
Condensed interim consolidated
financial statements of
Plurilock Security Inc.

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

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Notice of no auditor review of condensed interim financial statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of Plurilock Security Inc. have been prepared by and are the responsibility of the company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Plurilock Security Inc.

Condensed Interim Consolidated Statement of Financial Position (unaudited)

(Expressed in Canadian dollars)

	Notes	September 30, 2020 \$	December 31, 2019 \$
Assets			
Current			
Cash and cash equivalents		3,066,542	147,433
Trade and other receivables	5	324,229	532,016
Tax credits receivable		69,243	178,036
Prepaid expenses and deposits		286,806	37,869
		3,746,820	895,354
Non-current			
Equipment	6	19,385	4,310
Right of use asset	7	17,660	28,253
Intangible assets	9	71,250	75,000
		3,855,115	1,002,917
Liabilities			
Current			
Trade and other payables	10	1,096,614	340,629
Unearned revenue	11	51,105	138,659
Short-term loans	12	52,151	401,033
Loans payable to related parties	13	—	52,164
Lease liability-current	8	17,125	15,893
		1,216,995	948,378
Non-current			
Government loan	15	40,000	—
Lease liability-non-current	8	3,855	16,856
		1,260,850	965,234
Shareholders' equity			
Share capital	16 (b)	10,086,618	4,637,663
Equity reserve		168,402	5,460
Foreign currency translation reserve		(6,011)	(8,406)
Contributed and other surplus		—	209,859
Accumulated deficit		(7,654,744)	(4,806,893)
		2,594,265	37,683
		3,855,115	1,002,917

Subsequent events 23

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

Approved by the Board

"Robert Kiesman"
Robert Kiesman, Director

"Ian Paterson"
Ian Paterson, Director

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

(Expressed in Canadian dollars)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
		\$	\$	\$	\$
Revenue	19	168,854	179,216	351,705	272,128
Cost of sales		(32,497)	(23,849)	(54,395)	(31,255)
Gross profit		136,357	155,367	297,310	240,873
Operating Expenses					
Research and development	20	(5,239)	149,371	184,574	454,965
Sales and marketing	20	244,285	115,567	659,178	358,688
General and administrative	20	170,507	147,835	796,387	525,737
Share-based compensation	16(d)	8,828	10,544	31,595	31,632
		418,381	423,317	1,671,734	1,371,022
Operating loss		(282,024)	(267,950)	(1,374,424)	(1,130,149)
Other income (expenses)					
Foreign exchange gain (loss)		1,102	(2,537)	9,416	(3,134)
Listing expenses	4	(1,455,962)	—	(1,455,962)	—
Change in fair value of convertible debt		(766)	—	—	—
Interest expense		(3,173)	(10,178)	(32,341)	(23,735)
		(1,458,799)	(12,715)	(1,478,887)	(26,869)
Net loss for the period		(1,740,823)	(280,665)	(2,853,311)	(1,157,018)
Other comprehensive income (loss)					
Foreign exchange translation difference		(9,717)	1,521	2,395	(2,439)
Other comprehensive income (loss)		(9,717)	1,521	2,395	(2,439)
Net loss and comprehensive loss for the period		(1,750,540)	(279,144)	(2,850,916)	(1,159,457)
Loss per share					
Basic loss per share	21	(0.07)	(0.01)	(0.13)	(0.06)
Diluted loss per share	21	(0.07)	(0.01)	(0.13)	(0.06)

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

Plurilock Security 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
	#	\$	\$	\$	\$	\$	\$
Balance, January 1, 2019	19,177,723	3,747,362	179,711	10,010	435	(3,509,732)	427,786
Shares issued for cash	3,446,457	932,801	—	—	—	—	932,801
Recognition of share-based payments	—	—	31,632	—	—	—	31,632
Net loss for the period	—	—	—	—	—	(1,157,018)	(1,157,018)
Other comprehensive loss	—	—	—	—	(2,439)	—	(2,439)
Balance, September 30, 2019	22,624,180	4,680,163	211,343	10,010	(2,004)	(4,666,750)	232,762
Shares issued for cash	—	—	—	—	—	—	—
Share issuance costs	—	—	—	—	—	—	—
Recognition of share-based payments	—	—	(1,484)	—	—	—	(1,484)
Equity component of convertible debt	—	—	—	(4,550)	—	9,150	4,600
Net loss for the period	—	—	—	—	—	(149,293)	(149,293)
Other comprehensive loss	—	—	—	—	(6,402)	—	(6,402)
Balance, December 31, 2019	22,624,180	4,680,163	209,859	5,460	(8,406)	(4,806,893)	80,183
Shares issued for cash	959,920	240,625	—	—	—	—	240,625
Share issuance costs	—	(63,690)	—	—	—	—	(63,690)
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	—	78,000	—	—	1,687,500
Share issuance costs pursuant to concurrent financing private placement	—	(469,967)	—	(6,057)	—	—	(476,024)
Recognition of share-based payments	—	—	31,595	—	—	—	31,595
Equity component of convertible debt	—	—	—	(5,460)	—	5,460	—
Net loss for the period	—	—	—	—	—	(2,853,311)	(2,853,311)
Other comprehensive loss	—	—	—	—	2,395	—	2,395
Balance, September 30, 2020	45,055,790	10,129,118	—	168,402	(6,011)	(7,654,744)	2,636,765

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

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
		\$	\$	\$	\$
Net loss for the period		(1,740,823)	(280,665)	(2,853,311)	(1,157,018)
Operating activities					
Adjustments for					
Amortization		6,372	2,240	17,064	5,860
Share-based compensation	16 (d)	8,828	10,544	31,595	31,632
Change in fair value of convertible debt	14	766	—	—	—
Interest expense - short term loans		1,819	9,245	26,095	20,901
Interest expense - loans payable to related parties		804	364	4,204	1,719
Interest expense - lease liability		554	—	1,956	—
Listing expenses	4	1,112,985	—	1,112,985	—
Transaction costs		58,000	—	58,000	—
Changes in working capital and other items					
Trade and other receivables		(172,829)	(274,022)	207,787	(386,195)
Tax credits receivable		(14,726)	(43,500)	108,793	55,992
Prepaid expenses and deposits		(236,636)	(6,602)	(248,937)	(11,775)
Trade and other payables		627,409	(47,700)	755,985	1,724
Unearned revenue		682	87,930	(87,554)	300,545
Net cash flows from operating activities		(346,795)	(542,166)	(865,338)	(1,136,615)
Investing activities					
Acquisition of equipment		(7,722)	—	(17,795)	(5,172)
Net cash flows from investing activities		(7,722)	—	(17,795)	(5,172)
Financing activities					
Cash acquired upon QT	4	576,944	—	576,944	—
Proceeds from issuance of shares, net of issuance cost		2,105,288	275,301	2,235,223	890,301
Proceeds from issuance of warrants, net of issuance cost		37,334	—	37,334	—
Proceeds from convertible debt		—	—	1,307,375	—
Proceeds from short-term loans		—	200,000	93,038	300,000
Repayment of short-term loans		(57,595)	—	(379,974)	(108,365)
		—	50,000	—	50,000
Repayment to related parties		(26,091)	—	(56,368)	(72,647)
Lease payments		(4,575)	—	(13,725)	—
Net cash flows from financing activities		2,631,305	525,301	3,799,847	1,059,289
Foreign exchange effect on cash		(9,717)	1,521	2,395	(2,439)
Net increase (decrease) in cash and cash equivalents		2,276,788	(16,865)	2,916,714	(82,498)
Cash and cash equivalents, beginning of period		799,471	357,628	147,433	427,221
Cash and cash equivalents, end of period		3,066,542	342,284	3,066,542	342,284

Plurilock Security Inc.

Notes to the condensed interim consolidated financial statements (unaudited)

For the periods ended September 30, 2020 and 2019

(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 and completed its initial public offering (the "**IPO**") on February 8, 2019. 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 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.

The Company 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 QT (as defined below). 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 September 17, 2020, the Company and PL completed a Qualifying Transaction ("**QT**") pursuant to the policies of the TSX Venture Exchange. The QT was effected pursuant to a three-cornered amalgamation whereby Libby K's wholly owned subsidiary, 1243540 B.C. Ltd., amalgamated with PL under the *Business Corporations Act* (British Columbia) and the amalgamated entity adopted the name "Plurilock Security Solutions Inc." and PL became a wholly owned subsidiary of the Company. On the same day, the Company changed its name from "Libby K Industries Inc." to "Plurilock Security Inc." and the newly appointed Company Board of Directors ratified changing Plurilock's year-end to coincide with that of PL and PLUS. In connection with the QT, the Company and PL completed concurrent brokered private placements (the "**Concurrent Financings**") for aggregate proceeds of \$2.6 million. See also Qualifying Transaction below.

On September 24, 2020, the Company common shares resumed trading on the TSX Venture Exchange as a Tier 2 technology issuer under the ticker symbol "**TSX-V: PLUR**".

These condensed interim consolidated financial statements report that the Company has a net loss and comprehensive loss of \$1,750,540 and \$2,850,916 for the three and nine months ended September 30, 2020 (\$279,144 and \$1,159,457 respectively in 2019) and an accumulated deficit of \$7,654,744 as at September 30, 2020 (December 31, 2019: \$4,806,893). 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 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 may be material uncertainties in the future 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

Plurilock Security Inc.

Notes to the condensed interim consolidated financial statements (unaudited)

For the periods ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

1. Nature of operations and continuance of business (continues)

course of business and at the amounts different from those reflected in the accompanying financial statements.

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 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 November 27, 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 subsidiaries, PL and PLUS.

The Company consolidates its subsidiaries, 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 and PLUS is the Canadian dollar and the functional currency of the Company’s subsidiary PLUS, is U.S. dollar.

Plurilock Security Inc.

Notes to the condensed interim consolidated financial statements (unaudited)

For the periods ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

3. Significant accounting policies (continues)

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 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.

Plurilock Security Inc.

Notes to the condensed interim consolidated financial statements (unaudited)

For the periods ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

3. Significant accounting policies (continues)

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.

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,

Plurilock Security Inc.

Notes to the condensed interim consolidated financial statements (unaudited)

For the periods ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

3. Significant accounting policies (continues)

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.

4. Qualifying Transaction

The QT was completed on September 17, 2020 by way of a three-cornered amalgamation whereby the Company's wholly owned subsidiary amalgamated with PL under the Business Corporations Act (British Columbia) and PL became a wholly owned subsidiary of the Company.

In connection with the QT, PL and Libby K completed the Concurrent Financings for aggregate proceeds of \$2.6 million.

The Libby K brokered component comprised of 1,262,000 units of the Company (the "**Libby K Units**") at a price of 30 cents per unit, for aggregate gross proceeds of \$378,600. Each Libby K Unit comprised of one share of the Company and one-half of a warrant of the Company, and each whole 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 PL brokered component comprised 7,416,162 subscription receipts of PL at a price of 30 cents per subscription receipt, for aggregate gross proceeds of approximately \$2,224,849. Pursuant to the terms of the QT (and after giving effect to the consolidation), each subscription receipt was effectively converted into one Libby K Unit for a total of 7,416,162 Libby K 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 approximately \$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, PL issued to PI Financial 200,000 common shares of PL as consideration for corporate finance advisory services. The corporate finance shares were exchanged for 200,000 common shares of the Company upon completion of the QT. 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 Amalgamation Agreement dated June 23, 2020, as amended and immediately before completion of the share exchange ("**Share Exchange**"): (a) all of the in-the-money stock options and warrants of PL were deemed to be exercised into 900,524 common shares of PL on a cashless basis; and (b) each outstanding preferred share of PL was cancelled and converted into 2,514,692 common shares of PL. After completion of such transactions, and before the Share Exchange and the completion of the PL brokered component, there were an aggregate of 27,515,637 common shares of PL issued and outstanding. All stock options of PL that were not in the money were cancelled.

Plurilock Security Inc.

Notes to the condensed interim consolidated financial statements (unaudited)

For the periods ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

4. Qualifying Transaction (continues)

The amalgamated entity formed pursuant to the QT is now a wholly owned subsidiary of Plurilock, and the outstanding securities of PL were exchanged for securities of Plurilock immediately before the completion of the QT, as follows:

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

After the Share Exchange, each outstanding common share of PL was exchanged for one Plurilock share.

As a result of the QT, on September 17, 2020, there were an aggregate of 45,055,790 Plurilock shares issued and outstanding, of which the previous shareholders of the Company held approximately 12.2 per cent, the purchasers under the Concurrent Financings held approximately 19.7 per cent, the purchasers under the bridge financings of PL held approximately 15.3 per cent, and the former shareholders of PL held approximately 52.8 per cent, respectively.

The PL shareholders, representing an aggregate of 14,932,573 Plurilock shares post-QT, also entered into contractual lock-up agreements, an aggregate of 2,986,838 Plurilock shares and 123,610 Plurilock warrants are subject to Tier 2 surplus escrow agreements, an aggregate of 5,070,614 Plurilock 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.

For accounting purposes, the acquisition is considered to be outside the scope of IFRS 3, Business Combinations ("**IFRS 3**"), since prior to the QT, Libby K did not constitute a business operation and was incorporated for the purpose of identifying, evaluating and then acquiring an interest in a business or assets with a view of completing a QT. The QT is accounted for in accordance with IFRS 2, Share-based Payment ("**IFRS 2**"), whereby PL is deemed to have issued shares, share purchase options, and warrants in exchange for the net assets of Libby K together with its listing status at the fair value of the consideration received by PL. The accounting for this transaction resulted in the following:

- The consolidated financial statements of the combined entities are issued under the legal parent but are considered a continuation of the consolidated financial statements of PL.
- Since PL is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values.

Plurilock Security Inc.

Notes to the condensed interim consolidated financial statements (unaudited)

For the periods ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

4. Qualifying Transaction (continues)

Since the share and share-based consideration allocated to the former shareholders of Libby K on closing the Transaction is considered within the scope of IFRS 2, and the PL cannot identify specifically some or all of the goods or service received in return for the allocation of the shares, options, and warrants, the value in excess of the net identifiable assets or obligations of Libby K acquired on closing is expensed in the consolidated statement of comprehensive loss.

Net working capital acquired:	\$
Cash	576,944
Other assets	134
Trade and other payables	(2,563)
Net asset acquired	574,515
Consideration:	
Common shares and warrants deemed to be issued	1,609,500
Options and warrants deemed to be issued	78,000
Total Consideration	1,687,500
Listing related share-based consideration	1,112,985
Other professional fees related to listing	342,977
Total listing expenses	1,455,962

The fair value of the 5,550,000 common shares deemed to be issued amounted to \$1,609,500, based on the fair market value of the shares upon the completion of the QT at \$0.29 per share.

The fair value of the options and warrants was estimated using the Black-Scholes Option Pricing Model, applying a market price of a share of \$0.29, exercise price from \$0.2 to \$0.4, expected volatility from 18.67% to 30.94%, expected life from 0.36 years to 3.36 years, risk free interest rate of 0.23% and expected dividend yield of 0%. Thus, the fair value of the options and warrants deemed to be issued by PL is determined as follows:

- For 555,000 post Consolidation options issued to the former directors, consultants, senior officers and employees of Libby K, exercisable at \$0.20 per Company share until February 8, 2024, the fair value is \$55,500;
- For 250,000 post Consolidation warrants issued to former consultants of Libby K, exercisable at \$0.20 per Company share until February 8, 2021, the fair value is \$22,500.

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

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(Expressed in Canadian dollars)

5. Trade and other receivables

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

	September 30, 2020	December 31, 2019
	\$	\$
Trade receivables	204,257	515,934
Other receivables	119,972	16,082
	324,229	532,016

The Company evaluates credit losses on a regular basis based on the aging and collectability of its receivables. At September 30, 2020, 59% 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 2 (4 as at December 31, 2019) customers.

6. Equipment

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

	\$
Cost	
Balance January 1, 2020	26,330
Additions	17,795
Balance September 30, 2020	44,125
Accumulated amortization	
Balance January 1, 2020	22,020
Amortization for the period	2,720
Balance September 30, 2020	24,740
Net book value	
At January 1, 2020	4,310
At September 30, 2020	19,385

7. 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:

	September 30, 2020	December 31, 2019
	\$	\$
Opening balance	28,253	42,380
Less: amortization for the period	(10,593)	(14,127)
Ending balance	17,660	28,253

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

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8. Lease liability

Lease liability relates to the lease of an office space, which has a remaining lease term of fifteen months, and was discounted using an interest rate of 10%. During the three and nine months ended September 30, 2020, the Company recognized \$554 and \$1,956 respectively in interest expense on lease liability (\$922 and \$3,006 respectively in 2019), which is included in interest expense.

	September 30,	December 31,
	2020	2019
	\$	\$
Opening balance	32,749	45,678
Add: interest during the year	1,956	3,846
Less: payments during the year	(13,725)	(16,775)
Balance at end of the year	20,980	32,749
Less: current portion of lease liability	(17,125)	(15,893)
Non-current portion of lease liability	3,855	16,856

9. 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:

	\$
Cost	
Balance January 1, 2020	100,000
Balance September 30, 2020	100,000
Accumulated amortization	
Balance January 1, 2020	25,000
Amortization for the period	3,750
Balance September 30, 2020	28,750
Net book value	
At January 1, 2020	75,000
At September 30, 2020	71,250

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

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10. Trade and other payables

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

	September 30, 2020	December 31, 2019
	\$	\$
Trade payables	918,087	103,398
Accrued liabilities	114,487	119,841
Payroll liabilities	64,040	117,390
	<u>1,096,614</u>	<u>340,629</u>

Trade payables include deferred consulting fees to the CFO totaling \$nil as at September 30, 2020 (December 31, 2019: \$34,020). Payroll liabilities include deferred compensation to the CEO totaling \$8,029 as at September 30, 2020 (December 31, 2019: \$83,025 containing deferred compensation to the CEO, CFO and CTO).

11. Unearned revenue

	September 30, 2020	December 31, 2019
	\$	\$
Balance, opening	138,659	33,547
Amounts received	67,815	516,463
Revenue recognized	(155,369)	(411,351)
Balance, closing	<u>51,105</u>	<u>138,659</u>

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

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12. Short-term loans

	September 30, 2020	December 31, 2019
	\$	\$
Promissory Notes (a)	—	223,088
Bridge loan (b)	—	177,945
Government loans (c)	52,151	—
	52,151	401,033
Due for settlement in under 12 months	(52,151)	(401,033)
Due for settlement after 12 months	—	—

- a)** As at September 30, 2020, promissory notes balance was \$nil (December 31, 2019 \$223,088). The promissory notes were secured by certain accounts receivable, bore interest at a rate of 14% per annum. The promissory notes were repaid in their entirety during the quarter.
- b)** As at September 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, bore interest at a rate 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. The PPP Loan was forgiven by the PPP on November 7, 2020. See Note 23 (d).

13. Loans payable to related parties

	September 30, 2020	December 31, 2019
	\$	\$
Loans payable to related parties	—	52,164

Loans payable to related parties as at September 30, 2020 was nil (December 31, 2019 \$52,164) which included a short-term promissory note of \$25,000 owed to the former Chairman of the Company ("**Lender**"). The loan amount was secured by certain accounts receivable, bore simple interest at 14% per annum. The loan was repaid in its entirety during the quarter.

Plurilock Security Inc.

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14. Convertible debt

On February 21, 2020, PL 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 PL comprised of common shares at \$0.225 per share, together with a warrant that was automatically exchanged for warrants, that comprise the Plurilock Units (the "**Plurilock Units**"); and (b) \$817,375 secured convertible debentures of the PL (the "**Debentures**") and together with the Plurilock Units, the "**Bridge #1 Securities**") that automatically were exchanged for Plurilock Units at the completion of the QT. The CEO, CFO and CTO collectively subscribed to \$55,000 of the Bridge #1 Financing. Pursuant to the QT: (a) the Debentures had a conversion price representing a 25% discount to the price of the Plurilock Units in the Financing; and (b) the PL Units entitled the holders to such number of Plurilock Units as reflects such 25% discount. 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, PL 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 PL comprised of common shares at \$0.225 per share, together with a warrant that automatically was exchanged for warrants, that comprised the Plurilock Units and (b) \$490,000 Debentures and together with the Plurilock Units, (the "**Bridge #2 Securities**") that automatically were exchanged for, Plurilock Units at completion of the QT. 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 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 QT.

As at September 30, 2020, the balance of convertible debt was nil. All convertible debt raised through Bridge #1 Financing and Bridge #2 Financing was converted into common shares of the Plurilock as a result of the completion of the QT. All previously booked change in fair value of the convertible debt of \$766 has been reversed during the quarter.

15. 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, 2022. 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 the lender 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**"). The balance of this government loan as at September 30, 2020 was \$40,000.

Plurilock Security Inc.

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16. Share capital

(a) Authorized

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

(b) Issued and outstanding

During the nine months ended September 30, 2020, the Company raised a total of \$5,448,955 (\$890,301 during the nine months ended September 30, 2019) through Bridge #1 and Bridge #2 common share rounds of financing and QT concurrent financing. The common share rounds raised at a price of \$0.225 per share and the QT concurrent financing at \$0.29 per share (\$0.25 in 2019) and resulted in issued 22,431,610 (3,446,457 during the nine months ended September 30, 2019) common shares being issued.

Share issuance costs during the nine months ended September 30, 2020 totaled \$539,714 (\$42,500 during the nine months ended September 30, 2019) and are recorded as a credit to share capital.

The Company's series seed preferred shares were 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 were converted into common shares upon the Qualifying Transaction.

Number of shares prior to the QT were converted at conversion ratios described in 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 31, 2019	19,177,723	—	19,177,723	3,747,362
Shares issued for cash	1,315,154	2,131,303	3,446,457	932,801
Share issuance costs	—	—	—	(42,500)
Balance, September 30, 2019	20,492,877	2,131,303	22,624,180	4,637,663
Shares issued for cash	—	—	—	—
Share issuance costs	—	—	—	—
Balance, December 31, 2019	20,492,877	2,131,303	22,624,180	4,637,663
Shares issued for cash - prior to QT	959,920	—	959,920	240,625
Share issuance costs - prior to QT	—	—	—	(63,690)
Shares issued for cash - Concurrent financing	8,678,162	—	8,678,162	2,560,058
Deemed issuance from conversion of preferred shares	2,131,303	(2,131,303)	—	—
Deemed issuance - Libby K	5,550,000	—	5,550,000	1,609,500
Deemed issuance - Convertible Debt	5,810,550	—	5,810,550	1,272,975
Deemed issuance - Plurilock Options and warrants	1,232,978	—	1,232,978	241,454
Shares issued to consultants	200,000	—	200,000	58,000
Share issuance costs QT	—	—	—	(469,967)
Balance, September 30, 2020	45,055,790	—	45,055,790	10,086,618

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

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

PL established a stock option plan (“**PL Plan**”) in 2015 whereby eligible employees, consultants, and directors were granted stock options to purchase common shares in PL. The maximum number of non-voting shares available for issuance under the PL Plan was fixed at 5,500,000 by the PL board of directors in 2018. The options expired 10 years from the grant date and generally vested over a three-year period from the date of the grant. All outstanding in the money stock options of PL were converted into common shares upon the completion of the QT. All out of the money stock options were canceled upon completion of the QT. The PL Plan was terminated at the same time.

Libby K established a stock option plan (“**Libby K Plan**”) in 2018 whereby eligible employees, consultants, and directors were granted stock options to purchase common shares in Plurilock. The maximum number of non-voting shares available for issuance under the Libby K Plan was 10% of the issued and outstanding common shares. The options expire 10 years from the grant date and generally vested at the date of the grant. Prior to the completion of the QT, Libby K had 1,110,000 stock options granted to directors, consultants, senior officers and employees. Upon the completion of the QT, the 1,110,000 outstanding options of Libby K were converted to Plurilock 555,000 options.

On October 26, 2020, the Plurilock Board of Directors approved the replacement of the Libby K Plan with a new Plurilock stock option plan (“**Plurilock Plan**”). The Plurilock Plan is subject to shareholders approval, which will be requested at the Company’s next shareholder meeting. The maximum number of non-voting shares available for issuance under the Plurilock K Plan is fixed at 9,011,158, which is 20% of the issued and outstanding common shares as of October 26, 2020. See Note 23 (c) Subsequent Events.

The following table summarizes the continuity of stock options:

	Number of options #	Weighted average exercise price \$
Balance, January 1, 2019	4,990,181	0.25
Granted	429,458	0.25
Forfeited	(417,600)	0.25
Balance, September 30, 2019	5,002,039	0.25
Granted	255,000	0.25
Forfeited	(28,888)	0.25
Balance, December 31, 2019	5,228,151	0.25
Granted	100,000	0.25
Converted	(5,328,151)	0.25
Libby K	555,000	0.20
Balance, September 30, 2020	555,000	0.20

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

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

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

	September 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	0.20	555,000	3.36			
2019	—	—	—	0.25	237,970	0.46
2018	—	—	—	0.25	2,221,254	3.82
2017	—	—	—	0.25	1,311,427	2.01
2016	—	—	—	0.25	882,500	1.18
2015	—	—	—	0.25	575,000	0.66
	0.20	555,000	3.36	0.25	5,228,151	8.13

The weighted average remaining contractual life of stock options outstanding as at September 30, 2020 was 3.36 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:

	September 30, 2020	December 31, 2019
Risk-free interest rate	0.23%	1.63%
Dividend yield	—	—
Expected life (in years)	3	3-10
Volatility	18.67%	13.00%

On October 26, 2020, the Company conditionally granted stock options for the purchase of an aggregate of 6,105,657 common shares to employees, officers, directors and consultants of the Company, pursuant to the terms of the Plurilock Plan. The stock options are exercisable at \$0.34 per share, expire in 10 years from the date of grant, and vest over 36 months such that one-third of the stock options will vest on the date of grant and two-thirds of the stock options will vest quarterly starting from one (1) year following the date of grant.

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

Total stock-based compensation cost recognized in income for the three and nine months ended September 30, 2020 was \$8,828 and \$31,595 respectively (\$10,544 and \$31,632 respectively in 2019) and is credited to contributed surplus.

Total stock-based compensation expense for the three and nine months ended September 30, 2020 is comprised of the expense related to stock options issued to related parties of \$6,721 and \$23,135 respectively (\$7,719 and \$ 23,156 respectively in 2019) and to other employees of \$2,877 and \$6,353 respectively (\$2,825 and \$8,476 respectively in 2019).

(e) Warrants

There are 8,720,709 warrants as at September 30, 2020 (1,001,632 as of December 31, 2019).

The following table summarizes the continuity of the warrants:

	Number of warrants #	Weighted average exercise price \$
Balance, January 1, 2019	3,364,057	0.25
Expired	(1,852,425)	0.25
Balance, September 30, 2019	1,511,632	0.25
Expired	(510,000)	0.25
Balance, December 31, 2019	1,001,632	0.25
Expired	(926,632)	0.25
Special warrants	534,720	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
Balance, September 30, 2020	8,720,709	0.39

Plurilock Security Inc.

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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, short-term loans, loans payable to related parties, and equity comprised of issued share capital, and share-based payment reserve:

	September 30, 2020	December 31, 2019
	\$	\$
Cash and cash equivalents	3,066,542	147,433
Short-term loans	52,151	401,033
Loans payable to related parties	—	52,164
Government loan	40,000	—
Share capital	10,086,618	4,637,663
Share-based payment reserve	—	209,859
	13,245,311	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's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2019.

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, 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.

Plurilock Security Inc.

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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:

	September 30, 2020 \$	December 31, 2019 \$
Cash and cash equivalents	3,066,542	147,433
Trade and other receivables	324,229	532,016
Tax credits receivable	69,243	178,036
	3,460,014	857,485

(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. As at September 30, 2020, the Company completed a public listing transaction which included private placement financings totalling \$1.5 million in addition to a \$2.6 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.

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 as of September 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.

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

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19. 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 September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Revenue				
Government	83,939	102,059	103,310	143,859
License	84,915	77,157	248,395	128,269
	168,854	179,216	351,705	272,128

(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.

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Revenue				
United States	168,704	80,433	351,255	170,282
Canada	150	98,783	450	101,846
	168,854	179,216	351,705	272,128
Long-lived assets				
Canada	September 30, 2020	December 31, 2019		
	\$	\$		
	108,295	107,563		

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20. Operating expenses

	For the three months ended		For the nine months ended	
	September, 2020	September 30, 2019	September, 2020	September 30, 2019
Research and development				
Communication and IT services	38,396	39,494	104,593	99,990
Contractors	11,278	22,834	11,278	69,152
Government assistance	(186,954)	(4,279)	(340,446)	(74,925)
Office and general	427	—	1,892	181
Salaries and benefits	192,042	160,907	591,567	490,390
SRED tax credit	(14,726)	(43,500)	(107,614)	(101,852)
Travel and entertainment	65	1,757	2,129	8,832
COGS allocation	(45,767)	(27,842)	(78,825)	(36,803)
	(5,239)	149,371	184,574	454,965
Sales and marketing				
Advertising and promotion	11,886	500	25,732	3,497
Communication and IT services	16,889	8,559	41,470	28,829
Contractors	42,910	5,000	65,685	5,000
Government assistance	(35,553)	—	(69,037)	—
Marketing	23,768	3,993	39,078	5,599
Office and general	—	—	2,643	—
Salaries and benefits	182,537	97,681	539,306	310,286
Sales commission	1,848	—	13,687	—
Travel and entertainment	—	(166)	614	5,477
	244,285	115,567	659,178	358,688
General and administrative				
Amortization	6,372	2,240	17,064	5,860
Communication and IT services	10,660	10,948	31,893	25,998
Contractors	56,600	52,714	200,606	122,942
Government assistance	(17,441)	—	(37,531)	—
Insurance	3,103	4,731	16,286	10,736
Office and general	9,019	12,544	26,577	44,209
Professional fees	3,158	19,236	292,856	83,053
Regulatory filing	12,552	—	12,552	—
Salaries and benefits	84,916	37,118	220,883	173,085
Travel and entertainment	1,568	8,304	15,201	59,854
	170,507	147,835	796,387	525,737

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 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 nine months ended September 30, 2020. The Company has adopted IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance) to account for the TWS. The amount received has been recognized on a net basis as a reduction of operating expenses as Government Assistance under the respective department noted above.

Plurilock Security Inc.

Notes to the condensed interim consolidated financial statements (unaudited)

For the periods ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

20. Operating expenses (continues)

Effective April 11, 2020, Canada Emergency Wage Subsidy (“CEWS”) came into effect 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, 2020 to June 30, 2021. 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 was granted \$296,511 under the program for the nine months ended September 30, 2020 (of which \$44,693 was received subsequently on October 15, 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.

21. Loss per share

Basic loss per share amounts are calculated by dividing net loss and comprehensive loss for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period.

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

Number of shares prior to the QT that were used to calculate the weighted average number of common shares were converted at conversion ratios described in Note 4.

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

	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Numerator				
Net loss and comprehensive loss	(1,750,540)	(279,144)	(2,850,916)	(1,159,457)
Denominator				
Weighted average number of common shares for basic EPS	25,428,332	20,374,902	22,328,011	20,323,575
	(0.07)	(0.01)	(0.13)	(0.06)
Denominator				
Weighted average number of common shares for dilutive EPS	25,428,332	20,374,902	22,328,011	20,323,575
	(0.07)	(0.01)	(0.13)	(0.06)

Plurilock Security Inc.

Notes to the condensed interim consolidated financial statements (unaudited)

For the periods ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

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.

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

	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Wages and benefits	111,352	85,346	377,081	241,290
Consulting fees	48,216	32,105	174,305	82,454
Stock-based compensation expense*	6,721	7,719	23,135	23,156
	166,289	125,170	574,522	346,901

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.

23. Subsequent events

- On October 26, 2020, the Company conditionally granted stock options for the purchase of an aggregate of 6,105,657 common shares to employees, officers, directors and consultants of the Company, pursuant to the terms of the Plurilock Plan. See Note 16(c). The stock options are exercisable at \$0.34 per share, expire in 10 years from the date of grant, and vest over 36 months such that one-third of the stock options will vest on the date of grant and two-thirds of the stock options will vest quarterly starting from one (1) year following the date of grant.
- On November 7, 2020, the Company's PPP Loan totaling US\$39,072 was forgiven by the U.S. Small Business Administration Paycheck Protection Program (PPP) and the PPP Loan agreement with the Silicon Valley Bank was automatically cancelled.