
Consolidated financial statements of Plurilock Security Inc.

For the years ended December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
PLURILOCK SECURITY INC.

Opinion

We have audited the consolidated financial statements of PLURILOCK SECURITY INC. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of the Company as at December 31, 2020 and for the year then ended were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements in their report dated April 28, 2021.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Mazars, LLP

215 Saint-Jacques Street, Suite 1200
Montréal (Québec) H2Y 1M6 Canada
Tel.: 514 845-9253 | Fax: 514 845-3859

www.mazars.ca

6455 Jean-Talon Street East, Suite 601
Saint-Léonard (Québec) H1S 3E8 Canada
Tel.: 514 845-9253 | Fax: 514 355-1630

26 Wellington Street East, Suite 300
Toronto, Ontario M5E 1S2 Canada
Tel.: 1 877 845-9253 | Fax: 514 845-3859



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the consolidated financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Maria Patsios.

A handwritten signature in black ink that reads "Mazars, LLP".

Chartered Professional Accountants

Montréal, Canada

April 29, 2022

Plurilock Security Inc.
Consolidated Statement of Financial Position

(Expressed in Canadian dollars)

| | | December 31, 2021 | December 31, 2020 |
|--------------------------------------|----|------------------------------|----------------------|
| | | \$ | \$ |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 9,468,104 | 1,721,179 |
| Trade and other receivables | 6 | 6,095,581 | 118,796 |
| Tax credits receivable | 7 | 281,184 | 69,243 |
| Inventory | 8 | 734,097 | — |
| Prepaid expenses and deposits | 9 | 349,664 | 207,559 |
| Total current assets | | 16,928,630 | 2,116,777 |
| Non-current assets | | | |
| Property and equipment | 10 | 64,861 | 27,618 |
| Right-of-use asset | 11 | — | 14,129 |
| Intangible assets | 13 | 622,757 | 70,000 |
| Goodwill | 5 | 852,032 | — |
| Other non-current assets | | 13,218 | — |
| Total assets | | 18,481,498 | 2,228,524 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 14 | 10,997,987 | 409,616 |
| Unearned revenue | 15 | 327,763 | 94,700 |
| Lease liability | 12 | — | 16,857 |
| Total current liabilities | | 11,325,750 | 521,173 |
| Non-current liabilities | | | |
| Government loans | 16 | 201,719 | 30,000 |
| Deferred tax liability | 24 | 24,230 | — |
| Total liabilities | | 11,551,699 | 551,173 |
| Shareholders' equity | | | |
| Share capital | 17 | 20,496,808 | 10,131,702 |
| Equity reserve | | 522,281 | 208,999 |
| Foreign currency translation reserve | | (93,174) | (19,092) |
| Contributed and other surplus | | 1,681,011 | 755,409 |
| Accumulated deficit | | (15,677,127) | (9,399,667) |
| Total equity | | 6,929,799 | 1,677,351 |
| Total equity and liabilities | | 18,481,498 | 2,228,524 |

Subsequent events 25

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board

"Robert Kiesman"

Robert Kiesman, Director

"Barry Carlson"

Barry Carlson, Director

Plurilock Security Inc.
Consolidated Statement of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

| | | Years ended December 31, | |
|--|-------|---------------------------------|-------------|
| | Notes | 2021 | 2020 |
| | | \$ | \$ |
| Revenue | 20 | 36,624,610 | 479,329 |
| Cost of sales | | (34,141,793) | (78,541) |
| Gross profit | | 2,482,817 | 400,788 |
| Operating expenses | | | |
| Research and development | 21 | 1,416,837 | 430,004 |
| Sales and marketing | 21 | 2,218,589 | 861,982 |
| General and administrative | 21 | 3,426,062 | 1,355,254 |
| Stock-based compensation | 17(d) | 937,239 | 787,004 |
| Total operating expenses | | 7,998,727 | 3,434,244 |
| Operating loss | | (5,515,910) | (3,033,456) |
| Other income (expenses) | | | |
| Foreign exchange translation gain (loss) | | (61,024) | 14,727 |
| Acquisition-related expenses | | (496,994) | — |
| Financing expenses | | (341,272) | — |
| Government assistance income | | — | 10,000 |
| Listing expenses | | (1,911) | (1,557,016) |
| Interest expenses | | (6,522) | (32,489) |
| Total other expenses | | (907,723) | (1,564,778) |
| Net loss for the year before tax | | (6,423,633) | (4,598,234) |
| Income tax recovery | 24 | 146,173 | — |
| Net loss for the year | | (6,277,460) | (4,598,234) |
| Other comprehensive loss | | | |
| Items that may be subsequently reclassified to net loss | | | |
| Foreign exchange translation difference | | (74,082) | (10,686) |
| Other comprehensive loss | | (74,082) | (10,686) |
| Comprehensive loss for the year | | (6,351,542) | (4,608,920) |
| Basic and diluted loss per share | 22 | (0.10) | (0.16) |

The accompanying notes are an integral part of these consolidated financial statements.

Plurilock Security Inc.
Consolidated Statement of Changes in Equity
(Expressed in Canadian dollars)

| | | Share capital | Contributed and other surplus | Equity reserve | Foreign currency translation reserve | Accumulated deficit | Total | |
|---|-------|-------------------|-------------------------------------|-------------------|--|------------------------|---------------------|------------------|
| Notes | # | \$ | \$ | \$ | \$ | \$ | \$ | |
| Balance, January 1, 2020 | | 22,624,180 | 4,637,663 | 209,859 | 5,460 | (8,406) | (4,806,893) | 37,683 |
| 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 |
| Shares and warrants issued as a result of convertible debt settlement | | 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) | - | - | - | - |
| Shares and warrants issued to acquire Libby K | | 5,550,000 | 1,609,500 | - | 132,589 | - | - | 1,742,089 |
| Share issuance costs pursuant to concurrent financing private placement | | - | (469,967) | - | 12,611 | - | - | (457,356) |
| Recognition of share-based payments | | - | - | 787,004 | - | - | - | 787,004 |
| Exercise of warrants | | 155,462 | 45,084 | - | (13,992) | - | - | 31,092 |
| Equity component of convertible debt | | - | - | - | (5,460) | - | 5,460 | - |
| Net loss for the year | | - | - | - | - | (4,598,234) | (4,598,234) | - |
| Other comprehensive loss | | - | - | - | - | - | (10,686) | (10,686) |
| Balance, December 31, 2020 | | 45,211,252 | 10,131,702 | 755,409 | 208,999 | (19,092) | (9,399,667) | 1,677,351 |
| Units issued for cash | 17(b) | 20,440,736 | 9,758,111 | - | - | - | - | 9,758,111 |
| Share issuance costs | 17(b) | - | (595,569) | - | - | - | - | (595,569) |
| Warrants issued pursuant to private placement financing broker fee | 17(e) | - | (189,375) | - | 189,375 | - | - | - |
| Warrants issued to underwriters for bought deal | 17(e) | - | (196,048) | - | 196,048 | - | - | - |
| Warrant issuance costs | 17(e) | - | - | - | (13,723) | - | - | (13,723) |
| Shares issued as part of acquisition consideration | 5 | 698,888 | 254,747 | - | - | - | - | 254,747 |
| Shares issued pursuant to acquisition broker fee | 5 | 46,296 | 25,000 | - | - | - | - | 25,000 |
| Recognition of stock-based compensation | 17(d) | - | - | 937,239 | - | - | - | 937,239 |
| Exercise of stock options | 17(c) | 181,750 | 67,882 | (11,637) | (13,875) | - | - | 42,370 |
| Exercise of warrants | 17(e) | 3,108,650 | 1,240,358 | - | (44,543) | - | - | 1,195,815 |
| Net loss for the year | | - | - | - | - | (6,277,460) | (6,277,460) | - |
| Other comprehensive loss | | - | - | - | - | (74,082) | - | (74,082) |
| Balance, December 31, 2021 | | 69,687,572 | 20,496,808 | 1,681,011 | 522,281 | (93,174) | (15,677,127) | 6,929,799 |

The accompanying notes are an integral part of these consolidated financial statements.

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

| | | Years ended December 31, | |
|---|-------|---------------------------------|--------------------|
| | | 2021 | 2020 |
| | Notes | \$ | \$ |
| Net loss for the year | | (6,277,460) | (4,598,234) |
| Operating activities | | | |
| Adjustments for | | | |
| Amortization | | 106,584 | 23,872 |
| Income tax recovery | | (146,173) | — |
| Stock-based compensation | 17(d) | 937,239 | 787,004 |
| Interest expense - short term loans | | — | 26,050 |
| Interest expense - long term loans | | 5,978 | — |
| Forgiveness of PPP loan | 20,21 | (204,136) | (61,109) |
| Interest expense - loans payable to related parties | | — | 4,204 |
| Interest expense - lease liability | | 749 | 2,407 |
| Listing expenses | | 25,000 | 1,557,016 |
| Transaction costs | | — | 58,000 |
| Unrealized foreign exchange loss/(gain) | | (111) | — |
| Changes in working capital and other items | | | |
| Trade and other receivables | | (3,229,148) | 413,220 |
| Tax credits receivable | | (155,168) | 108,793 |
| Inventory | | (536,907) | — |
| Prepaid expenses and deposits | | (91,908) | (169,690) |
| Trade and other payables | | 7,378,998 | 68,987 |
| Unearned revenue | | 152,533 | (43,959) |
| Net cash flows used in operating activities | | (2,033,930) | (1,823,439) |
| Investing activities | | | |
| Acquisition of equipment | 10 | (55,624) | (28,055) |
| Net cash acquired from business acquisition | 5 | 50,696 | — |
| Net cash flows used in investing activities | | (4,928) | (28,055) |
| Financing activities | | | |
| Cash acquired upon Qualifying Transaction | | — | 576,944 |
| Proceeds from issuance of shares, net of issuance costs | | 9,197,657 | 2,235,223 |
| Proceeds from issuance of warrants, net of issuance costs | | — | 37,334 |
| Proceeds from warrant exercise | | 1,196,007 | 31,092 |
| Proceeds from stock option exercises | | 56,990 | — |
| Proceeds from convertible debt | | — | 1,307,375 |
| Proceeds from short-term loans | | 894 | 93,038 |
| Repayment of short-term loans | | (656,920) | (379,974) |
| Repayment to related parties | | — | (56,368) |
| Payment of listing costs | | — | (389,442) |
| Lease payments | | (18,300) | (18,300) |
| Net cash flows from financing activities | | 9,776,328 | 3,436,922 |
| Foreign exchange effect on cash | | 9,455 | (11,682) |
| Net increase in cash and cash equivalents | | 7,737,470 | 1,585,428 |
| Cash and cash equivalents, beginning of period | | 1,721,179 | 147,433 |
| Cash and cash equivalents, end of period | | 9,468,104 | 1,721,179 |

The accompanying notes are an integral part of these consolidated financial statements.

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

Supplemental cash flow information

Non-cash financing and investing activities

| | | Years ended December 31, | |
|---|-------|---------------------------------|-----------|
| | | 2021 | 2020 |
| | Notes | \$ | \$ |
| Settlement of short-term loans through issuance of equity | | - | 47,000 |
| Warrants issued as finders fee pursuant to financing | 17(e) | 467,378 | 18,668 |
| Warrants issued to underwriters for bought deal | 17(e) | 527,100 | - |
| Issuance of common shares as finders fee | | - | 533,657 |
| Shares and warrants issued as part of acquisition | 5 | 279,747 | 1,742,089 |

1. Nature of operations and continuance of business

Plurilock Security Inc. ("**Plurilock**", "**PSI**" 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 1021 West Hastings Street, MNP Tower, 9th Floor, Vancouver, BC, V6E 0C3, Canada.

On September 17, 2020, the Company and PL completed the QT pursuant to the policies of the TSX-V. 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.

The Company's common shares trade on the TSX-V as a Tier 1 technology issuer under the ticker symbol "TSX-V: PLUR" and on the OTCQB under the ticker symbol "OTCQB: PLCKF".

Plurilock is an identity-centric cybersecurity company offering IT and cybersecurity solutions through its Solutions Division, paired with proprietary AI-driven and cloud-friendly security products through its Technology Division.

As at the consolidated financial statement December 31, 2021 date, Plurilock had 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**"). On March 4, 2022, Plurilock acquired all the issued and outstanding shares of Integra Network Corporation ("**INC**") (Note 25 (2)). 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. ("**ASC**"), a provider of advanced cybersecurity technology and services based in the State of California, USA. PLUS acquired all of the outstanding securities of ASC. On July 22, 2021, Plurilock incorporated an Indian subsidiary, Plurilock Security Private Limited ("**PSP**"). PSP is owned 99.9% by PSI and 0.01% by PL.

These consolidated financial statements report that the Company has a comprehensive loss of \$6,351,542 and \$4,608,920 for the years ended December 31, 2021 and 2020 respectively and an accumulated deficit of \$15,677,127 and \$9,399,667 and as at December 31, 2021 and 2020 respectively. 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. 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 consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at the amounts different from those reflected in the accompanying consolidated financial statements.

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

These consolidated financial statements were authorized for issue by the Board of Directors on April 29, 2022.

2. Basis of presentation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued and effective as of December 31, 2021. The Company's significant accounting policies are presented in Note 3 to the consolidated financial statements for the year ended December 31, 2021 and have been consistently applied in the preparation of these consolidated financial statements.

Basis of presentation

These 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 consolidated financial statements are presented in Canadian dollars.

3. Significant accounting policies

Principles of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries (Note 1).

Plurilock consolidates subsidiaries controlled by the Company. Control exists when the Company is exposed, or has the rights, to variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiary. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

Foreign currency translation

The presentation currency for the consolidated financial statements is the Canadian dollars. Items included in these consolidated financial statements of the Company and its subsidiaries are measured using the currency of the primary economic environment in which the individual entity operates (the "**functional currency**"). The functional currency of the Company is the Canadian dollar and the functional currency of the Company's subsidiaries is as follows: PL- Canadian dollar; PLUS - U.S. dollar; ASC - U.S. dollar and PSP - Indian Rupee.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in a foreign exchange translation reserve. Accumulated amounts in the foreign currency translation reserve will be recognized in profit or loss in the period in which the foreign operation is disposed of.

Transactions in currencies which are not the entity's functional currency are translated at the exchange rate in effect at the time of the transaction. At each financial position reporting date, the foreign currency denominated monetary assets and liabilities are translated to the functional currency at the exchange rate in effect at the date of the financial position. Foreign currency

3. Significant accounting policies (continued)

Foreign currency translation (continued)

denominated non-monetary assets and liabilities are translated to the functional currency at the historical exchange rates in effect on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss in the period in which they arise.

Financial instruments

The Company classifies its financial assets in the following categories:

- Financial assets at fair value through profit or loss ("**FVTPL**"): Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the income statement. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the consolidated statement of comprehensive loss in the period in which they arise.
- Financial assets at fair value through other comprehensive income ("**FVTOCI**"): Equity instruments that are not held for trading may be irrevocably designated as FVTOCI on initial recognition, on an investment-by-investment basis, and any subsequent changes in the instrument's fair value are recognized in other comprehensive income. Debt instruments that are not designated as FVTPL can be recognized as FVTOCI if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amounts outstanding.
- Financial assets at amortized cost: All other financial assets not categorized as FVTPL or FVTOCI are considered financial assets at amortized cost. Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date.

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading or designated as at FVTPL, are measured at amortized cost using the effective interest method.

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of financial liability and equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after reducing all its liabilities. Equity instruments issued by the Company are recognized as proceeds are received, net of direct issue costs.

The component parts of convertible financial liabilities issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. Transaction costs are allocated to the liability and equity components in proportion to the allocation of the gross proceeds.

3. Significant accounting policies (continued)

Financial instruments (continued)

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share capital. Where the conversion option remains unexercised at the maturity date of the convertible loan note, the balance recognised in equity will be transferred to deficit. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

The Company's classification and measurement basis of its financial instruments are as follows:

| Financial instruments | Classification and measurement basis |
|-----------------------------|--------------------------------------|
| Cash and cash equivalents | Amortized cost |
| Trade and other receivables | Amortized cost |
| Trade payables and accruals | Amortized cost |
| Government loans | Amortized cost |

Estimated fair values for financial instruments are designed to approximate amounts at which the instruments could be exchanged in a current arm's-length transaction between knowledgeable willing parties.

The Company classifies and discloses fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The three levels of the fair value hierarchy are:

Level 1 – Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Cash and cash equivalents

The Company considers cash and cash equivalents to include amounts held in banks and highly liquid, low risk investments with maturity of three months or less from the date of acquisition.

3. Significant accounting policies (continued)

Financial instruments (continued)

Trade and other receivables

Trade and other receivables are recognized initially at the amount determined under IFRS 15 and subsequently measured at amortized cost less provision for impairment. A provision for impairment of trade receivables is established based on a forward-looking “expected loss” impairment model. The carrying amount of the trade receivables is reduced using the provision for impairment account, and the amount of any increase in the provision for impairment is recognized in the consolidated statement of loss and comprehensive loss. When a trade receivable is uncollectible, it is written off against the provision for impairment account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the consolidated statement of loss and comprehensive loss.

Government loans

Amounts received or receivable resulting from government assistance programs are reflected as reductions to the cost of the assets or expenses to which they relate when the Company becomes eligible to accrue them, provided there is reasonable assurance the benefits will be realized.

Property and Equipment

Equipment is recorded at cost, less accumulated depreciation, and any impairment charges. When the cost of replacing part of an item of equipment is capitalized, the carrying amount of the replaced part is derecognized. Maintenance and repair expenditures that do not improve or extend productive life are expensed in the period incurred. On an annual basis, the assets’ residual values and useful lives are reviewed, and adjusted if appropriate. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the depreciation period or method, as appropriate, and are treated as changes in accounting estimates. The Company amortizes the equipment over their estimated useful lives using the straight-line method and the following duration:

| | |
|------------------------|---------|
| Computer equipment | 3 years |
| Computer applications | 3 years |
| Electronical equipment | 5 years |
| Furniture & fixture | 7 years |

Intangible assets

Intangible assets consist of patents, a procurement contract and a brand name.

Patents cover certain aspects of the Company’s behavioral biometric algorithms. Patents acquired from third parties are recorded at cost. Their finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

The procurement contract is a U.S. government wide procurement contract the Company acquired as part of a business acquisition.

The brand name is also acquired as part of a business acquisition.

Research costs are charged to operations when they are incurred. Development costs are capitalized as intangible assets when the Company can demonstrate that the technical feasibility of the project has been established; the Company intends to complete the asset for use or sale and has the ability to do so; the asset can generate probable future economic benefits; the technical and financial resources are available to complete the development; and the Company

3. Significant accounting policies (continued)

Intangible assets (continued)

can reliably measure the expenditure attributable to the intangible asset during its development. At December 31, 2021, the Company has not capitalized any development costs.

The Company amortizes its intangible assets over their estimated useful lives using the straight-line method and the following durations:

| | |
|----------------------|---|
| Patents | 20 years |
| Procurement Contract | 69 months |
| Brand Name | Indefinite (Brand is recognized as part of business combinations and does not have identifiable finite number of useful lives). |

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("**CGU**") to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to an individual CGU or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairment of assets

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss, or any reversal of a previously recognized impairment loss, is recognized immediately in profit or loss.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Company has the right to direct the use of the asset. At inception or on reassessment of a contract due to a modification that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, the Company recognizes a right-of-use asset, which is included in equipment, and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease

3. Significant accounting policies (continued)

Leases (continued)

payments made at or before the commencement date, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability. Impairment assessment for leases follows the same process as discussed above under Impairment of assets.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to loss in the period incurred.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to loss on a straight-line basis over the lease term.

Income taxes

The tax expense for the period comprises current and deferred income tax. Taxation is recognized in the consolidated statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case the tax is recognized in equity.

Current income tax is generally the expected income tax payable on the taxable income for the year calculated using rates substantively enacted at the date of the statement of financial position in the countries where the Company or its subsidiary operate and generate taxable income, and includes any adjustment to income tax payable or recoverable in respect of previous years.

Uncertain income tax positions are accounted for using the standards applicable to current income tax assets and liabilities; i.e. both liabilities and assets are recorded when probable at the Company's best estimate of the amount.

Deferred income tax is recognized using the liability method, based on temporary differences between consolidated financial statement carrying amounts of assets and liabilities and their respective income tax bases. Deferred income tax is determined using tax rates that have been

3. Significant accounting policies (continued)

Income taxes (continued)

substantively enacted by the date of the consolidated statement of financial position and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled. The amount of deferred income tax recognized is based on the expected manner and timing of realization or settlement of the carrying amount of assets and liabilities. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets are reviewed at each date of the consolidated statement of financial position and amended to the extent that it is no longer probable that the related tax benefit will be realized.

Current income tax assets and liabilities are offset when the Company has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Normally the Company would only have a legally enforceable right to set off a current tax asset against a current tax liability when they relate to income taxes levied by the same taxation authority and the taxation authority permits the Company to make or receive a single net payment. Deferred income tax assets and liabilities are offset when the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Share capital

Share capital is presented at the value of the shares issued. Costs related to issuing the Company's common shares, share options or warrants are reported net of tax as a deduction from the proceeds from the issue.

Revenue Recognition

Revenue is recognized when control of a good or service transfers to a customer in accordance with a five-step model:

1. Identify the contracts with customers
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when the entity satisfies a performance obligation

The Company accounts for a contract with a customer when it has approval and commitment from all parties, the rights of the parties and payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Revenue is recognized when control of the promised services or goods (the performance obligation) is transferred to customers, and in an amount that reflects the consideration the Company expects to receive in exchange for those services or goods (the transaction price). The Company measures revenue by estimating the transaction price based on the consideration specified in the customer arrangement. Revenue is recognized as the performance obligations are satisfied.

3. Significant accounting policies (continued)

Revenue Recognition (continued)

The Company derives revenues from three main sources: (1) hardware sales, (2) electronic software, license and maintenance sales and (3) professional services.

1) Hardware sales

The Company provides physical computer hardware to customers upon submission of an approved purchase order or a signed Company quote. The Company's sales of hardware, which are made in the capacity of principal, are generally distinct goods because the customer can usually benefit from the hardware either on its own or with other resources. Hardware sales performance obligations are fully satisfied at the point the hardware is delivered to the customer and the control of the hardware passes to the customer. As such, revenue is recognized upon delivery of the hardware to the customer.

2) Electronic software, license and maintenance sales

Electronic software, license and maintenance sales revenue are comprised of fees that provide customers access to third-party software licenses, subscriptions and related support and updates during the terms of arrangements. Electronic software, license and maintenance sales are recognized on a point in time basis because the Company's performance obligations are fully satisfied at the point the licenses and maintenance contracts with the software vendors are delivered. Electronic software, license and maintenance sales are either recognized upon delivery to customers or on a straight-line basis for subscriptions, or in the case of a software renewal, at the start of the renewal term.

3) Professional services

Professional services are generally on either a fixed fee, milestone based, or time & material based. 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. This is because the customer can benefit from the services from other resources. In addition, the services are not generally integrated with or dependent on other services that might be provided to the customer. The customer receives and consumes the benefits of the services as the Company performs and therefore, these revenues are recognized on a milestone basis or on a proportional performance basis.

The Company's arrangements with its customers generally do not include variable consideration. The transaction price for the Company's products and services is usually fixed at the amount specified in the contract. When selling products or services under the same or linked contracts and those products or services represent one performance obligation, the Company allocates the total transaction price by reference to the prices it charges for those products and services when sold separately, i.e., their stand-alone selling prices.

The Company has determined that it acts as principal in all its performance obligations and therefore, the revenue is recognized at the gross amount of consideration to which it expects to be entitled. The Company determines it is a principal because it obtains control over products and services in advance of transferring those products and services to the customer, and also typically has responsibility for acceptability of the specified products or services. In addition, the Company has primary responsibility for fulfilling the contractual promises to the customer, assumes inventory risk in the event of cancellation of the sale for any reason and has discretion in establishing prices of the products and services provided.

3. Significant accounting policies (continued)

Revenue Recognition – Right of return

The Company does not normally provide a guaranteed right of return to its customers except where required by law. The level of returns experienced by the Company is not material; therefore, no right of return asset or liability is recognized. Revenue is recognized at the full value of the consideration received. This is assessed on an ongoing basis.

Cost of Sales

The primary components of cost of sales are the purchase price for all computer hardware, software and related support, as well as an allocation of the related employee compensation and benefits, costs related to the operation of the Company's SaaS-hosted infrastructure, services and any operating supplies.

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.

3. Significant accounting policies (continued)

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 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 and sell.

Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. For government grants that are provided for with no specific purposes and is to be used at the Company's management's discretion, the government grant is recognized under other income.

Stock-based compensation plans

The Company has a stock option plan and accounts for share options using the fair value-based method. Under the fair value-based method, stock-based compensation cost is measured at fair value at the grant date and is expensed over the award's vesting period. The fair value of stock options is measured using the Black Scholes option pricing model. A corresponding increase in stock-based payment reserve is recorded when stock options are expensed. When stock options are exercised, share capital is credited by the sum of the consideration paid and the related portion previously recorded in stock-based payment reserve.

Warrants

The Company issues warrants for services and warrants as part of financing transactions. For warrants issued for services, the Company considers these warrants as equity based instruments and follows guidelines under IFRS 2 Stock Based Compensation and uses the Black-Scholes model to value these warrants. For warrants issued as part of financing transactions, the Company treats these warrants under IFRS 9 and IAS 32 Financial Instruments.

3. Significant accounting policies (continued)

Loss per share

Basic loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted income per share is calculated using the treasury stock method, which assumes that cash that would be received on the exercise of stock options is applied to purchase shares at the average price during the period. The difference between the shares issued on the exercise of the stock options and the number of shares purchased under this computation, on a weighted average basis, is added to the number of shares outstanding. Anti-dilutive stock options are not considered in computing diluted income per share. Stock options are typically dilutive when the Company has income for the year and the average market price of the common shares during the year exceeds the exercise price of the options.

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 the year ended December 31, 2021, the Company completed two rounds of non-brokered private placement financing totaling \$5.16 million and one bought-deal financing totaling \$4.60 million and the total financing expenses spent were \$341,272. As a result of the increase in cash and working capital from the financings, in addition to the anticipated cash flows expected to be achieved from the execution of the Company's strategic plan in the next twelve months, Plurilock has concluded that there is no material uncertainty with respect to the Company's ability to continue as a going concern for the next twelve months.

The estimates used by Plurilock in reaching the above conclusion are based on information available as of the date the consolidated statement of financial position was authorized for issuance and included internally generated cash flow forecasts. Accordingly, actual results could differ from these estimates and resulting variances may be material to management's assessment.

3. Significant accounting policies (continued)

Main sources of estimation uncertainty and critical judgements by management (continued)

➤ *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 stock-based compensation*

The Company uses the Black-Scholes model to value share options issued to directors, employees and consultants. 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.

➤ *Valuation of warrants issued for services*

For warrants issued for services, the Company follows guidelines under IFRS 2 and uses the Black-Scholes model to value these warrants. 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 warrants.

3. Significant accounting policies (continued)

Main sources of estimation uncertainty and critical judgements by management (continued)

➤ *Carrying values of allowances for unrecoverable trade and other receivables*

The Company recognizes an allowance for expected credit loss on accounts receivable that are measured at amortized cost. The amount of expected credit loss ("**ECL**") is updated at each reporting date to reflect changes in credit risk since the initial recognition of the trade and other receivables. The Company recognizes lifetime ECL for its trade and other receivables. The expected credit losses on these financial assets are estimated using the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions, and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

➤ *Recoverability of tax credits*

In the 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.

➤ *Fair value measurement and valuation processes*

Some of the Company's assets are measured at fair value for financial reporting purposes. The company hires external valuation professionals to determine the appropriate valuation techniques and inputs for fair value measurements. The Company works closely with the external valuation professionals to establish the appropriate valuation techniques and inputs to the model.

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 consolidated financial statements, are related to:

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

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 consisted 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 consisted 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 consisted of 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.

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.

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 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. In substance, the QT involves former PL shareholders obtaining control of the Company; accordingly, the QT is a reverse acquisition

4. Qualifying Transaction (continued)

For accounting purposes, the acquisition is considered to be outside the scope of IFRS 3, Business Combinations, 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 competing 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.

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 PL cannot identify specifically some or all of the goods or services 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 | 132,589 |
| Total Consideration | 1,742,089 |
| Listing related share-based consideration | 1,167,574 |
| Other professional fees related to RTO | 353,510 |
| Total RTO related listing expenses | 1,521,084 |

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 of \$0.2, expected volatility of 100%, expected life from 0.36 years to 3 years, risk free interest rate of 0.27% and expected

4. Qualifying Transaction (continued)

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 \$110,089;
- 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.

5. Business acquisition

On March 31, 2021, Plurilock's United States subsidiary, PLUS, acquired 100% of the outstanding securities and control of ASC ("**ASC Acquisition**"). ASC 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 fair value consideration for the ASC Acquisition was \$1,737,573 (US\$1,378,803) ("**Consideration**"). The Company paid to the vendor \$1,130,166 (US\$896,714) 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, \$114,354 (US\$90,000) 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 funds and shall only release the escrow funds in accordance with a joint written instruction of Plurilock and the vendor. The vendor is entitled to a performance-based earnout of up to \$377,940 (US\$300,000) 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 the 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 ASC Acquisition transaction success fee 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 a statutory hold period expiring on the date that is four months and a day from the date of issuance.

The fair value of the purchase price consideration and amounts recognized in respect of the identifiable assets acquired and liabilities assumed related to the ASC Acquisition are as set out in the table below.

All assets and liabilities from ASC's statement of financial position have been consolidated as part of Company's consolidated statement of financial position as of December 31, 2021.

Revenue and net income from ASC's statement of income and comprehensive income have been included in the Company's consolidated statement of loss and comprehensive loss for the year ended December 31, 2021.

5. Business acquisition (continued)

The impact of the acquisition on revenue and net income for the year ended December 31, 2021 is presented below:

| | December 31, 2021 |
|------------|----------------------|
| Revenue | 36,337,439 |
| Net income | 444,456 |

The table below shows the impact of the acquisition on revenue and net income for the year ended December 31, 2021 as if the acquisition of ASC took place on January 1, 2021:

| | December 31, 2021 |
|------------|----------------------|
| Revenue | 39,332,977 |
| Net income | 367,991 |

The supplementary pro forma information is based on actual results with unaudited financial information from January 1, 2021 to March 31, 2021 and audited financial information from April 1 to December 31, 2021. This supplementary pro forma information is not necessarily representative of the Company's future consolidated net income.

The Company has calculated fair values of the assets and liabilities acquired and identified intangible assets and goodwill that arise as part of the acquisition in the below table. Goodwill calculated in the below table represents the expected synergies from combining the operations of ASC with the Company, revenue growth and future market development and customer relations. These benefits are not recognized separately from goodwill since the resulting future economic benefits cannot be measured reliably. Goodwill is non-deductible for tax purposes.

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5. Business acquisition (continued)

| | |
|--|------------------|
| Fair value of purchase consideration | \$ |
| Cash paid at closing of business acquisition | 1,130,166 |
| Cash paid in escrow | 114,354 |
| Shares issued | 254,747 |
| Deferred acquisition costs/Earnout shares | 320,655 |
| Working capital adjustment | (82,350) |
| Total | 1,737,572 |

| | |
|--|----------------|
| Fair values of Aurora's assets and liabilities acquired | \$ |
| Cash and cash equivalents | 1,295,216 |
| Trade and other receivables | 2,917,391 |
| Inventory | 316,811 |
| Prepays | 50,237 |
| Furniture and equipment | 3,716 |
| Intangible assets | 8,840 |
| Other non-current assets | 13,150 |
| Short-term loans | (628,750) |
| Trade and other payables | (3,049,411) |
| Unearned revenue | (289,160) |
| Long-term loans | (194,661) |
| Net book value of Aurora | 443,379 |

| | |
|--|------------------|
| Values attributable to following booked under Plurilock | \$ |
| Procurement contract | 261,523 |
| Brand name | 350,843 |
| Goodwill | 852,032 |
| Deferred tax liability | (173,934) |
| Foreign exchange gain from the transaction | 3,729 |
| Total | 1,737,572 |

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6. Trade and other receivables

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

| | December 31, 2021 | December 31, 2020 |
|-------------------|------------------------------|----------------------|
| | \$ | \$ |
| Trade receivables | 6,095,581 | 40,450 |
| Other receivables | — | 78,346 |
| | 6,095,581 | 118,796 |

As at December 31, 2021 \$283 or 0.005% of the trade receivables balance is over 90 days past due compared to nil% as at December 31, 2020 and 58% of the trade receivable balances are owing from 5 customers compared to 100% owing from 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. On December 31, 2021, the Company had no expected credit loss compared to \$145,800 as at December 31, 2020.

7. Tax credits receivable

The Company's tax credits receivable are comprised of the following:

| | December 31, 2021 | December 31, 2020 |
|------------------------|------------------------------|----------------------|
| | \$ | \$ |
| Tax credits receivable | 281,184 | 69,243 |
| | 281,184 | 69,243 |

Tax credits receivable balance as at December 31, 2021 of \$281,184 is related to goods and services tax ("GST") receivable of \$112,374 and \$168,810 for payroll tax credits compared to \$69,243 for GST receivable as at December 31, 2020.

8. Inventory

| | December 31, 2021 | December 31, 2020 |
|----------------|------------------------------|----------------------|
| | \$ | \$ |
| Finished goods | 734,097 | — |
| | 734,097 | — |

Inventory balance as at December 31, 2021 of \$734,097 (nil as at December 31, 2020) is related to products under the Company's possession but not yet delivered to customers. An amount of \$33,757,675 of inventories was expensed during the year ended December 31, 2021 as cost of sales (nil during the year ended December 31, 2020).

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9. Prepaid expenses and deposits

| | December 31, 2021 \$ | December 31, 2020 \$ |
|---------------------------|-------------------------------------|----------------------------|
| Prepaid service contracts | 346,813 | 202,961 |
| Deposits | 2,851 | 4,598 |
| | 349,664 | 207,559 |

Prepaid service contracts consist of various prepaid agreements including online subscriptions, insurance, membership fees, and consulting services for corporate finance and investor relations purposes.

10. Property and equipment

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

| | \$ |
|--|----------------|
| Property and equipment cost | |
| Balance January 1, 2020 | 26,330 |
| Additions | 28,055 |
| Balance January 1, 2021 | 54,385 |
| Additions | 55,624 |
| Additions through acquisition | 3,716 |
| Disposals | (2,574) |
| Balance December 31, 2021 | 111,151 |
| Property and equipment accumulated amortization | |
| Balance January 1, 2020 | 22,020 |
| Amortization for the period | 4,747 |
| Balance January 1, 2021 | 26,767 |
| Amortization for the year | 19,952 |
| Disposals | (429) |
| Balance December 31, 2021 | 46,290 |
| Property and equipment net book value | |
| At January 1, 2021 | 27,618 |
| At December 31, 2021 | 64,861 |

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11. Right-of-use asset

Right-of-use asset relates to an office space lease. The lease ended as of December 31, 2021. The following table provides a reconciliation of this right-of-use asset:

| | December 31, 2021 | December 31, 2020 |
|---------------------------------|------------------------------|----------------------|
| | \$ | \$ |
| Opening balance | 14,129 | 28,253 |
| Less: amortization for the year | (14,129) | (14,124) |
| Ending balance | - | 14,129 |

12. Lease liability

Lease liability relates to the lease of an office space, for which the lease term ended on December 31, 2021, and was discounted using an interest rate of 10%. During the year ended December 31, 2021, the Company recognized \$749 in interest expense respectively on lease liability compared to \$2,408 during year ended December 31, 2020, which is included in interest expenses.

| | December 31, 2021 | December 31, 2020 |
|--------------------------------|------------------------------|----------------------|
| | \$ | \$ |
| Opening balance | 16,857 | 32,749 |
| Add: interest during the year | 749 | 2,408 |
| Less: payments during the year | (17,606) | (18,300) |
| Ending balance | - | 16,857 |

13. Intangible assets

Intangible assets consist of (i) patent costs incurred in 2015 related to three (3) 20-year patents ("**Patents**") covering certain aspects of our behavioral biometric algorithms, (ii) a U.S. government wide procurement contract ("**Procurement Contract**"), and (iii) brand name acquired as part of the acquisition described under Note 5.

13. Intangible assets (continued)

Values of intangible assets are broken down as follows:

| | | \$ |
|--|--------|----------------|
| Patent cost | | |
| Balance January 1, 2020 | | 100,000 |
| Balance January 1, 2021 | | 100,000 |
| Additions | | - |
| Balance December 31, 2021 | | 100,000 |
| Patent accumulated amortization | | |
| Balance January 1, 2020 | | 25,000 |
| Amortization for the year | | 5,000 |
| Balance January 1, 2021 | | 30,000 |
| Amortization for the year | | 5,000 |
| Balance December 31, 2021 | | 35,000 |
| Patent net book value | | |
| At January 1, 2021 | | 70,000 |
| At December 31, 2021 | | 65,000 |
| | | |
| | | \$ |
| Procurement contract cost | | |
| Balance January 1, 2021 | | - |
| Additions through acquisition net book value | Note 5 | 8,840 |
| Additions through acquisition fair valuation | Note 5 | 261,523 |
| Foreign exchange gain | | 1,408 |
| Balance December 31, 2021 | | 271,771 |
| Procurement contract accumulated amortization | | |
| Balance January 1, 2021 | | - |
| Amortization for the year | | 66,684 |
| Balance December 31, 2021 | | 66,684 |
| Procurement contract net book value | | |
| At January 1, 2021 | | - |
| At December 31, 2021 | | 205,087 |

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13. Intangible assets (continued)

| Brand name | | \$ |
|----------------------------------|--------|----------------|
| Balance January 1, 2021 | | - |
| Additions through acquisition | Note 5 | 350,843 |
| Foreign exchange gain | | 1,827 |
| Balance December 31, 2021 | | 352,670 |

14. Trade and other payables

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

| | December 31, 2021 | December 31, 2020 |
|---------------------|------------------------------|----------------------|
| | \$ | \$ |
| Trade payables | 9,671,940 | 195,081 |
| Accrued liabilities | 694,834 | 174,721 |
| Payroll liabilities | 610,801 | 26,106 |
| Other payables | 20,412 | 13,708 |
| | 10,997,987 | 409,616 |

Accrued liabilities as at December 31, 2021 included deferred acquisition costs of \$320,655, equaling performance-based earnout shares to be paid to the vendor of the ASC Acquisition (Note 5).

15. Unearned revenue

| | \$ |
|----------------------------------|----------------|
| Balance January 1, 2020 | 138,659 |
| Revenue recognized | (203,461) |
| Amounts received | 159,502 |
| Balance January 1, 2021 | 94,700 |
| Acquired through acquisition | 289,160 |
| Revenue recognized | (410,197) |
| Amounts received | 354,100 |
| Balance December 31, 2021 | 327,763 |

Unearned revenue as at December 31, 2021 consisted of cash collected under customer contracts with goods or services that had not yet been delivered.

16. Government loans

| | December 31, 2021 | December 31, 2020 |
|-----------|------------------------------|----------------------|
| | \$ | \$ |
| CEBA Loan | — | 30,000 |
| SBA Loan | 201,719 | — |
| | 201,719 | 30,000 |

In March 2020, the World Health Organization declared the coronavirus (specifically identified as "**COVID-19**") a global pandemic. 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, 2023. 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 converted to a non-revolving term loan ("**CEBA Term Loan**"). The CEBA Term Loan bears interest at 5% per annum starting on January 1, 2024, 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 67% of the CEBA Term Loan at the CEBA Term Loan Commencement Date is repaid on or before December 31, 2023, the repayment of the remaining 33% of such CEBA Term Loan shall be forgiven ("**Early Payment Credit**"). On November 10, 2021, the Company paid off the Canadian Emergency Business Account ("**CEBA**") term loan in the amount of \$30,000. Since 75% of the CEBA term loan of \$40,000 is repaid before December 31, 2023, the Company qualified for the early payment credit and the repayment of the remaining 25% (or \$10,000) of the CEBA term loan was forgiven.

On June 9, 2020, the United States Small Business Administration ("**SBA**") provided funds ("**COVID EIDL Loan**") to ASC under the Economic Injury Disaster Loan ("**EIDL**") assistance program in light of the impact of the COVID-19 pandemic. The original principal amount of the COVID EIDL Loan was US \$150,000 with proceeds to be used for ASC working capital purposes. Interest accrues at 3.75% per annum. Installment payments, including principal and interests, were due monthly beginning June 9, 2021, twelve months from the date of the COVID EIDL Loan ("**Original Installment Start Due Date**") in the amount of US \$731 per month. The balance of principal and interest is payable in full thirty years from the date of the COVID EIDL Loan. On August 11, 2021, the COVID EIDL Loan was updated from US \$150,000 to US \$500,000, installment payment start date was revised to June 9, 2022 (twenty four months from the date of the COVID EIDL Loan ("**First Revised Installment Start Due Date**")) and installment payments were increased from US \$731 per month to US \$2,515 per month. On March 15, 2022, the SBA announced that the COVID EIDL Loan installment payment start date was further deferred to thirty months from the COVID EIDL Loan date ("**Second Revised Installment Start Due Date**") (Note 25 (4)). The Second Revised Installment Start Due Date is now December 9, 2022.

17. Share capital

(a) Authorized

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

(b) Issued and outstanding

On February 25, 2020, the Company raised approximately \$1 million in a non-brokered private placement (the "**Bridge #1 Financing**"). On June 18, 2020, the Company raised approximately \$548,000 in a second non-brokered private placement (the "**Bridge #2 Financing**"). On September 17, 2020, the Company completed the QT and closed the concurrent financing for proceeds of \$2.6 million (\$932,801 in 2019 through a common share round of financing and a series seed preferred share round of financing). Common shares issued through Bridge #1 and Bridge #2 financing were at \$0.225 per share, and common shares issued through QT concurrent financing were at \$0.29 per share and resulted in 22,431,610 common shares.

3,050,000 common shares are subject to CPC Escrow Agreement dated January 16, 2019. 10% of the common shares were released on September 22, 2020 ("**Release Date**") and another 15% of the common shares will be released every 6 months thereof. As at December 31, 2020, there were 2,745,000 common shares held in escrow under the CPC Escrow Agreement.

2,986,838 common shares are subject the QT Tier 2 Surplus Security Escrow Agreement dated September 17, 2020. 5% of the common shares were released on the Release Date, another 5% released on March 22, 2021, 10% will be released on the 12 and 18 month anniversaries of the Release Date, 15% will be released on the 24 and 30 month anniversaries of the Release Date and 40% will be released on the 36 month anniversary of the Release Date. As at December 31, 2020, there were 2,837,496 common shares held in escrow under the QT Tier 2 Surplus Security Escrow Agreement.

5,070,614 common shares are subject to the QT Tier 2 Value Security Escrow Agreement dated September 17, 2020. 10% of the common shares were released on the Release Date and another 15% of the common shares will be released every 6 months thereafter. As at December 31, 2020, there were 4,563,553 common shares held in escrow under the QT Tier 2 Value Security Escrow Agreement.

1,262,000 restricted common shares had a four-month holding period since the completion of the QT expiring on January 18, 2021.

Share issuance costs during the year ended December 31, 2020 totaled \$521,046 and are recorded as a reduction 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.

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

17. Share capital (continued)

(b) Issued and outstanding (continued)

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.

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 5).

On November 2, 2021, the Company entered into an agreement (the "**Offering**") with Leede Jones Gable Inc. as the lead underwriter and sole bookrunner (the "**Underwriter**") pursuant to which the Underwriter agreed to purchase, on a bought-deal basis, 8,000,000 common shares for gross proceeds to the Company of \$4,000,000 at a price of \$0.50 per common share (the "**Offering Price**"). The Underwriters were also granted an option (the "**Over-Allotment Option**"), exercisable in whole or in part and from time to time, at any time until 30 days after the closing of the Offering, to purchase from the Company up to 1,200,000 additional common shares at the Offering Price for additional gross proceeds of up to \$600,000 to the Company. On November 10, 2021, the Company closed the Offering. Pursuant to the Offering, the Company issued an aggregate of 9,200,000 Shares at the Offering Price for aggregate gross proceeds of \$4,600,000, including the exercise in full of the Over-Allotment Option. Insiders of the Company purchased 80,000 Shares under the Offering, which constituted "related party transactions" within the meaning of Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions.

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17. Share capital (continued)

(b) Issued and outstanding (continued)

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 | 2,131,303 | 22,624,180 | 4,637,663 |
| Shares issued for cash | 959,920 | — | 959,920 | 240,625 |
| Share issuance costs | — | — | — | (63,690) |
| 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 | 2,131,303 | (2,131,303) | — | — |
| Shares issued to consultants | 200,000 | — | 200,000 | 58,000 |
| Shares and warrants issued as a result of convertible debt settlement | 5,810,550 | — | 5,810,550 | 1,272,975 |
| Stock options and warrants converted into shares | 1,232,978 | — | 1,232,978 | 241,454 |
| Shares and warrants issued to acquire Libby K | 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 | 45,211,252 | — | 45,211,252 | 10,131,702 |
| Shares issued for cash | 20,440,736 | — | 20,440,736 | 9,758,111 |
| Share issuance costs | — | — | — | (595,569) |
| Warrants issued pursuant to private placement financing broker fee | — | — | — | (189,375) |
| Warrants issued pursuant to base shelf financing broker fee | — | — | — | (196,048) |
| Shares issued as part of acquisition consideration | 698,888 | — | 698,888 | 254,747 |
| Shares issued pursuant to acquisition broker fee | 46,296 | — | 46,296 | 25,000 |
| Exercise of stock options | 181,750 | — | 181,750 | 67,882 |
| Exercise of warrants | 3,108,650 | — | 3,108,650 | 1,240,358 |
| Balance, December 31, 2021 | 69,687,572 | — | 69,687,572 | 20,496,808 |

17. 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**") 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 Plurilock Plan is subject to shareholder's approval, which will be requested at the Company's next shareholder meeting. 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 December 8, 2020, the Plurilock Board of Directors granted, subject to shareholders approval, stock options for the purchase of an aggregate of 1,480,000 common shares to officers, employees, a new advisor and a new consultant of the Company, pursuant to the Plurilock Plan. The stock options are exercisable at \$0.35 per share, expire in 10 years from the date of grant with various vesting schedules.

On February 3, 2021, the Plurilock Board of Directors granted 50,000 stock options to a member of the Board of Directors of the Company at an exercise price of \$0.50 per option.

On February 24, 2021, the Plurilock Board of Directors granted 50,000 stock options to an employee of the Company at an exercise price of \$0.60 per option.

On March 5, 2021, the Plurilock Board of Directors granted 100,000 stock options to a member of the Board of Directors of the Company at an exercise price of \$0.56 per option.

On March 14, 2021, the Plurilock Board of Directors granted 300,000 stock options to a member of the Board of Directors of the Company at an exercise price of \$0.67 per option.

On November 12, 2021, Plurilock Board of Directors granted 1,778,000 stock options to certain officers, employees and consultants at an exercise price of \$0.52 per option with various vesting periods.

17. Share capital (continued)

(c) Stock option plan (continued)

The following table summarizes the continuity of the Company's Stock Option Plan ("SOP"):

| | Number of options # | Weighted average exercise price \$ |
|------------------------------------|---------------------------|---|
| Balance, January 1, 2020 | 5,228,151 | 0.25 |
| Granted | 8,150,657 | 0.33 |
| Converted to common shares upon QT | (5,328,151) | 0.25 |
| Cancelled | (86,000) | 0.34 |
| Balance, December 31, 2020 | 7,964,657 | 0.33 |
| Granted | 2,278,000 | 0.54 |
| Exercised | (181,750) | 0.23 |
| Cancelled | (282,667) | 0.62 |
| Expired | (16,333) | 0.34 |
| Balance, December 31, 2021 | 9,761,907 | 0.37 |

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

The number of exercisable stock options as of December 31, 2021 was 3,578,332 with an average exercise price of \$0.34 per stock option.

The weighted average remaining contractual life and exercise prices of stock options outstanding as at December 31, 2021 and December 31, 2020 as follows:

| | December 31, 2021 | | December 31, 2020 | |
|----------------------|----------------------------|--|----------------------------|--|
| Exercise price range | Number of stock options | Weighted average contractual life (in years) | Number of stock options | Weighted average contractual life (in years) |
| \$0.20-\$0.30 | 416,250 | 2.11 | 555,000 | 3.11 |
| \$0.31-\$0.40 | 7,317,657 | 8.85 | 7,409,657 | 9.85 |
| \$0.41-\$0.50 | 50,000 | 9.10 | - | n/a |
| \$0.51-\$0.60 | 1,878,000 | 9.57 | - | n/a |
| \$0.61-\$0.70 | 100,000 | 4.20 | - | n/a |
| Total | 9,761,907 | 8.65 | 7,964,657 | 9.38 |

17. Share capital (continued)

(c) Stock option plan (continued)

The estimated fair value of each option granted under the Company's SOP 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 peer companies:

| | December 31, 2021 | December 31, 2020 |
|--------------------------|------------------------------|----------------------|
| Risk-free interest rate | 0.27%-1.79% | 0.25%-0.53% |
| Dividend yield | — | — |
| Expected life (in years) | 0.39-7 | 3-7 |
| Volatility | 100%-112% | 100% |

(d) Stock-based compensation reserve

Total stock-based compensation cost recognized in income for the year ended December 31, 2021, was \$937,239 compared to \$787,004 in prior year and is credited to contributed surplus.

Total stock-based compensation expense for the year ended December 31, 2021, is comprised of the expense related to stock options issued to related parties (as discussed in note 23) of \$726,004 compared to \$616,449 in prior year and to other employees of \$211,235 compared to \$170,555 in prior year.

17. Share capital (continued)

(e) Warrants

There were 12,011,258 warrants as at December 31, 2021 compared to 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 | (926,632) | 0.25 |
| Special warrants | 534,720 | 0.45 |
| Converted upon QT | (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 |
| Underwriter warrants for bought deal | 527,100 | 0.50 |
| Expired | (4,626) | 0.20 |
| Cancelled | (55,555) | 0.40 |
| Exercised | (3,108,650) | 0.38 |
| Balance, December 31, 2021 | 12,011,258 | 0.53 |

18. 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:

| | December 31, 2021 | December 31, 2020 |
|---------------------------|------------------------------|----------------------|
| | \$ | \$ |
| Cash and cash equivalents | 9,468,104 | 1,721,179 |
| Government loans | 201,719 | 30,000 |
| Share capital | 20,496,808 | 10,131,702 |
| Contributed surplus | 1,681,011 | 755,409 |
| Equity reserve | 522,281 | 208,999 |
| Total | 32,369,923 | 12,847,289 |

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.

19. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, trade payables and accruals and government loans.

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 payables and accruals and government loans 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 are 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.

19. 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 and trade and other receivables. The Company mitigates credit risk on cash by placing it at credit-worthy financial institutions. The carrying amounts of the financial assets represent the Company's maximum credit exposure:

| | December 31, 2021 | December 31, 2020 |
|-----------------------------|------------------------------|----------------------|
| | \$ | \$ |
| Cash and cash equivalents | 9,468,104 | 1,721,179 |
| Trade and other receivables | 6,095,581 | 118,796 |
| | 15,563,685 | 1,839,975 |

(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.

19. Financial instruments (continued)

Financial risk management (continued)

(d) Currency risk (continued)

The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk.

A breakdown of the Company's financial instruments by currency, presented in Canadian dollars, is presented below:

| | December 31, 2021 | | | | December 31, 2020 | | | |
|-----------------------------|-------------------|---------|-----------|------------|-------------------|-----|-----------|-----------|
| | USD | INR | CAD | Total | USD | INR | CAD | Total |
| Cash and cash equivalents | 4,115,478 | 468,135 | 4,884,491 | 9,468,104 | 128,352 | - | 1,592,827 | 1,721,179 |
| Trade and other receivables | 6,090,426 | - | 5,155 | 6,095,581 | 40,450 | - | 78,346 | 118,796 |
| Trade payables and accruals | 9,607,798 | 1,439 | 757,537 | 10,366,774 | 9,875 | - | 364,129 | 374,004 |
| Government loans | 201,719 | - | - | 201,719 | - | - | 30,000 | 30,000 |

Significant exchange rates used

| | December 31, 2021 | December 31, 2020 |
|--|-------------------|-------------------|
| Average rate for the year | | |
| US dollar | 1.2537 | 1.3413 |
| Indian Rupee | 0.0170 | not applicable |
| Statement of financial position rates | | |
| US dollar | 1.2641 | 1.2841 |
| Indian Rupee | 0.0170 | not applicable |

The table below shows the Company's sensitivity to foreign exchange rates for its U.S. dollar and Indian Rupee financial instruments, the foreign currencies in which the Company's assets and liabilities are denominated:

| | December 31, 2021 increase/(decrease) in equity | December 31, 2020 increase/(decrease) in equity |
|--|---|---|
| 10% appreciation of the U.S. dollar against Canadian dollar | 39,639 | 15,893 |
| 10% depreciation of the U.S. dollar against Canadian dollar | (39,639) | (15,893) |
| 10% appreciation of the Indian Rupee against Canadian dollar | 46,670 | n/a |
| 10% depreciation of the Indian Rupee against Canadian dollar | (46,670) | n/a |

(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.

19. Financial instruments (continued)

Financial risk management (continued)

(e) Fair values (continued)

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 payables and accruals approximates their fair value due to the relatively short-term maturity of these financial instruments and are measured and reported at amortized cost. The carrying value of government loans is initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

All financial instruments carried at fair value have been measured using a Level 2 valuation method. The fair value of financial assets and liabilities are as follows:

| | December 31, 2021 | December 31, 2020 |
|------------------------------------|------------------------------|----------------------|
| Cash and cash equivalents | 9,468,104 | 1,721,179 |
| Trade and other receivables | 6,095,581 | 118,796 |
| Total financial assets | 15,563,685 | 1,839,975 |
| Trade payables and accruals | 10,366,774 | 374,004 |
| Government loans | 201,719 | 30,000 |
| Total financial liabilities | 10,568,493 | 404,004 |

(f) Contractual cash flows

The contractual maturity of government loans and trade payables and accruals is shown below:

| | December 31, 2021 | | | |
|-----------------------------|------------------------------------|--|---------------------------------|-------------------|
| | Due in less than a year | Due between one to five years | Due after five years | Total |
| Trade payables and accruals | 10,336,774 | - | - | 10,336,774 |
| Government loans | - | 190,745 | 10,974 | 201,719 |
| | 10,336,774 | 190,745 | 10,974 | 10,538,493 |
| | December 31, 2020 | | | |
| | Due in less than a year | Due between one to five years | Due after five years | Total |
| Trade payables and accruals | 374,004 | - | - | 374,004 |
| Government loans | - | 30,000 | - | 30,000 |
| | 374,004 | 30,000 | - | 404,004 |

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20. Segment information

The Company's operating segments are organized according to similar economic characteristics by the markets and types of products 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 ("CODMs") and have the authority for resource allocation and are responsible for assessing the Company's performance.

(a) Operating Segments

Effective with the Aurora Acquisition (Note 5), Plurilock has two operating segments, the Technology Division and the Solutions Division. The following table provides an overview of these segments and underlying businesses.

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 PSI, PL, PLUS and PSP.

Solutions Division

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

(b) Consolidated total assets and liabilities

For the purposes of monitoring segment performance and allocating resources between segments, the Company's CODMs monitor the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments with the exception of investments in associates. Goodwill has been allocated to one reportable segment. Total assets and liabilities by reportable operating segments are as follows:

| | 2021 | | 2020 | |
|-------------------|----------------------------|---------------------------|----------------------------|---------------------------|
| | \$ | | \$ | |
| | Technology Division | Solutions Division | Technology Division | Solutions Division |
| Total assets | 5,929,630 | 12,551,868 | 2,228,524 | - |
| Total liabilities | 1,379,298 | 10,172,401 | 551,173 | - |

20. Segment information (continued)

(c) Revenue from major products and services

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

(i) Hardware sales

Hardware 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, license 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.

(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.

Revenue from the above categories under each segment for the years ended December 31, 2021 and 2020 are as follows:

| | Years ended December 31, | | | | | |
|--|--------------------------|--------------------|-------------------|---------------------|--------------------|----------------|
| | 2021 | | | 2020 | | |
| | Technology Division | Solutions Division | Total Revenue | Technology Division | Solutions Division | Total Revenue |
| Hardware sales | - | 33,546,047 | 33,546,047 | - | - | - |
| Electronic software, license and maintenance sales | 177,739 | 2,420,087 | 2,597,826 | 326,322 | - | 326,322 |
| Professional services | 109,432 | 371,305 | 480,737 | 153,007 | - | 153,007 |
| Total | 287,171 | 36,337,439 | 36,624,610 | 479,329 | - | 479,329 |

20. Segmented information (continued)

(d) Segment revenue, gross margin and operational results

Management evaluates each segment's performance based on gross margin which factors in directly attributable segment revenues, cost of sales, as well as net income/(loss) before taxes. Segment net income represents segment revenues less cost of sales, minus operating expenditures including sales and marketing, research and development as well as general and administrative expenses under each segment. The Company's revenue, cost of sales, gross margin and net income for the years ended December 31, 2021 and 2020 are as follows:

| | Years ended December 31, | | | | | |
|---------------------------------------|--------------------------|--------------------|--------------------|---------------------|--------------------|--------------------|
| | 2021 | | | 2020 | | |
| | Technology Division | Solutions Division | Total | Technology Division | Solutions Division | Total |
| Revenue | 287,171 | 36,337,439 | 36,624,610 | 479,329 | - | 479,329 |
| Cost of sales | 61,403 | 34,080,390 | 34,141,793 | 78,541 | - | 78,541 |
| Gross profit | 225,768 | 2,257,049 | 2,482,817 | 400,788 | - | 400,788 |
| Gross margin | 78.6% | 6.2% | 6.8% | 83.6% | - | 83.6% |
| Total operating expenses | 6,288,611 | 1,710,116 | 7,998,727 | 3,434,244 | - | 3,434,244 |
| Other expenses/(income) | 922,697 | (14,974) | 907,723 | 1,564,778 | - | 1,564,778 |
| Net income/(loss) before taxes | (6,985,540) | 561,907 | (6,423,633) | (4,598,234) | - | (4,598,234) |

On April 27, 2021, the Company's Paycheck Protection Program ("**PPP**") loan obtained from the Coronavirus Aid, Relief, and Economic Security Act ("**CARES Act**") was forgiven. The amount of \$102,982 forgiven was recognized and netted against cost of sales under the Solutions Division during the year ended December 31, 2021.

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20. Segmented information (continued)*(e) Revenue and long-lived assets by geographic locations*

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

| | | For the years ended | |
|---------|---------------|----------------------------|---------------------|
| | | December 31, | December 31, |
| | | 2021 | 2020 |
| | | \$ | \$ |
| Revenue | | | |
| | United States | 36,624,610 | 478,779 |
| | Canada | - | 550 |
| | | 36,624,610 | 479,329 |

| | | December 31, | December 31, |
|-------------------|---------------|---------------------|----------------|
| | | 2021 | 2020 |
| | | \$ | \$ |
| Long-lived assets | | | |
| | United States | 577,398 | — |
| | India | 1,507 | — |
| | Canada | 121,931 | 111,747 |
| | | 700,836 | 111,747 |

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21. Operating expenses

| | For the years ended | |
|--|----------------------|----------------------|
| | December 31, 2021 | December 31, 2020 |
| | \$ | \$ |
| Research and development | | |
| Communication and IT services | 264,909 | 148,353 |
| Contractors | 228,405 | 45,144 |
| Government assistance | (41,228) | (339,763) |
| Office and general | 7,804 | 2,559 |
| Salaries and benefits | 1,040,671 | 766,271 |
| SRED tax credit | (277) | (93,728) |
| Travel and entertainment | 1,199 | 2,129 |
| COS allocation | (84,646) | (100,961) |
| | 1,416,837 | 430,004 |
| Sales and marketing | | |
| Advertising and promotion | 17,606 | 34,997 |
| Communication and IT services | 97,713 | 59,892 |
| Contractors | 422,377 | 112,130 |
| Government assistance | - | (124,709) |
| Marketing | 68,667 | 52,331 |
| Office and general | 11,651 | 2,643 |
| Salaries and benefits | 1,218,558 | 698,790 |
| Sales commission | 375,805 | 25,293 |
| Travel and entertainment | 6,212 | 615 |
| | 2,218,589 | 861,982 |
| General and administrative | | |
| Amortization | 106,584 | 23,872 |
| Bad debt | 23,177 | 138,322 |
| Communication and IT services | 73,899 | 43,173 |
| Contractors | 275,246 | 257,041 |
| Government assistance | (101,154) | (46,833) |
| Insurance | 41,638 | 15,135 |
| Office and general | 220,034 | 40,230 |
| Professional fees | 888,336 | 396,823 |
| Investor relations and regulatory filing | 589,365 | 184,818 |
| Salaries and benefits | 1,298,294 | 286,371 |
| Travel and entertainment | 10,643 | 16,302 |
| | 3,426,062 | 1,355,254 |

On April 27, 2021, the Company's PPP loan obtained from the CARES Act was forgiven. The amount of \$101,154 forgiven was recognized as Government Assistance and netted against operating expenses under General and administrative department for the year ended December 31, 2021.

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22. 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 as at December 31, 2021 and December 31, 2020 were anti-dilutive 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:

| | For the years ended | |
|---|------------------------------|----------------------|
| | December 31, 2021 | December 31, 2020 |
| | \$ | \$ |
| Numerator | | |
| Net loss for the year | (6,277,460) | (4,598,234) |
| Denominator | | |
| Weighted average number of common shares outstanding, basic and diluted | 60,108,270 | 28,056,074 |
| Basic and diluted loss per share | (0.10) | (0.16) |

23. 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 years ended | |
|--|------------------------------|----------------------|
| | December 31, 2021 | December 31, 2020 |
| | \$ | \$ |
| Salaries, benefits and consulting fees | 545,952 | 613,296 |
| Stock-based compensation expense* | 726,004 | 616,449 |
| | 1,271,956 | 1,229,745 |

* Reflects the amount recorded as expense in the 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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24. Income taxes

(a) Income tax expense

| | December 31, 2021 | December 31, 2020 |
|--------------------------------------|------------------------------|----------------------|
| | \$ | \$ |
| Current | | |
| Canadian income tax | — | — |
| Foreign income tax | — | — |
| Adjustments in respect of prior year | — | — |
| Total current tax | — | — |
| Deferred | | |
| Canadian income tax | — | — |
| Foreign income tax | (146,173) | — |
| Adjustments in respect of prior year | — | — |
| Total deferred tax | (146,173) | — |
| Income tax (recovery) | (146,173) | — |

(b) Income tax expense (recovery) differs from applying Canadian federal and provincial income tax rates to income (loss) before taxes. The differences are summarized below:

| | December 31, 2021 | December 31, 2020 |
|---|------------------------------|----------------------|
| | \$ | \$ |
| Net loss for the year | (6,423,633) | (4,598,234) |
| Statutory tax rate | 27% | 27% |
| Recovery of tax at statutory rates | (1,734,381) | (1,241,523) |
| Permanent differences and other | 291,410 | 520,256 |
| Rate differential | (11,991) | 20,591 |
| Benefit of deferred tax assets not recognized | 1,487,650 | 751,782 |
| Share issue costs in equity | (161,236) | (46,086) |
| Other | (17,625) | (5,020) |
| Tax recovery | (146,173) | — |

24. Income taxes (continued)

(c) Deferred tax balances

| | December 31, 2021 | December 31, 2020 |
|-----------------------------------|------------------------------|----------------------|
| | \$ | \$ |
| Deferred tax asset | | |
| Tax losses | 129,555 | 106,098 |
| Subtotal | 129,555 | 106,098 |
| Deferred tax liability | | |
| Equipment and other | (1,317) | — |
| Intangibles | (152,468) | (106,098) |
| Subtotal | (153,785) | (106,098) |
| Net deferred tax liability | (24,230) | — |

Deferred income tax asset is recognized for tax loss carry-forward to the extent that the realization of the related tax benefit through future taxable profits is probable.

(d) Unrecognized losses and other temporary differences

Losses and other temporary differences that have not been included on the consolidated statements of financial position:

| | December 31, 2021 | December 31, 2020 |
|---------------------------|------------------------------|------------------------------|
| | \$ | \$ |
| Tax loss carryforwards | 8,033,970 | 6,517,703 |
| Financing costs -20(1)(e) | 817,529 | 203,775 |
| Deductible SR&ED pool | 1,842,265 | 545,417 |
| Lease obligation | — | 2,728 |
| Equipment and other | 358,880 | 403,569 |
| Subtotal | 11,052,644 | 7,673,192 |

24. Income taxes (continued)

(d) Unrecognized losses and other temporary differences (continued)

The Company's total unused tax losses:

| Year of expiry | As at December 31, 2021 |
|-----------------------|------------------------------------|
| 2034 | 62,120 |
| 2035 | 310,875 |
| 2036 | 710,497 |
| 2037 | 422,398 |
| 2038 | 702,068 |
| 2039 | 1,034,746 |
| 2040 | 1,962,891 |
| 2041 | 3,575,776 |
| No expiry date | 2,362,702 |
| Subtotal | 11,144,073 |

25. Subsequent events

- 1) On Jan 12, 2022, in connection with the online marketing services provided by AGORA Internet Relations Corp. ("**AGORA**"), the Company issued 53,809 common shares at a deemed price of \$0.42 per share to AGORA as the first installment payment of \$20,000 plus applicable taxes.
- 2) On March 4, 2022, Plurilock acquired all the issued and outstanding shares of INC, a leading Canadian enterprise IT and cybersecurity solutions provider located in Ontario, Canada. Pursuant to the terms of the Share Purchase Agreement, the total consideration payable by the Company to the Vendor is \$1,200,000, payable as follows: (i) \$600,000 in cash payable on closing, subject to working capital adjustment; and (ii) 476,190 common shares of Plurilock, issuable at closing (the "**INC Consideration Shares**") at \$0.42 per Consideration Share, for a total value of \$200,000 in Consideration Shares. \$75,000 in cash and 178,571 INC Consideration Shares have been placed in escrow for 12 months to satisfy any indemnification obligations to the Company. Further, the Share Purchase Agreement includes future based performance-based earnout provisions, whereby up to \$400,000 in common shares of Plurilock (the "**INC Earnout Shares**") may be issued to the Vendor. The INC Earnout Shares will be issued at a deemed price equal to the closing trading price of the common shares of Plurilock on the TSXV on the date prior to announcement of the issuance of the INC Earnout Shares. The INC Consideration Shares are subject to certain contractual restrictions on trading for a period of 36 months from the date of issuance. On March 7, 2022, the Company issued 42,647 common shares (the "**INC Consulting Fee Shares**") at a deemed price of \$0.34 to a strategic consultant (the "**INC Consultant**") of the Company for services provided by the INC Consultant to the Company in connection with the INC acquisition. The INC Consulting Fee Shares were issued pursuant to a consulting agreement dated August 1, 2020 between the Company and the INC Consultant. The INC Consulting Fee Shares are subject to a statutory hold period of four months plus a day from the date of issuance, in accordance with applicable securities law, ending July 12, 2022. At the date of the issuance of the consolidated financial statements, the initial accounting for the business combination is incomplete; therefore, no estimate of the financial impact of the transaction on the Company or the goodwill and other intangible assets to be recognized on acquisition can be provided.
- 3) On March 8, 2022, the Company announced that ASC obtained a revolving line of credit from Crestmark, the Commercial Finance division of MetaBank®, N.A. (the "**Lender**") for up to US\$2 million (collectively, the "**LOC**"). The proceeds of the LOC will be used by ASC for working capital purposes. The LOC is secured against all current and future assets of the Company and its subsidiaries, PL., PLUS, and ASC.
- 4) On March 15, 2022, the United States SBA announced that the COVID EIDL Loan installment payment start date was further deferred to thirty months from the COVID EIDL Loan date ("**Second Revised Installment Start Due Date**"). The Second Revised Installment Start Due Date is now December 9, 2022 (Note 16).
- 5) On March 24, 2022, the Company granted 624,000 stock options to certain directors, officers and employees at an exercise price of \$0.37 under the Plurilock Plan.
- 6) On April 1, 2022, the Company granted 800,000 stock options to an officer at an exercise price of \$0.33 under the Plurilock Plan.
- 7) On April 7, 2022, Plurilock announced that in accordance with the Share Purchase Agreement dated March 26, 2021 among the Company, PLUS and ASC, the performance-based earnout was achieved and the Company issued 1,154,676 common shares of the Company at \$0.325 per share to the vendor in satisfaction of the earnout payment of US\$300,000.
- 8) On April 7, 2022, in connection with the online marketing services provided by AGORA, the Company issued 69,538 common shares at a deemed price of \$0.325 per share to AGORA as the second installment payment of \$20,000 plus applicable taxes.