

# **Metamaterial Inc.**

**(formerly Continental Precious Minerals Inc.)**

Amended and restated interim condensed consolidated financial  
statements (unaudited)

For the nine months ended September 30, 2020, and 2019

# Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

## Amended and restated interim condensed consolidated statement of financial position (unaudited)

[expressed in Canadian dollars]

As at

	(As restated-note 20)	
	September 30, 2020	December 31, 2019
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	3,208,911	528,691
Grants receivable [note 14]	487,771	242,705
Other receivables	76,071	79,072
Inventory	615,225	438,726
Prepaid expenses	461,071	365,602
HST receivable	97,932	262,512
Right-of-use assets	6,708	66,951
<b>Total current assets</b>	<b>4,953,689</b>	<b>1,984,259</b>
Intangible assets, net	5,796,302	6,404,812
Property and equipment, net	3,065,960	3,558,675
<b>Total non-current assets</b>	<b>8,862,262</b>	<b>9,963,487</b>
	<b>13,815,951</b>	<b>11,947,746</b>
<b>Liabilities and shareholders' deficiency</b>		
<b>Current liabilities</b>		
Trade payables	1,706,788	3,176,642
Due to related party [note 5]	333,182	345,033
Current portion of long-term debt [note 10]	249,168	104,376
Current portion of deferred revenue [note 17]	1,900,357	1,819,797
Derivative liability [note 6]	—	1,175,056
Promissory notes [note 6]	—	4,595,975
Current portion of lease liabilities	7,616	71,947
<b>Total current liabilities</b>	<b>4,197,111</b>	<b>11,288,826</b>
Deferred revenue [note 17]	2,527,044	3,089,921
Deferred government assistance [note 10]	232,207	369,221
Deferred tax liability	512,461	658,481
Unsecured convertible debentures [note 7]	1,344,958	760,145
Unsecured convertible promissory note [note 8]	657,448	—
Secured convertible debentures [note 9]	4,891,844	—
Funding obligation	904,215	808,298
Long-term debt [note 10]	3,107,099	3,139,301
<b>Total non-current liabilities</b>	<b>14,177,276</b>	<b>8,825,367</b>
<b>Total liabilities</b>	<b>18,374,387</b>	<b>20,114,193</b>
<b>Shareholders' deficiency</b>		
Common shares [note 11]	34,296,403	7,598,670
Preferred shares [note 11]	—	12,748,100
Contributed surplus	5,290,939	3,753,211
Warrants [note 11]	571,555	175,095
Accumulated other comprehensive loss	(349,972)	(159,512)
Deficit	(44,367,361)	(32,282,011)
<b>Total shareholders' deficiency</b>	<b>(4,558,436)</b>	<b>(8,166,447)</b>
	<b>13,815,951</b>	<b>11,947,746</b>
<i>Going concern [note 2]</i>		
<i>Commitments [note 18]</i>		
<i>Subsequent events [note 19]</i>		
<i>See accompanying notes</i>		

On behalf of the Board:

Director

Director

**Metamaterial Inc. (formerly Continental Precious Minerals Inc.)**

**Amended and restated interim condensed consolidated statement of loss and comprehensive loss  
(unaudited)**

[expressed in Canadian dollars]

	Three months ended September 30		Nine months ended September 30	
	(As restated- note 20)		(As restated- note 20)	
	2020	2019	2020	2019
	\$	\$	\$	\$
Product sales	—	627	2,615	11,315
Development revenue	263,014	215,873	1,147,702	664,078
<b>Revenue, net</b>	<b>263,014</b>	<b>216,500</b>	<b>1,150,317</b>	<b>675,393</b>
Cost of goods sold	1,240	245	4,201	4,268
<b>Gross Profit</b>	<b>261,774</b>	<b>216,255</b>	<b>1,146,116</b>	<b>671,125</b>
<b>Expenses (income)</b>				
Salaries and benefits	487,491	719,602	2,601,077	2,203,035
Depreciation and amortization	786,736	838,360	2,508,636	2,312,811
Travel and entertainment	1,444	81,722	89,629	305,764
Other expenses	213,825	107,947	523,402	395,716
Listing expenses [note 4]	—	—	3,370,249	—
Stock exchange fees	3,750	—	7,500	—
Rent and utilities	116,050	141,594	331,110	346,252
Interest and bank charges [note 6,7,8,9 and 10]	350,815	141,339	785,228	336,207
Consulting [note 5]	306,770	97,091	665,947	323,614
Investor related expense	42,752	—	111,579	—
Research and development	159,143	215,128	384,270	524,837
Professional fees	305,876	357,856	1,148,823	544,511
Non-cash interest accretion [note 10]	151,466	121,416	435,594	152,306
Share-based compensation expense [note 11 and 12]	538,806	676,460	1,492,637	1,319,362
Unrealized (gain) loss on FVTPL liabilities [note 6,7,8 and 9]	453,054	145,977	(655,194)	381,998
Technology license fees [note 5]	—	12,130	25,885	37,962
Realized foreign currency exchange (gain) loss	8,705	(4,605)	73,212	758
Interest income	(1,827)	(236)	(8,448)	(726)
Unrealized foreign currency exchange (gain) loss	235,865	(95,741)	(214,181)	267,155
Government assistance [note 10 and 14]	(147,069)	(45,671)	(297,539)	(767,280)
	<b>4,013,652</b>	<b>3,510,369</b>	<b>13,379,416</b>	<b>8,684,282</b>
<b>Net loss before tax</b>	<b>(3,751,878)</b>	<b>(3,294,114)</b>	<b>(12,233,300)</b>	<b>(8,013,157)</b>
Income tax recovery	44,161	44,901	147,950	244,411
<b>Net loss for the period</b>	<b>(3,707,717)</b>	<b>(3,249,213)</b>	<b>(12,085,350)</b>	<b>(7,768,746)</b>
<b>Other comprehensive loss, net of income taxes</b>				
<b>Items that may be subsequently reclassified to income:</b>				
Unrealized foreign currency translation adjustment	243,637	(165,863)	(190,460)	(104,149)
<b>Comprehensive loss for the period</b>	<b>(3,464,080)</b>	<b>(3,415,076)</b>	<b>(12,275,810)</b>	<b>(7,872,895)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.04)</b>	<b>\$ (0.33)</b>	<b>\$ (0.14)</b>	<b>\$ (0.80)</b>
<b>Weighted average number of shares outstanding</b>				
- basic and diluted	<b>83,597,092</b>	<b>9,724,476</b>	<b>83,597,092</b>	<b>9,724,476</b>

See accompanying notes

**Metamaterial Inc. (formerly Continental Precious Minerals Inc.)**

**Amended and restated interim condensed consolidated statement of changes in shareholders' equity (deficiency) (unaudited)**

[expressed in Canadian dollars]

Nine months ended September 30

	Common shares	Preferred shares	Contributed surplus	Warrants	Deficit	Accumulated other comprehensive income/(loss)	Total Shareholders' deficiency
	\$	\$	\$		\$	\$	\$
<b>Balance, January 1, 2020</b>	<b>7,598,670</b>	<b>12,748,100</b>	<b>3,753,211</b>	<b>175,095</b>	<b>(32,282,011)</b>	<b>(159,512)</b>	<b>(8,166,447)</b>
Net loss (As restated-note 20)	—	—	—	—	(12,085,350)	—	(12,085,350)
Other comprehensive loss	—	—	—	—	—	(190,460)	(190,460)
Issuance of common shares [note 11]	875,612	—	—	—	—	—	875,612
Issuance of warrants [note 11]	(204,054)	—	—	204,054	—	—	—
Issuance of broker warrants [note 11]	(21,962)	—	—	21,962	—	—	—
Share issuance cost [note 11]	(61,342)	—	—	—	—	—	(61,342)
Conversion of deferred share units [note 11]	55,100	—	(55,100)	—	—	—	—
Conversion of promissory notes [note 6 and 11]	5,948,003	—	—	—	—	—	5,948,003
Conversion of preferred shares [note 11]	12,748,100	(12,748,100)	—	—	—	—	—
Fair value of deemed issuance to CPM [note 4]	7,258,276	—	285,158	—	—	—	7,543,434
Share-based compensation [note 11 and 12]	100,000	—	1,307,670	170,444	—	—	1,578,114
<b>Balance, September 30, 2020</b>	<b>34,296,403</b>	<b>—</b>	<b>5,290,939</b>	<b>571,555</b>	<b>(44,367,361)</b>	<b>(349,972)</b>	<b>(4,558,436)</b>
<b>Balance, January 1, 2019</b>	<b>6,628,293</b>	<b>12,748,100</b>	<b>2,052,359</b>	<b>—</b>	<b>(21,198,753)</b>	<b>(406,510)</b>	<b>(176,511)</b>
Net loss	—	—	—	—	(7,768,746)	—	(7,768,746)
Other comprehensive loss	—	—	—	—	—	(104,149)	(104,149)
Issuance of common shares [note 11]	447,698	—	—	22,385	—	—	470,083
Share-based compensation [note 11 and 12]	—	—	1,344,362	—	—	—	1,344,362
<b>Balance, September 30, 2019</b>	<b>7,075,991</b>	<b>12,748,100</b>	<b>3,396,721</b>	<b>22,385</b>	<b>(28,967,499)</b>	<b>(510,659)</b>	<b>(6,234,961)</b>

# Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

## Amended and restated interim condensed consolidated statement of cash flows (unaudited)

[expressed in Canadian dollars]

Nine months ended	(As restated-note 20)	
	2020	2019
	\$	\$
<b>Operating activities</b>		
Net loss for the period	(12,085,350)	(7,768,746)
Add (deduct) items not affecting cash:		
Government assistance [note 10 and 14]	(154,582)	(767,280)
Deferred income tax recovery	(147,950)	(244,410)
Depreciation and amortization	2,508,636	2,359,308
Non-cash interest accretion [note 10]	435,594	152,306
Unrealized foreign currency exchange (gain) loss	(340,771)	267,155
Interest expense [note 6, 7, 8, 9 and 10]	392,936	186,813
Share-based payment expense	—	25,000
Listing expenses	3,370,249	—
Unrealized (gain) loss on FVTPL liabilities [note 6,7,8 and 9]	(655,194)	381,998
Change in deferred revenue [note 17]	(482,317)	(669,533)
Share-based compensation expense [note 12]	1,578,114	1,319,362
Net change in non-cash working capital items [note 15]	(1,832,955)	408,028
<b>Cash used in operating activities</b>	<b>(7,413,590)</b>	<b>(4,349,999)</b>
<b>Investing activities</b>		
Additions to intangible assets	(124,519)	(128,622)
Additions to property and equipment	(1,106,870)	(767,149)
Reverse takeover, net cash [note 4]	4,174,979	—
<b>Cash provided by (used in) used in investing activities</b>	<b>2,943,590</b>	<b>(895,771)</b>
<b>Financing activities</b>		
Proceeds from long-term debt [note 10]	50,784	1,129,860
Repayment of long-term debt [note 10]	(262,258)	(53,568)
Proceeds from unsecured convertible promissory notes [note 8]	666,950	3,185,760
Proceeds from funding obligation	—	325,000
Net proceeds from units [note 11]	814,270	470,083
Proceeds from unsecured convertible debentures [note 7]	950,000	—
Proceeds from secured convertible debentures [note 9]	5,000,000	—
Payment of lease liabilities	(69,526)	(54,526)
<b>Cash provided by financing activities</b>	<b>7,150,220</b>	<b>5,002,609</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>2,680,220</b>	<b>(243,161)</b>
Cash and cash equivalents, beginning of the period	528,691	850,623
<b>Cash and cash equivalents, end of the period</b>	<b>3,208,911</b>	<b>607,462</b>
<b>Supplemental cash flow information</b>		
Interest on debt paid	252,987	15,609

See accompanying notes

## **Metamaterial Inc. (formerly Continental Precious Minerals Inc.)**

### **Notes to amended and restated interim condensed consolidated financial statements (unaudited)**

For the three and nine months ended September 30, 2020 and 2019

#### **1. Corporate information**

Metamaterial Inc. [the "Company" or "META"] (formerly known as Continental Precious Minerals Inc.) is a smart materials and photonics company specializing in metamaterial research and products, nanofabrication, and computational electromagnetics. The Company's registered office is located at 1 Research Drive, Halifax, Nova Scotia, Canada,

On March 5, 2020, Metamaterial Inc. ("CPM") and Metamaterial Technologies Inc. ("MTI") completed a business combination by way of a three-cornered amalgamation pursuant to which MTI amalgamated with a subsidiary of Continental Precious Minerals Inc. ("CPM"), known as Continental Precious Minerals Subco Inc. ("CPM Subco"), to become "Metacontinental Inc." (the "RTO"). The RTO was completed pursuant to the terms and conditions of an amalgamation agreement dated August 16, 2019 between CPM, MTI and CPM Subco, as amended March 4, 2020. Following the completion of the RTO, Metacontinental Inc. is carrying on the business of the former MTI, as a wholly-owned subsidiary of the CPM. In connection with the RTO, CPM changed its name effective March 2, 2020 from Continental Precious Minerals Inc. to Metamaterial Inc. ("META" or "Resulting Issuer"). The common shares of CPM were delisted from 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 symbol "MMAT". Refer to note 4 for additional details.

During the nine months ended September 30, 2020, 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, and further developed additional safety protocols to address the pandemic. 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.

COVID-19 has impacted 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.

These unaudited amended and restated interim condensed consolidated financial statements were authorized for issue in accordance with a resolution of the Company's Board of Directors on November 30, 2020.

#### **2. Basis of presentation**

##### **Statement of Compliance**

The unaudited amended and restated interim condensed consolidated financial statements for the three and nine months ended September 30, 2020, have been prepared in accordance with IAS 34 Interim Financial Reporting ("IAS 34").

The unaudited amended and restated interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the restated audited annual consolidated financial statements of Metamaterial Technologies Inc. for the year ended December 31, 2019, as filed on August 28, 2020.

## **Metamaterial Inc. (formerly Continental Precious Minerals Inc.)**

### **Notes to amended and restated interim condensed consolidated financial statements (unaudited)**

For the three and nine months ended September 30, 2020 and 2019

#### **Going Concern**

These unaudited amended and restated interim condensed 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 going concern assumption, as the Company incurred a net loss of \$12,275,810 for the nine months ended September 30, 2020, negative cash flow from operations of \$7,413,590, and has a deficit of \$44,367,361 as at September 30, 2020.

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. During the nine months ended September 30, 2020 and in addition to the RTO of CPM (notes 1 and 4), the Company raised gross proceeds of \$5,000,000 through the issuance of secured convertible debentures (note 9), \$950,000 through the issuance of unsecured convertible debentures (note 7) and an additional US\$1,000,000 through the issuance of an unsecured convertible promissory note (notes 8, 18 and 19). Subsequent to September 30, 2020, the Company continued its effort to raise additional financing (note 19). Achievement of sales forecasts in the near term have been negatively impacted by the economic environment as a result of the COVID-19 pandemic as more fully explained above in note 1. Management estimates that the Company’s working capital is sufficient to fund the Company’s planned expenditures into the first quarter of 2021. 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 unaudited amended and restated interim condensed consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were 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 classification used.

### **3. Adoption of accounting standards and interpretations**

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

Effective January 1, 2020, the Company adopted certain 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 ‘material’ and aligns the definition used within the IFRS Standards.

The application of this amendment did not have a material impact on the Company.

#### *IFRS 3 – Business Combinations*

Effective January 1, 2020, the Company adopted certain amendments 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 application of this amendment did not have a material impact on the Company.

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

#### 4. Reverse Takeover

As discussed in note 1, on August 16, 2019, MTI entered into an Amalgamation Agreement (“Amalgamation Agreement”) with CPM, a Canadian public company listed on the NEX Exchange in relation to a Reverse Takeover transaction of CPM by MTI (“RTO”). On October 10, 2019, CPM shareholders approved matters ancillary to the transaction and on November 25, 2019, MTI shareholders approved the RTO. Subject to an amendment to the Amalgamation Agreement dated March 4, 2020, the RTO was completed on March 5, 2020.

The RTO was completed by the way of three-cornered amalgamation, whereby MTI was amalgamated with CPM Subco and holders of shares of MTI received common shares of the Resulting Issuer (“Resulting Issuer Common Shares”) as consideration. Pursuant to the Amalgamation Agreement, the holders of the common shares of MTI (“MTI Common Shares”) and holders of MTI’s Class A-1 preferred shares of MTI received Resulting Issuer Common Shares in exchange for their MTI Common Shares at a ratio of 2.75 Resulting Issuer Common Shares for each MTI Common Share or Class A-1 Preferred share held. Also pursuant to the Amalgamation Agreement, the holders of MTI’s Class A-2 preferred shares received 4.125 Resultant Issuer Common Shares for each Class A-2 preferred share held.

Upon completion of the RTO, all of MTI’s outstanding options, deferred share units and other securities exercisable or exchangeable for, or convertible into, and any other rights to acquire MTI Common Shares were exchanged for securities exercisable or exchangeable for, or convertible into, or other rights to acquire Resulting Issuer Common Shares. Immediately following the completion of the RTO, the former security holders of MTI owned approximately 86% of the Resulting Issuer Common Shares, on a fully diluted basis; accordingly, the former shareholders of MTI, as a group, retained control of the Resulting Issuer, and while CPM was the legal acquirer of MTI, MTI was deemed to be the acquirer for accounting purposes. As CPM did not meet the definition of a business as defined in IFRS 3 – Business Combinations (“IFRS 3”), the acquisition is not within the scope of IFRS 3 and is accounted for as a share-based payment transaction in accordance with IFRS 2 – Share-based Payments (“IFRS 2”).

These unaudited amended and restated interim condensed consolidated financial statements represent the continuance of MTI and reflect the identifiable assets acquired and the liabilities assumed of CPM at fair value. Under IFRS 2, the transaction is measured at fair value of the common shares deemed to have been issued by MTI in order for the ownership interest in the combined entity to be the same as if the transaction had taken the legal form of MTI acquiring 100% of CPM. Any difference between the fair value of the common shares deemed to have been issued by MTI and the fair value of CPM’s identifiable net assets acquired and liabilities has been recorded as a listing expense.

In accordance with IFRS, the consideration for the RTO has been calculated using the more reliably measurable of the acquisition-date fair value of the acquiree’s equity interests. The Company has determined that the fair value of the MTI shares is more reliably measurable than the fair value of the CPM shares because of the limited trading activity of CPM and the recent private placement (note 10) of the Company’s shares, which have been used to estimate the fair value of MTI’s shares. The consideration for the acquisition has been calculated as \$7,543,433 and is based on the fair value of the number of shares and options that the Company issued to the shareholders and option holders of CPM to give the shareholders and option holders of CPM the same percentage equity interest in the combined entity that resulted from the reverse acquisition.

The following table summarizes the allocation of the purchase price consideration to the assets acquired, based on the fair values.

	Amount (\$)
Fair value of deemed issuance of MTI’s shares [1]	7,258,276
Fair value of deemed issuance of MTI’s options [2]	285,158
	<hr/> 7,543,434



## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

Net assets (liabilities) of CPM [3]:

Cash and cash equivalents	4,174,979
Marketable securities	4,392
Accounts receivables	27,201
Accounts payable and accrued liability	(33,387)
Listing expenses [4]	3,370,249
	<hr/>
	7,543,434

[1] This is calculated based on the number of CPM shares outstanding of 11,706,896 multiplied by the fair value of MTI's shares (based on the recent private placement) of \$0.62. The fair value of MTI's shares are used to calculate the purchase price of acquired assets and liabilities as a result of the limited trading activity of CPM and the recent private placement of MTI's shares.

[2] The fair value of CPM's 700,000 outstanding options has been estimated as \$285,157 using the Black-Scholes option pricing model with the following assumptions:

Risk free interest rate	0.83% - 0.96%
Expected volatility	117% -134%
Expected dividend yield	0%
Expected forfeiture rate	0%
Fair value of Resulting Issuer Common Share	\$0.62
Exercise price of the options	\$0.35
Expected term for directors resigning from CPM board	6 months RTO
Expected term for a director continuing as Resulting Issuer director	8-years RTO

[3] The carrying value of CPM's assets and liabilities have been assumed to approximate their fair values, due to their short-term nature.

[4] A listing expense of \$3,370,249 has been included in the net loss to reflect the difference between the fair value of the amount paid and the fair value of the net assets received from CPM.

### 5. 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.

Amounts due to related parties are as follows:

	September 30, 2020	December 31, 2019
	\$	\$
Due to Lamda Guard Technologies Ltd ("LGTL") – a shareholder, net [1]	333,182	345,033
<b>Total due to related party, net – current</b>	<b>333,182</b>	<b>345,033</b>

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

Transactions with related parties were as follows:

	September 30, 2020 \$	September 30, 2019 \$
Technology license fees [2]	25,885	37,962
Consulting fees [3]	71,840	80,800
Rent and utility reimbursement from LGTL [4]	(34,909)	(29,637)
	<u>62,816</u>	<u>89,125</u>

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

[2] On March 28, 2013, the Company entered into an Exclusive Technology License Agreement [the "Agreement"] with LGTL. The Agreement will continue until the Company delivers notice of termination to LGTL. Under the agreement, the Company pays a monthly technology license fee.

[3] The Company incurred consulting fees to directors of the Company and to Versa Tech Consulting Ltd., which is owned by a director of the Company.

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

#### 6. Promissory notes

	Nine months ended September 30, 2020 \$			Year ended December 31, 2019 \$		
	Principal Amount	Promissory note liability	Derivative liability	Principal Amount	Promissory note liability	Derivative liability
<b>Beginning balance</b>	<b>4,348,370</b>	<b>4,595,975</b>	<b>1,175,056</b>	1,162,610	1,254,494	—
Issued	—	—	—	3,185,760	2,872,880	312,880
Accrued Interest	—	48,319	—	—	259,969	—
Accretion	—	—	—	—	208,632	—
Unrealized loss	—	—	—	—	—	862,176
Conversion	(4,348,370)	(4,644,294)	(1,175,056)	—	—	—
<b>Ending balance</b>	<b>—</b>	<b>—</b>	<b>—</b>	4,348,370	4,595,975	1,175,056

On February 26, 2020, the aggregate principal of the Promissory Notes and all interest accrued were converted into 3,498,825 common shares of MTI. All interest accrued from January 28, 2020 to February 26, 2020 was paid in cash. The conversion of the Promissory Notes into common shares of MTI and the extinguishment of the derivative liability resulted in a non-cash realized loss of \$128,653.

In January 2019, the Company issued \$905,750 of promissory notes, which 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.

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

Also during fiscal 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 Company recognized an embedded derivative related to the conversion option for all of the promissory notes. During fiscal 2019, 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 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. The fair value of the embedded derivative at December 31, 2019 reflected the estimated fair value of the 20% discount of the share price on conversion of the notes.

#### 7. Unsecured convertible debentures

Unsecured convertible debentures [the "Unsecured Debentures"] consist of the following:

	(As restated-note 20) Nine months ended September 30, 2020 \$	Year ended December 31, 2019 \$
	Principal Amount	Principal Amount
<b>Beginning balance</b>	<b>760,145</b>	—
Issued	<b>950,000</b>	750,000
Unrealized loss (gain)	<b>(365,187)</b>	10,145
<b>Ending balance</b>	<b>1,344,958</b>	760,145

During the nine months ended September 30, 2020, the Company issued an additional \$950,000 in Unsecured Debentures to individuals and companies under the same terms as previous issues.

On December 10, 2019, an agreement was signed to convert an existing \$250,000 short-term loan into an Unsecured Debenture, and also during December 2019, the Company issued an additional \$500,000 in Unsecured Debentures to the same investor, under the same terms.

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

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

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 Unsecured Debentures at fair value through profit or loss rather than to account for the debt instrument and the derivative liability separately. The Company has remeasured the liability as of September 30, 2020 and recognized an unrealized gain of \$365,187 (year ended December 31, 2019 - \$10,145 unrealized loss) on liability in the condensed consolidated statement of loss and comprehensive loss.

#### 8. Unsecured convertible promissory note

	<b>Nine months ended September 30, 2020</b>
	\$
	<hr/>
	<b>Principal Amount</b>
	<hr/>
<b>Beginning balance</b>	—
Issued	<b>666,950</b>
Unrealized loss (gain)	<b>(9,502)</b>
<b>Ending balance</b>	<b>657,448</b>

On September 15, 2020, the Company entered into a non-binding Letter of Intent (the "LOI") with Torchlight Energy Resources Inc. ("Torchlight") (note 18) pursuant to which on September 20, 2020, Torchlight loaned the Company US\$500,000 in the form of an Unsecured Convertible Promissory Note. The Unsecured Convertible Promissory Note bears interest at 8% annually, with principal and interest due on September 20, 2022. If the Company and Torchlight do not enter into a Definitive Agreement by December 11, 2020, or the Definitive Agreement is terminated, then the Unsecured Convertible Promissory Note and all accrued and unpaid interest is convertible at the option of the holder into common shares of the Company at \$0.35 per common share. On or after January 18, 2021, the Company may repay all or part of the Unsecured Convertible Promissory Note, plus any accrued and unpaid interest, without penalty.

The unsecured promissory note contains a foreign currency embedded derivative as the note is denominated in USD and the conversion price is in Canadian dollars. The Company has chosen to record the Secured 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 liability at September 30, 2020 and recognized an unrealized gain of \$10,984 on liability in the condensed consolidated statement of loss and comprehensive loss.

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

#### 9. Secured convertible debentures

Secured convertible debentures [the "Secured Debentures"] consist of the following:

	<b>Nine months ended September 30, 2020</b>
	<b>\$</b>
	<b>Principal Amount</b>
<b>Beginning balance</b>	-
Issued	<b>5,000,000</b>
Unrealized loss (gain)	<b>(108,156)</b>
<b>Ending balance</b>	<b>4,891,844</b>

On April 3, 2020, the Company issued \$5,000,000 in Secured Debentures to BDC Capital Inc. ("BDC"), a wholly-owned subsidiary of the Business Development Bank of Canada. The Secured Debentures mature on October 31, 2024, and bear interest at a rate of 10.0% per annum, payable monthly in cash. In addition to the cash interest, the Secured Debentures also accrue a non-compounding payment in kind ("PIK") of 8% per annum. The PIK may get reduced by up to 3% (reduced to as low as 5% per annum) upon meeting certain conditions. BDC may elect to have the PIK paid in cash.

The Secured Debentures and the PIK are convertible in full or in part, at BDC's option, into META common shares at any time prior to their maturity at a conversion price of \$0.70 (the "Conversion Price") or META may force the conversion of Secured Debentures if META's 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.

During the nine months ended September 30, 2020, the Company paid interest of \$245,902 on the Secured Debentures and also accrued PIK interest of \$197,260 on the Secured Debentures.

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 Secured 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 liability at September 30, 2020 and recognized an unrealized gain of \$351,127 on liability in the condensed consolidated statement of loss and comprehensive loss.

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

#### 10. Long-term debt

ACOA interest-free loan [Business Development Program]	September 30, 2020	December 31, 2019
	\$	\$
Loan outstanding principal [1]	172,624	190,482
Interest-free component [1]	(113,169)	(113,169)
Principal adjusted for interest-free component	59,455	77,313
Accumulated non-cash interest accretion [1]	97,195	97,517
Carrying amount	156,650	174,830
Less current portion [2]	(53,568)	(71,428)
	<u>103,082</u>	<u>103,402</u>

[1] On April 13, 2012, the Company entered into the Business Development Program with the Atlantic Canada Opportunities Agency ["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 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 September 30, 2020, principal of \$172,624 [December 31, 2019 – \$190,482] is outstanding. The loan is repayable in principal repayments of \$5,952 until September 1, 2022, which were temporarily paused effective April 1, 2020 until January 2021, as a result of the COVID-19 outbreak, resulting in an increase in the fair value of the interest free component of \$3,000, which has been recorded as government assistance in the consolidated statement of loss and comprehensive loss.

[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 June 30, 2019 and for each period thereafter until the loan is fully repaid.

ACOA interest-free loan [Atlantic Innovation Fund]	September 30, 2020 \$	December 31, 2019 \$
Loan outstanding principal [1]	3,000,000	3,000,000
Interest-free component [2]	(2,355,856)	(2,355,856)
Principal adjusted for interest-free component	644,144	644,144
Accumulated non-cash interest accretion [1]	778,139	614,355
Carrying amount	1,422,283	1,258,499
Less current portion [3]	(58,000)	—
	<u>1,364,283</u>	<u>1,258,499</u>

[1] On March 23, 2015, the Company entered into an agreement with ACOA [Atlantic Innovation Fund] 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.

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 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 a period of approximately eight years.

[2] As the loan with Atlantic Canada Opportunities Agency ["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 the 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 an additional \$321,725 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 June 30, 2019 and for each period thereafter until the loan is fully repaid.

<b>ACOA interest-free loan [Business Development Program]</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Loan outstanding principal [1]	<b>3,000,000</b>	2,985,136
Interest-free component [2]	<b>(1,289,098)</b>	(1,281,240)
Interest-free component - deferred [3]	<b>(548,055)</b>	(548,055)
Principal adjusted for interest-free component	<b>1,162,847</b>	1,155,841
Accumulated non-cash interest accretion [2]	<b>413,742</b>	251,194
Carrying amount	<b>1,576,589</b>	1,407,035
Less current portion [4]	<b>(125,000)</b>	—
	<b>1,451,589</b>	1,407,035

[1] On March 27, 2018, the Company entered into an agreement with ACOA Business Development Program to receive contributions up to the lesser of 50% of eligible costs or \$3,000,000. The program offered an interest-free loan to commercially launch the meta product and acquire and operationalize the advanced manufacturing equipment to produce its products. 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 \$3,000,000 as at September 30, 2020 (December 31, 2019 - \$2,985,136).

[2] As the loan with Atlantic Canada Opportunities Agency ["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 \$7,858 was recorded in the consolidated statement of loss and comprehensive loss related to the value of the interest-free component [December 31, 2019 – \$1,281,240] 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 an additional \$77,546 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 a period of approximately ten years.

[3] During the year ended December 31, 2019, a portion of the loan was used to finance the acquisition and construction of manufacturing equipment, accordingly \$548,055 was recorded in the consolidated statement of financial position as deferred government assistance, which is being amortized over the useful life of the associated equipment and the remaining \$1,289,089 was recorded in the consolidated statement of loss and comprehensive loss. The Company amortized the deferred government assistance and for the nine months

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

ended September 30, 2020 and recorded \$137,014 [December 31, 2019 - \$178,834] as government assistance in the consolidated statement of loss and comprehensive loss.

[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 June 30, 2019 and for each period thereafter until the loan is fully repaid.

#### ACOA interest-free loan [Business Development Program]

	September 30, 2020	December 31, 2019
	\$	\$
Loan outstanding principal [1]	62,165	41,954
Interest-free component [2]	(27,999)	(19,772)
Principal adjusted for interest-free component	34,166	22,182
Accumulated non-cash interest accretion [2]	6,664	2,459
Carrying amount	40,830	24,641
Less current portion [3]	(12,600)	(1,748)
	<u>28,230</u>	<u>22,893</u>

[1] On November 28, 2019, the Company entered into an agreement with ACOA Business Development Program 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 January 1, 2021.

On January 22, 2020, the Company received the second claim of the loan amounting to \$20,211.

[2] As the loan with Atlantic Canada Opportunities Agency ["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 proceeds were received and for the nine months ended September 30, 2020, \$8,227 related to the fair value of the interest-free component [year ended December 31, 2019 - \$19,772] was recorded in the consolidated statement of loss and comprehensive loss related to the proceeds received.

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 a 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 June 30, 2019 and for each period thereafter until the loan is fully repaid.



**Metamaterial Inc. (formerly Continental Precious Minerals Inc.)**

**Notes to amended and restated interim condensed consolidated financial statements (unaudited)**

For the three and nine months ended September 30, 2020 and 2019

**Bank equipment loan**

	<b>September 30, 2020</b>	December 31, 2019
	\$	\$
Loan outstanding principal	<b>244,400</b>	250,000
Interest accrued	<b>26,245</b>	20,335
Interest paid	<b>(26,245)</b>	(19,160)
Principal paid	<b>(244,400)</b>	(5,600)
Balance outstanding	—	245,575
Less current portion	—	(31,200)
	—	214,375

On April 3, 2020, full amount of the loan and outstanding interest was repaid.

**Shareholder Loan from BGI, SA.**

	<b>September 30, 2020</b>	December 31, 2019
	\$	\$
Loan from BGI, SA	<b>234,309</b>	218,600
Fair value of below market interest rate component	<b>(126,191)</b>	(117,730)
Fair value of loan	<b>108,118</b>	100,870
Non-cash interest accretion	<b>51,797</b>	32,227
Carrying amount	<b>159,915</b>	133,097
Less current portion	—	—
	<b>159,915</b>	133,097

The loan initially had an interest rate of 6 months Euribor rate plus 2% point spread until January 17, 2020 and thereafter interest has 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 the nine months ended September 2020, the Company has recognized non-cash interest accretion of \$19,570 [2019-\$17,861]. The loan was fair valued at the date of acquisition.

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

#### 11. 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:

	Nine months ended September 30, 2020		Year ended December 31, 2019	
	Number of shares #	Amount \$	Number of shares #	Amount \$
<b>Balance, beginning of period</b>	<b>10,504,573</b>	<b>7,598,670</b>	9,724,476	6,628,293
Issued, net	515,067	588,254	596,656	847,027
Conversion of preferred shares	9,398,984	12,748,100	—	—
Conversion of promissory notes	3,498,825	5,948,003	—	—
Conversion of deferred shared units	103,000	55,100	153,000	80,100
Share-based compensation	58,823	100,000	30,441	43,250
	<b>24,079,272</b>	<b>27,038,127</b>	10,504,573	7,598,670
Resultant Issuer common shares issued to MTI shareholders [note 4]	47,810,924	—	—	—
Fair value of deemed issuance to CPM [note 4]	11,706,896	7,258,276	—	—
<b>Balance, end of period</b>	<b>83,597,092</b>	<b>34,296,403</b>	10,504,573	7,598,670

During the nine months ended September 30, 2020, the Company received gross proceeds of \$875,612 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, which were ascribed a value of \$204,054. Additionally, in relation to the private placement, the Company incurred share issuance costs of \$61,342, and issued 19,225 broker warrants as finder's fees, which were ascribed a value of \$21,962. The 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 \$0.62.

During the nine months ended September 30, 2020 and pursuant to the RTO, all preferred shares were converted into 9,398,984 common shares of MTI. See preferred share section of Note 11 for additional details.

During the nine months ended September 30, 2020, the aggregate principal of the Promissory Notes and all interest accrued up until January 28, 2020 were converted into 3,498,825 common shares of MTI. See Note 6 for additional details.

During the nine months ended September 30, 2020, the Company settled 103,000 DSU's (year ended December 31, 2019 – 153,000 DSU's) through the issuance of common shares of MTI for a total value of \$55,100 (year ended December 31, 2019 - \$80,100).

During the nine months ended September 30, 2020, the Company issued 58,823 MTI common shares to two directors of MTI which were ascribed a value of \$1.70 per MTI common share.

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

During fiscal 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 fiscal 2019, \$923 was recognized as common share issuance cost.

During fiscal 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.

#### Warrants

Prior to completion of the RTO on March 5, 2020 (note 4), every two warrants had the right to purchase one MTI common share for \$2.475 per share.

Pursuant to the completion on the RTO on March 5, 2020 (note 4), the warrants were adjusted such that one warrant has the right to purchase one Resultant Issuer Common Share for \$0.90 per share.

The following tables summarize the changes in warrants of the Company:

	Nine months ended September 30, 2020		Year ended December 31, 2019	
	Number of warrants #	Amount \$	Number of warrants #	Amount \$
<b>Balance, beginning of period</b>	627,097	175,095	—	—
Issued	573,890	233,467	627,097	175,095
Adjustment to 2019 warrants	—	141,031	—	—
	<b>1,200,987</b>	<b>549,593</b>	<b>627,097</b>	<b>175,095</b>
Conversion of MTI warrants into META warrants pursuant to the RTO (Note 4)	450,365	—	—	—
<b>Balance, end of period</b>	<b>1,651,352</b>	<b>549,593</b>	<b>627,097</b>	<b>175,095</b>

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

The following tables summarize the changes in broker warrants of the Company:

	Nine months ended September 30, 2020		Year ended December 31, 2019	
	Number of warrants #	Amount \$	Number of warrants #	Amount \$
<b>Balance, beginning of period</b>	—	—	—	—
Issued	19,225	21,962	—	—
	19,225	21,962	—	—
Conversion of MTI broker warrants into META broker warrants pursuant to the RTO (note 4)	33,636	—	—	—
<b>Balance, end of period</b>	<b>52,861</b>	<b>21,962</b>	<b>—</b>	<b>—</b>

Prior to the completion of the RTO on March 5, 2020 (note 4), each broker warrant had the right to purchase one MTI common share for \$1.70 per share and pursuant to the completion of the RTO the broker warrants were adjusted such that each broker warrant has the right to purchase one Resultant Issuer Common Share for \$0.62 per share.

During the nine months ended September 30, 2020, the Company issued 58,823 warrants to two directors related to advisory services as well as 515,067 warrants to investors and 19,225 broker warrants as a finders fee pursuant to its private placement of shares.

During the year ended December 31, 2019, the Company issued 30,441 warrants to a former director for non-cash consideration and 596,656 warrants to investors as a part of its private placement of shares. During the three months ended March 31, 2020 and pursuant to the completion of the RTO, the 627,097 warrants were extended until 24 months post RTO, resulting in an increase in the estimated value of warrants of \$141,031, which has been recorded as share-based compensation expense.

The fair value of warrants and broker warrants was estimated using the Black-Scholes option pricing model with the assumptions:

	Nine months ended September 30, 2020	Year ended December 31, 2019
Risk free interest rate	0.80% - 1.43%	1.58%
Expected volatility	134%	133%
Expected dividend yield	0%	0%
Expected forfeiture rate	0%	0%
MTI common share price	\$1.70	\$1.70
Exercise price per MTI common share	\$1.70 - \$2.475	\$2.475
Expected term of warrants	24 Months post RTO	September 30, 2020

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

#### Preferred shares

Authorized: Unlimited number of Class A-1 and Class A-2 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.

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

	Nine months ended September 30, 2020		Year ended December 31, 2019	
	Number of shares #	Amount \$	Number of shares #	Number of shares #
<b>Balance, beginning of period</b>	<b>9,398,984</b>	<b>12,748,100</b>	9,398,984	12,748,100
Conversion to common shares	<b>(9,398,984)</b>	<b>(12,748,100)</b>	—	—
<b>Balance, end of period</b>	<b>—</b>	<b>—</b>	9,398,984	12,748,100

At December 31, 2019 and immediately prior to the completion of the RTO, there were 5,273,720 Class A-1 preferred shares and 4,125,264 Class A-2 preferred shares issued, outstanding and fully paid.

During nine months ended September 30, 2020 and pursuant to the completion of the RTO, all preferred shares were converted into 9,398,984 common shares of MTI and ultimately each Class A-1 preferred share was converted into 2.75 Resultant Issuer Common Shares and each Class A-2 preferred share was converted into 4.125 Resultant Issuer Common Shares. Ultimately, 31,519,444 Resultant Issuer Common Shares were issued in exchange for the preferred shares.

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

#### 12. 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.

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

	Number outstanding	
	Nine months ended September 30, 2020	Year ended December 31, 2019
	#	#
<b>Outstanding, beginning of period</b>	784,000	937,000
Converted into MTI Common Shares	<b>(103,000)</b>	(153,000)
	<b>681,000</b>	784,000
Conversion of MTI DSUs into META DSUs pursuant to the RTO (note 4)	<b>1,191,750</b>	—
<b>Outstanding, end of period</b>	<b>1,872,750</b>	784,000

Information concerning units outstanding is as follows:

	December 31, 2019
Issue price	Number of units
\$	#
0.50	755,000
0.95	29,000
	<b>784,000</b>
	<b>September 30, 2020</b>
Issue price	Number of units
\$	#
0.18	1,815,000
0.35	57,750
	<b>1,872,750</b>

No DSUs were issued during the nine months ended September 30, 2020 or during the year ended December 31, 2019.

During the nine months ended September 30, 2020 and prior to the RTO, 103,000 MTI DSUs were converted into 103,000 MTI common shares.

During the year ended December 31, 2019, 153,000 MTI DSUs were converted into 150,000 MTI common shares.

## **Metamaterial Inc. (formerly Continental Precious Minerals Inc.)**

### **Notes to amended and restated interim condensed consolidated financial statements (unaudited)**

For the three and nine months ended September 30, 2020 and 2019

On March 5, 2020 and pursuant to the RTO (note 4) all MTI DSUs were converted into META DSUs at a ratio of 2.75 META DSUs for each MTI DSU.

#### **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 will 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 the nine months end September 30, 2020, the Company's existing MTI options were converted at a ratio of 2.75 META options for each MTI option pursuant to the RTO (note 4). Also as part of the RTO, 700,000 META options were issued to executives and directors of CPM. Additionally and subsequent to the completion of the RTO, the Company granted 4,775,000 META options to employees and directors, 100,000 of which vested upon grant and 4,675,000 of which vest over 1-4 years. Prior to the completion of the RTO, 7,500 MTI options were forfeited as a result of employee departures. Subsequent to the completion of the RTO, 1,403,500 META options were forfeited as a result of employee departures, resulting in a reversal of previously recognized stock based compensation of \$87,982, and 1,213,261 options expired unexercised.

During fiscal 2019, the Company granted 859,143 MTI 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 vested upon closing of the RTO with CPM (note 4). During fiscal 2019, 229,223 employee stock options issued to previous employees were forfeited upon termination. 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.

**Metamaterial Inc. (formerly Continental Precious Minerals Inc.)**

**Notes to amended and restated interim condensed consolidated financial statements (unaudited)**

For the three and nine months ended September 30, 2020 and 2019

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

	<b>Number outstanding</b>	
	<b>Nine months ended</b>	<b>Year ended</b>
	<b>September 30, 2020</b>	<b>December 31, 2019</b>
	<b>#</b>	<b>#</b>
<b>Outstanding, beginning of period</b>	<b>2,858,300</b>	2,228,380
Granted	—	859,143
Forfeitures	<b>(7,500)</b>	<b>(229,223)</b>
	<b>2,850,800</b>	2,858,300
Conversion of MTI options into META options pursuant to the RTO (note 4)	<b>4,988,897</b>	—
Issued to CPM executives and directors pursuant to RTO (note 4)	<b>700,000</b>	—
Granted	<b>4,775,000</b>	—
Forfeitures / expired	<b>(2,616,761)</b>	—
<b>Outstanding, end of period</b>	<b>10,697,936</b>	2,858,300

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

<b>Exercise price</b>	<b>Number outstanding</b>	<b>Number exercisable</b>
	<b>2019 #</b>	<b>2019 #</b>
\$		
0.75	110,000	105,208
1.70	2,748,300	1,132,409
	<b>2,858,300</b>	<b>1,237,617</b>



## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

Below is a summary of the outstanding options as at September 30, 2020:

Exercise price \$	Number outstanding	Number exercisable
	2020 #	2020 #
0.27 (0.75 pre-RTO)	302,500	302,500
0.35 (issued post RTO)	200,000	200,000
0.62 (1.70 pre-RTO)	10,195,436	3,439,689
	<b>10,697,936</b>	<b>3,942,189</b>

The weighted average remaining contractual life for the share options outstanding as at September 30, 2020 was 8.41 [year ended December 31, 2019 – 8.38] years. The weighted average fair value of META options granted during the period was \$0.53 [year ended December 31, 2019 – \$1.13 for MTI options].

The fair value of options granted during the nine months ended September 30, 2020 and the year ended December 31, 2019 were estimated on the date of grant using the Black-Scholes option pricing model with the following inputs and assumptions:

	Employee Stock Option Plan 2020	Employee Stock Option Plan 2019
Weighted average common share fair value at the measurement date	\$0.61	\$1.42
Exercise price	\$0.62	—
Dividend yield [%]	—	—
Expected volatility for options having 10 years expiry	117%	84%
Expected volatility for options having 3 years expiry	—	130%
Expected volatility for options having 6 month expiry	134%	—
Weighted average risk-free interest rate	0.78%	1.21%
Weighted average expected life of the options	<b>7.32 years</b>	<b>8.67 years</b>

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.

#### Other

During the nine-months ended September 30, 2020, the Company has recognized stock-based compensation of \$1,578,114 (nine-months ended September 30, 2020: \$1,344,362), of which \$1,492,637 (nine-months ended September 30, 2020: \$1,319,362) has been recorded in stock-based compensation expense and \$85,477 (nine-months ended September 30, 2020: \$15,000) has been recorded as consulting fees.

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 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. Upon completion of the RTO, the remaining \$15,000 was recognized as consulting fees.

#### 13. 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, warrants, contributed surplus, promissory notes, unsecured convertible debentures, unsecured convertible promissory notes, secured convertible debentures, derivative liability, funding obligation and long-term debt, which as at September 30, 2020 was \$51,313,629, (December 31, 2019 - \$34,858,227).

No changes were made to the objectives, policies and processes for capital management for the periods ended September 30, 2020 and December 31, 2019.

#### 14. Government grants

The government grants consist of the following:

	For the nine months ended September 30, 2020				
	Grants Receivable December 31, 2019 \$	Received \$	Recognized as offset to expenses \$	Foreign currency exchange difference \$	Grants Receivable September 30, 2020 \$
ACOA-PBS	21,144	(29,936)	24,022	—	15,230
Nova Scotia LAE Co-Op	13,500	(54,295)	41,316	—	521
Innovate UK – Glucose sensor	45,100	(45,100)	—	—	—
Innovate UK – Microwave tech	108,343	(108,343)	—	—	—
Innovate UK – Diabet	54,618	(222,201)	169,334	(1,751)	—
CEWS	—	—	472,020	—	472,020
	<b>242,705</b>	<b>(459,875)</b>	<b>706,692</b>	<b>(1,751)</b>	<b>487,771</b>
	For the year ended December 31, 2019				
	Grants Receivable December 31, 2018 \$	Received \$	Recognized as offset to expenses \$	Foreign currency exchange difference \$	Grants Receivable December 31, 2019 \$
ACOA-PBS	13,455	(64,677)	72,366	—	21,144
Nova Scotia LAE-Training	40,000	(40,000)	—	—	—
Nova Scotia LAE Co-Op	21,580	(69,786)	61,706	—	13,500
Innovate UK – R&D tax credit	76,729	(76,967)	—	238	—
Innovate UK – MetaSurface	33,767	(65,501)	32,050	(316)	—
Innovate UK – Glucose sensor	56,241	(292,370)	283,174	(1,945)	45,100
Innovate UK – Microwave tech	25,079	(153,438)	237,000	(298)	108,343
Innovate UK – Diabet	—	(12,961)	67,151	428	54,618
	<b>266,851</b>	<b>(775,700)</b>	<b>753,447</b>	<b>(1,893)</b>	<b>242,705</b>

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

During the nine-month ended September 30, 2020, the Company has recorded total government assistance of \$876,313 (nine months ended September 30, 2019: \$962,438), of which \$297,539 (nine months ended September 30, 2019: \$767,280) has been recorded as government assistance and \$578,774 (nine months ended September 30, 2019: \$195,158) has been recorded as a reduction of salaries and benefits expense.

#### 15. Additional cash flow information

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

	2020 \$	2019 \$
Grants receivable	(245,066)	47,812
Inventory	(176,499)	(199,601)
Other receivables	34,594	(1,919)
Prepaid expenses	(95,469)	(47,126)
HST receivable	164,580	9,382
Trade payables	(1,503,244)	615,869
Due to related parties	(11,851)	(16,389)
	<u>(1,832,955)</u>	<u>418,028</u>

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

	2020 \$	2019 \$
Current portion of long-term debt, beginning of period	104,376	71,429
Long-term debt, beginning of period	3,139,301	3,108,273
Carrying amount, beginning of period	<u>3,243,677</u>	<u>3,179,702</u>
Scheduled repayments of long-term debt	(262,258)	(43,513)
Net proceeds from loans, net of financing costs	50,784	1,129,860
Non-cash changes in long-term debt:		
Interest accrued (paid)	9,934	2,174
Interest accretion	334,692	374,991
Fair market value adjustment	(17,568)	(827,466)
Foreign exchange (gain) loss on long-term debt	(2,994)	966
Carrying amount, end of period	<u>3,356,267</u>	<u>3,816,714</u>
Less current portion	<u>(249,168)</u>	<u>(3,464,572)</u>
	<u>3,107,099</u>	<u>352,142</u>

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

#### 16. Financial instruments

The Company's principal financial liabilities include trade payables, due to related parties, derivative liability, unsecured debentures, convertible debentures, unsecured convertible promissory notes and long-term debt. The Company's financial assets include grants receivable, and other receivables. 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
Unsecured debentures	Fair value
Convertible debentures	Fair value
Unsecured convertible promissory notes	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

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

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 increase or decrease in exchange rates by 5% will result in below mentioned decrease or increase respectively in net loss before tax for the period ended September 30, 2020:

- by \$56,317 [December 31, 2019-\$34,476] on account of change in USD exchange rate;
- by \$4,108 [December 31, 2019-\$8,114] on account of change in GBP exchange rate;
- by \$547 [December 31, 2019-\$15,911] 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.

Contractual maturities of financial liabilities (principal amount):

	Long-term debt \$	Trade payables \$	Due to related parties \$	Unsecured convertible debentures \$	Unsecured convertible promissory notes \$	Secured convertible debentures \$	Total \$
2020	—	1,706,788	333,182	—	—	—	2,039,970
2021	556,974	—	—	—	—	—	556,974
2022	943,224	—	—	—	666,950	—	1,610,174
2023	941,576	—	—	—	—	—	941,576
2024	906,765	—	—	—	—	5,000,000	5,906,765
2025	1,834,422	—	—	1,700,000	—	—	3,534,422
Thereafter	1,281,250	—	—	—	—	—	1,281,250
	6,464,211	1,706,788	333,182	1,700,000	666,950	5,000,000	15,871,131

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

#### 17. Deferred revenue

Deferred revenue consists of the following:

	As at December 31, 2019 \$	Received \$	Recognized in revenue \$	Recognized as offset to expenses \$	Foreign exchange \$	As at September 30, 2020 \$
SDTC	1,563,653	269,750	—	(234,968)	—	1,598,435
Satair A/S-exclusive rights	1,169,730	—	(99,910)	—	—	1,069,820
Satair A/S-advance against PO	624,916	—	(2,514)	—	—	622,402
LM Aero-metaSOLAR commercialization	1,527,796	—	(528,852)	—	—	998,944
US Deferred Revenue	—	106,403	—	—	(6,300)	100,103
Innovate UK-R&D tax credit	23,623	—	—	—	34	23,657
COOP Subsidy	—	14,040	—	—	—	14,040
	<b>4,909,718</b>	<b>390,193</b>	<b>(631,276)</b>	<b>(234,968)</b>	<b>(6,266)</b>	<b>4,427,401</b>
Less current portion	<b>1,819,797</b>					<b>1,900,357</b>
	<b>3,089,921</b>					<b>2,527,044</b>

	As at December 31, 2018 \$	Received \$	Recognized in revenue \$	Recognized as offset to expenses \$	Foreign exchange \$	As at December 31, 2019 \$
SDTC	1,818,518	—	—	(254,865)	—	1,563,653
Satair A/S-exclusive rights	1,299,700	—	(129,970)	—	—	1,169,730
Satair A/S-advance against PO	654,801	1,545	(31,430)	—	—	624,916
LM Aero-metaSOLAR commercialization	2,232,934	—	(705,138)	—	—	1,527,796
Innovate UK-R&D tax credit	—	22,867	—	—	756	23,623
	<b>6,005,953</b>	<b>24,412</b>	<b>(866,538)</b>	<b>(254,865)</b>	<b>756</b>	<b>4,909,718</b>
Less current portion	<b>(1,694,108)</b>					<b>1,819,797</b>
	<b>4,311,845</b>					<b>3,089,921</b>

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

#### 18. Commitments and contingencies

##### (a) Lease commitments

The Company has entered into various lease commitments for its Canadian, US and UK facilities:

	September 30, 2020	December 31, 2019
	\$	\$
Within one year	133,890	309,491
After one year but not more than five years	2,671,419	—
More than five years	3,830,575	—
	<b>6,635,884</b>	309,491

During the three months end September 30, 2020, the Company signed a ten-year lease commencing January 1, 2021 for an approximately 53,000 square foot facility, which will host the Company's holography and lithography R&D labs and manufacturing operations. Commencing in September 2021, the Company will pay monthly basic rent of CAD \$28,708 and additional rent for its proportionate share of operating costs and property taxes of CAD \$24,910 per month, subject to periodic adjustments. In conjunction with signing the lease, the Company entered into a loan agreement with the landlord in the amount of \$500,000 to fund leasehold improvements. The loan carries an interest rate of 5% per annum and is repayable in equal monthly blended payments of principal and interest over a period of seven years. At September 30, 2020, the full amount of the \$500,000 remains undrawn and available.

##### (b) Non-binding Letter of Intent

On September 15, 2020, the Company entered into a non-binding Letter of Intent (the "LOI") with Torchlight Energy Resources Inc. ("Torchlight") (NASDAQ: TRCH) for Torchlight to acquire 100% of the Company through the issuance of common shares of Torchlight (the "Proposed Transaction"). Completion of the Proposed Transaction subject to satisfactory completion of a number of conditions, including but not limited to:

- completion of due diligence by the Company and Torchlight;
- negotiation of a Definitive Agreement;
- Board of Director and Shareholder approvals; and
- all regulatory approvals.

Following the completion of the Proposed Transaction, as presently contemplated, the shareholders of the Company would own approximately 75% of the combined entity (the "Combined Entity"). This approximate

## **Metamaterial Inc. (formerly Continental Precious Minerals Inc.)**

### **Notes to amended and restated interim condensed consolidated financial statements (unaudited)**

For the three and nine months ended September 30, 2020 and 2019

ownership split assumes that the Combined Company completes a financing of US\$10 million or more, net of Torchlight's debt prior to closing of the Proposed Transaction.

Pursuant to the LOI and on September 20, 2020, Torchlight loaned US\$500,000 to the Company, and Torchlight will loan the Company an additional US\$500,000 within 5 days of signing the Definitive Agreement, both in the form of an Unsecured Convertible Promissory Note (note 8).

There can be no assurances that the Proposed Transaction will be consummated as a result of the LOI.

#### **(c) 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 of 5% due by the Company on gross profit after sales and distribution costs to a maximum of \$30 million USD. 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 nine months ended September 30, 2020, the Company has accrued royalties of \$136 [2019 – \$1,570] in cost of goods sold in the interim condensed consolidated statement of loss and comprehensive loss with this agreement.

#### **19. Subsequent events**

- a) Subsequent to September 30, 2020, the Company entered into a commitment letter (the "Commitment Letter") with a shareholder of the Company, pursuant to which the shareholder will provide up to \$5,500,000 in debt financing (the "Bridge Loan") to fund META's continued operations while the Company works toward completion of the Proposed Transaction with Torchlight. Pursuant to the Commitment Letter, the Company will be able to draw up to \$500,000 monthly beginning in November 2020. The Bridge Loan bears interest at the rate of 8% per annum, payable monthly in arrears. The principal amount and any accrued but unpaid interest will be due and payable on the 10th business day after the closing of the Proposed Transaction, or on November 29, 2022 if the Transaction does not close before that date. At the option of the holder, the Bridge Loan, or any portion of the Bridge Loan and accrued but unpaid interest is convertible into META Common Shares at a conversion price of \$0.50 per share, subject customary adjustments. The Company may repay the Bridge Loan in whole or in part, without penalty, at any time on or after March 28, 2021.
- b) Subsequent to September 30, 2020, the Company entered into a contribution agreement with ACOA for funding from the Regional Relief and Recovery Fund ("RRRF") under ACOA's Regional Economic Growth Through Innovation - Business Scale-up and Productivity stream. The RRRF is part of the Federal government's COVID-19 economic response plan. Pursuant to the contribution agreement, the Company will receive an interest-free loan of up to \$390,000, repayable in 36 monthly installments starting April 1, 2023. The amount available to be drawn under the loan is based on eligible expenses incurred by the Company since March 15, 2020. Eligible expenses include operating expenses such as rent, utilities, certain salaries, cost of additional safety measures, office supplies, insurance and professional fees. The Company expects to draw the full amount of the loan prior to December 31, 2020.



## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

- c) On December 14, 2020, the Company executed an Arrangement Agreement with Torchlight Energy Resources, Inc. The agreement calls for Torchlight and Metamaterial to be combined such that at closing, the former equity holders of Torchlight would own approximately 25% of the combined company with the former equity holders of Metamaterial owning the remaining approximately 75% of the combined company. Prior to closing, Torchlight must raise gross proceeds of at least \$10 million through the issuance of common stock or securities convertible into or exercisable for common stock, less USD \$1 million of loans Torchlight has made to Metamaterial. The closing of the transaction is subject to the satisfaction or waiver of customary closing conditions, including approvals by NASDAQ and the Canadian Securities Exchange ("CSE"), Canadian court approval, and approval by the shareholders of both companies. There can be no assurances that the Transaction will be consummated.
- d) On December 14, 2020, the Company announced the hiring of Kenneth L. Rice Jr. as CFO and EVP. Mr. Rice will replace the Company's Interim CFO, Keith Abriel and, assuming the transaction described above is closed, he will be named CFO of the combined company. In connection with his hiring, the Board of Directors, in accordance with the Company's ESOP, granted options to Mr. Rice to purchase 300,000 shares of the common stock of the Company at a purchase price of CAD \$0.62 per share. The newly granted options vest over varying times from immediately to 4 years.
- e) On December 17, 2020, the Company announced the hiring of Dr. Jonathan Waldern a Chief Technical Officer. In connection with his hiring, the Board of Directors, in accordance with the Company's ESOP, granted options to Dr. Waldern to purchase 1,115,000 shares of the common stock of the Company at a purchase price of CAD \$0.62 per share to vest evenly over a 4-year period.
- f) On December 16, 2020, the Company issued an unsecured, convertible promissory note to Torchlight Energy Resources in the amount of USD \$500,000. The note and interest are due in 24 months and bears interest at 8% per annum. If the above referenced Arrangement Agreement is terminated, the Torchlight has the right to convert the principal and accrued interest on the note to common stock of the Company at a conversion price of CAD \$0.62 per share.
- g) On December 15, 2020, the Company granted options to purchase a total of 474,000 shares of the common stock of the Company at a purchase price per share of CAD \$0.62 per share such options to vest over a period of 1 to 3 years depending on the grantee.

## Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

### Notes to amended and restated interim condensed consolidated financial statements (unaudited)

For the three and nine months ended September 30, 2020 and 2019

#### 20. Restatement

The financial statements for the three and nine months ended September 30, 2020 and 2019 have been previously issued without review and filed on SEDAR on November 30, 2020 due to time constraints associated with the Company retaining a third party to complete valuations of its convertible debt instruments ("instruments"). Upon completion of the instruments' valuation and completion of the financial statements' review as well as due to the significant estimates, judgements and assumptions involved in determining the fair value of such instruments, management determined that the fair value of the unsecured convertible debenture (note 7) was overstated by \$150,000 as at September 30, 2020. The carrying value of the unsecured debentures was reduced from \$1,494,958 to \$1,344,958 to reflect their fair value as at September 30, 2020. The difference of \$150,000 has been recorded as unrealized gain on FVTPL liabilities in the unaudited amended and restated interim condensed consolidated statement of loss and comprehensive loss. There was no impact on the comparative figures.

The following table summarize the effects of the adjustment described above:

	As previously reported \$	Adjustment increase (decrease)	As restated \$
<u>As at September 30, 2020:</u>			
Unsecured convertible debentures	\$ 1,494,958	\$ (150,000)	\$ 1,344,958
Deficit	\$ (44,517,361)	\$ 150,000	\$ (44,367,361)
<u>Three months ended September 30, 2020:</u>			
Unrealized loss on FVTPL liabilities	\$ 603,054	\$ (150,000)	\$ 403,054
Net loss for the period	\$ (3,857,717)	\$ (150,000)	\$ (3,707,717)
<u>Nine months ended September 30, 2020:</u>			
Unrealized gain on FVTPL liabilities	\$ (655,194)	\$ (150,000)	\$ (505,194)
Net loss for the period	\$ (12,235,350)	\$ (150,000)	\$ (12,085,350)