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Condensed interim consolidated  
financial statements of  
**Plurilock Security Solutions Inc.**

For the three and six months ended June 30, 2020 and 2019 (unaudited)

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**Plurilock Security Solutions Inc.****Condensed Interim Consolidated Statement of Financial Position (unaudited)**

(Expressed in Canadian dollars)

	Notes	June 30, 2020 \$	December 31, 2019 \$
<b>Assets</b>			
Current			
Cash and cash equivalents		799,471	147,433
Trade and other receivables	4	151,400	532,016
Tax credits receivable		54,517	178,036
Prepaid expenses and deposits		50,170	37,869
		<b>1,055,558</b>	895,354
Non-current			
Equipment	5	13,253	4,310
Right of use asset	6	21,191	28,253
Intangible assets	8	72,500	75,000
		<b>1,162,502</b>	1,002,917
<b>Liabilities</b>			
Current			
Trade and other payables	9	469,205	340,629
Unearned revenue	10	50,423	138,659
Short-term loans	11	108,967	401,033
Loans payable to related parties	12	25,288	52,164
Convertible debt	13	1,306,609	—
Lease liability-current	7	16,705	15,893
		<b>1,977,197</b>	948,378
Non-current			
Government loan	14	40,000	—
Lease liability-non-current	7	8,296	16,856
		<b>2,025,493</b>	965,234
<b>Shareholders' equity</b>			
Share capital	15	4,814,598	4,637,663
Equity reserve		—	5,460
Foreign currency translation reserve		3,706	(8,406)
Contributed and other surplus		232,626	209,859
Accumulated deficit		(5,913,921)	(4,806,893)
		<b>(862,991)</b>	37,683
		<b>1,162,502</b>	1,002,917

Subsequent events

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The accompanying notes are an integral part of the financial statements.

Approved by the Board

"Barry Carlson"  
Barry Carlson, Director

"Ian Paterson"  
Ian Paterson, Director

**Plurilock Security Solutions Inc.**
**Condensed Interim Consolidated Statement of Loss and Comprehensive Loss (unaudited)**

(Expressed in Canadian dollars)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
		\$	\$	\$	\$
<b>Revenue</b>	13	<b>79,512</b>	23,536	<b>182,851</b>	92,912
Cost of sales		<b>(10,416)</b>	2,791	<b>(21,898)</b>	(7,406)
Gross profit		<b>69,096</b>	26,327	<b>160,953</b>	85,506
<b>Operating Expenses</b>					
Research and development	19	<b>88,791</b>	176,189	<b>189,813</b>	305,594
Sales and marketing	19	<b>204,486</b>	85,744	<b>414,893</b>	243,121
General and administrative	19	<b>311,628</b>	186,386	<b>625,880</b>	377,902
Share-based compensation	15(d)	<b>11,159</b>	10,544	<b>22,767</b>	21,088
		<b>616,064</b>	458,863	<b>1,253,353</b>	947,705
<b>Operating loss</b>		<b>(546,968)</b>	(432,536)	<b>(1,092,400)</b>	(862,199)
<b>Other income (expenses)</b>					
Foreign exchange gain (loss)		<b>(4,326)</b>	3,459	<b>8,314</b>	(597)
Transaction costs	13	<b>30,430</b>	—	<b>—</b>	—
Change in fair value of convertible debt	13	<b>(3,679)</b>	—	<b>766</b>	—
Interest expense		<b>(9,130)</b>	(6,520)	<b>(29,168)</b>	(13,557)
		<b>13,295</b>	(3,061)	<b>(20,088)</b>	(14,154)
<b>Net loss for the period</b>		<b>(533,673)</b>	(435,597)	<b>(1,112,488)</b>	(876,353)
<b>Other comprehensive income (loss)</b>					
Foreign exchange translation difference		<b>(4,901)</b>	(4,034)	<b>12,112</b>	(3,960)
<b>Other comprehensive income (loss)</b>		<b>(4,901)</b>	(4,034)	<b>12,112</b>	(3,960)
<b>Net loss and comprehensive loss for the period</b>		<b>(538,574)</b>	(439,631)	<b>(1,100,376)</b>	(880,313)
<b>Loss per share</b>					
Basic loss per share		<b>(0.02)</b>	(0.02)	<b>(0.04)</b>	(0.04)
Diluted loss per share		<b>(0.02)</b>	(0.02)	<b>(0.04)</b>	(0.04)

The accompanying notes are an integral part of the financial statements.

**Plurilock Security Solutions Inc.**  
**Condensed Interim Consolidated Statement of Changes in Equity (unaudited)**  
(Expressed in Canadian dollars)

	Share capital	Share-based payment reserve	Equity reserve	Foreign currency translation reserve	Deficit	Total	
#	\$	\$	\$	\$	\$	\$	
<b>Balance, January 1, 2019</b>	21,365,776	3,747,362	179,711	10,010	435	(3,509,732)	427,786
Shares issued for cash	2,275,000	618,750	—	—	—	—	618,750
Share issuance costs	—	(3,750)	—	—	—	—	(3,750)
Recognition of share-based payments	—	—	21,088	—	—	—	21,088
Net loss for the period	—	—	—	—	—	(876,353)	(876,353)
Other comprehensive gain	—	—	—	—	(3,960)	—	(3,960)
<b>Balance, June 30, 2019</b>	<b>23,640,776</b>	<b>4,362,362</b>	<b>200,799</b>	<b>10,010</b>	<b>(3,525)</b>	<b>(4,386,085)</b>	<b>183,561</b>
Shares issued for cash	1,078,537	314,051	—	—	—	—	314,051
Share issuance costs	—	(38,750)	—	—	—	—	(38,750)
Recognition of share-based payments	—	—	9,060	—	—	—	9,060
Equity component of convertible debt	—	—	—	(4,550)	—	9,150	4,600
Net loss for the period	—	—	—	—	—	(429,958)	(429,958)
Other comprehensive loss	—	—	—	—	(4,881)	—	(4,881)
<b>Balance, December 31, 2019</b>	<b>24,719,313</b>	<b>4,637,663</b>	<b>209,859</b>	<b>5,460</b>	<b>(8,406)</b>	<b>(4,806,893)</b>	<b>37,683</b>
Shares issued for cash	1,069,441	240,625	—	—	—	—	240,625
Share issuance costs	—	(63,690)	—	—	—	—	(63,690)
Recognition of share-based payments	—	—	22,767	—	—	—	22,767
Equity component of convertible debt	—	—	—	(5,460)	—	5,460	—
Net loss for the period	—	—	—	—	—	(1,112,488)	(1,112,488)
Other comprehensive gain	—	—	—	—	12,112	—	12,112
<b>Balance, June 30, 2020</b>	<b>25,788,754</b>	<b>4,814,598</b>	<b>232,626</b>	<b>—</b>	<b>3,706</b>	<b>(5,913,921)</b>	<b>(862,991)</b>

The accompanying notes are an integral part of the financial statements.

**Plurilock Security Solutions Inc.**  
**Consolidated Statements of Cash Flows (unaudited)**  
(Expressed in Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
<b>Net loss for the period</b>	<b>(533,673)</b>	(435,597)	<b>(1,112,488)</b>	(876,353)
<b>Operating activities</b>				
Adjustments for				
Amortization	<b>5,480</b>	1,810	<b>10,692</b>	3,620
Share-based compensation	<b>11,159</b>	10,544	<b>22,767</b>	21,088
Change in fair value of convertible debt	<b>3,679</b>	—	<b>(766)</b>	—
Interest expense - short term loans	<b>6,919</b>	6,234	<b>24,276</b>	11,656
Interest expense - loans payable to related parties	<b>1,559</b>	—	<b>3,400</b>	1,355
Interest expense - lease liability	<b>653</b>	—	<b>1,402</b>	—
Changes in working capital and other items				
Trade and other receivables	<b>(66,240)</b>	(230,236)	<b>380,616</b>	(112,173)
Tax credits receivable	<b>200,242</b>	142,992	<b>123,519</b>	99,492
Prepaid expenses and deposits	<b>(2,697)</b>	(11,607)	<b>(12,301)</b>	(5,173)
Trade and other payables	<b>99,558</b>	51,752	<b>128,576</b>	49,424
Unearned revenue	<b>(48,074)</b>	233,566	<b>(88,236)</b>	212,615
Net cash flows from operating activities	<b>(321,435)</b>	(230,542)	<b>(518,543)</b>	(594,449)
<b>Investing activities</b>				
Acquisition of equipment	<b>(6,862)</b>	(5,172)	<b>(10,073)</b>	(5,172)
Net cash flows from investing activities	<b>(6,862)</b>	(5,172)	<b>(10,073)</b>	(5,172)
<b>Financing activities</b>				
Proceeds from issuance of shares	<b>(25,190)</b>	395,000	<b>151,935</b>	615,000
Proceeds from convertible debt	<b>490,000</b>	—	<b>1,307,375</b>	—
Proceeds from short-term loans	<b>93,038</b>	—	<b>93,038</b>	100,000
Repayment of short-term loans	<b>(171,827)</b>	(57,001)	<b>(322,379)</b>	(108,365)
Repayment to related parties	<b>(30,277)</b>	—	<b>(30,277)</b>	(72,647)
Lease payments	<b>(4,575)</b>	—	<b>(9,150)</b>	—
Net cash flows from financing activities	<b>351,169</b>	337,999	<b>1,190,542</b>	533,988
Foreign exchange effect on cash	<b>(4,901)</b>	(4,034)	<b>12,112</b>	(3,960)
Net increase (decrease) in cash and cash equivalents	<b>22,872</b>	102,285	<b>639,926</b>	(65,633)
Cash and cash equivalents, beginning of period	<b>781,500</b>	259,377	<b>147,433</b>	427,221
<b>Cash and cash equivalents, end of period</b>	<b>799,471</b>	357,628	<b>799,471</b>	357,628

## Plurilock Security Solutions Inc.

### Notes to the condensed interim consolidated financial statements (unaudited)

For the periods ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

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#### 1. Nature of operations and continuance of business

Plurilock Security Solutions Inc. ("**Plurilock**" or the "**Company**") is a company incorporated under the Business Corporation Act of British Columbia on October 28, 2008. The Company is an identity-centric cybersecurity company in continuous multi-factor authentication ("**MFA**") solutions. Plurilock's software leverages behavioral-biometric, environmental, and contextual technologies to provide invisible, adaptive, and risk-based MFA, device and malware protection, and identity assurance. The Company's head office and principal place of business is located at Suite 330 - 700 Fort Street, Victoria, British Columbia, Canada V8W 1H2.

These condensed interim consolidated financial statements report that the Company has a net loss and comprehensive loss of \$538,574 and \$1,100,376 for the three and six months ended June 30, 2020 (\$439,631 and \$880,313 respectively in 2019) and an accumulated deficit of \$5,913,921 as at June 30, 2020 (December 31, 2019: \$4,806,893). The Company has financed its operating cash requirements primarily through the issuance of share capital, and lending from shareholders. The Company's ability to realize the carrying value of its assets and to continue as a going concern is dependent upon the successful execution of the Company's strategic plan to improve the scale and profitability of its business to achieve future profitable operations, the outcome of which cannot be predicted at this time. It will be necessary for the Company to raise additional funds from time to time for the continued execution of its strategic plan. These funds may come from sources which include the issuance of shares, the issuance of debt or alternative sources of financing. The ability of the Company to continue as a going concern is dependent upon the continued support from the Company's shareholders, lenders, and the Company's ability to attain profitable operations in the near future. There can be no assurance that the Company will successfully generate sufficient operating cash flows or raise sufficient funds to continue the execution of its strategic plan and to operate as a going concern. As a result of the above, there are material uncertainties that exist that may cast significant doubt on the Company's ability to continue as a going concern.

These condensed interim consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at the amounts different from those reflected in the accompanying financial statements.

On January 3, 2020, the Company entered into a non-binding letter of intent (the "**Letter of Intent**") with Libby K Industries Inc. ("**Libby K**") (TSX-V: LBB.P), a capital pool company to complete a public listing transaction for Plurilock (the "**Qualifying Transaction**") by way of a reverse takeover of Libby K. It is anticipated that the Qualifying Transaction will be by way of a business combination involving a three-cornered amalgamation whereby Plurilock will amalgamate with a newly incorporated wholly owned subsidiary of Libby K. Upon completion of the Qualifying Transaction, the name of Libby K will be changed to "Plurilock Security Inc." The resulting entity (the "**Resulting Issuer**") will carry on the business of Plurilock as currently constituted and planned. It is expected that the Resulting Issuer will be a Tier 2 Technology issuer on the TSX-V. The Letter of Intent was negotiated at arm's length. The parties intend to complete private placement financings ("**Financings**") comprised of units ("**Resulting Issuer Units**") in connection with the closing of the Qualifying Transaction. Each Resulting Issuer Unit will be comprised of one common share of the Resulting Issuer (each, a "Resulting Issuer Share") and a half warrant exercisable for two years from closing of the Financing (the "**Concurrent Warrants**"). On June 23, 2020, the Company entered into the Definitive Agreement ("**Definitive Agreement**") and on September 17, 2020, the Company completed the Qualifying Transaction. See Note 22 (c).

#### 2. Basis of presentation

## **Plurilock Security Solutions Inc.**

### **Notes to the condensed interim consolidated financial statements (unaudited)**

For the periods ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

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#### *Statement of compliance*

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, using the accounting policies consistent with International Financial Reporting Standards ('IFRS').

These condensed interim consolidated financial statements should be read in conjunction with the most recently issued annual consolidated financial statements of the Company, which include information necessary or useful to understanding the Company's operations, financial performance, and financial statement presentation. In particular, the Company's significant accounting policies were presented as Note 2 to the consolidated financial statements for the year ended December 31, 2019 and have been consistently applied in the preparation of these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on September 17, 2020.

#### *Basis of presentation*

These condensed interim consolidated financial statements were prepared on a going concern basis, under the historical cost convention, except for certain items not carried at historical cost as noted below.

### **3. Significant accounting policies**

#### *Principals of consolidation*

These condensed interim consolidated financial statements include the financial statements of the Company and its subsidiary, Plurilock Security Corp. (100%-owned and incorporated on November 15, 2017 in the United States).

The Company consolidates its subsidiary, over which it has continuing power to determine the strategic operating, investing and financing policies without the cooperation of others.

All intercompany balances, transactions, revenues and expenses are eliminated.

#### *Foreign currency translation*

The presentation currency for the condensed interim consolidated financial statements is the Canadian dollars. Items included in these condensed interim consolidated financial statements of the Company and its subsidiary are measured using the currency of the primary economic environment in which the individual entity operates (the "**functional currency**"). The functional currency of the Company is the Canadian dollar and the functional currency of the Company's subsidiary is U.S. dollar.

#### *Main sources of estimation uncertainty and critical judgements by management*

The preparation of condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the carrying amount of assets and liabilities, and disclosures of contingent assets and liabilities as at the date of the condensed interim consolidated financial statements, and the carrying amount of revenues and expenses for the reporting period. These estimates are changed periodically, and as adjustments become necessary, they are reported in

## **Plurilock Security Solutions Inc.**

### **Notes to the condensed interim consolidated financial statements (unaudited)**

For the periods ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

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profit or loss in the period in which they become known. These judgements, estimates and assumptions have not changed since December 31, 2019.

The significant accounting policies subject to such estimates that, in the Company's opinion, could significantly affect the reported results or financial position, are as follows:

#### *Revenue recognition, contracts with multiple performance obligations*

The Company enters into contracts with its customers that may include promises to transfer multiple subscription services and services. A performance obligation is a commitment in a contract with a customer to transfer products or services that are distinct. Determining whether products and services are distinct performance obligations that should be accounted for separately or combined as one unit of accounting may require significant judgment.

The Company's subscription services are distinct as such services are often sold separately. In determining whether services are distinct, the Company considers the following factors for each type of services agreement: the availability of the services from other vendors; the nature of the services; and the timing of when the services contract was signed in comparison to the start date of any related subscription services.

The Company allocates the transaction price to each distinct performance obligation on a relative standalone selling price ("SSP") basis. The SSP is the price at which the Company would sell a promised product or service separately to a customer. Judgment is required to determine the SSP for each distinct performance obligation. In certain cases, the Company is able to establish SSP based on observable prices of products or services sold separately in comparable circumstances to similar customers. The Company generally uses a range of SSP when it has observable prices.

If SSP is not directly observable, for example when pricing is highly variable, the Company uses a range of SSP. The Company determines the SSP range using information that may include market conditions or other observable inputs. The Company may have more than one SSP for individual products and services due to the stratification of those products and services by customer size, geography, and the other factors noted above.

#### *Valuation of share-based compensation*

The Company uses the Black-Scholes model to value share options issued to employees. The model's estimates include inputs that require management estimates and judgement, such as the volatility of the underlying equity instruments, the forfeiture rate and expected life of the options.

#### *Carrying values of allowances for unrecoverable accounts receivable*

Management estimates the allowance for doubtful accounts as it relates to trade and other receivables based on the expected credit losses.

#### *Recoverability of tax credits*

The Company regularly accrues refundable incentive tax credits earned through the Scientific Research and Experimental Development ("**SRED**") program administered through the Canada Revenue Agency ("**CRA**"). The recoverability of qualified expenditures is based on the results of the assessment by the CRA. Management estimates the recoverable amount of research and development costs based on experience with prior assessments under the program.

## **Plurilock Security Solutions Inc.**

### **Notes to the condensed interim consolidated financial statements (unaudited)**

For the periods ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

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The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimates above, that has the most significant effect on the amounts in the Company's condensed interim consolidated financial statements, are related to:

- Determination of the functional currency of the Company and its subsidiary;
- Determination of the stand-alone selling prices for the licenses.

The following standards are applicable for periods beginning on or after January 1, 2020. These policies have been adopted and there has been no material impact to the condensed interim consolidated financial statements.

#### **a) Amendments to IAS 1 - Presentation of financial statements ("IAS 1") and IAS 8 - Accounting policies, changes in accounting estimates and errors ("IAS 8")**

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other IFRS and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after January 1, 2020.

#### **b) Amendments to references to the conceptual framework in IFRS standards**

Together with the revised conceptual framework, which became effective upon publication on March 29, 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to various IFRS standards. The amendments are effective for annual periods beginning on or after January 1, 2020.

#### **c) Amendments to IFRS 3: Definition of a Business**

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations ("IFRS 3") to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarified the minimum requirements for a business, removed the assessment of whether market participants are capable of replacing any missing elements, added guidance to help entities assess whether an acquired process is substantive, narrowed the definitions of a business and of outputs, and introduced an optional fair value concentration test.

**Plurilock Security Solutions Inc.****Notes to the condensed interim consolidated financial statements (unaudited)**

For the periods ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

**4. Trade and other receivables**

The Company's trade and other receivables are comprised of the following:

	<b>June 30, 2020</b>	December 31, 2019
	\$	\$
Trade receivables	<b>99,051</b>	515,934
Other receivables	<b>52,349</b>	16,082
	<b>151,400</b>	532,016

The Company evaluates credit losses on a regular basis based on the aging and collectability of its receivables. At June 30, 2020, 77% of the Company's trade receivables balance is over 90 days past due (44% as at December 31, 2019) and 100% (98% as at December 31, 2019) of the trade receivable balances are owing from 1 (4 as at December 31, 2019) customer(s).

**5. Equipment**

Equipment consists of computer equipment and is broken down as follows:

	\$
<b>Cost</b>	
Balance January 1, 2020	<b>26,330</b>
Additions	10,073
<b>Balance June 30, 2020</b>	<b>36,403</b>
<b>Accumulated amortization</b>	
Balance January 1, 2020	<b>22,020</b>
Amortization for the period	1,130
<b>Balance June 30, 2020</b>	<b>23,150</b>
<b>Net book value</b>	
At January 1, 2020	<b>4,310</b>
At June 30, 2020	<b>13,253</b>

**6. Right of use asset**

Right of use asset relates to an office space lease which was capitalized at January 1, 2018. The following table provides a reconciliation of this right of use asset:

	<b>June 30, 2020</b>	December 31, 2019
	\$	\$
Opening balance	<b>28,253</b>	42,380
Less: amortization for the period	<b>(7,062)</b>	(14,127)
Ending balance	<b>21,191</b>	28,253

**Plurilock Security Solutions Inc.****Notes to the condensed interim consolidated financial statements (unaudited)**

For the periods ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

**7. Lease liability**

Lease liability relates to the lease of an office space, which has a remaining lease term of eighteen months, and was discounted using an interest rate of 10%. During the three and six months ended June 30, 2020, the Company recognized \$653 and \$1,402 respectively in interest expense on lease liability (nil in 2019), which is included in interest expense.

	<b>June 30, 2020</b>	December 31, 2019
	\$	\$
Opening balance	<b>32,749</b>	45,678
Add: interest during the year	<b>1,402</b>	3,846
Less: payments during the year	<b>(9,150)</b>	(16,775)
Balance at end of the year	<b>25,001</b>	32,749
Less: current portion of lease liability	<b>(16,705)</b>	(15,893)
Non-current portion of lease liability	<b>8,297</b>	16,856

**8. Intangible assets**

Intangibles consist of patent costs incurred in 2015 related to (3) three 20-year patents covering certain aspects of our behavioral biometric algorithms. The values are broken down as follows:

	\$
<b>Cost</b>	
<b>Balance January 1, 2020</b>	<b>100,000</b>
<b>Balance June 30, 2020</b>	<b>100,000</b>
<b>Accumulated amortization</b>	
<b>Balance January 1, 2020</b>	<b>25,000</b>
Amortization for the period	2,500
<b>Balance June 30, 2020</b>	<b>27,500</b>
<b>Net book value</b>	
<b>At January 1, 2020</b>	<b>75,000</b>
<b>At June 30, 2020</b>	<b>72,500</b>

**9. Trade and other payables**

The Company's trade and other payables are comprised of the following:

	<b>June 30, 2020</b>	December 31, 2019
	\$	\$
Trade payables	<b>98,952</b>	103,398
Accrued liabilities	<b>291,365</b>	119,841
Payroll liabilities	<b>78,888</b>	117,390
	<b>469,205</b>	340,629

**Plurilock Security Solutions Inc.****Notes to the condensed interim consolidated financial statements (unaudited)**

For the periods ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

Trade payables include deferred consulting fees to the CFO totaling \$39,375 as at June 30, 2020 (December 31, 2019: \$34,020). Payroll liabilities include deferred compensation to the CEO totaling \$18,529 as at June 30, 2020 (December 31, 2019: \$83,025 containing deferred compensation to the CEO, CFO and CTO).

**10. Unearned revenue**

	<b>June 30, 2020</b>	December 31, 2019
	\$	\$
Balance, opening	<b>138,659</b>	33,547
Amounts received	<b>11,037</b>	516,463
Revenue recognized	<b>(99,273)</b>	(411,351)
Balance, closing	<b>50,423</b>	138,659

Unearned revenue consists of customer contract revenue earned for goods or services which have not yet been delivered and are expected to be provided in the next twelve months.

## Plurilock Security Solutions Inc.

### Notes to the condensed interim consolidated financial statements (unaudited)

For the periods ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

#### 11. Short-term loans

	June 30, 2020	December 31, 2019
	\$	\$
Promissory Notes (a)	55,821	223,088
Bridge loan (b)	—	177,945
Government loans (c)	53,146	—
	<b>108,967</b>	401,033
Due for settlement in under 12 months	<b>(108,967)</b>	(401,033)
Due for settlement after 12 months	—	—

- a) As at June 30, 2020, promissory notes totaling \$55,821 (December 31, 2019 \$223,088) are secured by certain accounts receivable, bear interest rate of 14% per annum, and are due on the earliest of (a) five (5) full business days after receipt by the Company of the funds from completion of a mutually agreeable financing event or a mutually agreeable substantial equity financing, and (b) the date that is not later than September 30, 2020 or other mutually agreed date.
- b) As at June 30, 2020, the Company repaid its bridge loan in its entirety and has a nil balance (December 31, 2019 \$177,945). The bridge loan was secured by first priority General Security Agreement ("**GSA**"), current and all future SRED claims from CRA and all future Industrial Research Assistance Program ("**IRAP**") claims, bears interest of 1.6% per month compounded monthly. On May 19, 2020, the Company received cash for SRED tax credits from CRA totaling \$220,671 and repaid in full the bridge loan outstanding. The related GSA was discharged shortly thereafter.
- c) On April 14, 2020, the Company entered into a loan agreement with the Silicon Valley Bank for US\$39,072 ("**PPP Loan**") under the U.S. Small Business Administration Paycheck Protection Program ("**PPP**"). The Company has received the PPP Loan proceeds. The PPP was established as part of the U.S. Coronavirus Aid, Relief and Economic Security Act ("**CARES Act**"). The amount borrowed under the PPP Loan is eligible to be forgiven provided that the Company uses the loan proceeds after an eight-week period following receipt. The amount of PPP loan forgiveness will be reduced if, among other reasons, the Company does not maintain staffing or payroll levels. Principal and interest payments on any unforgiven portion of the PPP Loan will be deferred for six months and will accrue interest at a fixed annual rate of 1%. Additionally, the remaining PPP loan balance will carry a two-year maturity date. There is no prepayment penalty on the PPP loan.

#### 12. Loans payable to related parties

	June 30, 2020	December 31, 2019
	\$	\$
Loans payable to related parties	<b>25,288</b>	52,164

Loans payable to related parties as at June 30, 2020 totaling \$25,288 (December 31, 2019 \$52,164) include a short-term promissory note of \$25,000 owed to the Chairman of the Company ("**Lender**"). The amount is secured by certain accounts receivable, bears simple interest at 14% per annum, and is due on the earliest of (a) five (5) full business days after receipt by the Company of the funds from completion of a mutually agreeable financing event or a mutually agreeable

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substantial equity financing, and (b) the date that is not later than September 30, 2020 or other mutually agreed date.

### 13. Convertible debt

The Company completed a non-brokered private placement for proceeds of approximately \$1,000,000 (the "**Bridge #1 Financing**"). The Bridge #1 Financing was comprised of: (a) \$182,625 equity in the Company comprised of common shares at \$0.225 per share, together with a warrant that will automatically be exchanged for warrants, if any, that comprise the Resulting Issuer Units (the "**Plurilock Units**"); and (b) \$817,375 secured convertible debentures of the Company (the "**Debentures**" and together with the Plurilock Units, the "**Bridge #1 Securities**") that will automatically convert into or be exchanged for, Resulting Issuer Units at the Closing. The CEO, CFO and CTO collectively subscribed to \$55,000 of the Bridge #1 Financing. If the Proposed Transaction completes: (a) the Debentures will have a conversion price representing a 25% discount to the price of the Resulting Issuer Units in the Financing; and (b) the Plurilock Units will entitle the holders to such number of Resulting Issuer Units as reflects such 25% discount. The Debentures will bear interest at a rate of 10% per annum, in the event that the Proposed Transaction is not completed and will have a maturity date of January 1, 2022, and, at the option of the respective lenders: (a) the principal will be repaid in full, plus interest, on such date; or (b) the principal and interest outstanding on such date will convert into common shares of Plurilock at a price of \$0.225 per share, only if either: (i) the respective lender provides notice in writing that it wishes for the principal and interest to convert as noted; or (ii) there is a "Qualified Financing" (proceeds raised of at least \$2,000,000, excluding the Debentures, in connection with a public listing transaction of Plurilock)(" Qualifying Transaction Financing") in which case the principal and interest will automatically convert into the kind and class of shares of Plurilock sold under the Qualifying Transaction Financing. The Company incurred an aggregate of \$30,430 in cash as finder's fees in relation to the Bridge #1 Financing.

On June 18, 2020, the Company completed a second non-brokered private placement for proceeds of approximately \$548,000 (the "**Bridge #2 Financing**"). The Bridge #2 Financing was comprised of: (a) \$58,000 equity in the Company comprised of common shares at \$0.225 per share, together with a warrant that will automatically be exchanged for warrants, if any, that comprise the Plurilock Units and (b) \$490,000 Debentures and together with the Plurilock Units, (the "**Bridge #2 Securities**") that will automatically convert into or be exchanged for, Resulting Issuer Units at the Closing. The terms of the Bridge #2 Securities are similar to the Bridge #1 Securities. The Company incurred an aggregate of \$27,760 in cash and 69,400 in broker's warrants as finder's fees in relation to the Bridge #2 Financing.

The Company has designated the convertible debt at fair value through profit or loss at the date of inception as the conversion features related to the debt contains an embedded derivative related to the automatic conversion feature upon completion of the Proposed Transaction. The Company determined the fair value of the Debentures using a probability weighted value of the forward value of the convertible units if the Proposed Transaction occurs and the value using a convertible bond model, which includes the value of the debt on a stand-alone basis and the value of the conversion option if the Proposed Transaction does not occur. The significant assumptions used in the valuation of the Debentures at the inception date included a probability of the Proposed Transaction occurring of 90%, a volatility of 14%, a risk-free rate of 2%, and a credit spread of approximately 17%. At June 30, 2020, the Company would be contractually required to pay \$1,307,375 at maturity, plus interest of 10% if the Proposed Transaction is not completed. The significant assumptions in determining the fair value at June 30, 2020 include a probability of the Proposed Transaction occurring of 90%, a volatility of 21%, a risk-free rate of 1.2%, and a credit spread of approximately 32%. The Company recognized a change in the fair value of the convertible debt of \$766 in the six months ended June 30, 2020.

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#### 14. Government loan

On April 15, 2020, the Company was approved for a \$40,000 line of credit ("LOC") with Royal Bank of Canada under the Canada Emergency Business Account ("CEBA") program funded by the Government of Canada to aid with economic effects resulting from the Coronavirus pandemic. The CEBA LOC is non-interest bearing, can be repaid at any time without penalty and is valid until December 31, 2020. The Company has drawn \$40,000 from the CEBA LOC on May 11, 2020. On January 1, 2021, the outstanding balance of the CEBA LOC will automatically convert to a non-revolving term loan ("CEBA Term Loan"). The CEBA Term Loan will bear interest at 5% per annum and mature on December 31, 2025. The CEBA Term Loan may be repaid at any time without notice to us or the payment of any penalty. If 75% of the CEBA Term Loan at the CEBA Term Loan Commencement Date on or before December 31, 2022 is repaid, the repayment of the remaining 25% of such CEBA Term Loan shall be forgiven ("Early Payment Credit").

#### 15. Share capital

(a) Authorized

Unlimited number of common shares without nominal or par value, and

Unlimited number of series seed preferred shares without nominal or par value

(b) Issued and outstanding

During the six months ended June 30, 2020, the Company raised a total of \$240,625 (\$618,750 during the six months ended June 30, 2019) through a common share round of financing. The common share round raised at a price of \$0.225 per share (\$0.25 in 2019) and resulted in issued 1,069,441 (2,275,000 during the six months ended June 30, 2019) common shares being issued.

Share issuance costs during the six months ended June 30, 2020 totaled \$5,500 (\$3,750 during the six months ended June 30, 2019) and are recorded as a credit to share capital.

The Company's series seed preferred shares are convertible into common shares of the Company without payment of additional consideration at any time at the option of the shareholder. The series seed preferred shares will automatically convert into common shares upon the earlier of a qualified initial public offering or the approval of the majority of the shareholders of the series seed preferred shares.

The following table summarizes the Company's issued and outstanding share capital:

	Number of common shares #	Number of preferred shares #	Number of shares #	\$
Balance, January 31, 2019	21,365,776	—	21,365,776	3,747,362
Shares issued for cash	1,275,000	1,000,000	2,275,000	618,750
Share issuance costs				(3,750)
Balance, June 30, 2019	22,640,776	1,000,000	23,640,776	4,362,362
Shares issued for cash	190,204	888,333	1,078,537	314,051
Share issuance costs	—	—	—	(38,750)
Balance, December 31, 2019	22,830,980	1,888,333	24,719,313	4,637,663
Shares issued for cash	1,069,441	—	1,069,441	240,625
Share issuance costs	—	—	—	(63,690)
Balance, June 30, 2020	<b>23,900,421</b>	<b>1,888,333</b>	<b>25,788,754</b>	<b>4,814,598</b>

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**15. Share capital (continued)***(c) Stock option plan*

Commencing in 2015, the Company established an employee stock option plan whereby eligible employees, consultants, and directors are granted stock options to purchase common shares in the Company. The maximum number of non-voting shares available for issuance under this Plan was fixed at 5,500,000 by the Board on October 18, 2018. The options expire 10 years from the grant date and generally vest over a three-year period from the date of the grant.

The following table summarizes the continuity of stock options:

	<b>Number of options #</b>	Weighted average exercise price \$
Balance, January 1, 2019	<b>4,990,181</b>	0.25
Granted	<b>324,458</b>	0.25
Forfeited	<b>(122,572)</b>	0.25
Balance, June 30, 2019	<b>5,192,067</b>	0.25
Granted	<b>360,000</b>	0.25
Forfeited	<b>(323,916)</b>	0.25
Balance, December 31, 2019	<b>5,228,151</b>	0.25
Granted	<b>100,000</b>	0.25
Balance, June 30, 2020	<b>5,328,151</b>	0.25

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**15. Share capital (continued)***(c) Stock option plan (continued)*

Additional information concerning stock options outstanding as at June 30, 2020 and December 31, 2019 as follows:

	June 30, 2020			December 31, 2019		
	Exercise price \$	Number of options #	Weighted average remaining contractual life Years	Exercise price \$	Number of options #	Weighted average remaining contractual life Years
2020	<b>0.25</b>	<b>100,000</b>	<b>0.19</b>			
2019	<b>0.25</b>	<b>237,970</b>	<b>0.42</b>	0.25	237,970	0.46
2018	<b>0.25</b>	<b>2,221,254</b>	<b>3.54</b>	0.25	2,221,254	3.82
2017	<b>0.25</b>	<b>1,311,427</b>	<b>1.85</b>	0.25	1,311,427	2.01
2016	<b>0.25</b>	<b>882,500</b>	<b>1.08</b>	0.25	882,500	1.18
2015	<b>0.25</b>	<b>575,000</b>	<b>0.59</b>	0.25	575,000	0.66
	<b>0.25</b>	<b>5,328,151</b>	<b>7.67</b>	0.25	5,228,151	8.13

The weighted average remaining contractual life of stock options outstanding as at June 30, 2020 was 7.67 years (8.13 years as of December 31, 2019).

The estimated fair value of each option granted under the Option Plan was estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions. The volatility used is based on volatilities of a peer group of companies:

	June 30, 2020	December 31, 2019
Risk-free interest rate	<b>1.85%</b>	1.63%
Dividend yield	—	—
Expected life (in years)	<b>3-10</b>	3-10
Volatility	<b>15.06</b>	13.00

**Plurilock Security Solutions Inc.****Notes to the condensed interim consolidated financial statements (unaudited)**

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**15. Share capital (continued)***(d) Stock-based payment reserve*

Total stock-based compensation cost recognized in income for the three and six months ended June 30, 2020 was \$11,159 and \$22,767 respectively (\$10,544 and \$21,088 respectively in 2019) and is credited to contributed surplus.

Total stock-based compensation expense for the three and six months ended June 30, 2020 is comprised of the expense related to stock options issued to related parties of \$8,282 and \$16,414 respectively (\$7,719 and \$ 15,438 respectively in 2019) and to other employees of \$2,877 and \$6,353 respectively (\$2,825 and \$5,650 respectively in 2019).

*(e) Warrants*

There are 1,015,553 warrants as at June 30, 2020 (1,001,632 as of December 31, 2019), of which 75,000 were carried forward from 2019 and 534,720 were issued as part of the Bridge #1 and Bridge #2 financing as stated in note 13. The 75,000 warrants carried forward from 2019 are exercisable for one common share at a price of \$0.25 per share and are fully vested with no expiry date.

The following table summarizes the continuity of the warrants:

Balance, January 1, 2019	<b>3,364,057</b>	0.25
Expired	<b>(1,014,000)</b>	0.25
Balance, June 30, 2019	<b>2,350,057</b>	
Expired	<b>(1,348,425)</b>	0.25
Balance, December 31, 2019	<b>1,001,632</b>	
Expired	<b>(926,632)</b>	0.25
Special warrants	<b>534,720</b>	0.45
Balance, June 30, 2020	<b>609,720</b>	

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#### 16. Capital risk management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and cash equivalents, short-term loans, loans payable to related parties, and equity comprised of issued share capital, and share-based payment reserve:

	<b>June 30, 2020</b>	December 31, 2019
	\$	\$
Cash and cash equivalents	<b>799,471</b>	147,433
Short-term loans	<b>108,967</b>	401,033
Loans payable to related parties	<b>25,288</b>	52,164
Government loan	<b>40,000</b>	—
Share capital	<b>4,872,788</b>	4,637,663
Share-based payment reserve	<b>232,626</b>	209,859
	<b>6,079,140</b>	5,448,152

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issuances, short-term loans, loans payable to related parties, or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2019.

#### 17. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, short-term loans, loans payable to related parties, and convertible debt.

Cash and cash equivalents, tax credits receivable and trade and other receivables are classified as loans and receivables and are measured at amortized cost using the effective interest rate method. The carrying value of these financial assets approximates their fair value due to the relatively short period to maturity.

Trade and other payables, short-term loans, loans payable to related parties are classified as other financial liabilities and measured at amortized cost. The carrying value of these other financial liabilities approximates fair value due to the relatively short period to maturity. The Company's convertible debt is measured at fair value through profit and loss (Note 13).

##### *Financial risk management*

Management and monitoring of financial risks is performed by the Company's management, which manages all financial exposures. The Company is exposed to various financial risks through its financial instruments: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and other price risk). The following analysis enables users to evaluate the nature and extent of the risks at the end of each reporting period. There has been no significant changes in the various financial risks and the management of such risks from the year ended December 31, 2019.

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## 17. Financial instruments (continued)

### Financial risk management (continued)

#### (a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's significant financial assets include cash and cash equivalents, accounts receivable, and tax credits receivable. The Company mitigates credit risk on cash by placing it at a credit-worthy financial institution. Tax credits receivable and other receivables are due from the Government of Canada. The carrying amounts of the financial assets represent the Company's maximum credit exposure:

	June 30, 2020 \$	December 31, 2019 \$
Cash and cash equivalents	799,471	147,433
Trade and other receivables	151,400	532,016
Tax credits receivable	54,517	178,036
	<b>1,005,388</b>	<b>857,485</b>

#### (b) 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 rates of the Company's short-term loans and loans payable to related parties are fixed; as a result, the Company is not subject to significant interest rate risk. Interest rate on the Company's cash deposits and guaranteed income certificates held at the bank is nominal.

#### (c) Liquidity risk

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations when they become due or can only do so at excessive costs. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances and through short term borrowing. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due, through cash flows from its operations and anticipating any investing and financing activities. The Company manages its liquidity risk by forecasting cash flows required for operations and anticipated financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. During the first quarter of 2020, the Company entered into a non-binding letter of intent to complete a public listing transaction for Plurilock which included private placement financings totalling \$1.5 million in addition to a \$2.7 million financing in connection with the closing of the transaction.

#### (d) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company enters into foreign currency purchase and sale transactions and has assets and liabilities that are denominated in foreign currencies. The Company is exposed to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates.

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## 17. Financial instruments (continued)

The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk. If the Canadian dollar to US dollar exchange rates were to increase/decrease by 5% relative to the rate as of June 30, 2020, there would not be a significant impact to the net loss for the year.

### (e) Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value reflects market conditions at a given date and, for this reason, may not be representative of future fair values or of the amount that will be realized upon settling the instrument.

To the extent possible, the Company uses data from observable markets to measure the fair value of an asset or liability. Fair value measurements are established based on a hierarchy into three levels that categorizes the inputs to valuation techniques

Level 1 – Fair value measurement based on quoted prices (unadjusted) observable in active markets for identical assets or liabilities.

Level 2 – Fair value measurement using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – Fair value measurement using inputs that are not based on observable market data (unobservable inputs).

The Company does not hold any Level 1 financial assets or liabilities that are based on unadjusted quoted prices trading in active markets, Level 2 assets or liabilities that are estimated based on quoted prices that are observable for similar instruments, or Level 3 financial assets or liabilities that require management to make assumptions regarding the measurement of fair value using significant inputs that are not based on observable market data.

## 18. Segmented information

### (a) Operating Segments

The Company and its subsidiary operate primarily in one principal business, that being developing and selling cyber security solutions to customers in government and other sectors.

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Revenue				
Government	—	—	19,371	41,800
License	79,512	23,536	163,480	51,112
	<b>79,512</b>	23,536	<b>182,851</b>	92,912

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**18. Segmented information (continued)***(b) Entity wide disclosures*

Geographic revenue information is based on the location of the customers invoiced. Long-lived assets include non-current equipment, right of use asset, and intangible assets.

	<b>For the three months ended June 30,</b>		<b>For the six months ended June 30,</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>\$</b>	\$	<b>\$</b>	\$
Revenue				
United States	<b>79,362</b>	22,311	<b>182,551</b>	89,849
Canada	<b>150</b>	1,225	<b>300</b>	3,063
	<b>79,512</b>	23,536	<b>182,851</b>	92,912
Long-lived assets	<b>June 30, 2020</b>	December 31, 2019		
	<b>\$</b>	\$		
Canada	<b>106,944</b>	107,563		

**Plurilock Security Solutions Inc.****Notes to the condensed interim consolidated financial statements (unaudited)**

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**19. Operating expenses**

	For the three months ended		For the six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Research and development				
Communication and IT services	33,866	38,204	66,197	60,496
Contractors	—	28,787	—	46,318
Government assistance	(110,356)	(50,102)	(153,492)	(70,646)
Office and general	—	157	1,465	181
Salaries and benefits	198,572	172,801	399,525	329,483
SRED tax credit	(16,165)	(14,852)	(92,888)	(58,352)
Travel and entertainment	5	4,919	2,064	7,075
COGS allocation	(17,131)	(3,725)	(33,058)	(8,961)
	<b>88,791</b>	176,189	<b>189,813</b>	305,594
Sales and marketing				
Advertising and promotion	12,765	824	13,846	2,997
Communication and IT services	16,514	(615)	24,581	20,270
Contractors	10,961	—	22,775	—
Government assistance	(32,574)	—	(33,484)	—
Marketing	10,483	1,606	15,310	1,606
Office and general	—	—	2,643	—
Salaries and benefits	180,781	82,237	356,769	212,605
Sales commission	5,556	—	11,839	—
Travel and entertainment	—	1,692	614	5,643
	<b>204,486</b>	85,744	<b>414,893</b>	243,121
General and administrative				
Amortization	5,480	1,810	10,692	3,620
Communication and IT services	10,263	8,206	21,233	15,050
Contractors	63,929	32,360	144,006	70,228
Government assistance	(19,544)	—	(20,090)	—
Insurance	6,671	2,958	13,183	6,005
Office and general	8,193	15,288	17,558	31,665
Professional fees	153,712	33,110	289,698	63,817
Salaries and benefits	82,167	66,131	135,967	135,967
Travel and entertainment	757	26,523	13,633	51,550
	<b>311,628</b>	186,386	<b>625,880</b>	377,902

In March 2020, the World Health Organization declared the coronavirus (specifically identified as "COVID-19") a global pandemic. The Temporary Wage Subsidy ("TWS") came into effect on March 18, 2020 and allows eligible employers to reduce the amount of payroll deductions they would otherwise be required to remit to the Canada Revenue Agency ("CRA"). The amount of the subsidy is 10% of remuneration and applies during the period of March 18, 2020 to June 19, 2020. The Company meets the conditions to qualify for the TWS and received \$20,625 under the program for the six months ended June 30, 2020. The Company has adopted IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance) to account for the TWS. The amount

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received has been recognized on a net basis as a reduction of operating expenses as Government Assistance under the respective department noted above.

Effective April 11, 2020, Canada Emergency Wage Subsidy ("CEWS") came into force providing a wage subsidy to eligible Canadian employers to enable them to continue to pay their Canadian employees through their own payroll during the period of March 15 to August 29, 2020. Under this program, qualifying businesses can receive up to 75% of their employees' wages. The Company meets the conditions to qualify for the CEWS and received \$146,479 (with \$34,460 received subsequently in July 2020) under the program for the six months ended June 30, 2020. The Company has accounted for the CEWS in accordance with IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance). The amount the Company is approved for under the CEWS program will be recognized as Government Assistance and netted against operating expenses of each department.

## 20. Loss per share

The basic and diluted net loss per share for the Company for the period is calculated using the following numerators and denominators:

	June 30, 2020 \$	June 30, 2019 \$
Numerator		
Net loss and comprehensive loss	<b>(1,159,697)</b>	(880,313)
Denominator		
Total basic shares for loss per share calculation	<b>25,788,754</b>	23,640,776
	<b>(0.04)</b>	(0.04)
Denominator		
Total fully-diluted shares for diluted loss per share calculation	<b>41,480,191</b>	30,480,014
	<b>(0.04)</b>	(0.04)

## 21 Related party transactions

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's Board of Directors and members of the executive team.

For the three and six months ended June 30, 2020, key management personnel transactions are as follows:

- Wages, benefits, bonus and vacation pay, including accrued and deferred payments totaled \$102,221 for the three months ended June 30, 2020 (\$83,217 in Q2 2019) and \$265,729 for the six months ended June 30, 2020 (\$155,944 during the same period in 2019).

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- (b) Consulting fees, benefits and bonus, including accrued and deferred payments totaled \$50,225 for the three months ended June 30, 2020 (\$25,175 in Q2 2019) and \$126,090 for the six months ended June 30, 2020 (\$50,350 during the same period in 2019).
- (c) Stock based compensation totaled \$8,282 for the three months ended June 30, 2020 (\$7,719 in Q2 2019) and \$16,414 for the six months ended June 30, 2020 (\$15,437 during the same period in 2019).

The following table summarizes the related party transactions:

	For the three months ended		For the six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Wages and benefits	<b>102,221</b>	83,217	<b>265,729</b>	155,944
Consulting fees	<b>50,225</b>	25,175	<b>126,090</b>	50,350
Stock-based compensation expense*	<b>8,282</b>	7,719	<b>16,414</b>	15,437
	<b>160,728</b>	116,111	<b>408,233</b>	221,731

Note:

\* Reflects the amount recorded as expense in the consolidated statement of loss. The fair value of stock-based compensation is measured at grant date and is recognized as an expense over the vesting period.

## Plurilock Security Solutions Inc.

### Notes to the condensed interim consolidated financial statements (unaudited)

For the periods ended June 30, 2020 and 2019

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## 22. Subsequent events

- (a) On July 30, 2020, the Company was awarded a new contract by the US Department of Homeland Security ("**DHS**") to continue its development of advanced machine-to-machine ("**M2M**") authentication and anomaly detection tools. The contract, which totals some US\$198,000, is the third in a series of related contracts funded through the DHS Science and Technology ("**S&T**") Directorate's Silicon Valley Innovation Program ("**SVIP**") and renews the ongoing collaboration between Plurilock and DHS.
- (b) On August 6, 2020, the Company announced that it was awarded advisory services and funding from the National Research Council of Canada Industrial Research Assistance Program ("**NRC IRAP**") for a research and development project. The funding provides Plurilock with up to \$120,000 to support the development of advanced passwordless authentication technologies that can be used in commercial, enterprise, and highly regulated cybersecurity environments.
- (c) On September 17, 2020, the Company completed the Qualifying Transaction – see Note 1. On the same day, the Resulting issuer changed its name to Plurilock Security Inc ("**PSI**"). The shares are expected to resume trading on the TSX Venture Exchange as a Tier 2 technology issuer under the ticker symbol "TSX-V: PLUR" on September 24, 2020, subject to the TSX-V issuing its final exchange bulletin confirming completion of the Qualifying Transaction and its approval thereof. The Qualifying Transaction was effected pursuant to a three-cornered amalgamation whereby Libby K's wholly owned subsidiary amalgamated with the Company under the Business Corporations Act (British Columbia) and the Company became a wholly owned subsidiary of PSI. In connection with the Qualifying Transaction, the Company and Libby K have completed concurrent brokered private placements for aggregate proceeds of \$2.6 million.

The Libby K brokered component comprised 1,262,000 units of the company at a price of 30 cents per unit, for aggregate gross proceeds of \$378,600. Each unit comprised one share and one-half of a warrant, and each warrant is exercisable for one share at an exercise price of 40 cents until September 17, 2022, all on a post consolidation basis. The shares and warrants issued under the Libby K brokered component, as well as any shares issued upon exercise of such warrants, are subject to a hold period and may not be traded until January 18, 2021, except as permitted by applicable securities legislation and the rules and policies of the TSX-V.

The Company brokered component comprised 7,416,162 subscription receipts of the Company at a price of 30 cents per subscription receipt, for aggregate gross proceeds of \$2,224,849. Pursuant to the terms of the transaction (and after giving effect to the consolidation), each subscription receipt was effectively converted into one unit for a total of 7,416,162 units.

PI Financial Corp. ("**PI Financial**") (as lead agent) and Industrial Alliance Securities Inc. acted as agents for the concurrent financings. As consideration for certain services provided in connection with the concurrent financings, the agents and members of the selling group received an aggregate of \$186,676 in cash and 622,252 compensation warrants. Each compensation warrant is exercisable for one share at an exercise price of 30 cents until September 17, 2022. In addition, the Company issued to PI Financial 200,000 common shares of the Company as consideration for corporate finance advisory services. The corporate finance shares were exchanged for 200,000 shares upon completion of the transaction. The compensation warrants and any shares issued upon exercise of the compensation warrants are subject to a hold period and may not be traded until January 18, 2021, except as permitted by applicable securities legislation, and the rules and policies of the TSX-V. No other finders' fees were payable in connection with the concurrent financings.

In accordance with the Definitive Agreement, as amended and immediately before completion of the share exchange ("**Share Exchange**"): (a) all of the in-the-money stock options and warrants of the Company were deemed to be exercised into 900,524 Company common shares on a cashless basis; and (b) each outstanding Company preferred share was cancelled and

## **Plurilock Security Solutions Inc.**

### **Notes to the condensed interim consolidated financial statements (unaudited)**

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converted into 2,514,692 Company common shares. After completion of such transactions, and before the share exchange and the completion of the Company brokered component, there were an aggregate of 27,515,637 Company shares issued and outstanding. All stock options of the Company brokered component that were not in the money were cancelled.

The amalgamated entity formed pursuant to the Definitive Agreement is now a wholly owned subsidiary of PSI, and the outstanding securities of the Company were exchanged for securities of the Resulting Issuer immediately before the completion of the Qualifying Transaction, as follows:

- Each outstanding Company share held by certain shareholders that formed the founder trust distribution in 2020 were exchanged for 1.655 shares of the Resulting Issuer on a post consolidation basis.
- All securities issued pursuant to the Company's Financings were exchanged for one Resulting Issuer unit (as defined below), at a discounted price of 22.5 cents per unit, for an aggregate of 6,879,992 units.
- Each outstanding Company share that (i) is not held by 1.655 exchange ratio Company holders and (ii) does not comprise a portion of the Financings units was exchanged for 0.8152 Resulting Issuer share.

After the Share Exchange, each outstanding Company share was exchanged for one Resulting Issuer share.

As a result of the Qualifying Transaction, there are an aggregate of 45,055,790 Resulting Issuer shares Issued and outstanding, of which the previous shareholders of Libby K hold approximately 12.2 per cent, the purchasers under Qualifying Transaction hold approximately 19.7 per cent, the purchasers under the Financings hold approximately 15.3 per cent, and the former shareholders of the Company hold approximately 52.8 per cent, respectively.

The Company shareholders, representing an aggregate of 14,932,573 Resulting Issuer shares post transaction, have entered into contractual lock-up agreements, an aggregate of 2,986,838 Resulting Issuer shares and 123,610 Resulting Issuer warrants are subject to Tier 2 surplus escrow agreements, an aggregate of 5,070,614 Resulting Issuer shares are subject to Tier 2 value escrow agreements, and the 1,262,000 units issued in the Libby K brokered component are subject to a four-month hold, pursuant to B.C. Instrument 45-536.

Upon completion of the Qualifying Transaction, all directors and officers of Libby K, other than Robert Kiesman resigned. Mr. Kiesman remained as a director and Chair of the PSI board. New PSI board members and officers, formerly of the Company, include: (a) Ian Paterson as Chief Executive Officer and director; (b) Barry Carlson as director; (c) Ed Hammersla as director; (d) Admiral Mike McConnell as director; (e) Roland Sartorius as Chief Financial Officer and Corporate Secretary; and (f) Jord Tanner as Chief Technology Officer.

The newly appointed PSI board ratified changing the PSI year-end to coincide with that of the Company.