

# Metamaterial Inc.

(formerly Continental Precious Minerals Inc.)

Interim condensed consolidated financial statements (unaudited)

For the three months ended March 31, 2020, and 2019

*Under National Instrument 51-102, subsection 4.3(3)(b), if a reporting issuer engaged an auditor to perform a review of the interim financial statements and the auditor was unable to complete the review, the interim financial statements must be accompanied by a notice indicating that the auditor was unable to complete a review of the interim financial statements and the reasons why the auditor was unable to complete the review. The Company engaged its auditor to complete an interim review but as a result of time constraints directly related to evaluating the accounting treatment of the Reverse Takeover and the departure of the Chief Financial Officer on May 26, 2020, the auditor was not able to complete its review prior to the Company's filing deadline.*

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

**Interim condensed consolidated statements of financial position (unaudited)**

[expressed in Canadian dollars]

As at

	March 31, 2020	December 31, 2019
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	1,885,902	528,691
Grants receivable <i>[note 12]</i>	122,058	242,705
Other receivables	413,147	79,072
Inventory	650,353	438,726
Prepaid expenses	441,767	365,602
HST receivable	90,902	262,512
<b>Total current assets</b>	<b>3,604,129</b>	<b>1,917,308</b>
Intangible assets, net	6,387,548	6,404,812
Property and equipment, net	3,356,733	3,558,675
Right-of- use assets	48,041	66,951
<b>Total non-current assets</b>	<b>9,792,322</b>	<b>10,030,438</b>
	<b>13,396,451</b>	<b>11,947,746</b>
<b>Liabilities and shareholders' equity (deficiency)</b>		
<b>Current</b>		
Trade payables	1,346,264	3,176,642
Due to related parties <i>[note 5]</i>	351,478	345,033
Current portion of long-term debt	107,809	104,376
Current portion of deferred revenue <i>[note 15]</i>	1,907,657	1,819,797
Derivative liability <i>[note 6]</i>	-	1,175,056
Promissory notes <i>[note 6]</i>	-	4,595,975
Current portion of lease liabilities	52,576	71,947
<b>Total current liabilities</b>	<b>3,765,784</b>	<b>11,288,826</b>
Deferred revenue <i>[note 15]</i>	3,087,623	3,089,921
Deferred government assistance <i>[note 8]</i>	323,550	369,221
Deferred tax liability	603,370	658,481
Unsecured convertible debenture (note 7)	874,886	760,145
Funding obligation	839,270	808,298
Long-term debt <i>[note 8]</i>	3,254,226	3,139,301
<b>Total non-current liabilities</b>	<b>8,982,925</b>	<b>8,825,367</b>
<b>Total liabilities</b>	<b>12,748,709</b>	<b>20,114,193</b>
<b>Shareholders' equity (deficiency)</b>		
Common shares <i>[note 9]</i>	34,296,403	7,598,670
Preferred shares <i>[note 9]</i>	-	12,748,100
Contributed surplus	4,248,330	3,753,211
Warrants <i>[note 9]</i>	571,555	175,095
Accumulated other comprehensive loss	(794,180)	(159,512)
Deficit	(37,674,366)	(32,282,011)
<b>Total shareholders' equity (deficiency)</b>	<b>647,742</b>	<b>(8,166,447)</b>
	<b>13,396,451</b>	<b>11,947,746</b>

*Going concern (note 2)*

*Subsequent events (note 17)*

*See accompanying notes*

On behalf of the Board:

Director

Director

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

**Interim condensed consolidated statement of loss and comprehensive loss (unaudited)**  
 [expressed in Canadian dollars]

	Three months ended March 31	
	2020	2019
	\$	\$
Product sales	2,615	
Development revenue	594,960	190,962
<b>Revenue, net</b>	<b>597,575</b>	<b>190,962</b>
Cost of goods sold	1,121	—
<b>Gross Profit</b>	<b>596,454</b>	<b>190,962</b>
<b>Expenses (income)</b>		
Salaries and benefits	1,199,037	727,556
Depreciation and amortization	878,902	689,749
Travel and entertainment	72,237	102,371
Other expenses	137,528	134,840
Listing and exchange fees	3,353,512	—
Rent and utilities	116,212	90,129
Interest and bank charges <i>[note 6,7 and 8]</i>	120,273	87,205
Consulting <i>[note 5]</i>	216,959	103,967
Investor relations expense	19,506	—
Research and development	118,458	155,628
Professional fees	271,574	53,787
Non-cash interest accretion <i>[note 8]</i>	143,401	(81,944)
Share-based compensation expense <i>[note 9 and 10]</i>	450,028	299,839
Realized & unrealized (gain) loss on derivative liabilities <i>[note 6, and 7]</i>	(206,606)	241,093
Technology license fees <i>[note 5]</i>	13,057	13,037
Realized foreign currency exchange loss (gain)	62,163	3,720
Interest income	(265)	(337)
Unrealized foreign currency exchange (gain) loss	(850,982)	173,108
Government assistance <i>[note 8 and 12]</i>	(61,756)	(467,168)
	<b>6,053,238</b>	<b>2,326,580</b>
<b>Net loss before tax</b>	<b>(5,456,784)</b>	<b>(2,135,618)</b>
Income tax recovery	64,429	30,275
<b>Net loss for the period</b>	<b>(5,392,355)</b>	<b>(2,105,343)</b>
<b>Other comprehensive loss, net of income taxes</b>		
<b>Items that may be subsequently reclassified to income:</b>		
Unrealized foreign currency translation adjustment	(634,668)	113,931
<b>Comprehensive loss for the period</b>	<b>(6,027,023)</b>	<b>(1,991,412)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.12)</b>	<b>\$ (0.22)</b>
<b>Weighted average number of shares outstanding</b>		
- basic and diluted	<b>46,587,115</b>	<b>9,724,476</b>

See accompanying notes

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

**Interim condensed consolidated statement of changes in shareholders' equity (deficiency) (unaudited)**

[expressed in Canadian dollars]

Three months ended March 31

	Common shares \$	Preferred shares \$	Contributed surplus \$	Warrants	Deficit \$	Accumulated other comprehensive income/(loss) \$	Total Shareholders' equity (deficiency) \$
<b>Balance, January 1, 2020</b>	7,598,670	12,748,100	3,753,211	175,095	(32,282,011)	(159,512)	(8,166,447)
Net loss	—	—	—	—	(5,392,355)	—	(5,392,355)
Other comprehensive loss	—	—	—	—	—	(634,668)	(634,668)
Issuance of units [note 9]	875,612	—	—	—	—	—	875,612
Issuance of warrants [note 9]	(204,054)	—	—	204,054	—	—	—
Issuance of broker warrants [note 9]	(21,962)	—	—	21,962	—	—	—
Share issuance cost [note 9]	(61,342)	—	—	—	—	—	(61,342)
Conversion of deferred share units [note 9 and 10]	55,100	—	(55,100)	—	—	—	—
Conversion of promissory notes (note 6 and 9)	5,948,003	—	—	—	—	—	5,948,003
Conversion of preferred shares (note 9)	12,748,100	(12,748,100)	—	—	—	—	—
Fair value of deemed issuance to CPM (note 4 and 9)	7,258,276	—	285,157	—	—	—	7,543,433
Share-based compensation (note 9 and 10)	100,000	—	265,062	170,444	—	—	535,506
<b>Balance, March 31, 2020</b>	<b>34,296,403</b>	<b>—</b>	<b>4,248,330</b>	<b>571,555</b>	<b>(37,674,366)</b>	<b>(794,180)</b>	<b>647,742</b>
<b>Balance, January 1, 2019</b>	<b>6,628,293</b>	<b>12,748,100</b>	<b>2,052,359</b>	<b>—</b>	<b>(21,198,753)</b>	<b>(406,510)</b>	<b>(176,511)</b>
Net loss	—	—	—	—	(2,105,343)	—	(2,105,343)
Other comprehensive loss	—	—	—	—	—	113,931	113,931
Share-based compensation (note 9 and 10)	—	—	299,839	—	—	—	299,839
<b>Balance, March 31, 2019</b>	<b>6,628,293</b>	<b>12,748,100</b>	<b>2,352,198</b>	<b>—</b>	<b>(23,304,096)</b>	<b>(292,579)</b>	<b>(1,868,084)</b>

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

**Interim condensed consolidated statement of cash flows (unaudited)**

[expressed in Canadian dollars]

Three months ended March 31	March 31, 2020 \$	March 31, 2019 \$
<b>Operating activities</b>		
Net loss for the period	(5,392,355)	(2,105,343)
Add (deduct) items not affecting cash:		
Government assistance [note 8 and 12]	(61,756)	(467,168)
Deferred income tax	(64,429)	(30,275)
Depreciation	847,653	689,749
Non-cash interest accretion [note 8]	143,521	(81,943)
Unrealized foreign currency exchange loss	(889,323)	173,107
Interest expense [note 6, 7 and 8]	82,401	39,642
Unrealized loss on derivative liability [note 7]	(206,605)	241,093
Change in deferred revenue [note 15]	85,562	(226,219)
Impairment on intangible assets	5,810	-
Listing expenses [note 4]	3,370,249	-
Share-based compensation expense [note 9 and 10]	501,826	299,839
Net change in non-cash working capital items [note 13]	(2,155,337)	304,115
<b>Cash used in operating activities</b>	<b>(3,732,783)</b>	<b>(1,163,403)</b>
<b>Investing activities</b>		
Additions to intangible assets	(37,837)	(58,032)
Additions to property and equipment	(309,851)	(577,705)
Reverse takeover, net cash (note 4)	4,174,979	-
<b>Cash used in investing activities</b>	<b>3,827,291</b>	<b>(635,737)</b>
<b>Financing activities</b>		
Proceeds from long-term debt [note 8]	50,079	700,819
Repayment of long-term debt [note 8]	(25,658)	(14,285)
Proceeds from promissory notes [note 6]	-	905,750
Proceeds from units, net [note 9]	814,270	-
Proceeds from convertible debentures [note 7]	450,000	-
Payment of lease liabilities	(25,988)	(18,047)
<b>Cash provided by financing activities</b>	<b>1,262,703</b>	<b>1,574,237</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>1,357,211</b>	<b>(224,903)</b>
Cash and cash equivalents, beginning of the period	528,691	850,623
<b>Cash and cash equivalents, end of the period</b>	<b>1,885,902</b>	<b>625,720</b>
<b>Supplemental cash flow information</b>		
Interest on debt paid	20,335	-

See accompanying notes

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

### **Notes to interim condensed consolidated financial statements**

For the three months ended March 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, nanofabrication, and computational electromagnetics. The Company's registered office 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 completion of the RTO, Metacontinental Inc. will carry-on the business of the former MTI, as a wholly-owned subsidiary of the CPM. In connection with the RTO, CPM changed its name effective March 2, 2020 from Continental Precious Minerals Inc. to Metamaterial Inc ("META" or "Resulting Issuer"). The common shares of CPM were delisted from the TSX Venture Exchange on March 4, 2020 and were posted for trading on the Canadian Securities Exchange ("CSE") on March 9, 2020 under the symbol "MMAT". Refer to note 4 for additional details.

During the three months ended March 31, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. In response to this, the Company's management implemented a Work From Home policy for management and non-engineering employees in all three locations, and further developed additional safety protocols to address the pandemic. Engineering staff in all three locations are continuing to work on given tasks and are following strict safety guidelines. Although the Company's supply chain has slowed down, the Company is currently able to maintain inventory of long lead items and is working with its suppliers to optimize future supply orders.

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

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

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

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

The unaudited interim condensed consolidated financial statements for the three months ended March 31, 2020, have been prepared in accordance with IAS 34 Interim Financial Reporting ("IAS 34").

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the restated audited annual consolidated financial statements of Metamaterial Technologies Inc. for the year ended December 31, 2019, as filed on July 23, 2020.

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

### Notes to interim condensed consolidated financial statements

For the three months ended March 31, 2020 and 2019

#### Going Concern

These unaudited interim condensed consolidated financial statements have been prepared on the basis of International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. There are material uncertainties that may cast significant doubt about the appropriateness of going concern assumption, as the Company incurred a net loss of \$5,392,355 for the three months ended March 31, 2020, negative cash flow from operations of \$3,732,783, and has a deficit of \$37,674,366 as at March 31, 2020.

The ability of the Company to continue as a going concern, and to realize its assets and discharge its liabilities when due, is dependent upon its ability to secure sufficient financing to fund ongoing operations and to achieve and maintain profitable operations in the future. Subsequent to March 31, 2020, the Company raised gross proceeds of \$5,000,000 through the issuance of unsecured convertible debentures (note 17). The Company has begun to generate revenue from commercial launch of products, however, achievement of sales forecasts in the near term may be negatively impacted by the economic environment as a result of the COVID-19 pandemic as more fully explained above in note 1. Management estimates that the Company's working capital is sufficient to fund the Company's planned expenditures into the fourth quarter of 2020. There is no certainty that the Company will ultimately achieve profitable operations, become cash flow positive, or raise additional debt and/or equity capital.

These unaudited interim condensed consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis 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 classification used.

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

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

Effective January 1, 2020, the Company adopted certain issued amendments to IAS 1 *Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*. These amendments clarify the definition of 'material' and aligns the definition used within the IFRS Standards.

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

##### *IFRS 3 – Business Combinations*

Effective January 1, 2020, the Company adopted certain amendments to IFRS 3 *Business Combinations* to narrow the definition of a business and introduce a screening test, which eliminates the requirement for a detailed assessment of the definition, when met.

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

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

### Notes to interim condensed consolidated financial statements

For the three months ended March 31, 2020 and 2019

#### 4. Reverse Takeover

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

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

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

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

In accordance with IFRS, the consideration for the RTO has been calculated using the more reliably measurable of the acquisition-date fair value of the acquiree’s equity interests. The Company has determined that the fair value of the MTI shares is more reliably measurable than the fair value of the CPM shares because of the limited trading activity of CPM and the recent private placement (note 9) 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 as at March 31, 2020 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
	<hr/> 7,543,433



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

### Notes to interim condensed consolidated financial statements

For the three months ended March 31, 2020 and 2019

Net assets (liabilities) of CPM [3]:

Cash and cash equivalents	4,174,979
Marketable securities	4,392
Accounts receivables	27,201
Accounts payable and accrued liability	(33,388)
Listing expenses [4]	3,370,249
	<hr/>
	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 deficit to reflect the difference between the fair value of the amount paid and the fair value of the net assets received from CPM.

#### 5. Related party transactions

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

Amount due to related parties are as follows:

	March 31, 2020	December 31, 2019
	\$	\$
Due to Lamda Guard Technologies Ltd ("LGTL") – a shareholder, net [1]	351,478	345,033
<b>Total due to related party, net – current</b>	<b>351,478</b>	<b>345,033</b>

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### Notes to interim condensed consolidated financial statements

For the three months ended March 31, 2020 and 2019

Transactions with related parties were as follows:

	March 31, 2020	March 31, 2019
	\$	\$
Technology license fees [2]	9,868	13,036
Consulting fees [3]	71,840	26,100
Rent and utility reimbursement from LGTL [4]	(11,740)	—
	<u>69,968</u>	<u>39,136</u>

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

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

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

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

#### 6. Promissory notes

	Three months ended March 31, 2020			Year ended December 31, 2019		
	\$			\$		
	Principal Amount	Promissory note liability	Derivative liability	Principal Amount	Promissory note liability	Derivative liability
<b>Beginning balance</b>	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)	—	—	—
<b>Ending balance</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,348,370</u>	<u>4,595,975</u>	<u>1,175,056</u>

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

In January 2019, the Company issued \$905,750 of promissory notes, which bear interest at a fixed rate of 8% simple interest. The loans, including interest, are automatically convertible into equity, at a 20% discount of the share price from treasury upon the Company issuing and selling equity resulting in aggregate gross proceeds to the Company of \$5,000,000 including conversion of the loans.

Also during fiscal 2019, the Company received \$2,280,010 of convertible loans from a private individual who is also an existing shareholder. The loans bear interest at a fixed rate of 8% compounded annually. The holder has an option to convert the loans, including interest, into equity, at a 20% discount of the share price from treasury

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### Notes to interim condensed consolidated financial statements

For the three months ended March 31, 2020 and 2019

upon the Company issuing and selling equity resulting in aggregate gross proceeds to the Company of \$4,000,000 including conversion of the loans, or to ask for the repayment at any time, upon not less than 21 days' prior written notice to the Company. On August 12, 2019, the Company signed a GSA with the private individual to secure the payment and performance of the Company's obligations under the convertible promissory notes issued between April and September 2019.

The Company has 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 has remeasured the derivative liability for the year ended December 31, 2019 and recognized \$862,176 as unrealized loss on derivative liability in the consolidated statement of loss and comprehensive loss. The fair value of the embedded derivative at December 31, 2019 reflects the fair value of the 20% discount of the share price on conversion of the notes.

#### 7. Unsecured convertible debentures

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

	<b>Three months ended March 31, 2020</b>	<b>Year ended December 31, 2019</b>
	<b>\$</b>	<b>\$</b>
	<b>Principal Amount</b>	<b>Principal Amount</b>
<b>Beginning balance</b>	<b>760,145</b>	—
Issued	<b>450,000</b>	750,000
Unrealized loss (gain)	<b>(335,259)</b>	10,145
<b>Ending balance</b>	<b>874,886</b>	760,145

During the three months ended March 31, 2020, the Company issued an additional \$450,000 in Debentures to individuals and companies under the same terms as previous issues.

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

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

The conversion option is an embedded derivative that is subsequently measured at fair value through profit or loss. The Company has chosen to record the entire convertible debentures at fair value through profit or loss rather than to separately account for the debt instrument and the derivative liability separately. The Company has remeasured the derivative liability at March 31, 2020 and recognized an unrealized gain of \$335,259 (year ended December 31, 2109 - \$10,145 unrealized loss) on derivative liability in the statement of loss and comprehensive loss.

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

### Notes to interim condensed consolidated financial statements

For the three months ended March 31, 2020 and 2019

#### 8. Long-term debt

ACOA interest-free loan [Business Development Program]	March 31, 2020	December 31, 2019
	\$	\$
Loan outstanding principal [1]	172,624	190,482
Interest-free component [1]	<b>(113,169)</b>	<b>(113,169)</b>
Principal adjusted for interest-free component	59,455	77,313
Accumulated non-cash interest accretion [1]	100,190	97,517
Carrying amount	159,645	174,830
Less current portion [2]	<b>(71,429)</b>	<b>(71,428)</b>
	<b>88,216</b>	<b>103,402</b>

[1] On April 13, 2012, the Company entered into the Business Development Program with the Atlantic Canada Opportunities Agency ["ACOA"]. The program offers an interest-free loan to further develop eyewear that utilizes the Company's metamaterial technology. As the loan is on an interest-free basis, the loan has been fair-valued by applying the effective interest rate method on the date the loan was received. The Company has concluded that the expected life of the loan, on which the effective interest rate method of recognizing the non-cash accretion expense is based, is the agreed-upon repayment schedule with ACOA as at that date, which is over a period of approximately three years.

As at March 31, 2020, principal of \$172,624 [December 31, 2019 – \$190,482] is outstanding. The loan is repayable in principal repayments of \$5,952 until September 1, 2022.

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

ACOA interest-free loan [Atlantic Innovation Fund]	March 31, 2020	December 31, 2019
	\$	\$
Loan outstanding principal [1]	3,000,000	3,000,000
Interest-free component [2]	<b>(2,355,856)</b>	<b>(2,355,856)</b>
Principal adjusted for interest-free component	644,144	644,144
Accumulated non-cash interest accretion [1]	666,695	614,355
Carrying amount	1,310,839	1,258,499
Less current portion [3]	—	—
	<b>1,310,839</b>	<b>1,258,499</b>

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

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

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

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

<b>ACOA interest-free loan [Business Development Program]</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Loan outstanding principal [1]	<b>3,000,000</b>	2,985,136
Interest-free component [2]	<b>(1,289,098)</b>	(1,281,240)
Deferred government assistance [3]	<b>(548,055)</b>	(548,055)
Principal adjusted for interest-free component	<b>1,162,847</b>	1,155,841
Accumulated non-cash interest accretion [2]	<b>304,863</b>	251,194
Carrying amount	<b>1,467,710</b>	1,407,035
Less current portion [4]	<b>—</b>	—
	<b>1,467,710</b>	1,407,035

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

[2] As the loan with Atlantic Canada Opportunities Agency [“ACOA”] is on an interest-free basis, the loan was fair-valued at initial recognition by applying the effective interest rate method on the date the loan was received. An additional \$7,858 was recorded in the consolidated statement of loss and comprehensive loss related to the value of the interest-free component [December 31, 2019 – \$1,281,240] on the additional proceeds received during the period. During year ended December 31, 2019, changes to the estimated repayment schedule required a change in the value of the interest free component of the loan which resulted in an additional \$77,546 being recorded as government assistance in the consolidated statement of loss and comprehensive loss.

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

[3] During the year ended December 31, 2019, the Company determined that a portion of the loan was used to finance the acquisition and construction of manufacturing equipment, accordingly \$548,055 was recorded in the consolidated statement of financial position as deferred government assistance. The Company amortized the deferred government assistance and for the three months ended March 31, 2020 and recorded \$45,671

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

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

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

	March 31, 2020	December 31, 2019
	\$	\$
Loan outstanding principal [1]	62,165	41,954
Interest-free component [2]	<u>(27,999)</u>	<u>(19,772)</u>
Principal adjusted for interest-free component	34,166	22,182
Accumulated non-cash interest accretion [2]	<u>3,731</u>	<u>2,459</u>
Carrying amount	37,897	24,641
Less current portion [3]	<u>(5,180)</u>	<u>(1,748)</u>
	<u>32,717</u>	<u>22,893</u>

[1] On November 28, 2019, the Company entered into an agreement with ACOA Business Development Program to receive contributions up to the 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. The Company is required to make monthly principal repayments of \$1,400 beginning October 1, 2020.

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

[2] As the loan with Atlantic Canada Opportunities Agency ["ACOA"] is on an interest-free basis, the loan was fair-valued at initial recognition by applying the effective interest rate method on the date the loan proceeds were received and for the three months ended March 31, 2020 \$8,226, related to the fair value of the interest-free component [year ended December 31, 2019 - \$19,772] was recorded in the consolidated statement of loss and comprehensive loss related to the proceeds received.

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

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

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**Notes to interim condensed consolidated financial statements**

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**Bank equipment loan**

	<b>March 31, 2020</b>	December 31, 2019
	<b>\$</b>	<b>\$</b>
Loan outstanding principal [1]	<b>244,400</b>	250,000
Interest accrued [1]	<b>26,234</b>	20,335
Interest paid	<b>(24,656)</b>	(19,160)
Principal paid	<b>(7,800)</b>	(5,600)
Balance outstanding	<b>238,178</b>	245,575
Less current portion	<b>(31,200)</b>	(31,200)
	<b>206,978</b>	214,375

[1] On January 16, 2019, the Company received a bank loan for \$250,000, the loan is secured against two assets of the Company along with a personal guarantee of 50% of the value of the loan from a director of the Company. The loan is repayable over a period of 8 years beginning November 1, 2019, at a floating interest rate which includes the bank's base floating rate plus a variance of 2.50% per year. The interest rate, including base floating rate and variance at the date of the signing of the loan agreement and as of December 31, 2019 was 7.55% per year. As at March 31, 2020, the net book value of the two secured assets is \$164,143 (December 31, 2019-\$191,277).

**Shareholder Loan from BGI, SA.**

	<b>March 31, 2020</b>	December 31, 2019
	<b>\$</b>	<b>\$</b>
Loan from BGI, SA	<b>233,604</b>	218,600
Fair value of below market interest rate component	<b>(126,087)</b>	(117,730)
Fair value of loan	<b>107,517</b>	100,870
Non-cash interest accretion	<b>40,249</b>	32,227
Carrying amount	<b>147,766</b>	133,097
Less current portion	—	—
	<b>147,766</b>	133,097

The loan bears interest at a rate of 6 months Euribor rate plus 2% point spread until January 17, 2020 and thereafter interest at a rate of 6 months Euribor rate plus 4% point spread until the maturity date of January 17, 2025. Interest is being accreted until the date of repayment or prepayment of the shareholder loan. The shareholder loans provided shall be repaid within 10 years, with the respective accrued interest paid on the same date. During the three months ended March 2020, the Company has accrued interest of \$8,022 [2019-\$17,861]. The loan was fair valued at the date of acquisition.

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#### 9. 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:

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

During the three months ended March 31, 2020, the Company received an additional \$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. 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 three months ended March 31, 2020 and pursuant to the RTO, all preferred shares were converted into 9,398,984 common shares of MTI. See preferred share section of Note 9 for additional details.

During the three months ended March 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 6 for additional details.

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

During the three months ended March 31, 2020, the Company issued 58,823 MTI common shares to two directors of MTI which were ascribed a value of \$1.70 per MTI common share.



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For the three months ended March 31, 2020 and 2019

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

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

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

#### Warrants

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

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

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

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

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For the three months ended March 31, 2020 and 2019

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

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

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

During the three months ended March 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 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:

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

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#### 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:

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

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

During three months ended March 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.

#### 10. Share-based payments

##### DSU Plan

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

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

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

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Information concerning units outstanding is as follows:

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

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

During the three months ended March 31, 2020 and prior to the RTO, 103,000 MTI DSU's were converted into 103,000 MTI common shares.

During the year ended December 31, 2019, 153,000 MTI DSU's were converting into 150,000 MTI common shares.

On March 5, 2020 and pursuant to the RTO (note 4) all MTI DSU's were converted into META DSU's at a ratio of 2.75 META DSU's 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 three months end March 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 4,575,000 META options to employees and directors, which vest over 2-4 years. Prior to the completion of the RTO, 7,500 MTI options were forfeited as a result of employee departures.

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During fiscal 2019, the Company granted 859,143 MTI employee stock options to employees and directors under the Plan, of which 306,499 will vest as per the Plan, 230,015 options were pre-vested upon issuance, and 322,629 vested upon closing of the RTO with CPM (note 4). During fiscal 2019, 229,223 employee stock options issued to previous employees were forfeited upon termination. Previously recognized expense attributable to unvested options of terminated employees was recognized as a recovery within stock compensation expense in the amount of \$19,124 in the year ended December 31, 2019.

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

	<b>Number outstanding</b>	
	<b>Three months ended</b>	<b>Year ended</b>
	<b>March 31, 2020</b>	<b>December 31, 2019</b>
	<b>#</b>	<b>#</b>
<b>Outstanding, beginning of period</b>	<b>2,858,300</b>	2,228,380
Granted	—	859,143
Forfeitures	<b>(7,500)</b>	<b>(229,223)</b>
	<b>2,850,800</b>	2,858,300
Conversion of MTI options into META options pursuant to the RTO (note 4)	<b>4,988,897</b>	—
Issued to CPM executives and directors pursuant to RTO (note 4)	<b>700,000</b>	—
Granted	<b>4,575,000</b>	—
<b>Outstanding, end of period</b>	<b>13,114,697</b>	2,858,300

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

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

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

Exercise price \$	Number outstanding	Number exercisable
	2020 #	2020 #
0.27 (0.75 pre-RTO)	302,500	302,500
0.35 (issued post RTO)	700,000	200,000
0.62 (1.70 pre-RTO)	12,112,197	3,807,128
	<b>13,114,697</b>	<b>4,309,628</b>

The weighted average remaining contractual life for the share options outstanding as at March 31, 2020 was 8.32 [year ended December 31, 2019 – 8.38] years. The weighted average fair value of META options granted during the period was \$0.56 [year ended December 31, 2019 – \$1.13 for MTI options].

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

	Employee Stock Option Plan 2020	Employee Stock Option Plan 2019
Weighted average common share fair value at the measurement date	\$0.62	\$1.42
Exercise price	\$0.62	—
Dividend yield [%]	—	—
Expected volatility for options having 10 years expiry	117%	84%
Expected volatility for options having 3 years expiry	—	130%
Weighted average risk-free interest rate	0.77%	1.21%
Weighted average expected life of the options	8.0	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**

On August 9, 2019, the Company approved director fees of \$50,000, net of taxes, to be paid in units, consisting of a share and a warrant, from treasury, upon closing of the RTO. The Company has recognizing \$35,000 as consulting fees, based on expected probability of 70% for the completion of the RTO at December 31, 2019. Upon completion of the RTO, \$15,000 was recognized as consulting fees.

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

### Notes to interim condensed consolidated financial statements

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On November 13, 2019, the Company approved advisory fees for a director of \$50,000, net of taxes, to be paid in units, consisting of a share and a warrant, from treasury, upon closing of the RTO. The Company has recognized \$35,000 as consulting fees, based on expected probability of 70% for the completion of the RTO at December 31, 2019. Upon completion of the RTO, \$15,000 was recognized as consulting fees.

#### 11. Capital management

The primary objective of the Company's capital management is to achieve healthy capital ratios to support its business and maximize shareholder value. The Company's capital structure consists of share capital, promissory notes, unsecured debentures, derivative liability, funding obligation and long-term debt, which as at March 31, 2020 was \$39,372,594 (December 31, 2019 - \$30,929,921). The Company monitors equity on the basis of the carrying amount of equity as presented on the consolidated statements of financial position.

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

#### 12. Government grants

The government grants consist of the following:

	For the three months ended March 31, 2020				
	Grants Receivable December 31, 2019 \$	Received \$	Recognized as offset to expenses \$	Foreign currency exchange difference \$	Grants Receivable March 31, 2020 \$
ACOA-PBS	21,144	29,936	13,187	—	4,395
Nova Scotia LAE Co-Op	13,500	13,437	7,313	—	7,376
Innovate UK – Glucose sensor	45,100	45,100	—	—	—
Innovate UK – Microwave tech	108,343	108,343	—	—	—
Innovate UK – Diabet	54,618	21,400	75,702	1,367	110,287
	<b>242,705</b>	<b>218,216</b>	<b>96,202</b>	<b>1,367</b>	<b>122,058</b>
	For the year ended December 31, 2019				
	Grants Receivable December 31, 2018 \$	Received \$	Recognized as offset to expenses \$	Foreign currency exchange difference \$	Grants Receivable December 31, 2019 \$
ACOA-PBS	13,455	64,677	72,366	—	21,144
Nova Scotia LAE-Training	40,000	40,000	—	—	—
Nova Scotia LAE Co-Op	21,580	69,786	61,706	—	13,500
Innovate UK – R&D tax credit	76,729	76,967	—	238	—
Innovate UK – MetaSurface	33,767	65,501	32,050	(316)	—
Innovate UK – Glucose sensor	56,241	292,370	283,174	(1,945)	45,100
Innovate UK – Microwave tech	25,079	153,438	237,000	(298)	108,343
Innovate UK – Diabet	—	12,961	67,151	428	54,618
	<b>266,851</b>	<b>775,700</b>	<b>753,447</b>	<b>(1,893)</b>	<b>242,705</b>

#### 13. Additional cash flow information

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

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

	<b>2020</b>	<b>2019</b>
	\$	\$
Grants receivable	<b>120,647</b>	(9,233)
Inventory	<b>(211,627)</b>	(209,928)
Other receivables	<b>(302,482)</b>	730
Prepaid expenses	<b>(76,165)</b>	53,502
HST receivable	<b>171,610</b>	(40,990)
Trade payables	<b>(1,863,765)</b>	498,840
Due to related parties	<b>6,445</b>	11,194
	<b>(2,155,337)</b>	304,115

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

	<b>2020</b>	<b>2019</b>
	\$	\$
Current portion of long-term debt, beginning of period	<b>104,376</b>	71,429
Long-term debt, beginning of period	<b>3,139,301</b>	3,108,273
Carrying amount, beginning of period	<b>3,243,677</b>	3,179,702
Scheduled repayments of long-term debt	<b>(25,658)</b>	(14,285)
Net proceeds from loans, net of financing costs	<b>50,079</b>	700,819
Non-cash changes in long-term debt:		
Interest accrued	<b>403</b>	-
Interest accretion	<b>109,618</b>	122,668
Fair market value adjustment	<b>(16,084)</b>	(712,441)
Foreign exchange (gain) loss on long-term debt	<b>—</b>	(2,519)
Carrying amount, end of period	<b>3,362,035</b>	3,273,944
Less current portion	<b>(107,809)</b>	(71,429)
	<b>3,254,226</b>	3,202,515



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

### Notes to interim condensed consolidated financial statements

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#### 14. Financial instruments

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

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

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

#### Fair value

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

#### Interest rate risk

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

#### Foreign currency risk

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

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The impact of foreign currency sensitivity on the Company's loss before tax is due to the changes in the fair value of monetary assets and liabilities as at the date of financial position. With all other variables held constant the increase or decrease in exchange rates by 5% will result in below mentioned decrease or increase respectively in net loss before tax for the period ended March 31, 2020:

- by \$19,893 [December 31, 2019-\$34,476] on account of change in USD exchange rate;
- by \$5,845 [December 31, 2019-\$8,114] on account of change in GBP exchange rate;
- by \$1,525 [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. Liquidity risk also relates to the potential for early retirement of debt.

Contractual maturities of financial liabilities:

	Long-term debt \$	Trade payables \$	Due to related parties \$	Unsecured convertible debentures \$	Total \$
2020	88,970	1,346,264	351,478	—	1,786,712
2021	584,904	—	—	—	584,904
2022	620,626	—	—	—	620,626
2023	673,000	—	—	—	673,000
2024	893,765	—	—	—	893,765
2025	926,200	—	—	1,245,024	2,171,224
Thereafter	2,925,328	—	—	—	2,925,328
	<b>6,712,793</b>	<b>1,346,264</b>	<b>351,478</b>	<b>1,245,024</b>	<b>9,655,559</b>

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**15. Deferred revenue**

Deferred revenue consists of the following:

	As at December 31, 2019	Received	Recognized in revenue	Recognized as offset to expenses	Foreign exchange	As at March 31, 2020
	\$	\$	\$	\$	\$	\$
SDTC	1,563,653	269,750	—	79,883	—	1,753,520
Satair A/S-exclusive rights	1,169,730	—	32,500	—	—	1,137,230
Satair A/S-advance against PO	624,916	—	2,514	—	—	622,402
LM Aero-metaSOLAR commercialization	1,527,796	—	176,284	—	—	1,351,512
US Deferred Revenue	—	106,403	—	—	—	106,403
Innovate UK-R&D tax credit	23,623	—	—	—	590	24,213
	<u>4,909,718</u>	<u>376,153</u>	<u>211,298</u>	<u>79,883</u>	<u>590</u>	<u>4,995,280</u>
Less current portion	<u>1,819,797</u>					<u>1,907,657</u>
	<u>3,089,921</u>					<u>3,087,623</u>

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

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

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#### 16. Commitments

##### Operating lease commitments

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

	March 31, 2020 \$	December 31, 2019 \$
Within one year	219,341	309,491
After one year but not more than five years	—	—
More than five years	—	—
	<u>219,341</u>	<u>309,491</u>

##### Other commitments

On December 8, 2016, the Company entered into a cooperation agreement with a large aircraft manufacturer to co-develop laser protection filters for space and aeronautical civil and military applications, metaAIR, and support the setup of manufacturing facilities for product certification and development. The cooperation agreement includes financial support provided to the Company in the form of non-recurring engineering costs of up to \$4,000,000 USD to be released upon agreement of technical milestones in exchange for a royalty fee of 5% due by the Company on gross profit after sales and distribution costs to a maximum of \$30 million USD. The total royalty fee to be paid may be adjusted based on the timing of the Company's sales and the amount ultimately paid to the Company by large aircraft manufacturer to support the development. In 2016, the Company received and recognized \$1 million USD as revenue under the cooperation agreement. During the three months ended March 31, 2020, the Company has accrued royalties of \$135 [2019 – \$1,570] in cost of goods sold in the interim condensed consolidated statement of loss and comprehensive loss with this agreement.

#### 17. Subsequent events

On April 3, 2020, the Resulting Issuer closed a \$5 Million secured convertible debentures ["Secured Debentures"] financing from BDC Capital Inc., a wholly owned subsidiary of the Business Development Bank of Canada. The maturity date for the Secured Debentures is October 31, 2024 and they bear interest at a rate of 10.0% per annum, payable monthly in cash. The Secured Debentures are convertible in full or in part, at BDC Capital Inc.'s option, into Common Shares of the Resulting Issuer, at any time prior to their maturity at a conversion price of \$0.70 (the "Conversion Price") or the Resulting Issuer may force the conversion of Secured Debentures if Common Shares are trading on the CSE on a volume-weighted average price greater than 100% of the Conversion Price (i.e. greater than \$1.40) for any 20 consecutive trading days with a minimum daily volume of at least 100,000 Common Shares. In addition to the cash interest a non-compounding payment in kind ("PIK") interest of 8% per annum will accrue. This PIK may get reduced to 5% per annum upon certain conditions being met.

During January 2020, the Company received unsecured convertible debentures with an aggregate principal of \$950,000 in favor of existing equity investors, out of which \$500,000 was held in trust, which was released to the Company on April 3, 2020 upon closing of BDC financing. The terms and conditions of the unsecured convertible debentures are the same as the Debentures issued during the year ended December 31, 2019.