	(564,858)	-
Deferred tax liability	483,237	294,608	777,845
Accumulated other comprehensive loss	(398,337)	8,173	(406,510)
Deficit	(21,044,546)	154,207	(21,198,753)
Depreciation and amortization	1,981,770	55,568	2,037,338
Income tax recovery	103,225	(98,639)	4,586
Net loss	4,952,441	154,207	5,106,648
Unrealized foreign currency translation adjustment	631,804	8,173	639,977
Comprehensive loss	5,584,245	162,380	5,746,625

Furthermore, as a result of correcting the 2018 financial statements as outlined in the table above, certain of the 2019 financial information has been restated to reflect the acquisition values reported in the 2018 financial statements, as follows:

Metamaterial Technologies Inc.

Notes to restated consolidated financial statements

December 31, 2019 and 2018

	2019		
	As previously reported	Correction of error	As restated
	\$	Increase (decrease)	\$
Intangible assets	5,792,535	612,277	6,404,812
Goodwill	556,274	(556,274)	-
Deferred tax liability	(372,248)	286,233	(658,481)
Accumulated other comprehensive loss	(148,297)	11,215	(159,512)
Deficit	(32,062,994)	219,017	(32,282,011)
Depreciation and amortization	3,105,300	73,185	3,178,485
Income tax recovery	110,989	8,375	119,364
Net loss	(11,018,448)	64,810	(11,083,258)
Unrealized foreign currency translation adjustment	250,040	(3,042)	246,998
Comprehensive loss	(10,768,408)	67,852	(10,836,260)