Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

Consolidated financial statements

For the years ended December 31, 2020, and 2019

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 Inc.

Opinion

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

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019
- the consolidated statements of loss and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity (deficiency) for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the 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, 2020 and December 31, 2019, and its financial performance, and its cash flows for the years 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.

Material Uncertainty Related to Going Concern

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

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 years ended December 31, 2020 and 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 casts substantial 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.

KPMG LLP

Chartered Professional Accountants

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

Halifax, Canada

April 20, 2021

Consolidated statements of financial position

[expressed in Canadian dollars]

As at

	December 31, 2020	December 31, 2019
	$	
Assets		
Current assets		
Cash and cash equivalents	1,776,983	528,691
Grants receivable *[note 18]*	417,442	242,705
Other receivables	50,330	79,072
Inventory *[note 5]*	589,977	438,726
Prepaid expenses	436,909	365,602
HST receivable	196,526	262,512
Total current assets	**3,468,167**	**1,917,308**
Intangible assets, net *[note 7]*	5,699,626	6,404,812
Property and equipment, net *[note 6]*	3,515,523	3,558,675
Right-of-use assets *[note 23]*	337,441	66,951
Total non-current assets	**9,552,590**	**10,030,438**
	13,020,757	**11,947,746**
Liabilities and shareholders' deficiency		
Current liabilities		
Trade and other payables	3,743,783	3,176,642
Due to related party *[note 8]*	312,528	345,033
Current portion of long-term debt *[note 13]*	369,921	104,376
Current portion of deferred revenue *[note 21]*	1,578,676	1,483,645
Current portion of deferred government assistance *[note 18]*	1,179,096	518,837
Derivative liability *[note 9]*	—	1,175,056
Secured convertible debentures *[note 11]*	7,060,493	—
Secured convertible promissory notes *[note 9]*	—	4,595,975
Unsecured convertible promissory notes *[note 10]*	1,531,960	—
Current portion of lease liabilities *[note 23]*	192,001	71,947
Total current liabilities	**15,968,458**	**11,471,511**
Deferred revenue *[note 21]*	1,023,835	1,862,420
Deferred government assistance *[note 18]*	-	1,414,037
Deferred tax liability *[note 16]*	404,947	658,481
Unsecured convertible debentures *[note 12]*	2,324,085	760,145
Funding obligation *[note 22]*	989,128	808,298
Lease liabilities *[note 23]*	152,506	—
Long-term debt *[note 13]*	3,493,029	3,139,301
Total non-current liabilities	**8,387,530**	**8,642,682**
Total liabilities	**24,355,988**	**20,114,193**
Shareholders' deficiency		
Common shares *[note 14]*	34,248,734	7,598,670
Preferred shares *[note 14]*	—	12,748,100
Contributed surplus *[note 15]*	5,804,292	3,753,211
Warrants *[note 14]*	565,446	175,095
Accumulated other comprehensive income (loss)	134,648	(159,512)
Deficit	(52,088,351)	(32,282,011)
Total shareholders' deficiency	**(11,335,231)**	**(8,166,447)**
	13,020,757	**11,947,746**

Going concern [note 2]
Commitments [note 26]
Subsequent events [note 27]
See accompanying notes

On behalf of the Board:

Director Director

Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

Consolidated statements of loss and comprehensive loss

[expressed in Canadian dollars]

	Year ended December 31	
	2020	**2019**
	$	$
Product sales	2,615	31,426
Development revenue	1,505,075	1,163,632
Revenue	**1,507,690**	**1,195,058**
Cost of goods sold *[note 5]*	4,409	12,138
Gross Profit	**1,503,281**	**1,182,920**
Expenses (income)		
Salaries and benefits	3,390,940	3,040,775
Depreciation and amortization *[notes 6, 7 and 23]*	2,840,640	3,178,505
Impairment expense *[note 7]*	5,224	87,166
Travel and entertainment	79,369	493,800
Other expenses *[note 25]*	742,476	507,980
Listing expenses *[note 4]*	3,370,249	—
Stock exchange fees	12,000	—
Rent and utilities	404,699	414,958
Finance income *[note 24]*	(34,302)	(822,375)
Finance costs *[note 24]*	2,142,131	937,435
Consulting	1,416,962	548,922
Investor relations	154,496	30,936
Research and development	516,577	788,476
Professional fees	2,274,554	846,418
Share-based compensation expense *[notes 14 and 15]*	2,032,055	1,710,952
Unrealized loss on FVTPL liabilities *[notes 9,10,11 and 12]*	1,917,860	862,176
Realized loss on derivative liability *[note 9]*	128,653	—
Technology license fees *[note 8]*	14,602	50,807
Realized foreign currency exchange loss	83,750	1,290
Unrealized foreign currency exchange loss	255,109	417,115
Amortization of deferred government assistance *[note 18]*	(182,685)	(178,834)
Other income *[note 22]*	—	(530,960)
	21,565,359	**12,385,542**
Net loss before tax	**(20,062,078)**	**(11,202,622)**
Income tax recovery *[note 16]*	255,738	119,364
Net loss for the year	**(19,806,340)**	**(11,083,258)**
Other comprehensive income, net of income taxes		
Items that may be subsequently reclassified to income:		
Unrealized foreign currency translation adjustment	294,160	246,998
Comprehensive loss for the year	**(19,512,180)**	**(10,836,260)**
Basic and diluted loss per share	**$ (0.27)**	**$ (1.14)**
Weighted average number of shares outstanding - basic and diluted	**74,271,609**	**9,724,476**

See accompanying notes

Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

Consolidated statements of changes in shareholders' equity (deficiency)

[expressed in Canadian dollars]

Year ended December 31

	Common shares	Preferred shares	Contributed surplus	Warrants	Deficit	Accumulated other comprehensive income/(loss)	Total Shareholders' deficiency
	$	$	$		$	$	$
Balance, January 1, 2020	**7,598,670**	**12,748,100**	**3,753,211**	**175,095**	**(32,282,011)**	**(159,512)**	**(8,166,447)**
Net loss	—	—	—	—	(19,806,340)	—	**(19,806,340)**
Other comprehensive income	—	—	—	—	—	294,160	**294,160**
Issuance of common shares [note 14]	875,612	—	—	—	—	—	**875,612**
Issuance of warrants [note 14]	(204,054)	—	—	204,054	—	—	—
Issuance of broker warrants [note 14]	(21,962)	—	—	21,962	—	—	—
Share issuance cost [note 14]	(61,342)	—	—	—	—	—	**(61,342)**
Conversion of deferred share units [note 14]	55,100	—	(55,100)	—	—	—	**-**
Conversion of promissory notes [note 6 and 14]	5,948,003	—	—	—	—	—	**5,948,003**
Conversion of preferred shares [note 14]	12,748,100	(12,748,100)	—	—	—	—	—
Fair value of deemed issuance to CPM [note 4]	7,258,276	—	285,157	—	—	—	**7,543,433**
Tax withheld on deferred shared units [note 14]	(24,365)	—	—	—	—	—	**(24,365)**
Share-based compensation [notes 14 and 15]	76,696	—	1,821,024	164,335	—	—	**2,062,055**
Balance, December 31, 2020	**34,248,734**	**—**	**5,804,292**	**565,446**	**(52,088,351)**	**134,648**	**(11,335,231)**
Balance, January 1, 2019	**6,628,293**	**12,748,100**	**2,052,359**	**—**	**(21,198,753)**	**(406,510)**	**(176,511)**
Net loss	—	—	—	—	(11,083,258)	—	(11,083,258)
Other comprehensive income	—	—	—	—	—	246,998	246,998
Issuance of common shares, net [note 14]	1,013,622	—	—	—	—	—	1,013,622
Issuance of warrants [note 14]	(166,595)	—	—	166,595	—	—	—
Conversion of deferred share units [note 14]	80,100	—	(80,100)	—	—	—	—
Share-based compensation [notes 14 and 15]	43,250	—	1,780,952	8,500	—	—	1,832,702
Balance, December 31, 2019	**7,598,670**	**12,748,100**	**3,753,211**	**175,095**	**(32,282,011)**	**(159,512)**	**(8,166,447)**

Metamaterial Inc. (formerly Continental Precious Minerals Inc.)

Consolidated statements of cash flows

[expressed in Canadian dollars]

Year ended December 31	**2020**	**2019**
	$	$
Operating activities		
Net loss for the year	**(19,806,340)**	(11,083,258)
Add (deduct) items not affecting cash:		
Non-cash finance income *[note 24]*	**(22,927)**	(821,599)
Non-cash finance costs *[note 24]*	**1,627,599**	703,798
Deferred income tax recovery *[note 16]*	**(255,738)**	(119,364)
Depreciation and amortization *[notes 6, 7 and 23]*	**2,840,640**	3,121,654
Impairment of intangible assets *[note 7]*	**5,224**	87,166
Unrealized foreign currency exchange loss	**260,068**	437,935
Listing expenses *[note 4]*	**3,370,249**	—
Unrealized loss on FVTPL liabilities *[notes 9,10,11 and 12]*	**1,917,860**	862,176
Realized loss on derivative liability *[note 9]*	**128,653**	—
Change in deferred revenue *[note 21]*	**(738,720)**	(841,370)
Change in deferred government assistance *[note 18]*	**(342,216)**	(435,558)
Share-based compensation expense *[note 15]*	**2,032,055**	1,780,952
Non-cash consulting *[note 15]*	**30,000**	51,750
Other loss (income) *[note 22]*	**-**	(530,960)
Net change in non-cash working capital items *[note 19]*	**(849,236)**	1,179,094
Cash used in operating activities	**(9,802,829)**	(5,607,584)
Investing activities		
Additions to intangible assets	**(140,323)**	(220,480)
Additions to property and equipment	**(1,152,752)**	(1,449,951)
Reverse takeover, net cash *[note 4]*	**4,179,371**	—
Cash provided by (used in) investing activities	**2,886,296**	(1,670,431)
Financing activities		
Proceeds from long-term debt *[note 13]*	**35,075**	879,860
Repayment of long-term debt *[note 13]*	**(263,431)**	(77,024)
Repurchase of shares	**(24,365)**	—
Proceeds from unsecured convertible promissory notes *[note 10]*	**1,804,570**	3,185,760
Proceeds from funding obligation	—	1,300,000
Net proceeds from units *[note 14]*	**814,270**	1,013,622
Proceeds from unsecured convertible debentures *[note 12]*	**950,000**	750,000
Proceeds from secured convertible debentures *[note 11]*	**5,000,000**	—
Payment of lease liabilities *[note 23]*	**(149,991)**	(75,335)
Cash provided by financing activities	**8,166,128**	6,976,883
Net increase (decrease) in cash and cash equivalents	**1,249,595**	(301,132)
Cash and cash equivalents, beginning of the year	**528,691**	850,623
Effects of exchange rate changes on cash and cash equivalents	**(1,303)**	(20,800)
Cash and cash equivalents, end of the year	**1,776,983**	528,691
Supplemental cash flow information		
Interest on debt paid	**406,518**	**20,335**

See accompanying notes

Notes to consolidated financial statements

December 31, 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.

On December 14, 2020, the Company executed an Arrangement Agreement with Torchlight Energy Resources, Inc. ("Torchlight"). 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.

During March 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 for the remaining period of the year. Engineering staff in all three locations continued to work on given tasks and are following strict safety guidelines. Currently, most employees are back to the workplace. 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. Alameda County in the State of California, where the Company's wholly owned subsidiary operates, went on lockdown and it has been declared a "major disaster" area. Although there was some improvement over the summer, the county went back to purple tier 1 (substantial spread of virus) since October 12, 2020 and these restrictions had not been lifted by year-end 2020.

COVID-19 has impacted the Company's 2020 sales of its metaAIR® laser protection eyewear product. Worldwide restrictions on travel are significantly impacting the airline industry and purchasing of metaAIR eyewear was not 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 financial statements were authorized for issue in accordance with a resolution of the Company's Board of Directors on April 20, 2021.

2. Basis of presentation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. 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. As of December 31, 2020, there are material uncertainties that casts substantial doubt about the appropriateness of a going concern assumption, as the Company incurred a net loss of $19,806,340 for the year ended December 31, 2020, negative cash flow from operations of $9,802,829, and had a deficit of $52,088,351 as at December 31, 2020. The Company is also in breach of a debt covenant with BDC Capital Inc. for convertible secured debentures and has reclassified the balance as at December 31, 2020 of $7,060,493 into current liabilities. Subsequent to December 31, 2020, the secured debentures were converted into equity as outlined below.

During the year ended December 31, 2020, the Company raised equity of $875,612, completed the RTO, received META's cash and cash equivalents of $4,179,371 and converted promissory notes of $5,948,003 into common shares (note 9). Further and pursuant to the RTO, the Company raised gross proceeds of $5,000,000 through the issuance of secured convertible debentures (note 11) and $950,000 through the issuance of unsecured convertible debentures (note 12). The Company entered into an Arrangement Agreement with Torchlight Energy Resources Inc., a NASDAQ listed entity, for a business combination. Torchlight is required to deliver gross proceeds of at least US $10 million through the issuance of new debt or common shares coincident with the closing of the transaction and to be otherwise debt free or only liable for indebtedness secured solely by its oil and gas assets. Through December 31, 2020, Torchlight provided US $1,000,000 of financing to the Company through the issuance of unsecured convertible promissory notes (note 10b), which reduces the required amount to be raised for the closing of the transaction. The Company also obtained a commitment letter (the "Bridge Loan") for $5,500,000 in debt financing, of which $500,000 has been drawn (note 10a).

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 achieve and maintain profitable operations in the future and to secure sufficient financing to fund ongoing investments in its operations. Subsequent to December 31, 2020, the Company received the remaining balance of $5,000,000 under the bridge loan. Torchlight was successful in raising additional equity funds and consequently has provided US $10,000,000 of financing to the Company through the issuance of unsecured convertible promissory note. Furthermore, the Company converted unsecured convertible promissory notes issued pursuant to the Bridge Loan of $5,526,082, unsecured convertible debentures of $1,936,984, long-term debt of $261,735, and due to related parties of $367,944 into common shares as well as forced conversion of secured convertible debentures of $5,370,776 into common shares.

The Company continues to generate revenues from a combination of engineering services and new product sales. Growth in future revenues is dependent on developing and commercializing additional products, further development of on-going collaborations, strategic partnerships or other transactions with third parties, and merger and acquisition opportunities. After giving effect to the transactions subsequent to December 31, 2021, management estimates that the Company's working capital is sufficient to fund its operations into the 2nd quarter of 2022. 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. These adjustments could be material.

Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, except for the derivative liability and financial liabilities held at fair value through profit and loss, which are measured at fair value *(note 20)*.

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 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 and Warrants

The Company makes certain estimates and assumptions when calculating the estimated fair values of stock options granted and warrants issued. The significant assumptions used include estimates of expected life, expected volatility, expected dividend yield and expected risk-free rate of return. Changes in these assumptions may result in a material change to the expense recorded for grants of stock options and the issuance of warrants. The assumptions and model used for estimating fair value for share-based payment transactions are disclosed in note 15.

Valuation of financial liabilities at fair value through profit or loss

The convertible debt instruments contain embedded derivatives. The Company accounts for these financial liabilities at fair value thought profit or loss. 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 judgment 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 judgment 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.

All financial 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.

The Company also receives interest-free repayable loans from the Atlantic Canada Opportunities Agency ("ACOA"), a government agency. The benefit of the loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates. The fair value of the components, being the loan and the government grant, must be calculated initially in order to allocate the proceeds to the components. The valuation is complex, as there is no active trading market for these items and is based on unobservable inputs.

Revenue from contracts with customers

Revenue from the sale of prototypes and finished products 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.

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.

Notes to consolidated financial statements

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 and capitalized only after technical and commercial feasibility of the asset for sale or use have been established. 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 assets acquired and 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.

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 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.

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.

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 incremental borrowing rate at the lease commencement date when 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 and the United States.

New accounting standards and interpretations issued and adopted

The following amended IFRS pronouncements were adopted effective January 1, 2020 and had no impact to the Company's financial statements:

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 '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.

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.

New accounting standards and interpretations not yet adopted

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

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify the classification of liabilities as current or non-current. On July 15, 2020 the IASB issued an amendment to defer the effective date by one year. The amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead such a right must have substance and exist at the end of the reporting period. The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

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

Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)

On May 14, 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16). The amendments clarify that proceeds from selling items before the related item of Property, Plant and Equipment is available for use should be recognised in profit or loss, together with the cost of producing those items. The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

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

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

On May 14, 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37). This amendment clarifies which costs are included as a cost of fulfilling a contract when determining whether a contract is onerous. The amendments are effective for annual periods beginning on or after January 1, 2022 and apply to contracts existing at the date when the amendments are first applied. Early adoption is permitted.

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

There are no other standards, interpretations or amendments to existing standards that are not yet effective that are expected to have a material impact on the consolidated financial statements of the Company.

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 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 14) 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]	285,157
	7,543,433
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	(33,388)
Listing expenses [4]	3,370,249
	7,543,433

[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.

Notes to consolidated financial statements

December 31, 2020 and 2019

5. Inventory

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

	December 31, 2020 $	December 31, 2019 $
Raw materials [1]	**481,606**	251,556
Supplies	**18,352**	25,505
Semi-finished goods	**88,335**	158,469
Finished goods	**1,684**	3,033
Spare parts	**—**	163
Total inventories	**589,977**	438,726

[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, 2020 includes $386,728 (December 31, 2019 - $167,670) that is restricted.

The Company has expensed $219,173 of restricted raw materials inventory to research and development expense during the year ended December 31, 2020 (December 31, 2019 - $291,995).

During the year ended December 31, 2020, the Company has recognized $4,233 (December 31, 2019 - $10,568) of the inventory cost in the cost of goods sold in the consolidated statements of loss and comprehensive loss.

6. Property and equipment

Property and equipment consist of the following:

Cost	**2020**			
	As at December 31, 2019 $	**Additions $**	**Foreign exchange differences $**	**As at December 31, 2020 $**
Computer equipment	**173,840**	**36,769**	**(1,989)**	**208,620**
Computer software	**326,643**	**—**	**—**	**326,643**
Manufacturing equipment	**7,027,756**	**1,509,788**	**(75,876)**	**8,461,669**
Office furniture	**126,649**	**—**	**(303)**	**126,346**
Enterprise Resource Planning	**267,694**	**—**	**—**	**267,694**
Assets under Construction	**—**	**559,403**	**(19,065)**	**540,338**
	7,922,582	**2,105,960**	**(97,233)**	**9,931,309**

Accumulated depreciation	**2020**			
	As at December 31, 2019 $	**Depreciation $**	**Foreign exchange differences $**	**As at December 31, 2020 $**
Computer equipment	**136,702**	**25,506**	**(544)**	**161,664**
Computer software	**162,403**	**164,241**	**—**	**326,644**
Manufacturing equipment	**3,923,789**	**1,831,027**	**(39,306)**	**5,715,510**
Office furniture	**89,128**	**17,685**	**(269)**	**106,544**
Enterprise Resource Planning	**51,885**	**53,539**	**—**	**105,424**
	4,363,907	**2,091,998**	**(40,119)**	**6,415,786**
Net book value	**3,558,675**			**3,515,523**

Notes to consolidated financial statements

December 31, 2020 and 2019

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

Manufacturing equipment additions include capitalized labour of $Nil (2019 - $244,582). They were also reduced by $12,258 (2019 - $212,268) related to investment tax credits.

For the year ended December 31, 2020, the Company has excluded the following non-cash investing activities from the consolidated statements of cash flows:

- Additions of $953,208 (2019 - $590,229) which was not paid as at year-end.
- Investment tax credit of $Nil (2019 - $50,229) which was deferred as at year-end.

Depreciation for the year was reduced by amortization of government grants of $411,562 (2019 - $24,278) related to Canada Foundation for Sustainable Development Technology Canada (“SDTC”) (note 21) and Innovate UK projects respectively (note 18).

Property and equipment is pledged as security under a 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.

7. Intangible assets

Intangibles assets consist of the following:

Cost	**2020**				
	As at December 31, 2019 $	**Additions $**	**Impairment $**	**Foreign exchange differences $**	**As at December 31, 2020 $**
License rights and patents	**8,594,989**	**244,165**	**(5,541)**	**20,271**	**8,853,884**
Trademarks	**49,463**	**44,030**	**—**	**(799)**	**92,694**
	8,644,452	**288,195**	**(5,541)**	**19,472**	**8,946,578**

Accumulated amortization	**2020**				
	As at December 31, 2019 $	**Amortization $**	**Impairment $**	**Foreign exchange differences $**	**As at December 31, 2020 $**
License rights and patents	**2,239,640**	**1,030,485**	**(317)**	**(22,856)**	**3,246,952**
Net book value	**6,404,812**				**5,699,626**

Cost	**2019**				
	As at December 31, 2018 $	**Additions $**	**Impairment $**	**Foreign exchange differences $**	**As at December 31, 2019 $**
License rights and patents	8,743,869	201,919	(149,946)	(200,853)	8,594,989
Trademarks	25,703	23,803	—	(43)	49,463
	8,769,572	225,722	(149,946)	(200,896)	8,644,452

Accumulated amortization	**2019**				
	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

Additions to intangible assets during the current year relate to $288,195 (2019 – $225,722) of capitalized legal fees for new patent applications and trademarks.

On March 28, 2013, the Company entered into an Exclusive Technology License Agreement (the “Technology Agreement”) with Lamda Guard Technologies Ltd (“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 is paid to LGTL for the term of the Agreement and is expensed in the period incurred in the consolidated statements of loss and comprehensive loss. There are no royalties payable to LGTL by the Company pursuant to the terms of the Agreement. On April 3, 2020, the Technology Agreement was amended and the monthly maintenance fees were reduced from £2,500 to £100.

For the year ended December 31, 2020, the Company has excluded additions of $147,872 (2019 – $5,242) from the consolidated statements of cash flows as non-cash investing activities.

The Company recognized impairment losses on patents held of $5,224 (2019 - $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, 2020 $	December 31, 2019 $
Due to Lamda Guard Technologies Ltd ("LGTL") – a shareholder, net [1]	**312,528**	345,033
Total due to related party, net – current	**312,528**	345,033

Transactions with related parties were as follows:

	December 31, 2020 $	December 31, 2019 $
Technology license fees [2]	**14,602**	50,807
Consulting fees [3]	**176,946**	186,982
Rent and utility reimbursement from LGTL [4]	**(46,554)**	(41,153)
Other	**(3,429)**	—
	141,565	196,636

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

[2] The Company entered into a Technology Agreement with LGTL on March 28, 2013 which was amended on April 3, 2020. 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).

[3] The Consulting fees includes advisory fees of $76,168 (2019 - $127,582) paid to a director and a former director, including related taxes payable to CRA, related to their contribution during the RTO, director fees of $100,778 (2019 - $14,400) and $Nil (2019 - $45,000) to a former director related to advisory services.

[4] 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, 2020 and 2019 is as follows:

	2020 $	2019 $
Salaries, including benefits	**1,377,130**	854,287
Share-based compensation expense [1]	**1,729,232**	1,236,365
Total	**3,106,362**	2,090,652

[1] During the year ended December 31, 2020, employee stock options issued to previous key management personnel 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 $138,139 [2019 - $Nil].

9. Secured convertible promissory notes

			2020 **$**			**2019** **$**
	Principal Amount	**Promissory note liability**	**Derivative liability**	Principal Amount	Promissory note liability	Derivative liability
Beginning balance	**4,348,370**	**4,595,975**	**1,175,056**	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)**	—	—	
Ending balance	**—**	**—**	**—**	4,348,370	4,595,975	1,175,056

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.

Also during fiscal 2019, the Company received $2,280,010 of convertible loans from a 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 shareholder 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 statements 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.

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. 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.

10. Unsecured convertible promissory notes

			2020
			$
	Bridge loan (a)	**Torchlight (b)**	**Total**
Beginning balance	**—**	**—**	**—**
Issued	**500,000**	**1,304,570**	**1,804,570**
Interest accrued	**3,507**	**16,541**	**20,048**
Unrealized foreign currency exchange gain	**—**	**(31,005)**	**(31,005)**
Unrealized fair value loss (gain)	**181,500**	**(443,153)**	**(261,653)**
Ending balance	**685,007**	**846,953**	**1,531,960**

a) 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 to 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.

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 promissory note 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 December 31, 2020 and recognized an unrealized loss of $181,500 on liability in the consolidated statements of loss and comprehensive loss.

b) On September 15, 2020, the Company entered into a non-binding Letter of Intent (the "LOI") with Torchlight Energy Resources Inc. ("Torchlight") 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, 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. The Company may repay all or part of the Unsecured Convertible Promissory Note, plus any accrued and unpaid interest, without penalty on or after 120 days from the note issuance date.

On December 16, 2020, Torchlight loaned the Company an additional 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 December 16, 2022. If 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 $0.62 per common share. The Company may repay all or part of the Unsecured Convertible Promissory Note, plus any accrued and unpaid interest, without penalty on or after 120 days from the note issuance date.

The conversion option is 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 promissory note 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 December 31, 2020 and recognized an unrealized gain of $443,153 on liability in the consolidated statements of loss and comprehensive loss.

11. Secured convertible debentures

	December 31, 2020 $
Beginning balance	**—**
Issued	**5,000,000**
Interest accrued	**678,355**
Interest paid	**(380,273)**
Unrealized fair value loss	**1,762,411**
Ending balance	**7,060,493**

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.

As at December 31, 2020, the company accrued PIK interest of $298,082 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 December 31, 2020 and recognized an unrealized loss of $1,762,411 on liability in the consolidated statements of loss and comprehensive loss.

The secured debentures are subjected to covenant clause, whereby the Company is required to maintain a working capital ratio of no less than 3:1. Working capital ratio excludes deferred revenue and deferred government assistance from current liabilities. The Company did not fulfil the ratio as required in the contract and consequently, the secured debentures were reclassified as a current liability as at December 31, 2020.

12. Unsecured convertible debentures

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

	December 31, 2020 $	December 31, 2019 $
Beginning balance	**760,145**	—
Issued	**950,000**	750,000
Interest accrued	**196,838**	10,145
Unrealized fair value loss	**417,102**	—
Ending balance	**2,324,085**	760,145

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.

During the year ended December 31, 2020, the Company issued an additional $950,000 in Unsecured Debentures to individuals and companies under the same terms as previous issues.

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.

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 December 31, 2020 and recognized an unrealized loss of $417,102 (year ended December 31, 2019 - $Nil) on liability in the consolidated statements of loss and comprehensive loss.

13. Long-term debt

a) ACOA interest-free loan (Business Development Program)

	December 31, 2020	December 31, 2019
	$	$
Loan outstanding principal [1]	**178,571**	196,427
Interest-free component [2]	**(119,728)**	(116,117)
Principal adjusted for interest-free component	**58,843**	80,310
Accumulated non-cash interest accretion	**105,889**	94,520
Carrying amount	**164,732**	174,830
Less current portion	**(71,428)**	(71,428)
	93,304	103,402

[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. The Company is required to make monthly principal repayments of $5,952 until September 1, 2022, which were temporarily paused effective April 1, 2021 until January 1, 2021, as a result of the COVID-19 outbreak. 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.

[2] 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. For the year ended December 31, 2020, $3,611 was recorded as government assistance in the consolidated statements of loss and comprehensive loss related to changes in the repayment schedule as a result of the COVID-19 outbreak.

b) ACOA interest-free loan (Atlantic Innovation Fund)

	December 31, 2020	December 31, 2019
	$	$
Loan outstanding principal [1]	**3,000,000**	3,000,000
Interest-free component [2]	**(2,195,178)**	(2,355,856)
Principal adjusted for interest-free component	**804,822**	644,144
Accumulated non-cash interest accretion	**1,052,718**	614,355
Carrying amount	**1,857,540**	1,258,499
Less current portion	**(75,385)**	—
	1,782,155	1,258,499

[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. Management has estimated that the loan will be repaid over a period of approximately eight years. 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 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.

[2] As the loan 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. For the year ended December 31, 2020, changes to the estimated repayment schedule required a change in the value of the interest free component of the loan which resulted in a reduction of $160,678 [2019 - addition of $321,725] in government assistance in the consolidated statements of loss and comprehensive loss.

c) ACOA interest-free loan (Business Development Program)

	December 31, 2020 $	December 31, 2019 $
Loan outstanding principal [1]	**3,000,000**	2,985,136
Interest-free component [2]	**(1,289,098)**	(1,281,240)
Interest-free component - deferred [3]	**(548,055)**	(548,055)
Principal adjusted for interest-free component	**1,162,847**	1,155,841
Accumulated non-cash interest accretion	**473,606**	251,194
Carrying amount	**1,636,453**	1,407,035
Less current portion	**(218,750)**	—
	1,417,703	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 December 31, 2020 (December 31, 2019 - $2,985,136). 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.

[2] As the loan 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. For the year ended December 31, 2020, $7,858 was recorded as government assistance in the consolidated statements of loss and comprehensive loss representing $7,858 [2019 - $480,102] related to the value of the interest-free component on the proceeds received during the year and $Nil [2019 - $77,546] related to changes in the estimated repayment schedule.

[3] A portion of the loan was used to finance the acquisition and construction of manufacturing equipment, accordingly $548,055 was recorded in the consolidated statements of financial position as deferred government assistance, which is being amortized over the useful life of the associated equipment. The Company amortized the deferred government assistance and for the year ended December 31, 2020 and recorded $182,685 [December 31, 2019 - $178,834] as government assistance in the consolidated statements of loss and comprehensive loss. At December 31, 2020, the unamortized deferred government assistance balance is $186,536 [2019 - $369,221].

d) ACOA interest-free loan (Business Development Program)

	December 31, 2020 $	December 31, 2019 $
Loan outstanding principal [1]	**62,165**	41,954
Interest-free component [2]	**(31,230)**	(19,772)
Principal adjusted for interest-free component	**30,935**	22,182
Accumulated non-cash interest accretion	**7,437**	2,459
Carrying amount	**38,372**	24,641
Less current portion	**(4,358)**	(1,748)
	34,014	22,893

[1] On November 28, 2019, the Company entered into an agreement with ACOA Business Development Program to receive contributions up to the lessor 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. On January 22, 2020, the Company received the second claim of the loan amounting to $20,211. The Company is required to make monthly principal repayments of $1,400 beginning October 1, 2020, which were temporarily paused until June 1, 2021, as a result of the COVID-19 outbreak. 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.

[2] 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. For the year ended December 31, 2020, $11,458 was recorded as government assistance in the consolidated statements of loss and comprehensive loss representing $8,227 [2019 - $19,772] related to the value of the interest-free component on the proceeds received during the year and $3,231 [2019 - $Nil] related to changes in the repayment schedule as a result of the COVID-19 outbreak.

e) Bank equipment loan

	December 31, 2020 $	December 31, 2019 $
Loan outstanding principal	**244,400**	250,000
Interest accrued	**26,245**	20,335
Interest paid	**(26,245)**	(19,160)
Principal paid	**(244,400)**	(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.

f) Shareholder Loan from Caixa Capital

	December 31, 2020 $	December 31, 2019 $
Loan from Caixa Capital	**233,964**	218,600
Fair value of below market interest rate component	**(126,005)**	(117,730)
Fair value of loan	**107,959**	100,870
Non-cash interest accretion	**57,894**	32,227
Carrying amount	**165,853**	133,097
Less current portion	**—**	—
	165,853	133,097

The loan has an interest rate of 6 months Euribor rate plus 2% until January 17, 2020 and thereafter interest has a rate of 6 months Euribor rate plus 4% until the maturity date of January 17, 2025. The shareholder loans shall be repaid within 10 years, with the respective accrued interest paid on the same date. During the year ended December 31, 2020, the Company has recognized non-cash interest accretion of $25,667 [2019-$17,861]. The loan was fair valued at the date of acquisition and is being accreted to the principal balance over the term to maturity.

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 2012 $	ACOA AIF $	ACOA BDP Loan 2018 $	ACOA BDP Loan 2019 $	Caixa Capital Loan $	Total $
2021	**71,428**	**75,385**	**218,750**	**4,358**	**—**	**369,921**
2022	**71,431**	**431,779**	**376,858**	**10,361**	**—**	**890,429**
2023	**35,712**	**800,110**	**376,858**	**10,361**	**—**	**1,223,041**
2024	**—**	**1,692,726**	**376,858**	**10,361**	**—**	**2,079,945**
2025	**—**	**—**	**376,858**	**10,361**	**233,964**	**621,183**
Thereafter	**—**	**—**	**1,273,818**	**16,363**	**—**	**1,290,181**
	178,571	**3,000,000**	**3,000,000**	**62,165**	**233,964**	**6,474,700**

14. 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:

	2020		2019	
	Number of shares	**Amount**	Number of shares	Amount
	#	$	#	$
Balance, beginning of year	**10,504,573**	**7,598,670**	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**	**76,696**	30,441	43,250
	24,079,272	**27,014,823**	10,504,573	7,598,670
Resultant Issuer common shares issued to MTI shareholders [1]	**47,810,924**	**—**	—	—
Fair value of deemed issuance to CPM [note 4]	**11,706,896**	**7,258,276**	—	—
Tax withheld on deferred shared units	**(39,413)**	**(24,365)**	—	—
Balance, end of year	**83,557,679**	**34,248,734**	10,504,573	7,598,670

[1] Resultant Issuer common shares issued to MTI shareholders were calculated as follow:

	Beginning balance	**Issued, net**	**Pre RTO**	**Conversion Ratio**	**Post RTO**	**Change**
	#	**#**	**#**		**#**	**#**
Common shares	**10,504,573**	**515,067**	**11,019,640**	**2.750**	**30,303,992**	**19,284,352**
Preferred shares - class A1	**5,273,720**	**—**	**5,273,720**	**2.750**	**14,502,722**	**9,229,002**
Preferred shares - class A2	**4,125,264**	**—**	**4,125,264**	**4.125**	**17,016,705**	**12,891,441**
Promissory notes	**—**	**3,498,825**	**3,498,825**	**2.750**	**9,621,764**	**6,122,939**
Deferred shared units	**—**	**103,000**	**103,000**	**2.750**	**283,250**	**180,250**
Share-based compensation	**—**	**58,823**	**58,823**	**2.750**	**161,763**	**102,940**
	19,903,557	**4,175,715**	**24,079,272**		**71,890,196**	**47,810,924**

During the year ended December 31, 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 year ended December 31, 2020 and pursuant to the RTO, all preferred shares were converted into 9,398,984 common shares of MTI. See preferred share section below for additional details.

Notes to consolidated financial statements

During the year ended December 31, 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 9 for additional details.

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

Also, during the year ended December 31, 2020 and pursuant to the RTO, the Company has withheld 39,413 common shares equivalent to $24,365 from the 2019 DSU's settlement representing tax withheld and remitted to CRA on behalf of 2 former directors.

During the year ended December 31, 2020, the Company issued 58,823 MTI units, each consisting of one common share and one common share purchase warrant, to two directors of MTI which were ascribed a value of $1.70 per MTI common share. These units were

During the year ended December 31, 2019, the Company has approved advisory fees for a director and a former director of $100,000, 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 $70,000 as consulting fees, based on expected probability of 70% for the completion of the RTO at December 31, 2019 with the amount recorded in contributed surplus. During the year ended December 31, 2020, the remaining $30,000 was recognized as consulting fees and the balance of $100,000 recorded in contributed surplus was converted into warrants and common shares upon completion of the RTO. In addition, during the year ended December 31, 2020, the company recognized related taxes of $46,168 (2019 - $57,582) as consulting fees.

The Company has allocated the consideration of $100,000 to warrants and common shares based on the relative fair value of the warrant and the shares. Accordingly, $76,696 has been allocated to common shares and $23,304 has been allocated to warrants.

During the year ended December 31, 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 proceeds 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 the year ended December 31, 2019, $923 was recognized as common share issuance cost.

During the year ended December 31, 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.

Notes to consolidated financial statements

December 31, 2020 and 2019

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

	2020		**2019**	
	Number of warrants #	**Amount** $	Number of warrants #	Amount $
Balance, beginning of year	**627,097**	**175,095**	—	—
Issued	**573,890**	**227,358**	627,097	175,095
Adjustment to 2019 warrants	**—**	**141,031**	—	—
	1,200,987	**543,484**	627,097	175,095
Conversion of MTI warrants into META warrants pursuant to the RTO (Note 4)	**450,365**	**—**	—	—
Balance, end of year	**1,651,352**	**543,484**	627,097	175,095

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

	2020		**2019**	
	Number of warrants #	**Amount** $	Number of warrants #	Amount $
Balance, beginning of year	**—**	**—**	—	—
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**	**—**	—	—
Balance, end of year	**52,861**	**21,962**	—	—

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 year ended December 31, 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:

	2020	2019
Risk free interest rate	0.80% - 1.43%	0.80% - 1.43%
Expected volatility	134%	134%
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	$1.70 - $2.475
Expected term of warrants	24 Months post RTO	24 Months post RTO

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:

	2020		2019	
	Number of shares \#	Amount $	Number of shares \#	Amount $
Balance, beginning of year	**9,398,984**	**12,748,100**	9,398,984	12,748,100
Conversion to common shares	**(9,398,984)**	**(12,748,100)**	—	—
Balance, end of year	**—**	**—**	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 the year ended December 31, 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.

15. 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:

	2020	2019
	#	#
Outstanding, beginning of year	**784,000**	937,000
Converted into MTI Common Shares	**(103,000)**	(153,000)
	681,000	784,000
Conversion of MTI DSUs into META DSUs pursuant to the RTO (note 4)	**1,191,750**	—
Outstanding, end of year	**1,872,750**	784,000

Information concerning units outstanding is as follows:

	2020	2019
Issue price	**Number of units**	Number of units
$	#	#
0.50	**1,815,000**	755,000
0.95	**57,750**	29,000
	1,872,750	784,000

No DSUs were issued during the year ended December 31, 2020 or December 31, 2019.

During the year ended December 31, 2020 and prior to the RTO, 103,000 (2019 - 153,000) MTI DSUs were converted into 103,000 (2019 - 153,000) MTI common shares.

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 year ended December 31, 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 7,264,000 META options to employees and directors, 487,000 of which vested upon grant and 6,777,000 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 and 1,133,261 options expired unexercised.

Notes to consolidated financial statements

During the year ended December 31, 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.

During the year ended December 31, 2020, the Company has recognized stock-based compensation of $1,891,024 (2019 - $1,710,952) net of forfeitures. Previously recognized expense attributable to unvested options of terminated employees was recognized as a recovery within stock compensation expense in the amount $147,041 (2019 - $19,124).

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

	2020		2019	
	Weighted Average exercise price per share option $	**Number of options #**	**Weighted Average exercise price per share option $**	**Number of options #**
Outstanding, beginning of year	**1.66**	**2,858,300**	1.64	2,228,380
Granted		**—**	1.70	859,143
Forfeitures	**1.70**	**(7,500)**	1.66	(229,223)
	1.66	**2,850,800**	1.66	2,858,300
Conversion of MTI options into META options pursuant to the RTO (note 4)		**4,988,897**		—
Issued to CPM executives and directors pursuant to RTO (note 4)	**0.35**	**700,000**		—
Granted	**0.62**	**7,264,000**		—
Forfeitures	**0.62**	**(1,403,500)**		—
Expired	**0.50**	**(1,133,261)**		—
Outstanding, end of year	**0.61**	**13,266,936**	1.66	2,858,300

Below is a summary of the outstanding options as at December 31, 2020:

Exercise price $	**Number outstanding 2020 #**	**Number exercisable 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)	12,764,436	3,439,689
	13,266,936	**3,942,189**

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

Exercise price $	**Number outstanding 2019 #**	**Number exercisable 2019 #**
0.75	**110,000**	105,208
1.7	**2,748,300**	1,132,409
	2,858,300	1,237,617

Notes to consolidated financial statements

The weighted average remaining contractual life for the share options outstanding as at December 31, 2020 was 8.36 [December 31, 2019 – 8.38] years. The weighted average fair value of META options granted during the year was $0.52 [2019 - $1.13 for MTI options].

The fair value of options granted during 2020 and 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	**$0.52**	$1.42
Exercise price for options Issued to CPM executives and directors	**$0.35**	—
Exercise price for all other options	**$0.62**	—
Dividend yield [%]	**—**	—
Expected volatility for options having 10 years expiry	**52%-117%**	84%
Expected volatility for options having 3 years expiry	**—**	$1.30
Expected volatility for options having 6 month expiry	**134%**	0%
Weighted average risk-free interest rate	**0.73%**	1.21%
Weighted average expected life of the options	**7.48 years**	8.67 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.

Other

During the year ended December 31, 2019, the Company approved advisory fees for a director and a former director of $100,000, 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 $70,000 as consulting fees, based on expected probability of 70% for the completion of the RTO at December 31, 2019. During the year ended December 31, 2020 and upon completion of the RTO, the remaining $30,000 was recognized as consulting fees. In addition, during the year ended December 31, 2020, the company recognized related taxes of $46,168 (2019 - $57,582) as consulting fees.

During the year ended December 31, 2020, the Company recognized consulting fees of $180,000 for a fairness opinion with respect to the Torchlight RTO. The Company paid $90,000 in cash and agreed to settle the remaining $90,000 in common shares at an issue price of the lower of i) the share price of Torchlight at announcement date of the transaction or ii) the volume weighted average of the Company's trading price on the Canadian Stock Exchange for the five trading days prior to the announcement date. The Company has recognized the share-based payment in trade and other payables until the shares are issued.

Notes to consolidated financial statements

December 31, 2020 and 2019

16. Income taxes

A reconciliation of the income tax attributable to the operations for the year using the statutory tax rate of 29.50% (2019 – 31%) is as follows:

	2020	2019
	$	$
Net loss before tax	**(20,062,078)**	(11,202,622)
Tax rate	**29.50%**	31%
Expected tax at statutory rate	**(5,918,313)**	(3,472,813)
Temporary differences not recognized	**3,975,923**	2,679,357
Share based compensation, not deductible for tax purposes	**634,856**	530,395
Listing expenses, not deductible for tax purposes	**994,223**	—
Impact of lower rate in foreign jurisdiction	**106,058**	127,479
Other	**(48,485)**	16,218
Income tax recovery	**(255,738)**	(119,364)

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

	2020	2019
	$	$
Non-capital losses	**1,309,879**	1,595,729
Intangible assets	**(896,169)**	(1,021,489)
Property and equipment	**(357,886)**	(626,633)
Long-term debt	**(373,260)**	(529,875)
Funding obligation	**(45,076)**	(76,214)
Unsecured convertible promissory notes	**(42,435)**	—
	(404,947)	(658,481)

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

	2020	2019
	$	$
Non-capital losses	**37,665,094**	27,997,982
Secured Convertible Debentures	**1,762,411**	—
Intangible assets	**268,539**	246,962
Unsecured convertible debentures	**417,192**	—
Deferred government assistance	**186,536**	369,221
Due from MTI USA	**161,076**	27,163
Right-of-use	**—**	—
Derivative liabilities	**—**	1,070,808
	40,460,848	29,712,136

The losses begin to expire in 2028.

17. 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, debentures, derivative liability, funding obligation and long-term debt, which as at December 31, 2020 was $56,387,088 (December 31, 2019 - $34,858,227).

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

18. Government grants

a) Grants receivable

	December 31, 2020 $	December 31, 2019 $
ACOA-PBS [1]	**15,229**	21,144
Co-Op wage subsidy [2]	**39,978**	13,500
Canada Emergency Wage Subsidy [3]	**297,223**	—
Innovate UK – Glucose sensor [4]	**—**	45,100
Innovate UK – Microwave tech [5]	**—**	108,343
Innovate UK – Diabet [6]	**65,012**	54,618
	417,442	242,705

[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] During 2020 and 2019, the Company applied for and received grants related to co-op students and recent graduates under the Nova Scotia Co-Op Subsidy, Graduate To Opportunity Program ("GTO") and Venture for Canada program ("VFC").

[3] During 2020, the company applied for Canada Emergency Wage subsidy ("CEWS") for an amount of $606,770, of which $236,010 has been received.

[4] 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".

[5] 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".

[6] 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". On July 01, 2020, Innovate UK approved additional grant to Mediwise of $189,982 for the project for total eligible costs of $272,660 incurred during the period from June 01, 2020 to November 30, 2020.

On November 24, 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. Subsequent to year end, the Company received an interest-free loan of $390,000, repayable in 36 monthly installments starting April 1, 2023. The amount drawn under the loan is based on eligible expenses incurred by the Company since March 15, 2020.

b) Deferred government assistance

	December 31, 2020 $	December 31, 2019 $
SDTC [1]	**992,560**	1,563,653
Deferred government assistance *(note 13c)*	**186,536**	369,221
	1,179,096	1,932,874
Less current portion	**1,179,096**	518,837
	—	1,414,037

[1] On May 15, 2018, the Company entered into an agreement with the Canada Foundation for Sustainable Development Technology Canada ("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 $847,836 (2019 - $254,865) have been accounted for as government grants and were recorded as an offset against eligible project costs incurred. The Company has recorded $224,855 (2019 - $169,414) as a reduction of salaries and benefits expense, $19,063 (2019 - $Nil) as a reduction of travel and entertainment expense, $404,570 (2019 - $Nil) as a reduction of depreciation and amortization expense, $25,388 (2019 - $Nil) as reduction of research and development expense, $102,612 (2019 - $Nil) as a reduction of consulting expense and $64,356 (2019 - $56,602) as a reduction of rent and utilities expense.

c) Government assistance recognized in the consolidated statements of loss and comprehensive loss

	2020 $	**2019** $
Salaries and benefits	**1,194,029**	739,850
Depreciation and amortization	**411,562**	24,106
Travel and entertainment	**19,461**	7,564
Other expenses	**—**	15,431
Rent and utilities	**64,356**	56,602
Consulting	**102,612**	46,037
Investor Related Expense	**24,021**	8,791
Research and development	**43,451**	109,932
Total government assistance recognized as offset to expenses	**1,859,492**	1,008,313
Amortization of deferred government assistance *(note 13c)*	**182,685**	178,834
Fair value gain (loss) on interest-free component of long-term debt *(note 24)*	**22,927**	821,599
Total government assistance	**2,065,104**	2,008,746

19. Additional cash flow information

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

	2020 $	2019 $
Grants receivable	**(172,841)**	21,485
Other receivables	**55,994**	(14,185)
Inventory	**(151,252)**	(23,154)
Prepaid expenses	**(71,776)**	(89,331)
HST receivable	**66,088**	(75,528)
Trade payables	**(540,068)**	1,357,794
Due to related parties	**(35,381)**	2,013
	(849,236)	1,179,094

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

	2020 $	2019 $
Current portion of long-term debt, beginning of year	**104,376**	71,429
Long-term debt, beginning of year	**3,139,301**	3,108,273
Carrying amount, beginning of year	**3,243,677**	3,179,702
Scheduled repayments of long-term debt	**(262,256)**	(77,024)
Net proceeds from loans, net of financing costs	**35,075**	879,860
Non-cash changes in long-term debt:		
Interest accrued	**(1,175)**	1,175
Interest accretion	**702,789**	168,943
Fair market value adjustments	**137,751**	(899,146)
Foreign exchange loss (gain) on long-term debt	**7,089**	(9,833)
Carrying amount, end of year	**3,862,950**	3,243,677
Less current portion	**(369,921)**	(104,376)
	3,493,029	3,139,301

20. Financial instruments

The Company's financial liabilities include trade payables, due to related party, derivative liability, funding obligation, secured and unsecured convertible promissory notes, secured and unsecured convertible debentures and long-term debt. The Company's financial assets include cash and cash equivalents, 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 through profit and loss.

The following table illustrates how the positions in the consolidated statements of financial position are classified and measured:

Financial asset/liability	Classification and measurement
Cash and cash equivalents	Amortized cost
Grants receivable	Amortized cost
Other receivables	Amortized cost
Trade payables	Other financial liabilities at amortized cost
Due to related party	Other financial liabilities at amortized cost
Derivative liability	Fair value through profit and loss
Funding obligation	Amortized cost
Secured convertible promissory notes	Amortized cost
Unsecured convertible promissory notes	Fair value through profit and loss
Secured convertible debentures	Fair value through profit and loss
Unsecured convertible debentures	Fair value through profit and loss
Lease Liabilities	Amortized cost
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 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 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 fair values of long-term debt, funding obligation, secured convertible promissory notes and lease liabilities are 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.

The Company has chosen to record the unsecured convertible promissory notes as well as secured and unsecured convertible debentures at fair value through profit or loss rather than to account for the debt instrument and the derivative liability separately.

The following table sets out the approximate fair values of financial instruments as at the consolidated statements of financial position date:

	December 31, 2020		December 31, 2019	
Financial asset/liability	**Carrying value $**	**Fair value $**	Carrying value $	Fair value $
Cash and cash equivalents	1,776,983	1,776,983	528,691	528,691
Grants receivable	417,442	417,442	242,705	242,705
Other receivables	50,330	50,330	79,072	79,072
Trade payables	3,743,783	3,743,783	3,176,642	3,176,642
Due to related party	312,528	312,528	345,033	345,033
Derivative liability	—	—	1,175,056	1,175,056
Funding obligation	989,128	708,737	808,298	911,811
Secured convertible promissory notes	—	—	4,595,975	4,545,396
Unsecured convertible promissory notes	1,531,960	1,531,960	—	—
Secured convertible debentures	7,060,493	7,060,493	—	—
Unsecured convertible debentures	2,324,085	2,324,085	760,145	760,145
Lease liabilities	344,507	360,124	71,947	123,728
Long-term debt	3,862,950	3,402,430	3,243,677	3,668,477

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 convertible notes, convertible debentures, funding obligation and long-term debt, except shareholder Loan from Caixa Capital, 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 increase or decrease in exchange rates by 5% will result in below mentioned increase or decrease respectively in net loss before tax for the year ended December 31, 2020:

- by $67,285 [December 31, 2019-$34,476] on account of change in USD exchange rate;
- by $8,076 [December 31, 2019-$8,114] on account of change in GBP exchange rate;
- by $9,633 [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 party $	Unsecured convertible promissory notes $	Secured convertible debentures $	Unsecured convertible debentures $	Leases $	Total $
2021	**369,921**	**3,743,783**	**312,528**	**—**	**—**	**—**	**214,472**	**4,640,704**
2022	**890,429**	**—**	**—**	**1,804,570**	**—**	**—**	**643,416**	**3,338,415**
2023	**1,223,041**	**—**	**—**	**—**	**—**	**—**	**643,416**	**1,866,457**
2024	**2,079,945**	**—**	**—**	**—**	**5,000,000**	**—**	**643,416**	**7,723,361**
2025	**621,183**	**—**	**—**	**—**	**—**	**1,700,000**	**643,416**	**2,964,599**
Thereafter	**1,290,181**	**—**	**—**	**—**	**—**	**—**	**3,646,024**	**4,936,205**
	6,474,700	**3,743,783**	**312,528**	**1,804,570**	**5,000,000**	**1,700,000**	**6,434,160**	**25,469,741**

21. Deferred revenue

Deferred revenue consists of the following:

	2020				
	As at December 31, 2019 $	**Received $**	**Recognized in revenue $**	**Foreign exchange $**	**As at December 31, 2020 $**
Satair A/S-exclusive rights [1]	**1,169,730**	**—**	**(131,740)**	**—**	**1,037,990**
Satair A/S-advance against PO [2]	**624,916**	**—**	**(2,514)**	**—**	**622,402**
LM Aero-metaSOLAR commercialization [3]	**1,527,796**	**—**	**(705,138)**	**—**	**822,658**
Breakthrough Starshot Foundation [4]	**—**	**106,403**	**—**	**(10,850)**	**95,553**
Innovate UK-R&D tax credit	**23,623**	**—**	**—**	**285**	**23,908**
	3,346,065	**106,403**	**(839,392)**	**(10,565)**	**2,602,511**
Less current portion					**1,578,676**
					1,023,835

	2019				
	As at December 31, 2018 **$**	**Received** **$**	**Recognized in revenue** **$**	**Foreign exchange** **$**	**As at December 31, 2019** **$**
Satair A/S-exclusive rights [1]	1,299,700	—	(129,970)	—	1,169,730
Satair A/S-advance against PO [2]	654,801	1,545	(31,430)	—	624,916
LM Aero-metaSOLAR commercialization [3]	2,232,934	—	(705,138)	—	1,527,796
Innovate UK-R&D tax credit	—	22,867	—	756	23,623
	4,187,435	24,412	866,538	756	3,346,065
Less current portion					1,483,645
					1,862,420

[1] 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, 2020, the Company has recognized $131,740 (2019 - $129,970) as development revenue related to this agreement.

[2] 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 expires on October 5, 2021. As at December 31, 2020, no amount has been drawn from the letter of credit with RBC.

[3] 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, 2020, 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 (2019 – $705,138) related to the agreement.

[4] On March 1, 2020, the Company entered into a research agreement with Breakthrough Starshot Foundation LLC under the project "Lightsail" for US$150,000. The Company received US$75,000 on March 6, 2020 which is recognized as part of deferred revenue as at December 31, 2020.

22. Funding obligation

	December 31, 2020 $	December 31, 2019 $
Outstanding obligation [1]	**1,300,000**	1,300,000
Fair value of interest-free component [2]	**(488,980)**	(530,960)
Principal adjusted for interest-free component	**811,020**	769,040
Accumulated non-cash interest accretion	**178,108**	39,258
Carrying amount	**989,128**	808,298
Less current portion	**—**	—
	989,128	808,298

[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 received 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.

[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, during 2019, the Company recognized $530,960 as other income in the consolidated statements of loss and comprehensive loss. During 2020, the Company recognized $41,980 related to changes in the estimated repayment schedule as finance cost in the consolidated statements of loss and comprehensive loss.

23. Leases

The carrying amounts in the consolidated statements of financial position are as follows:

Right-of-use Assets	December 31, 2020 $	December 31, 2019 $
Opening balance	**66,951**	—
Initial recognition as at January 1, 2019	**—**	149,378
Additions	**411,112**	—
Amortization	**(129,719)**	(79,219)
Unrealized foreign exchange loss	**(10,903)**	(3,208)
Closing balance	**337,441**	66,951

Lease liabilities	**December 31, 2020**	**December 31, 2019**
	$	**$**
Opening balance	**71,947**	—
Initial recognition of liability and interest as at January 1, 2019	**—**	149,378
Additions	**411,112**	—
Payments	**(149,991)**	(92,388)
Non-cash interest accretion	**22,632**	16,849
Unrealized foreign exchange gain	**(11,193)**	(1,892)
As at December 31, 2020	**344,507**	71,947
Less: current portion	**(192,001)**	(71,947)
	152,506	—

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

	2020	**2019**
	$	$
Amortization expense of right-to-use assets	**129,719**	**79,219**
Interest expense on lease liabilities	**22,632**	**16,849**
	152,351	**96,068**

The Company had total cash outflows for leases during the year of $484,259 (2019 - $443,357), including short-term leases. The Company has a month to month lease for its facilities in Canada.

24. Finance income and costs

Finance income	**2020**	**2019**
	$	$
Fair value gain on interest-free component of long-term debt (note 13)	**22,927**	821,599
Interest income	**11,375**	776
	34,302	822,375

Finance costs	**2020**	**2019**
	$	$
Interest & Bank charges	**1,100,869**	521,592
Non-cash interest accretion on long-term debt (note 13)	**677,122**	151,104
Non-cash interest accretion on funding obligation (note 22)	**138,850**	39,258
Non-cash interest accretion on lease liabilities (note 23)	**22,632**	16,849
Non-cash interest accretion on promissory notes (note 9)	**—**	208,632
Fair value loss on interest-free component of long-term debt (note 13)	**160,678**	—
Fair value loss on interest-free component of funding obligation (note 22)	**41,980**	—
	2,142,131	937,435

Notes to consolidated financial statements

December 31, 2020 and 2019

Non-cash finance income and costs for the purposes of the consolidated statements of cash flows are as follows:

Non-cash finance income	**2020**	**2019**
	$	$
Fair value gain on interest-free component	**22,927**	821,599

Non-cash finance costs	**2020**	**2019**
	$	$
Non-cash interest expense	**586,337**	287,955
Non-cash interest accretion	**838,604**	415,843
Fair value loss on interest-free component	**202,658**	—
	1,627,599	703,798

25. Other expenses

	2020	**2019**
	$	$
Subscriptions and licenses	**357,363**	246,286
Office supplies	**30,369**	41,105
Postage and shipping	**61,542**	78,586
Insurance	**147,997**	46,536
Repairs and maintenance	**84,491**	22,808
Janitorial services	**43,456**	39,957
Telephone and Internet	**24,515**	30,263
Training	**68**	16,118
IT support	**413**	7,492
Miscellaneous	**31,057**	19,982
Related party cross charge	**(38,795)**	(41,153)
	742,476	507,980

26. Commitments and contingencies

a) 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. During the year ended December 31, 2020, the Company has accrued royalties of $136 (2019 – $1,570) in cost of goods sold in the consolidated statements of loss and comprehensive loss with this agreement.

b) During the year, the Company has entered into a non-binding letter of intent for the acquisition of specialized lens casting production equipment and intellectual property, including more than 70 patents, from Canton Zug in Switzerland previously owned by Interglass Technology AG (Switzerland) for US$800,000.

   The Company has also entered into a cooperation framework agreement with Covestro Deutschland AG. Under the agreement, Covestro is obligated to provide EUR 800,000 of proceeds to the Company in exchange for a license to the Interglass patents and certain support services.

c) In August 31, 2020, the Company signed a ten-year lease commencing January 1, 2021, for 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 December 31, 2020, the full amount of the $500,000 remains undrawn and available.

d) During the year, the Company signed a three-year supply deal with Covestro Deutschland AG, which will provide early access to new photo-sensitive holographic film materials, the building block of META's holographic product. This agreement will not only allow early access to Covestro's R&D library of photopolymer films but will also accelerate META's product development and speed of innovation. Target markets include photonics/optical filters and holographic optical elements, diffusers, laser eye protection, optical combiners, and AR (augmented reality) applications.

e) During 2018, the Company arranged a guarantee/standby letter of credit with RBC in favour of Satair A/S for US $500,000 in relation to an advance payment received (note 21). 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 expires on October 5, 2021. As at December 31, 2020, no amount has been drawn from the letter of credit with RBC.

f) During 2017, the Company has set up an irrevocable standby letter of credit with RBC in favour of LM Aero for US$4,150,000 in relation to Offset Project Agreement ("OPA") (note 21). 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 issues 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, 2020, the letter of credit with RBC has been reduced in accordance with the agreement and no amounts have been drawn by LM Aero.

27. Subsequent events

(a) On January 4, 2021 and January 27, 2021, the Company received two more tranches of the 'Bridge Loan' of $500,000 each. On February 11, 2021, the remainder of the 'Bridge Loan' of $4,000,000 was received. On February 16, 2021, the total 'Bridge Loan' of $5,526,082 of principal and accrued interest was converted at $0.50 per share into 11,052,164 shares of the Company, in accordance with the terms of the bridge financing announced on December 20, 2020.

(b) On January 14, 2021, the Company entered into a cash use agreement with an entity related to a shareholder where the Company is allowed access to cash in the amount of $1,000,000 in order to obtain a letter of credit of EUR 600,000 in connection with the acquisition of certain assets previously owned by Interglass Technology AG (note 25).

(c) On February 16, 2021, the Company converted $1,936,984 of principal and accrued interest of convertible debentures at $0.70 per share into 2,767,120 common shares of the Company in accordance with the terms of their debt instruments.

(d) On February 18, 2021, as per the ‘Arrangement Agreement’ between Torchlight Energy Resources Inc. and the Company, Torchlight loaned US$10,000,000 as unsecured convertible promissory note bearing interest at 8% per annum, repayable in full on February 18, 2022. If the Arrangement Agreement is terminated or expires without the completion of the Arrangement, Torchlight will have the right to convert all or any portion of the principal amount and any accrued but unpaid interest under the Promissory Note into the common shares of META (the “Common Shares”) at a conversion price of C$2.80 per Common Share (subject to adjustment as described in the Promissory Note). Further, if the Arrangement is not completed, META will be obligated to repay to Torchlight the total unpaid balance of the principal and interest under the Promissory Note, to the extent not converted into Common Shares, on the Maturity Date.

(e) On March 2, 2021, the Company forced conversion of the 10% senior secured convertible debentures due on October 31, 2024 held by BDC Capital Inc.(“BDC”). The terms of the debenture issued to BDC enable the Company to force conversion of the principal and accrued interest on the debenture to common shares of the Company so long as the market performance of the Company’s shares meets the specific metrics described in the debenture. In particular, the common shares of the Company are required to have traded on the CSE at a volume-weighted average price of greater than 100% of the Conversion Price of $1.40 per share defined in the debenture instrument for a period of 20 consecutive trading days with a minimum daily volume of at least 100,000 common shares. These conditions were met on March 2, 2021. In accordance with the terms of the certificate representing the debentures, the Company required mandatory conversion of $5,370,776 of principal and accrued interest at the specified price of $0.70 per share into 7,672,537 common shares of the Company, representing approximately 7% of the total outstanding shares. All security interests held by BDC on assets of the Company will be immediately discharged.

(f) On March 12, 2021, the Company converted an amount of $261,735 owed to Fundo Capital de Risco Empreender Mais – Caixa Capital (“Caixa”) into common shares of the Company at price per share of $3.87. A total of 67,597 common shares were issued to Caixa pursuant to this transaction.

(g) On March 12, 2021, the Company held its annual general and special meeting where the special resolution (the “Arrangement Resolution”) relating to the proposed plan of arrangement between Torchlight Energy Resources, Inc. (“Torchlight”) and META (the “Business Combination Transaction”) was approved.

(h) On March 12, 2021, the Company entered into a letter of intent with Rank Incorporated and Page Property Management (the “Landlord”) to amend the lease agreement for its Highfield facility (the “Highfield Facility”), located in Dartmouth, Nova Scotia and thus expanding the space by about 15,000 square feet, to approximately 68,000 square feet. In addition to holography and lithography R&D labs and the next phase of META’s development of roll-to-roll processes, the expanded space will include a new customer center for training and technology transfer.

In exchange for the Landlord’s agreement to expand the rentable square footage in the Company’s lease at Highfield Park Drive, their further agreement to reduce the annual rent for the 10-year term of the lease by $2,699,250, and their agreement to provide the Company with $500,000 in cash for on-going tenant improvements, the Landlord agreed to subscribe to 990,480 common shares of the Company at $3.23 per common share, representing a 15% discount to the closing price of the common shares on the Canadian Securities Exchange on March 11, 2021.

(i) On March 16, 2021, the Company converted an amount of $367,944 owing to its creditor Lamda Guard Technologies Ltd. (“LGTL”) into 81,584 shares of the common shares of the Company for a price per share of $4.51. The purchase price of $4.51 per share represents a 10% premium to the $4.10 closing price of META shares on the CSE at the close on March 12, 2021.

(j) Subsequent to December 31, 2020, 96,867 stock options, 44,497 warrants and 33,242 broker warrants were exercised.

28. Reclassifications and comparative figures

Certain reclassifications have been made to the prior year’s financial statements to enhance comparability with the current year’s financial statements. As a result, certain comparative figures have been adjusted in the consolidated statements of financial position, consolidated statements of loss and comprehensive loss, consolidated statements of cash flows, and the related notes to the consolidated financial statements to conform to the current year’s presentation as follows:

			December 31, 2019
	Previously reported	Change	After reclassification
	$	$	$
Consolidated statements of financial position			
Current portion of deferred revenue	**1,819,797**	**(336,152)**	**1,483,645**
Current portion of deferred government assistance	**—**	**518,837**	**518,837**
Deferred government assistance	**369,221**	**1,493,199**	**1,862,420**
Deferred revenue	**3,089,921**	**(1,675,884)**	**1,414,037**
	5,278,939	**—**	**5,278,939**

			2019
	Previously reported	Change	After reclassification
	$	$	$
Consolidated statements of loss and comprehensive loss			
Finance income	**—**	**(822,375)**	**(822,375)**
Finance costs	**—**	**937,435**	**937,435**
Amortization of deferred government assistance	**—**	**(178,834)**	**(178,834)**
Government assistance	**(1,000,433)**	**1,000,433**	**—**
Interest and bank charges	**521,591**	**(521,591)**	**—**
Non-cash interest accretion	**415,844**	**(415,844)**	**—**
Interest income	**(776)**	**776**	**—**
	(63,774)	**—**	**(63,774)**

Notes to consolidated financial statements

December 31, 2020 and 2019

	2019		
	Previously reported	**Change**	**After reclassification**
	$	$	$
Consolidated statements of cash flows			
Non-cash finance income	**—**	**(821,599)**	**(821,599)**
Non-cash finance costs	**—**	**703,798**	**703,798**
Change in deferred revenue	**(1,098,094)**	**256,724**	**(841,370)**
Change in deferred government assistance	**—**	**(435,558)**	**(435,558)**
Government assistance	**(1,000,433)**	**1,000,433**	**—**
Non-cash interest accretion	**415,844**	**(415,844)**	**—**
Interest expense	**287,954**	**(287,954)**	**—**
	(1,394,729)	**—**	**(1,394,729)**