



FOGCHAIN CORP.

**Condensed Interim Consolidated Financial Statements
Six Months Ended June 30, 2020 and 2019
(Unaudited)
(Expressed In US Dollars)**



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FOGCHAIN CORP.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
(Expressed in US Dollars)

	Notes	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
ASSETS			
Cash and cash equivalents	4	\$ 253,966	\$ 426,267
Receivables	5	5,684	64,898
Prepays and deposits		40,406	2,843
		300,056	494,008
Equipment	7	17,608	28,597
		\$ 317,664	\$ 522,605
LIABILITIES			
Trade payable and accrued liabilities	8,11	\$ 130,935	\$ 107,758
Deferred revenue		-	19,110
Due to related parties	11	282,995	228,745
Government grant	9	41,229	-
		455,159	355,613
Government loan payable	9	161,422	-
		616,581	355,613
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	10	10,479,795	10,479,795
Reserve	10	422,013	398,480
Accumulated other comprehensive income		(5,714)	(5,257)
Deficit		(11,195,011)	(10,706,026)
		(298,917)	166,992
		\$ 317,664	\$ 522,605

Nature and Continuance of Operations (Note 1)
Commitment (Note 12)
Proposed Transaction (Note 16)

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

FOGCHAIN CORP.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)
(Expressed in US Dollars)

	Note	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Sales	13	\$ 100,044	\$ 199,735	\$ 277,830	\$ 424,965
Cost of services		63,109	99,963	147,178	224,250
GROSS PROFIT		36,935	99,772	130,652	200,715
Operating expenses					
Amortization	7	5,494	241,168	10,989	480,989
Consulting fees		-	10,160	-	25,560
Marketing		2,363	87,713	3,128	146,756
Office and administration		32,786	44,094	82,696	81,376
Professional fees		131,306	42,444	133,599	50,037
Regulatory and transfer agent fees		7,508	11,149	18,837	15,972
Rent and utilities	9,11	10,063	12,202	20,026	24,354
Salaries and benefits	9	189,869	298,465	316,930	578,390
Share-based compensation	10	6,920	29,520	23,533	84,029
Software costs		9,505	4,255	9,505	8,525
Travel		321	18,110	888	53,138
		396,135	799,280	620,131	1,549,126
NET LOSS BEFORE OTHER ITEMS		(359,200)	(699,508)	(489,479)	(1,348,411)
Other items					
Interest income		251	283	494	307
NET LOSS FOR THE PERIOD		(358,949)	(699,225)	(488,985)	(1,348,104)
Other comprehensive loss that may be reclassified to profit and loss					
Unrealized foreign exchange gain		(3,346)	(1,297)	(457)	1,044
		(3,346)	(1,297)	(457)	1,044
COMPREHENSIVE LOSS FOR THE PERIOD		\$ (362,295)	\$ (700,522)	\$ (489,442)	\$ (1,347,060)
Loss per common share					
-basic and diluted		\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Weighted average number of common shares outstanding					
-basic and diluted		78,365,224	72,586,949	78,365,224	72,485,307

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

FOGCHAIN CORP.

Condensed Interim Consolidated Statement of Changes in Shareholders' Equity (Deficiency)

(Unaudited)

(Expressed in US Dollars)

	Note	Share Capital		Number of Class A Convertible Restricted Common Shares	Amount	Reserves	AOCI	Deficit	Total Shareholders' Equity (Deficiency)
		Number of Common Shares	Amount						
Balance at December 31, 2018		75,623,098	\$ 10,434,750	18,630,000	\$ 3,105	\$ 264,690	\$ (4,526)	\$ (6,572,133)	\$ 4,125,886
Shares returned to treasury	10	(874)	-	-	-	-	-	-	-
Conversion of shares	10	1,863,000	311	(1,863,000)	(311)	-	-	-	-
Share-based compensation	10	-	-	-	-	84,029	-	-	84,029
Net loss for the period		-	-	-	-	-	-	(1,348,104)	(1,348,104)
Other comprehensive income		-	-	-	-	-	1,044	-	1,044
Balance at June 30, 2019		77,485,224	10,435,061	16,767,000	2,794	348,719	(3,482)	(7,920,237)	2,862,855
Shares returned to treasury	10	(120,000)	-	-	-	-	-	-	-
Share-based payments	10	1,000,000	41,940	-	-	-	-	-	41,940
Share-based compensation	10	-	-	-	-	49,761	-	-	49,761
Net loss for the period		-	-	-	-	-	-	(2,785,789)	(2,785,789)
Other comprehensive income		-	-	-	-	-	(1,775)	-	(1,775)
Balance at December 31, 2019		78,365,224	10,477,001	16,767,000	2,794	398,480	(5,257)	(10,706,026)	166,992
Share-based compensation	10	-	-	-	-	23,533	-	-	23,533
Net loss for the period		-	-	-	-	-	-	(488,985)	(488,985)
Other comprehensive income		-	-	-	-	-	(457)	-	(457)
Balance at June 30, 2020		78,365,224	\$ 10,477,001	16,767,000	\$ 2,794	\$ 422,013	\$ (5,714)	\$ (11,195,011)	\$ (298,917)

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

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Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in US Dollars)

	Six months ended June 30,	
	2020	2019
Cash provided by (used in):		
Operating:		
Net loss for the period	\$ (488,985)	\$ (1,348,104)
Items not involving cash:		
Amortization	10,989	480,989
Share-based compensation	23,533	84,029
Accrued interest on loan	3,191	-
	<u>(451,272)</u>	<u>(783,086)</u>
Changes in non-cash operating working capital items:		
Receivables	59,214	(49,290)
Prepays and deposits	(37,563)	(2,337)
Trade payables and accrued liabilities	23,177	(86,340)
Deferred revenue	(19,110)	-
Due to related parties	54,250	-
	<u>(371,304)</u>	<u>(921,053)</u>
Investing		
Acquisition of equipment	-	(27,918)
	<u>-</u>	<u>(27,918)</u>
Financing		
Government grant and loan	199,460	-
	<u>199,460</u>	<u>-</u>
Effect of foreign exchange on cash flows	<u>(457)</u>	<u>(494)</u>
Decrease in cash during the period	(172,301)	(949,465)
Cash, beginning of the period	426,267	1,801,412
Cash, end of the period	\$ 253,966	\$ 851,947

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

FOGCHAIN CORP.

Notes to the Condensed Interim Consolidated Financial Statements

Six Months Ended June 30, 2020

(Unaudited)

(Expressed in US Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

FogChain Corp. (the "Company" or "Fogchain") was incorporated on February 7, 1984 under the *Business Corporations Act (Ontario)*. The Company's common shares trade on the Canadian Securities Exchange ("CSE") under the symbol FOG and on the OTCQB trading under the symbol FOGCF.

The Company's head office, principal address and records office is Suite 2050-1055 West Georgia Street, PO Box 11121, Royal Centre, Vancouver, BC V6E 3P3. The registered office is Suite 4400-181 Bay Street, Toronto, Ontario M5J 2T3.

The Company is a fully integrated, end-to-end software development life cycle and quality assurance solutions provider. The Company's suite of services and technology is designed to provide application development at scale with greater speed, efficiency and at a lower cost. The Company's software architecture assists developers with a suite of tools to build, test, and monitor new applications in a unified environment.

On December 17, 2019, the Company entered into a Share Exchange Agreement with Canadian Teleradiology Services Inc., a privately held Canadian company incorporated under the *Canada Business Act (Ontario)*. On June 22, 2020, the share exchange agreement was terminated.

On August 21, 2020, the Company entered into a business combination and amalgamation agreement (the "Definitive Agreement") with Global Star Education Group Limited ("Global Star"), a privately held British Columbian company. Global Star's principal asset is an agreement to acquire all of the issued and outstanding shares of Global Star Education Group Limited ("GSEG"); GSEG is the parent company of FTMS Global Academy Limited, an entity operating education businesses in Vietnam. Upon completion of the proposed transaction, the Company will continue the business of Global Star and will change its name to a name selected by Global Star and the Company (Note 16).

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to fully develop its software development Blockchain platform and generate revenue from its consulting services. At June 30, 2020, the Company has an accumulated deficit of \$11,195,011 (December 31, 2019 - \$10,706,026) including a loss for the six months ended June 30, 2020 of \$488,985 (June 30, 2019 - \$1,348,104). These uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability and classification of assets and liabilities which might be necessary should the Company be unable to continue in existence.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on business operations cannot be reasonably estimated at this time. There can be no assurance that the Company will not be impacted by adverse consequences that may be brought about by the pandemic's impact on its business, results of operations, financial position and cash flows in the future.

The condensed interim consolidated financial statements were authorized for issue on August 28, 2020 by the directors of the Company.

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Notes to the Condensed Interim Consolidated Financial Statements

Six Months Ended June 30, 2020

(Unaudited)

(Expressed in US Dollars)

2. BASIS OF PRESENTATION

Statement of compliance to International Financial Reporting Standards (“IFRS”)

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34, “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and International Financial Reporting Interpretations Committee (“IFRIC”). Therefore, these interim financial statements comply with International Accounting Standards (“IAS”) 34 “Interim Financial Reporting”.

This interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Company for the year ended December 31, 2019.

Basis of presentation and consolidation

The condensed interim consolidated financial statements of the Company have been prepared on an accrual basis except for cash flow information, and are based on historical costs, modified where applicable. The condensed interim consolidated financial statements are presented in US Dollars unless otherwise noted.

These condensed interim consolidated financial statements include accounts of the Company and its wholly-owned subsidiary, Fog Inc. Inter-company transactions and balances are eliminated upon consolidation.

Subsidiaries are corporations in which the Company is able to control the financial operating, investing and financing activities and policies, which is the authority usually connected with holding majority voting rights. The condensed interim consolidated financial statements include the accounts of the Company and its controlled entity from the date on which control was acquired. Fog Inc. uses the same reporting period and the same accounting policies as the Company.

All significant inter-company balances and transactions have been eliminated on consolidation.

Significant accounting judgements, estimates and assumptions

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

FOGCHAIN CORP.

Notes to the Condensed Interim Consolidated Financial Statements
Six Months Ended June 30, 2020
(Unaudited)
(Expressed in US Dollars)

2. BASIS OF PRESENTATION (cont'd)

Significant accounting judgements, estimates and assumptions (cont'd)

Share-based payments

The Company uses the Black-Scholes Option Pricing Model to determine the fair value of options and warrants in order to calculate share-based payments expense and the fair value of agent warrants. The Black-Scholes Option Pricing Model involves six key inputs to determine fair value of an option: risk-free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life, and expected volatility. Certain of the inputs are estimates that involve considerable judgment and are or could be affected by significant factors that are out of the Company's control. The Company is also required to estimate the future forfeiture rate of options based on historical information in its calculation of share-based payments expense.

Recognition and valuation of deferred tax assets

The recognition of deferred tax assets is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future or whether taxable temporary differences will reverse such that deferred tax assets can be utilized. Recognition therefore involves a degree of estimation and judgement regarding the future financial performance or the timing of the reversed deferred tax liabilities where deferred tax assets have been recognized.

Research and development costs

Evaluating whether or not costs incurred by the Company in developing its technology meet the criteria for capitalizing as intangible assets. Management determined that some products are able to complete intangible assets and are able, with sufficient certainty, to demonstrate that assets will generate future economic benefits. Development costs of these products are capitalized at cost value. Research and development costs of other products are recognized as period expense.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated discounts. The Company considers the terms of the sales contracts as well as industry practices, taking into consideration the type of customer, the estimated time required on each project and the specific circumstances of each arrangement. The Company recognizes revenues when services are completed and billed.

Comprehensive income (loss)

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in the statement of loss. For the six months ended June 30, 2020, other comprehensive income is related to the effects of currency translation adjustments.

Business combination

Considerable judgment is required to determine whether a set of assets acquired and liabilities assumed constitute a business and may require the Company to make certain judgments, taking into account all facts and circumstances. A business consists of inputs, including non-current assets and processes, including operational processes, than when applied to those inputs have the ability to create outputs and provide a return to the Company and its shareholders.

In business combinations, it generally requires time to obtain the information necessary to identify and measure the following as of the acquisition date:

- a) The identifiable assets acquired and liabilities assumed;
- b) The consideration transferred in exchange for an interest in the acquiree;
- c) The resulting goodwill.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports in its interim consolidated financial statements provisional amounts for the items for which the accounting is incomplete.

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Notes to the Condensed Interim Consolidated Financial Statements
Six Months Ended June 30, 2020
(Unaudited)
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2. BASIS OF PRESENTATION (cont'd)

Significant accounting judgements, estimates and assumptions (cont'd)

Business combination (cont'd)

During the measurement period, the Company will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Company will also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date.

Estimates of useful lives of property and equipment and intangible assets

Management's judgment involves consideration of intended use, industry trends and other factors in determining the expected useful lives of depreciable assets and to determine depreciation methods.

Cash generating units and impairment of non-financial assets

Judgment is required to assess the Company's determination of cash generating units ("CGU") for the purpose of impairment testing. The process to calculate the recoverable amount of a cash generating unit requires use of valuation methods such as the discounted cash flow method which uses assumptions of key variables including future cash flows, discount rate and terminal growth rates.

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting standard issued but not yet effective

Certain accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

4. CASH AND CASH EQUIVALENTS

	June 30, 2020	December 31, 2019
Cash at bank	\$ 172,048	\$ 349,150
Short-term investments	81,918	77,117
	<u>\$ 253,966</u>	<u>\$ 426,267</u>

5. RECEIVABLES

	June 30, 2020	December 31, 2019
Trade receivables	\$ -	\$ 58,080
Goods and services tax recoverable	5,684	6,818
	<u>\$ 5,684</u>	<u>\$ 64,898</u>

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Notes to the Condensed Interim Consolidated Financial Statements
Six Months Ended June 30, 2020
(Unaudited)
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6. INTANGIBLE ASSETS

	Software ^(a)	Customer List ^(b)	Goodwill ^(b)	Total
Acquisition costs:				
Balance, December 31, 2018	\$ 2,703,383	\$ 661,611	\$ 253,961	\$ 3,618,955
Impairment	(815,043)	(396,967)	(253,961)	(1,465,971)
Balance, December 31, 2019 and June 30, 2020	\$ 1,888,340	\$ 264,644	\$ -	\$ 2,152,984
Accumulated amortization:				
Balance, December 31, 2018	\$ 1,073,297	\$ 132,322	\$ -	\$ 1,205,619
Amortization for the year	815,043	132,322	-	947,365
Balance, December 31, 2019 and June 30, 2020	\$ 1,888,340	\$ 264,644	\$ -	\$ 2,152,984
Balance, December 31, 2019 and June 30, 2020	\$ -	\$ -	\$ -	\$ -

The Company tests assets for impairment of intangible assets when events or circumstances may indicate the carrying value is no longer recoverable. The asset is impaired when the recoverable amount is less than the net book value. The recoverable amount is the higher of (i) an asset's fair value less costs to sell and (ii) its value-in-use. In performing the annual impairment test the Company identified evidence of impairment in certain assets and an analysis was performed on the recoverable amount.

- a) On June 1, 2018, the Company entered into a computer software assignment and asset purchase agreement ("RadJav Purchase Agreement") to acquire the RadJav rapid application development platform ("RadJav") and other related assets from Higher Edge Software, LLC. During the year ended December 31, 2019, the Company reassessed for impairment and determined that the recoverable amount of software is less than the carrying value. Accordingly, the Company recorded an impairment charge of \$815,043 during the year ended December 31, 2019.

There were no transactions to report during the six months ended June 30, 2020.

- b) On August 29, 2018, the Company entered into a purchase agreement to acquire the rights, title and interest of certain assets of Quilmont LLC ("Quilmont"), a software development technology and solutions provider. For accounting purposes, the assets acquired were considered to be a business acquisition under IFRS 3 *Business Combinations* ("IFRS 3"). As such, the difference between the fair value of consideration paid and the fair value of the Company's identifiable assets and liabilities was recognized as goodwill.

The fair value less costs, primarily based on the Company's market capitalization as at December 31, 2019, were less than the net carrying amount of the CGU. The annual impairment test of goodwill was performed on December 31, 2019 and the Company recorded an impairment loss of \$253,961 on the goodwill and an impairment charge of \$396,967 on the customer list.

There were no transactions to report during the six months ended June 30, 2020.

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Notes to the Condensed Interim Consolidated Financial Statements
Six Months Ended June 30, 2020
(Unaudited)
(Expressed in US Dollars)

7. EQUIPMENT

	Computer Equipment	
Cost:		
At December 31, 2018	\$	20,757
Additions		27,918
At December 31, 2019 and June 30, 2020	\$	48,675
Accumulated amortization:		
At December 31, 2018	\$	1,778
Amortization		18,300
At December 31, 2019		20,078
Amortization		10,989
At June 30, 2020	\$	31,067
Net book value:		
At December 31, 2019	\$	28,597
At June 30, 2020	\$	17,608

8. TRADE PAYABLES AND ACCRUED LIABILITIES

	June 30, 2020	December 31, 2019
Trade payables (Note 11)	\$ 21,398	\$ 100,878
Accrued liabilities	34,433	6,880
	\$ 130,935	\$ 107,758

9. GOVERNMENT LOAN AND GRANT

In response to the Coronavirus (COVID-19) pandemic, the US Government passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020. The CARES Act provides fast and direct economic assistance for entrepreneurs and small businesses through the US Small Business Administration (“SBA”).

During the period, the Company received a loan issued under the CARES Act program - Paycheck Protection Program (the “PPP loan”).

The Company received a PPP loan of \$191,460 bearing interest at 1% per annum maturing on April 21, 2022 (the “Maturity Date”). The PPP loan was made available on certain terms and conditions, and in reliance on attestations made by the Company in the loan agreement. Under the PPP, the Company may apply to have certain amounts forgiven under the direction of the Administrator of the SBA providing that the Company satisfies certain criteria. Repayment of the PPP loan will commence earlier of when the SBA remits the forgiveness amount to the lender or the Maturity Date.

Upon initial receipt, the Company recorded the PPP loan at a fair value of \$158,231, based on a prevailing market rate of 10%. The Company recorded the result of the benefit received from the below-market interest rate PPP loan of \$33,229 as a government grant.

The funds from the PPP loan are limited to pay payroll costs, costs related to the continuation of healthcare benefits and insurance premiums, employee salaries and commissions, interest on mortgage obligation, rent and utility payments, interest on debt incurred before February 15, 2020, and refinancing an SBA EIDL loan made between January 31, 2020 and April 3, 2020. As such, the PPP loan will be amortized and recognized in the statement of

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Notes to the Condensed Interim Consolidated Financial Statements

Six Months Ended June 30, 2020

(Unaudited)

(Expressed in US Dollars)

9. GOVERNMENT LOAN AND GRANT (cont'd)

loss and comprehensive loss over the year ending December 31, 2020; the period in which the Company anticipates recognition of the related expenditures for which the balances are intended to compensate. During the period, the Company recorded an amortization of \$3,191 in interest expense.

In addition, the Company received a non-interest bearing advance of \$8,000 under the Economic Injury Disaster Loan (EIDL) program. As the Company received an EIDL advance and a PPP loan, the EIDL advance portion will be applied against the PPP forgiveness amount as repayment to the SBA upon approval of the PPP forgiveness application. The advance of \$8,000 has been treated as a government grant, given reasonable assurance that the Company will meet the terms for forgiveness of the loan.

To date, the Company spent an aggregate of \$194,121 of the PPP loan and EIDL advance as follows:

Payroll	\$	185,187
Rent and utilities		8,934
Total	\$	194,121

10. SHARE CAPITAL

a) Authorized share capital

Unlimited common shares without par value

Unlimited Class A convertible restricted voting common shares without par value ("Restricted Shares").

The Restricted Shares entitles the holder to receive notice to attend and vote at meetings, however, it prohibits the shareholder from voting for the election or removal of directors of the Company. Each Restricted Share shall be convertible into 1 common share, without payment of additional consideration, at the option of the holder thereof as follows:

- (i) at any time that is not a Restricted Period¹ or with the consent of the board of directors;
- (ii) if the Company determines that it has ceased to be a foreign issuer for the purposes of United States securities laws, and has notified the holders of the Restricted Shares of such determination;
- (iii) if there is an offer to purchase the common shares, and the Issuer has notified the holders of the Restricted Shares of such offer and commencing on the date the offer is made until completion or termination of such offer.

¹ - "Restricted Period" means any time at which the board of directors reasonably believes that the Company is a domestic issuer under applicable United States securities laws or would become a domestic issuer as a result of the issuance of Common Shares upon the conversion of Restricted Voting Common Shares.

b) Issued

During the six months ended June 30, 2020, the Company had no transactions affecting share capital.

During the year ended December 31, 2019, the Company:

- (i) cancelled and returned 120,874 common shares to treasury forfeited by two shareholders. No consideration was exchanged for this forfeiture.
- (ii) issued a total of 1,863,000 common shares on the conversion of 1,863,000 Restricted Shares. The Company reallocated a value of \$311 on the conversion of these shares.
- (iii) issued 1,000,000 common shares at a fair value of \$41,940 as consideration for consulting services.

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Six Months Ended June 30, 2020
(Unaudited)
(Expressed in US Dollars)

10. SHARE CAPITAL (cont'd)

c) Escrow shares

18,630,000 Restricted Shares and 3,240,000 common shares issued to the principals of the Company were subject to escrow conditions required by applicable securities laws and the CSE requirements over a period of 36 months. As at June 30, 2020, 5,589,000 Restricted Shares and 972,000 common shares are held within escrow.

d) Reserve

The reserve records the fair value recognized on stock options granted and on the share purchase warrants issued in connection to the private placement until such time that the stock options or share purchase warrants are exercised, at which time the corresponding amount will be transferred to share capital.

e) Stock options and warrants

The Company maintains a 10% rolling share option plan (the "Plan") that enables management to grant options to directors, officers, employees and other service providers. The Company follows the CSE policies where the number of common shares which may be issued pursuant to options granted under the Plan may not exceed 10% of the issued and outstanding shares of the Company from time to time at the date of granting of options and have a maximum of 10 years. Each option agreement with the grantee sets forth, among other things, the number of options granted, the exercise price and the vesting conditions of the options as determined by the Board of Directors.

There were no stock option grants during the period ended June 30, 2020.

During the year ended December 31, 2018, the Company granted an aggregate of 1,920,000 stock options to directors, officers, employees and consultants of the Company at an exercise price of \$0.28 per share expiring on October 1, 2022. The stock options granted are subject to vesting terms over a 2 year period. During the period ended June 30, 2020, the Company recorded \$23,533 (2019 - \$84,029) in share-based compensation for stock options that vested during the current period.

Stock options and share purchase warrant transactions are summarized as follows:

	Stock Options		Warrants	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2018	1,908,750	CAD\$ 0.28	686,255	CAD\$ 0.54
Forfeited	(1,250)	CAD\$ 0.28	-	CAD\$ -
Outstanding, December 31, 2019	1,907,500	CAD\$ 0.28	686,255	CAD\$ 0.54
Forfeited	(25,000)	CAD\$ 0.28	-	CAD\$ -
Expired	-	CAD\$ -	(686,255)	CAD\$ -
Outstanding, June 30, 2020	1,882,500	CAD\$ 0.28	-	CAD\$ -
Number currently exercisable	1,411,875	CAD\$ 0.28	-	CAD\$ -

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10. SHARE CAPITAL (cont'd)

e) Stock options and warrants (cont'd)

As at June 30, 2020, the following stock options were outstanding:

	Expiry Date	Number of Shares	Weighted Average Exercise Price	Weighted Average Period
Stock options	October 1, 2022	1,882,500	CAD\$ 0.28	2.50 years

11. RELATED PARTY BALANCES AND TRANSACTIONS

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive directors and officers.

During the periods ended June 30, 2020 and 2019, the remuneration of the key management personnel were as follows:

June 30		2020		2019
Chief Executive Officer	\$	54,123	\$	58,500
VP Product Marketing & Corporate Secretary		48,892		50,000
Chief Strategy Officer		60,000		65,000
Total	\$	163,015	\$	173,500

Other related party transactions and balances

- (i) The Company leases office space on a month to month basis from Newton Energy, Inc. ("Newton"), a company with a common director and shareholder, James Cerna, for a monthly rent of \$1,500 plus \$210 in telecommunication services.

During the period ended June 30, 2020, the Company paid a total of \$10,260 (2019 - \$10,260) in rent and telecommunications charges. As at June 30, 2020, \$Nil (December 31, 2019 - \$8,550) was owed to Newton.

- (ii) As at June 30, 2020, \$122,864 (December 31, 2019 - \$93,614) was owed to James Cerna for accrued salaries and bonuses.
- (iii) As at June 30, 2020, \$100,131 (December 31, 2019 - \$75,131) was owed to Anthony Cerna, officer of the Company for accrued salaries and bonuses.
- (iv) As at June 30, 2020, \$60,000 (December 31, 2018 - \$60,000) was owed to Patrick Quilter, director and officer of the Company for accrued bonuses.

12. COMMITMENT

On June 1, 2018, the Company entered into an agreement with a private company to provide administrative services to the Company for a period of three years in exchange for a monthly fee of CAD\$10,000 plus applicable taxes. At the end of the service term, the terms of the agreement are automatically renewed on an annual basis until either party provides notice of termination. Effective January 1, 2020, the administrative service fee was reduced to CAD\$5,000 plus applicable taxes.

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13. SEGMENTED INFORMATION

The Company operates in two industry segments, being project development services, support and maintenance services and consulting services.

June 30,	2020	2019
Sales for the period		
Support and maintenance	\$ 11,610	\$ 3,000
Consulting	266,220	421,965
	<u>\$ 277,830</u>	<u>\$ 424,965</u>

During the six month period ended June 30, 2020, there were two customers that made up in excess of 10% (2019 – three customers) of total revenue, comprised of 93% (2019 – 100%) of total revenue, respectively.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company can be exposed, in varying degrees, to a variety of financial related risks. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts which is held with reputable US and Canadian banks. Therefore, credit risk is assessed as low.

The Company's secondary exposure to credit risk is on its receivables. The Company's credit risk is low as current receivables consist of 100% refundable Canadian government sales taxes.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining cash and cash equivalent balances to ensure that it is able to meet its short term and long term obligations as and when they fall due.

As at June 30, 2020, the Company had working capital deficiency of \$155,103 (December 31, 2019 – working capital \$138,395).

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will change due to a change in the level of interest rates. The Company is exposed to interest rate risk as its bank account earns interest income at variable rates and is subject to the movement in interest rates. Management considers the interest rate to be minimal.

(b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables, and accounts payable and accrued liabilities that are denominated in Canadian Dollars. Management does not hedge its exposure to foreign exchange risk and does not believe the Company's net exposure to foreign currency risk is significant.

As at June 30, 2020, the Company had net financial liabilities of CAD\$162,026. A 10% change in the US dollar versus the Canadian dollar would give rise to a gain/loss of approximately \$11,889.

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Notes to the Condensed Interim Consolidated Financial Statements

Six Months Ended June 30, 2020

(Unaudited)

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

(c) Price risk

Price risk is the risk that the revenue will change due to the change in the prices. The Company is not exposed to price risk.

15. CAPITAL MANAGEMENT

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns and benefits to shareholders. The capital structure of the Company consists of equity comprised of issued share capital and any debt that it may issue.

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 issues or by undertaking other activities as deemed appropriate under the specific circumstances. There was no change to the capital management from the prior period.

16. PROPOSED TRANSACTION

Pursuant to the Definitive Agreement with Global Star (Note 1), the Company has agreed to acquire all of the issued and outstanding common shares of Global Star. Immediately prior to the completion of the proposed transaction, it is a condition that the Company consolidates its issued and outstanding share capital on the basis of 10 pre-consolidation common shares for 1 post-consolidation common share. The Company will, then, issue 50,000,000 common shares on a post-consolidation basis, to the shareholders of Global Star.

Effective on closing of the proposed transaction, it is anticipated that the current members of the Board of Directors and management of the Company will resign and be replaced by nominees to the Board appointed by Global Star and the existing management team of Global Star will replace the current management of the Company.

The proposed transaction is expected to close on or prior to October 31, 2020, or such date as the Company and Global Star may agree. Completion of the proposed transaction is subject to the approval of the CSE, completion of customary due diligence, receipt of all necessary regulatory, corporate and third party approvals, compliance with all applicable regulatory requirements and all requisite board and shareholder approvals being obtained.