
Condensed interim consolidated
financial statements of
Plurilock Security Inc.

For the three months ended March 31, 2021 and 2020 (unaudited)

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

(Expressed in Canadian dollars)

		March 31, 2021	December 31, 2020
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		5,848,598	1,721,179
Trade and other receivables	5	2,808,263	118,796
Tax credits receivable		56,773	69,243
Inventory	6	197,190	—
Prepaid expenses and deposits		364,080	207,559
Total current assets		9,274,904	2,116,777
Non-current assets			
Furniture and equipment	7	41,143	27,618
Right of use asset	8	10,598	14,129
Intangible assets	10	77,583	70,000
Goodwill	4	1,623,263	—
Other non-current assets		13,139	—
Total assets		11,040,630	2,228,524
Liabilities			
Current liabilities			
Trade and other payables	11	3,736,373	409,616
Unearned revenue	12	345,760	94,700
Short-term loans	13	628,246	—
Lease liability-current	9	12,630	16,857
Total current liabilities		4,723,009	521,173
Non-current liabilities			
Long-term loans	14	194,505	—
Government loan	15	30,000	30,000
Total liabilities		4,947,514	551,173
Shareholders' equity			
Share capital	16	15,730,517	10,131,702
Equity reserve		347,685	208,999
Foreign currency translation reserve		(25,014)	(19,092)
Contributed and other surplus		1,014,353	755,409
Accumulated deficit		(10,974,425)	(9,399,667)
Total equity		6,093,116	1,677,351
Total equity and liabilities		11,040,630	2,228,524

Subsequent events 23

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

Approved by the Board

"Robert Kiesman"

Robert Kiesman, Director

"Barry Carlson"

Barry Carlson, Director

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

(Expressed in Canadian dollars)

		Three months ended March 31,	
		2021	2020
Notes		\$	\$
Revenue	19	75,761	103,339
Cost of sales		(8,889)	(11,482)
Gross profit		66,872	91,857
Operating expenses			
Research and development	20	273,672	101,022
Sales and marketing	20	304,251	210,407
General and administrative	20	526,678	314,252
Share-based compensation	16(c)	258,944	11,608
Total operating expenses		1,363,545	637,289
Operating loss		(1,296,673)	(545,432)
Other income (expenses)			
Foreign exchange gain (loss)		(20,690)	12,640
Acquisition related expenses	4	(247,508)	—
Financing expenses		(7,752)	(30,430)
Change in fair value of convertible debt		—	4,445
Listing expenses		(1,911)	—
Interest income (expense)		(224)	(20,038)
Total other income (expenses)		(278,085)	(33,383)
Net loss for the period		(1,574,758)	(578,815)
Other comprehensive income (loss)			
Items that may be subsequently reclassified to net loss			
Foreign exchange translation difference		(5,922)	17,013
Other comprehensive income (loss)		(5,922)	17,013
Comprehensive loss for the period		(1,580,680)	(561,802)
Basic and diluted loss per share		(0.03)	(0.02)

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

Plurilock Security Inc.
Consolidated Statement of Changes in Equity

(Expressed in Canadian dollars)

	Note	Share capital		Contributed	Equity	Foreign currency	Accumulated	Total
		#	\$	and	reserve	translation	deficit	
				other surplus		reserve		
Balance, January 1, 2020		22,624,179	4,637,663	209,859	5,460	(8,406)	(4,806,893)	37,683
Shares issued for cash		728,543	182,625	—	—	—	—	182,625
Share issuance costs		—	(5,500)	—	—	—	—	(5,500)
Recognition of share-based payments		—	—	11,608	—	—	—	11,608
Equity component of convertible debt		—	—	—	(5,460)	—	5,460	—
Net loss for the period		—	—	—	—	—	(578,815)	(578,815)
Other comprehensive loss		—	—	—	—	17,013	—	17,013
Balance, March 31, 2020		23,352,722	4,814,788	221,467	—	8,607	(5,380,248)	(335,386)
Shares issued for cash		231,377	58,000	—	—	—	—	58,000
Share issuance costs		—	(58,190)	—	—	—	—	(58,190)
Shares and warrants issued pursuant to concurrent financing private placement		8,678,162	2,560,058	—	43,391	—	—	2,603,449
Shares issued to consultants		200,000	58,000	—	—	—	—	58,000
Warrants issuance pursuant to concurrent financing broker fee		—	—	—	18,668	—	—	18,668
Convertible debt converted into shares and warrants		5,810,550	1,272,975	—	34,400	—	—	1,307,375
Stock options and warrants converted into shares		1,232,978	241,454	(241,454)	—	—	—	—
Deemed issuance of shares and warrants		5,550,000	1,609,500	—	132,589	—	—	1,742,089
Share issuance costs pursuant to concurrent financing private placement		—	(469,967)	—	(6,057)	—	—	(476,024)
Recognition of share-based payments		—	—	775,396	—	—	—	775,396
Exercise of warrants		155,462	45,084	—	(13,992)	—	—	31,092
Net loss for the period		—	—	—	—	—	(4,019,419)	(4,019,419)
Other comprehensive loss		—	—	—	—	(27,699)	—	(27,699)
Balance, December 31, 2020		45,211,251	10,131,702	755,409	208,999	(19,092)	(9,399,667)	1,677,351
Shares issued for cash	16(b)	11,240,736	5,158,111	—	—	—	—	5,158,111
Share issuance costs	16(b)	—	(296,902)	—	—	—	—	(296,902)
Warrants issuance as brokers fee pursuant to private placement	16(b)	—	(189,375)	—	189,375	—	—	—
Shares issued as part of Aurora acquisition consideration	4	698,888	440,299	—	—	—	—	440,299
Shares issues pursuant to Aurora acquisition broker fee	4	46,296	25,000	—	—	—	—	25,000
Recognition of share-based payments	16(d)	—	—	258,944	—	—	—	258,944
Exercise of stock options	16(c)	138,750	55,272	—	(27,522)	—	—	27,750
Exercise of warrants	16(e)	1,060,507	406,410	—	(23,167)	—	—	383,243
Net loss for the period		—	—	—	—	—	(1,574,758)	(1,574,758)
Other comprehensive loss		—	—	—	—	(5,922)	—	(5,922)
Balance, March 31, 2021		58,396,428	15,730,517	1,014,353	347,685	(25,014)	(10,974,425)	6,093,116

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

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

		Three months ended March 31,	
		2021	2020
		\$	\$
	Note	(1,574,758)	(578,815)
Net loss for the period			
Operating activities			
Adjustments for			
Amortization		7,944	5,212
Share-based compensation	16(d)	258,944	11,608
Change in fair value of convertible debt		—	(4,445)
Interest expense - short term loans		—	17,357
Interest expense - loans payable to related parties		—	1,841
Interest expense - lease liability		348	749
Acquisition expenses paid in shares	4	25,000	—
Unrealized foreign exchange loss/(gain)		23,462	(8,471)
Changes in working capital and other items			
Trade and other receivables		58,170	446,856
Tax credits receivable		69,243	(76,723)
Prepaid expenses and deposits		(106,324)	(9,604)
Trade and other payables		117,384	29,018
Unearned revenue		(37,868)	(40,162)
Net cash flows from operating activities		(1,158,455)	(205,579)
Investing activities			
Acquisition of equipment	7	(12,974)	(3,211)
Cash paid for business acquisition	4	(1,244,520)	—
Cash acquired from business acquisition	4	1,298,501	—
Net cash flows from investing activities		41,007	(3,211)
Financing activities			
Proceeds from issuance of shares, net of issuance cost		4,861,207	155,125
Proceeds from warrant exercise		383,244	—
Proceeds from stock option exercises		27,750	—
Proceeds from short-term loans		—	817,375
Repayment of short-term loans		—	(150,552)
Lease payments		(4,575)	(4,575)
Net cash flows from financing activities		5,267,626	817,373
Foreign exchange effect on cash		(22,759)	25,484
Net increase (decrease) in cash and cash equivalents		4,150,178	608,583
Cash and cash equivalents, beginning of period		1,721,179	147,433
Cash and cash equivalents, end of period		5,848,598	781,500

Supplemental cash flow information

		Three months ended March 31,	
		2021	2020
		\$	\$
Non-cash financing activities			
Warrants issued as brokers fee pursuant to private placement		189,375	-

Plurilock Security Inc.

Notes to the condensed interim consolidated financial statements (unaudited)

For the periods ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

1. Nature of operations and continuance of business

Plurilock Solutions Inc. ("**Plurilock**") or the "**Company**"), formerly Libby K Industries Inc. ("**Libby K**"), was incorporated under the BC Business Corporations Act on July 5, 2018. The Company's head office and principal place of business is located at Suite 330 - 700 Fort Street, Victoria, British Columbia, Canada V8W 1H2.

The Company's common shares trade on the TSX-V as a Tier 2 technology issuer under the ticker symbol "TSX-V: PLUR".

The Company is an identity-centric cybersecurity company providing 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.

Plurilock has one wholly owned subsidiary, Plurilock Security Solutions Inc. ("**PL**"), which was formed following the amalgamation of PL and 1243540 B.C. Ltd. on September 17, 2020 pursuant to a Qualifying Transaction ("**QT**"). PL in turn has one wholly owned subsidiary, Plurilock Security Corp. ("**PLUS**"). PLUS was incorporated on November 15, 2017 in the State of Delaware, USA. On March 31, 2021, PLUS completed the acquisition of Aurora Systems Consulting Inc. ("**Aurora**"), a provider of advanced cybersecurity technology and services based in the State of California, USA. PLUS acquired all of the outstanding securities of Aurora.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 31, 2021.

2. Basis of presentation

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 3 to the consolidated financial statements for the year ended December 31, 2020 and have been consistently applied in the preparation of these condensed interim consolidated financial statements.

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. These financial statements are presented in Canadian dollars.

Plurilock Security Inc.

Notes to the condensed interim consolidated financial statements (unaudited)

For the periods ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

3. Significant accounting policies

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interest issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests (if any) in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Company in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognized in profit or loss.

Goodwill

Goodwill is initially recognized and measured as set out above.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period. On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Inventory

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes all costs of purchase, costs of conversion (direct costs and

Plurilock Security Inc.

Notes to the condensed interim consolidated financial statements (unaudited)

For the periods ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

an allocation of fixed and variable production overheads) and other costs incurred in bringing the inventory to their present location and condition. Net realizable value is the estimated selling price less estimated costs to complete.

Main sources of estimation uncertainty and critical judgements by management

The preparation of 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 consolidated financial statements, and the recorded amount of revenues and expenses for the reporting period. These estimates are changed periodically, and as adjustments become necessary, they are reported in profit or loss in the period in which they become known.

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:

➤ *Going concern considerations*

The Company has financed its operating cash requirements primarily through the issuance of share capital. The Company's ability to realize the carrying value of its assets and to continue as a going concern is based upon the continued support from the Company's shareholders and the successful execution of the Company's strategic plan to improve the scale and profitability of its business to achieve future profitable operations. 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. During Q1 2021, the Company completed two rounds of non-brokered private placement financing totaling \$5.16 million. As a result of the increase in cash and working capital as a result of the subsequent financing as well as the anticipated cash flows expected to be achieved from execution of the Company's strategic plan in 2021, management has concluded that there is no material uncertainty with respect to the Company's ability to continue as a going concern during the current fiscal year.

➤ *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.

Plurilock Security Inc.

Notes to the condensed interim consolidated financial statements (unaudited)

For the periods ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

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 volatility of the underlying equity instruments, forfeiture rate and expected life of stock 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*

In prior year comparative figures, the Company accrued 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.

The Company also accrues tax credits through the Employee Retention Credit ("**ERC**") program through the Internal Revenue Service ("**IRS**") as part of the Coronavirus Tax Relief initiatives. The recoverability of qualified wages is based on the result of the assessment by the IRS. Management assesses the recoverable amount of the ERC based on the IRS' published guidance and best estimates.

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 subsidiaries;
- Determination of the stand-alone selling prices for the licenses.

Plurilock Security Inc.

Notes to the condensed interim consolidated financial statements (unaudited)

For the periods ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

4. Business acquisition

On March 31, 2021, Plurilock's United States subsidiary, PLUS, acquired 100% of the outstanding securities and control of Aurora ("**Aurora Acquisition**"). Aurora is a provider of advanced cybersecurity technology and services based in California. The acquisition qualifies as a business combination under IFRS 3. The acquisition is complementary to and was made with a view of growing Plurilock's existing lines of business.

Total aggregate consideration for the Aurora Acquisition was US\$1,561,213 (\$1,968,274) ("**Consideration**"). The Company paid to the vendor US\$896,714 (\$1,130,166) in cash, subject to working capital adjustments, and issued to the Vendor 698,888 common shares of Plurilock (the "**Closing Consideration Shares**") at a price of \$0.63 per share. Of the Consideration, US\$90,000 (\$114,354) was placed in escrow for 12 months to satisfy any indemnification obligations to the Company, as well as any purchase price adjustments pursuant to the terms of the definitive agreement. The escrow agent holds the escrow fund and shall only release the escrow fund in accordance with a joint written instruction of Plurilock and the vendor. The vendor is entitled to a performance-based earnout of up to US\$300,000 (\$377,940) in common shares of Plurilock (the "**Earnout Shares**"). The Earnout Shares will be issued at a deemed price equal to the closing trading price of the common shares of Plurilock on the TSX-V on the date prior to announcement of the issuance of the Earnout Shares, subject to a minimum share price of \$0.30. The Closing Consideration Shares are subject to certain contractual restrictions on trading for a period of 18 months from the date of issuance.

Plurilock paid an Aurora Acquisition transaction success fee on March 31, 2021 to an arm's length third party consultant of \$25,000 in cash and issued 46,296 common shares of the Company at a price of \$0.54 per share. These shares are subject to statutory hold period expiring on the date that is four months and a day from the date of issuance.

The fair value of purchase price consideration and amounts recognized in respect of the identifiable assets acquired and liabilities assumed related to the Aurora Acquisition are as set out in the table below ("**Preliminary Purchase Price Allocation**").

All assets and liabilities from Aurora's statement of financial position have been consolidated as part of Company's condensed interim consolidated statement of financial position as of March 31, 2021.

No revenue or net income (loss) was included in the Company's condensed interim consolidated financial statements for the three months ended March 31, 2021.

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

For the periods ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

4. Business acquisition (continued)

	(preliminary)
Fair value of purchase consideration	CAD \$
Cash paid at closing of business acquisition	1,130,166
Cash paid in escrow	114,354
Closing consideration shares	440,299
Deferred acquisition cost/Earnout shares	283,455
	1,968,274
	(preliminary)
Fair values of assets and liabilities acquired	CAD \$
Cash and cash equivalent	1,298,501
Trade and other receivables	2,804,410
Inventory	193,773
Prepays	50,197
Furniture and equipment	3,713
Intangible assets	8,833
Other non-current assets	13,139
Short-term loans	(628,246)
Trade and other payables	(2,925,915)
Unearned revenue	(288,928)
Long-term loans	(194,505)
Net book value	334,972
Values attributable to	
Adjustment to fair value of inventory	3,417
Goodwill	1,623,263
Foreign exchange loss from the transaction	6,622
	1,968,274

Acquisition related costs including legal, accounting and regulatory costs totaled \$247,508 for the three months ended March 31, 2021.

The Company is in the process of determining the fair value of assets and liabilities acquired, as well as identifying any intangible assets that existed at the Aurora Acquisition date. As of March 31, 2021, for the purpose of purchase price allocation calculation, all fair values of assets and liabilities of Aurora equal to their book values, except for Inventory which has been adjusted to its fair market value. As of March 31, 2021, the working capital adjustment process was still in progress. The Company will finalize the accounting for the business combination including the fair value assessment for Aurora's assets and liabilities as well as the calculation of goodwill or gain from bargain purchase no later than twelve months from the date of acquisition or once it has all the necessary information to do so.

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

For the periods ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

5. Trade and other receivables

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

	March 31, 2021	December 31, 2020
	\$	\$
Trade receivables	2,747,250	40,450
Other receivables	61,013	78,346
	2,808,263	118,796

Trade receivables included balance of \$2,747,250 acquired from Aurora. As at March 31, 2021 \$792,802 of the Trade Receivables balance is over 90 days past due (nil as at December 31, 2020) and 55% (100% as at December 31, 2020) of the trade receivable balances are owing from 5 customers (1 customer as at December 31, 2020). The Company evaluates credit losses on a regular basis based on the aging and collectability of its receivables. At March 31, 2021, the Company had \$167,799 as allowance for doubtful accounts (\$ 145,800 as at December 31, 2020 for the same customer).

6. Inventory

	March 31, 2021	December 31, 2020
	\$	\$
Finished goods	197,190	—
	197,190	—

Inventory balance as at March 31, 2021 of \$197,190 was acquired from Aurora. All inventory is expected to be sold within the next three months.

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

For the periods ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

7. Furniture and equipment

Furniture and equipment consist of furniture and computer equipment and are broken down as follows:

	<u>\$</u>
Furniture and equipment cost	
Balance January 1, 2021	54,385
Additions	12,974
Additions through acquisition	3,714
Balance March 31, 2021	71,073
Furniture and equipment accumulated amortization	
Balance January 1, 2021	26,767
Amortization for the period	3,163
Balance March 31, 2021	29,930
Furniture and equipment net book value	
At January 1, 2021	27,618
At March 31, 2021	41,143

8. Right of use asset

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

	March 31, 2021	December 31, 2020
	\$	\$
Opening balance	14,129	28,253
Less: amortization for the period	(3,531)	(14,124)
Ending balance	10,598	14,129

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

For the periods ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

9. Lease liability

Lease liability relates to the lease of an office space, which has a remaining lease term of nine months, and was discounted using an interest rate of 10%. During the three months ended March 31, 2021, the Company recognized \$348 in interest expense on lease liability (three months ended March 31, 2020: \$749), which is included in interest expense.

	March 31, 2021	December 31, 2020
	\$	\$
Opening balance	16,857	32,749
Add: interest during the period	348	2,408
Less: payments during the period	(4,575)	(18,300)
Balance at end of the period	12,630	16,857

10. Intangible assets

Intangibles consist of (i) Plurilock's patent costs incurred in 2015 related to (3) three 20-year patents ("**Patents**") covering certain aspects of our behavioral biometric algorithms and (ii) a U.S. government wide procurement contract ("**Procurement Contract**") acquired from Aurora.

Patents are amortized over 20 years. The Procurement Contract is amortized on a straight-line basis over the entire period of the contract of 69 months.

Values are broken down as follows:

Patent cost	\$
Balance January 1, 2021	100,000
Additions	-
Balance March 31, 2021	100,000
Patent accumulated amortization	
Balance January 1, 2021	30,000
Amortization for the period	1,250
Balance March 31, 2021	31,250
Patent net book value	
At January 1, 2021	70,000
At March 31, 2021	68,750

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

For the periods ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

10. Intangible assets (continued)

	<u>\$</u>
Procurement contract cost	
Balance January 1, 2021	-
Additions through acquisition	8,833
Balance March 31, 2021	8,833
Procurement net book value	
At January 1, 2021	-
At March 31, 2021	8,833

11. Trade and other payables

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

	March 31, 2021	December 31, 2020
	\$	\$
Trade payables	3,156,902	208,789
Accrued liabilities	454,549	174,721
Payroll liabilities	124,922	26,106
	3,736,373	409,616

Trade payables as at March 31, 2021 included balance of \$2,838,020 acquired from Aurora. Accrued liabilities balance as at March 31, 2021 includes deferred Aurora acquisition costs of \$283,455 (USD \$225,000) equaling performance-based earnout shares to be paid to the vendor (Note 4). Payroll liabilities balances were related to vacation payable that included \$77,688 acquired from Aurora.

12. Unearned revenue

	March 31, 2021	December 31, 2020
	\$	\$
Balance, opening	94,700	138,659
Amounts received	-	159,502
Revenue recognized	(37,869)	(203,461)
Acquired through acquisition	288,928	-
Balance, closing	345,759	94,700

Unearned revenue as at March 31, 2021 consisted Plurilock's customer contract revenue earned for goods or services which have not yet been delivered and included \$288,928 acquired from Aurora.

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12. Unearned revenue (continued)

The balance from Aurora consisted the Paycheck Protection Program (“**PPP**”) loan obtained from the Coronavirus Aid, Relief, and Economic Security Act (“**CARES Act**”). Repayment of the CARES Act loan is guaranteed by the U.S. Small Business Administration (“**SBA**”). The PPP loan has a 1.00% interest rate and matures on April 20, 2022. The PPP loan is eligible for forgiveness if the proceeds are used for qualified purposes within a specific period and if at least 60% is spent on payroll costs. Aurora has used all of the proceeds for the PPP loan for qualified purposes according to the CARES Act and SBA regulations. The loan is fully forgiven in April 2021 (Note 23).

13. Short-term loans

	March 31, 2021 \$	December 31, 2020 \$
Line of Credit	628,246	—
	628,246	—

Short-term loan of \$628,246 (US\$500,000) as at March 31, 2021 consisted of a line of credit (“**LOC**”) with Wells Fargo Bank that was acquired as part of the Aurora Acquisition. The LOC bore interest rate at the bank’s prime lending rate at 5%. The LOC is paid in full in April 2021 (Note 23).

14. Long-term loans

	March 31, 2021 \$	December 31, 2020 \$
SBA Loan	194,505	—
	194,505	—

Long-term loan of \$194,505 as at March 31, 2021 consisted a loan acquired from Aurora as part of the business combination. In March 2020, the World Health Organization declared the coronavirus (specifically identified as “**COVID-19**”) a global pandemic. On June 9, 2020, the United States Small Business Administration (“**SBA**”) provided funds (“**SBA Loan**”) to Aurora under the Economic Injury Disaster Loan (“**EIDL**”) assistance program in light of the impact of the COVID-19 pandemic. The principal amount of the SBA Loan is USD 150,000 with proceeds to be used for working capital purposes. Interest accrues at 3.75% per annum. Installment payments, including principal and interests, are due monthly beginning June 9, 2021 (twelve months from the date of the SBA Loan) in the amount of USD 731 per month. The balance of principal and interest is payable in full thirty years from the date of the SBA Loan. In connection therewith, Aurora received an additional USD 10,000 advance, which does not have to be repaid.

Plurilock Security Inc.

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15. Government loan

On April 15, 2020, the Company was approved for a \$40,000 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 COVID-19. The CEBA LOC is non-interest bearing, can be repaid at any time without penalty until December 31, 2022. The Company had drawn \$40,000 from the CEBA LOC on May 11, 2020. On January 1, 2021, the outstanding balance of the CEBA LOC was automatically convert to a non-revolving term loan ("**CEBA Term Loan**"). The CEBA Term Loan bears interest at 5% per annum starting on January 1, 2023 and matures on December 31, 2025. The CEBA Term Loan may be repaid at any time without notice to the lender or the payment of any penalty. If 75% of the CEBA Term Loan at the CEBA Term Loan.

15. Government loan (continued)

Commencement Date is repaid on or before December 31, 2022, the repayment of the remaining 25% of such CEBA Term Loan shall be forgiven ("**Early Payment Credit**"). As at December 31, 2020, the management had the plan to repay 75% of the CEBA Term Loan by December 31, 2022, therefore, 25% of the loan (or \$10,000) had been recognized as Government Assistance and recorded as other income. As at March 31, 2021, the CEBA Term Loan balance remained at \$30,000 and the Company still plans to repay 75% if the CEBA Term Loan by December 31, 2022.

16. Share capital

(a) Authorized

Unlimited number of common shares without par value and without special rights or restrictions attached.

(b) Issued and outstanding

On January 18, 2021, 1,262,000 restricted common shares that had a four-month holding period since the completion of the QT (on September 17, 2020) expired and were released.

On February 18, 2021, the Company completed its non-brokered private placement consisting of the issuance of 7,914,732 units at a subscription price of \$0.45 per unit, for aggregate gross proceeds to the Company of \$3.56 million. Share issuance cost of \$330,940 related to this non-brokered private placement was recorded as a debit to share capital.

On February 26, 2021, the Company closed a second non-brokered private placement consisting of the issuance of 3,326,004 units at a subscription price of \$0.48 per unit, for aggregate gross proceeds to the Company of \$1.60 million. Share issuance cost of \$76,967 related to this non-brokered private placement was recorded as a debit to share capital.

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16. Share capital (continued)

(b) Issued and outstanding (continued)

On March 31, 2021, the Company issued 698,888 and 46,296 common shares as part of the purchase price consideration and transaction fee of acquiring Aurora (Note 4).

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 1, 2020	20,492,877	2,131,302	22,624,179	4,637,663
Shares issued for cash	728,543	—	728,543	182,625
Share issuance costs	—	—	—	(5,500)
Balance, March 31, 2020	21,221,420	2,131,302	23,352,722	4,814,788
Shares issued for cash	231,377	—	231,377	58,000
Share issuance costs	—	—	—	(58,190)
Shares and warrants issued pursuant to concurrent financing private placement	8,678,162	—	8,678,162	2,560,058
Shares issued in exchange of Plurilock preferred shares	2,131,302	(2,131,302)	—	—
Shares issued to consultants	200,000	—	200,000	58,000
Convertible debt converted into shares and warrants	5,810,550	—	5,810,550	1,272,975
Stock options and warrants converted into shares	1,232,978	—	1,232,978	241,454
Deemed issuance of shares and warrants	5,550,000	—	5,550,000	1,609,500
Share issuance costs pursuant to concurrent financing private placement	—	—	—	(469,967)
Exercise of warrants	155,462	—	155,462	45,084
Balance, December 31, 2020	45,211,251	—	45,211,251	10,131,702
Shares issued for cash	11,240,736	—	11,240,736	5,158,111
Share issuance costs	—	—	—	(296,902)
Warrants issuance as brokers fee pursuant to private placement	—	—	—	(189,375)
Shares issued as part of Aurora acquisition consideration	698,888	—	698,888	440,299
Shares issues pursuant to Aurora acquisition broker fee	46,296	—	46,296	25,000
Exercise of stock options	138,750	—	138,750	55,272
Exercise of warrants	1,060,507	—	1,060,507	406,410
Balance, March 31, 2021	58,396,428	—	58,396,428	15,730,517

(c) Stock option plan

On February 3, 2021, the Plurilock Board of Directors granted, subject to shareholders approval, stock options for the purchase of 50,000 common shares to a member of the Board of Directors of the Company, pursuant to the Plurilock Plan.

On February 24, 2021, the Plurilock Board of Directors granted, subject to shareholders approval, stock options for the purchase of 50,000 common shares to an employee of the Company, pursuant to the Plurilock Plan.

On March 5, 2021, the Plurilock Board of Directors granted, subject to shareholders approval, stock options for the purchase of 100,000 common shares to a member of the Board of Directors of the Company, pursuant to the Plurilock Plan.

On March 14, 2021, the Plurilock Board of Directors granted, subject to shareholders approval, stock options for the purchase of 300,000 common shares to a member of the Board of Directors of the Company, pursuant to the Plurilock Plan.

The following table summarizes the continuity of stock options:

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16. Share capital (continued)

(c) *Stock option plan (continued)*

	Number of options #	Weighted average exercise price \$
Balance, January 1, 2020	5,228,151	0.25
Balance, March 31, 2020	5,228,151	0.25
Granted	7,595,657	0.34
Converted to common shares upon QT	(5,328,151)	0.25
Libby K	555,000	0.20
Cancelled	(86,000)	0.34
Balance, December 31, 2020	7,964,657	0.33
Granted	500,000	0.62
Exercised	(138,750)	0.20
Balance, March 31, 2021	8,325,907	0.35

Additional information concerning stock options outstanding as at March 31, 2021 and December 31, 2020 as follows:

	March 31, 2021			December 31, 2020		
	Exercise price \$	Number of options #	Weighted average contractual life Years	Exercise price \$	Number of options #	Weighted average contractual life Years
2021	\$ 0.62	500,000	5.94			
2020	\$ 0.34	7,409,657	9.60	\$ 0.33	7,409,657	9.85
2018	\$ 0.20	416,250	2.86	\$ 0.20	555,000	3.11
	\$ 0.35	8,325,907	9.05	\$ 0.33	7,964,657	9.38

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

The weighted average remaining contractual life of stock options outstanding as at March 31, 2021 was 9.05 years (9.38 years as of December 31, 2020).

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 Company of companies:

	March 31, 2021	December 31, 2020
Risk-free interest rate	0.27%-1.79%	0.27%-1.79%
Dividend yield	—	—
Expected life (in years)	0.39-7	0.39-7
Volatility	100%	100%

(d) Stock-based compensation reserve

Total stock-based compensation cost recognized in income for the three months ended March 31, 2021 was \$258,944 (\$11,608 in Q1 2020) and is credited to contributed surplus.

Total stock-based compensation expense for the three months ended March 31, 2020 is comprised of the expense related to stock options issued to related parties (as discussed in note 22) of \$208,922 (\$8,132 in Q1 2020) and to other employees of \$50,022 (\$3,476 in Q1 2020).

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16. Share capital (continued)*(e) Warrants*

There were 13,534,801 warrants as at March 31, 2021 (8,565,247 as at December 31, 2020).

The following table summarizes the continuity of the warrants:

	Number of warrants #	Weighted average exercise price \$
Balance, January 1, 2020	1,001,632	0.25
Expired	(150,000)	0.25
Special warrants	405,833	0.45
Balance, March 31, 2020	1,257,465	0.31
Expired	(776,632)	0.25
Special warrants	128,887	0.45
Converted upon RTO	(75,000)	0.25
Finder's fee for Bridge #2 financing	69,400	0.40
Converted from convertible debt	2,905,256	0.40
Concurrent financing	4,339,081	0.40
Broker's fee for concurrent financing	622,252	0.30
Libby K warrants	250,000	0.20
Exercised	(155,462)	0.20
Balance, December 31, 2020	8,565,247	0.39
Private placement	5,620,364	0.65
Finder's fee for private placement	467,378	0.65
Expired	(2,126)	0.20
Cancelled	(55,555)	0.40
Exercised	(1,060,507)	0.36
Balance, March 31, 2021	13,534,801	0.51

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17. 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, loans, and equity comprised of issued share capital, contributed surplus and equity reserve:

	March 31, 2021	December 31, 2020
	\$	\$
Cash and cash equivalents	5,848,598	1,721,179
Short-term loans	628,246	—
Government loan	30,000	30,000
Long-term loans	194,505	
Share capital	15,730,517	10,131,702
Contributed surplus	1,014,353	755,409
Equity reserve	347,685	208,999
Total	23,793,904	12,638,290

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, loans, or by undertaking other activities as deemed appropriate under the specific circumstances.

18. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, short-term loans, long-term loans and government loan (CEBA loan).

Cash and cash equivalents and trade and other receivables are classified as financial assets at amortized cost and are initially recognized at fair value and subsequently carried at amortized cost less any impairment. 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, long-term loans and government loan (CEBA loan) are classified as financial liabilities at amortized cost and recognized at fair value and subsequently carried at amortized cost. The carrying value of these other financial liabilities approximates fair value due to the relatively short period to maturity.

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.

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

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18. 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:

	March 31, 2021	December 31, 2020
	\$	\$
Cash and cash equivalents	5,848,598	1,721,179
Accounts receivable	2,808,263	118,796
Tax credits receivable	56,773	69,243
	8,713,634	1,909,218

(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.

(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.

Plurilock Security Inc.

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18. 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 for the period ended March 31, 2021, there would not be a significant impact to the net loss for the period.

(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 carrying value of cash and cash equivalents, trade and other receivables, and trade and other payables approximates their fair value due to the relatively short-term maturity of these financial instruments. The carrying value of debts and loans is initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

19. Segment information

The company's operating segments are organized around the market it serves and are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**"). The CEO and CFO are considered the chief operating decision-makers ("**CODM**") and has the authority for resource allocation and is responsible for assessing the Company's performance.

(a) Operating Segments

Effective with the Aurora Acquisition, Plurilock has started with two operating segments, the Technology Division and the Solutions Division. The following table provides an overview of these segments and underlying businesses.

Plurilock Security Inc.

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19. Segmented information (continued)

(a) Operating Segments (continued)

Technology Division

The Technology division, operated under the legacy Plurilock brand, builds and operates Plurilock's own proprietary products. The Technology division is operated by the Company's subsidiaries, PL and PLUS.

Solution Division

The Solutions division is separately operated by Aurora and created after the March 31, 2021 acquisition of Aurora. The Solutions division offers Aurora's services and resells cybersecurity industry products and technologies to meet customer needs.

Total assets and liabilities by reportable operating segments are as follows:

	March 31, 2021 \$		December 31, 2020 \$	
	Technology Division	Solution Division	Technology Division	Solution Division
Total assets	5,041,385	5,999,245	2,228,524	-
Total liabilities	909,920	4,037,594	551,173	-

Management evaluates each segment's performance based on gross margin which factors in directly attributable segment revenues, cost of goods sold, as well as net income and cashflow. Segment net income represents segment revenues less cost of goods sold, minus operating expenditures including sales and marketing, research and development as well as general and administrative expenses under each segment.

As the Aurora Acquisition was completed on March 31, 2021, for the three months ended March 31, 2021, all revenue, cost of goods sold, net income were reported under the Technology Division.

(b) Entity wide disclosures

Under both the Technology Division and the Solutions Division, revenue is generated from the below three categories.

(i) Hardware and physical software sales

Hardware and physical software sales revenues are comprised of products that proactively prevent, secure and manage advanced cybersecurity threats and malware for customers.

(ii) Electronic software license and maintenance sales

Electronic software and maintenance sales revenues are comprised of fees that provide customers with access to propriety and third-party software licenses and related support and updates during the term of the customer agreements.

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

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

(iii) Professional Services

Professional Services are generally on either a fixed fee, milestone based, time & material or subscription basis. These services are generally distinct from other goods or services that the Company might provide to the same customer under the same or separate contracts.

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.

	For the three months ended March 31,	
	2021	2020
	\$	\$
Revenue		
United States	75,761	103,189
Canada	—	150
	75,761	103,339

	March 31,	December 31,
	2021	2020
	\$	\$
Long-lived assets		
United States	16,852	—
Canada	125,611	111,747
	142,463	111,747

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20. Operating expenses

	For the three months ended March 31,	
	2021	2020
	\$	\$
Research and development		
Communication and IT services	46,101	32,331
Contractors	52,433	—
Government assistance	(41,228)	(43,136)
Office and general	1,092	1,465
Salaries and benefits	231,616	200,953
SRED tax credit	(277)	(76,723)
Travel and entertainment	—	2,059
COS allocation	(16,064)	(15,927)
	273,672	101,022
Sales and marketing		
Advertising and promotion	20,112	1,081
Communication and IT services	21,480	8,067
Contractors	64,347	11,814
Government assistance	—	(910)
Marketing	14,701	4,827
Office and general	1,140	2,643
Salaries and benefits	177,862	175,988
Sales commission	4,610	6,283
Travel and entertainment	—	614
	304,252	210,407
General and administrative		
Amortization	7,944	5,212
Bad debt	22,000	—
Communication and IT services	12,964	10,970
Contractors	53,490	80,077
Government assistance	—	(546)
Insurance	4,988	6,512
Office and general	10,658	9,365
Professional fees	149,328	135,986
Public market	159,109	—
Salaries and benefits	106,172	53,800
Travel and entertainment	26	12,876
	526,679	314,252

Plurilock Security Inc.

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21 Loss per share

Basic loss per share is calculated by dividing net loss for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted loss per share is calculated by dividing net loss for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares, if any, that would be issued on conversion of all the dilutive potential effects.

All of the outstanding stock options and share purchase warrants at March 31, 2021 and March 31, 2020 were anti-dilutive for the periods then ended as the Company was in a loss position.

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

	March 31, 2021	March 31, 2020
	\$	\$
Numerator		
Net loss for the period	(1,580,680)	(561,802)
Denominator		
Weighted average number of common shares outstanding, basic and diluted	50,908,303	25,530,978
Basic and diluted loss per share	(0.03)	(0.02)

22 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.

The following table summarizes the related party transactions:

	For the three months ended March 31,	
	2021	2020
	\$	\$
Wages, benefits and consulting fees	144,357	239,372
Stock-based compensation expense*	208,922	8,132
	353,279	247,504

Note:

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

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23. Subsequent events

- (a) On April 13, 2021 Aurora's Wells Fargo Bank US\$500,000 (\$626,920) LOC was repaid in full.
- (b) On April 29, 2021, Aurora's PPP loan including US\$199,830 (\$245,333) in principal and US\$2,054 (\$2,522) in interest was forgiven.