

**UPCO INTERNATIONAL INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**(Expressed in United States dollars)**

**FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019**

**UPCO INTERNATIONAL INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Expressed in United States dollars)  
**AS AT DECEMBER 31**

	2020	2019
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 5,134	\$ 671
Receivables (Note 3)	37,894	72,766
Loan receivables (Note 4)	2,096	172,729
Prepays and advances (Note 5)	<u>218</u>	<u>206,905</u>
	45,342	453,071
Intangible asset (Note 7)	-	117,273
	<u>          </u>	<u>          </u>
<b>Total assets</b>	<b>\$ 45,342</b>	<b>\$ 570,344</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 8)	\$ 406,113	\$ 926,759
Loans payable (Note 9)	6,283	107,550
Related party loans (Note 10)	<u>144,613</u>	<u>115,405</u>
	557,009	1,149,714
<b>Convertible debentures</b> (Note 11)	172,647	139,355
<b>Other payables</b>	<u>-</u>	<u>3,946</u>
	<u>729,656</u>	<u>1,293,015</u>
<b>Total liabilities</b>	<u>729,656</u>	<u>1,293,015</u>
<b>Shareholders' equity (deficiency)</b>		
Share capital (Note 12)	6,100,307	4,610,389
Obligation to issue shares (Note 19)	-	117,801
Reserves (Note 12)	860,514	816,593
Equity component of convertible debentures (Note 11)	120,081	120,081
Accumulated other comprehensive loss	65,871	(57,915)
Deficit	<u>(7,831,087)</u>	<u>(6,329,620)</u>
	<u>(684,314)</u>	<u>(722,671)</u>
<b>Total liabilities and shareholders' equity (deficiency)</b>	<b>\$ 45,342</b>	<b>\$ 570,344</b>

**Nature and continuance of operations (Note 1)**  
**Subsequent events (Note 20)**

**On behalf of the Board on June 28, 2021**

\_\_\_\_\_  
*"Andrea Pagani"* Director \_\_\_\_\_ Director

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

**UPCO INTERNATIONAL INC.**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Expressed in United States dollars)  
**FOR THE YEARS ENDED DECEMBER 31**

	2020	2019
<b>REVENUE</b>	\$ -	\$ 304,302
<b>COST OF REVENUE</b>	<u>-</u>	<u>(344,578)</u>
	-	(40,276)
<b>OPERATING EXPENSES</b>		
Amortization (Note 7)	69,760	77,383
Bad debt expense (Note 4)	131,219	439,730
Consulting fees (Note 10)	323,088	745,944
Filing fees	17,199	18,625
Insurance	-	3,967
Interest and bank charges	2,993	13,371
Information technology and communication	1,963	62,924
Office expenses	19,712	17,148
Management fees (Note 10)	771,908	180,885
Personnel costs	43,480	76,626
Professional fees	101,863	139,732
Promotion, travel and show	27,828	96,159
Subscription fees	6,898	6,632
Rent	<u>-</u>	<u>10,077</u>
Total operating expenses	<u>(1,517,911)</u>	<u>(1,889,203)</u>
Foreign exchange	(2,995)	(5,393)
Finance expense	(29,847)	(17,520)
Interest income	1,122	6,748
Loss on equity investment (Note 6)	-	(3,605)
Share-based payments	-	(17,940)
Gain on debt settlement	104,494	-
Impairment of intangible assets (Note 7)	<u>(56,330)</u>	<u>-</u>
	16,444	(37,710)
Loss for the year	(1,501,467)	(1,967,189)
Foreign exchange adjustment	<u>123,786</u>	<u>(21,013)</u>
<b>Comprehensive loss for the year</b>	<u>\$ (1,377,681)</u>	<u>\$ (1,988,202)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>
<b>Weighted average number of common shares outstanding</b>		
– basic and diluted	90,349,181	68,322,471

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

**UPCO INTERNATIONAL INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in United States dollars)  
**FOR THE YEARS ENDED DECEMBER 31**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (1,501,467)	\$ (1,967,189)
Items not affecting cash:		
Finance expense	29,847	17,520
Interest income	(1,122)	(6,748)
Bad debts expense	131,219	439,730
Amortization	69,760	77,383
Loss on equity investment	-	3,605
Share paid for management fee	559,197	17,940
Impairment of intangible assets	56,330	-
Gain on debt settlement	(104,494)	-
Unrealized foreign exchange	12,877	2,045
Changes in non-cash working capital items:		
Accounts payable and accrued liabilities	362,010	625,722
Prepaid expenses	206,687	(181,573)
Receivables	<u>34,872</u>	<u>91,261</u>
Net cash used in operating activities	<u>(144,284)</u>	<u>(880,304)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Deposits	-	-
Intangible assets	-	(8,000)
Interest received	-	4,468
Loans advanced	<u>-</u>	<u>(169,100)</u>
Net cash used in investing activities	<u>-</u>	<u>(172,632)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Convertible debentures issued	-	239,075
Interest paid	(582)	(1,110)
Loan funds received	5,705	105,915
Net proceeds from share issuance	104,997	321,320
Obligation to issue shares	-	117,801
Loan receivables	39,841	5,050
Net proceed from related party loan	<u>10,180</u>	<u>113,249</u>
Net cash used in financing activities	<u>160,141</u>	<u>901,300</u>
<b>Effect of foreign exchange on cash</b>	(11,394)	(12,873)
<b>Change in cash for the year</b>	4,463	(164,509)
<b>Cash, beginning of year</b>	<u>671</u>	<u>165,180</u>
<b>Cash, end of year</b>	\$ 5,134	\$ 671

**Supplemental Disclosure with respect to Cash Flows (Note 12 and 13)**

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

**UPCO INTERNATIONAL INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)**  
(Expressed in United States dollars)

	Number of common shares	Share capital	Contribute surplus	Equity component of convertible debt	Obligation to issue shares	Accumulated Other Comprehensive Income	Deficit	Total
<b>Balance, December 31, 2018</b>	67,373,156	\$ 4,289,069	\$ 798,653	\$ -	\$ -	\$ (36,902)	\$ (4,362,431)	\$ 688,389
Private placement	4,500,000	340,625	-	-	-	-	-	340,625
Convertible debenture	-	-	-	120,081	-	-	-	120,081
Obligation to issue shares	-	-	-	-	117,801	-	-	117,801
Share issuance costs	-	(19,305)	-	-	-	-	-	(19,305)
Share-based payments	-	-	17,940	-	-	-	-	17,940
Net loss for the year	-	-	-	-	-	(21,013)	(1,967,189)	(1,988,202)
<b>Balance, December 31, 2019</b>	71,873,156	\$ 4,610,389	\$ 816,593	\$ 120,081	\$ 117,801	\$ (57,915)	\$ (6,329,620)	\$ (722,671)
Private placement	2,955,032	154,294	67,916	-	(117,801)	-	-	104,409
Shares for debt	17,485,010	737,907	-	-	-	-	-	737,907
Options exercised	750,000	38,519	(5,503)	-	-	-	-	33,016
Shares for management fee	14,503,752	559,198	-	-	-	-	-	559,198
Share issued to Equinox (Note 12)	7,023,145	-	-	-	-	-	-	-
Related party debt settlement	-	-	(18,492)	-	-	-	-	(18,492)
Net loss for the year	-	-	-	-	-	123,786	(1,501,467)	(1,377,681)
<b>Balance, December 31, 2020</b>	114,590,095	\$ 6,100,307	\$ 860,514	\$ 120,081	\$ -	\$ 65,871	\$ (7,831,087)	\$ (684,314)

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

**UPCO INTERNATIONAL INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in United States dollars)  
FOR THE YEARS ENDED DECEMBER 31, 2020, AND 2019

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

**Nature and Continuance of Operations**

Upco International Inc. (the "Company") was incorporated under the Business Corporations Act of British Columbia on March 28, 2012. The Company is listed on the Canadian Securities Exchange ("CSE") under the trading symbol UPCO.

The Company operates primarily in the telecommunications industries as a global telecom carrier within the international VoIP (voice over IP) wholesale business with a focus on wholesale international long distance traffic termination. The Company has a VoIP smartphone application which allows customers to send and receive local and international long-distance calls through an internet connection with the advantages of the Company's existing VoIP network (Note 7).

The Company's head and registered office is located at 1200 – 750 West Pender Street, Vancouver, British Columbia, Canada, V6C 2T8.

**Going Concern**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") assuming the Company will continue on a going-concern basis. The Company has incurred losses and negative operating cash flows since inception. The Company incurred a net loss of \$1,501,467 during the year ended December 31, 2020 and has an accumulated deficit of \$7,831,087. The ability of the Company to continue as a going concern in the long-term depends upon its ability to develop profitable operations and to continue to obtain adequate financing. As at December 31, 2020, Company's ability to continue its operations will depend upon, but not be limited to, obtaining additional financing and generating revenues sufficient to cover its operating costs. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

These financial statements do not include any adjustments related to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

**COVID-19**

Since March 31, 2020, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility. The duration and enduring impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Statement of Compliance**

These consolidated financial statements, including comparatives, have been prepared using accounting policies consistent with IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Basis of Presentation**

The consolidated financial statements have been prepared on a historical cost basis except as detailed in the significant accounting policies disclosed in Note 2. The audited consolidated financial statements were approved by the Company's Board of Directors on June 28, 2021.

**Critical accounting estimates and judgments**

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 reported amounts of assets, liabilities, income, and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. The preparation of financial statements also requires management to exercise judgment in the process of applying the accounting policies.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances, as the basis for its estimates and assumptions. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. Actual outcomes may differ from those estimates under different assumptions and conditions.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the allowance for doubtful accounts, fair value measurements for financial instruments and the recoverability and measurement of deferred tax assets.

Key areas requiring judgment and estimation uncertainty include:

*Going concern*

The evaluation of the Company's ability to continue as a going concern, to raise additional financing in order to cover its operating expenses and its obligations for the upcoming year requires significant judgment based on past experience and other assumptions including the probability that future events are considered reasonable according to the circumstances.

*Valuation of deferred income tax assets and liabilities*

A deferred tax asset is recognized for unused losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized. Detailed estimates are required in evaluating the probability that deferred tax assets will be utilized. The Company's assessment is based on existing tax laws, estimates of future profitability, and tax planning strategies.

*Intangible asset*

The Company incurs research and development costs. Judgment is required to determine whether or not there exists sufficient information to demonstrate it is probable that the internally developed asset will give rise to future economic benefits. Management's judgment involves consideration of trends and other factors in determining the expected useful lives of depreciable assets, to determine depreciation methods and the assets residual value. Intangible assets are reviewed by management annually to determine if impairment of the asset is required.

*Functional currency*

Each entity within the Company has its results measured using the primary economic environment in which the entity operates. Judgment is necessary in assessing each entity's functional currency. The Company considers the primary and secondary indicators as part of its decision-making process.

**UPCO INTERNATIONAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in United States dollars)  
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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Critical accounting estimates and judgments (cont'd..)**

*Impairment of Intangible Asset*

Management’s judgment involves consideration of trends and other factors in determining the expected useful lives of depreciable assets, to determine depreciation methods and the assets residual value. Intangible assets are reviewed by management annually to determine if impairment of the asset is required.

*Expected Credit Loss (“ECL”)*

Bad debts are assessed considering current economic conditions and using the expected credit loss model. This model uses historical balances to calculate a loss rate for current, 31-60, 61-90 and 91+ day periods. This loss rate is then adjusted depending on the respective aged period to produce a loss rate which is representative to the receivables risk in their respective periods.

*Convertible debentures*

Management has made estimates with respect to the effective interest rate applied to the convertible debentures issued (Note 11).

*Share-based payments*

The fair value of stock options issued with Canadian dollar exercise prices are subject to the limitation of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in the subjective input assumptions can materially affect the fair value estimate.

**Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its controlled entity, as follows:

	Jurisdiction of incorporation	Percentage owned	
		December 31, 2020	December 31, 2019
Upco Systems Inc.	New York, USA	100%	100%
Upco Systems SRL	Milan, Italy	100%	100%

Inter-company transactions and balances are eliminated upon consolidation.

**Functional and presentation currency**

The functional currency of each of the Company’s entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in US dollars. The parent company, Upco International, functional currency is CAD, Upco System’s functional currency is USD and Upco Srl’s functional currency is the Euro.

In preparing the consolidated financial statements of the Company, transactions in currencies other than the Company’s functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise. Exchange differences arising, if any, are recognized in other comprehensive income (loss).



**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Loss per share**

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by dividing the income or loss attributable to common shareholders by the weighted average number of common shares outstanding and for the effects of all dilutive potential common shares.

**Financial Instruments**

Financial assets

The Company classifies its financial assets in the following categories: fair value through profit or loss, amortized cost or fair value through other comprehensive income. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded in profit or loss.

*Amortized cost*

Financial assets are classified at amortized cost if both of the following criteria are met and the financial assets are not classified or designated as fair value through profit and loss: 1) the Company's objective for these financial assets is to collect their contractual cash flows and 2) the asset's contractual cash flows represent 'solely payments of principal and interest'. The Company's cash and cash equivalents, and receivables are recorded at amortized cost as they meet the required criteria.

*Fair value through other comprehensive income ("OCI")*

For financial assets that are equity instruments not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments at fair value through other comprehensive income ("FVOCI"), with all subsequent changes in fair value being recognized in other comprehensive income. This election is available for each separate investment. Under this new FVOCI category, fair value changes are recognized in OCI while dividends are recognized in profit or loss. On disposal of the investment the cumulative change in fair value is not recycled to profit or loss, rather transferred to deficit. The Company does not have any financial assets designated as FVOCI.

Financial assets include cash, receivables, loans receivable and other receivables which are measured at amortized cost.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Financial Instruments (cont'd...)**

Financial liabilities

Financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable and accrued liabilities, loans payable, related party loans, other payables and convertible debentures which are measured at amortized cost.

Financial instrument disclosures

The Company provides disclosures that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the date of the statement of financial position, and how the entity manages these risks.

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

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

Level 2 – 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 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Revenues**

Currently, the Company is operating in one segment – telecommunications wholesale services. The Company's main service is to provide long-distance services through access to its network, which has the capability to track pertinent data for each individual call to a particular country destination. This allows the Company to rate each call by applying predetermined long-distance rates by country to the volume of minutes provided.

The Company enters into bilateral transactions pursuant to which the Company may purchase minutes to specific destinations at predetermined rates and the counterparty may purchase minutes from the Company to specific destinations at predetermined rates. The Company earns its revenues from access to, and usage of, its telecommunications network by the counterparty, based on these bilateral transactions. The number of minutes purchased and sold in a bilateral transaction are not necessary equal. The Company recognizes revenue and related cost of revenue for these bilateral transactions based on the prices charged for minutes.

To determine the amount and timing of revenue to be recognized, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue is recognized when the counterparties make long-distance calls through the Company's network.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives, which is 3 years. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- (i) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (ii) The intention to complete the intangible asset;
- (iii) The ability to use or sell the intangible asset;
- (iv) How the intangible asset will generate probable future economic benefits;
- (v) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (vi) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Impairment of long-lived assets**

The carrying amount of the Company's long-lived assets (which includes intangible assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of profit or loss.

The recoverable amount of assets is the greater of an asset's fair value less cost 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 the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

**Share-based payments**

The Company operates a Stock Option Plan (the "Plan"). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to reserves. The fair value of options is determined using the Black-Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted are based on the number of equity instruments that eventually vest.

**Income taxes**

Income tax expense is comprised of current and deferred taxes. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable or recoverable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, as well as any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in United States dollars)  
**FOR THE YEARS ENDED DECEMBER 31, 2020, AND 2019**

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**3. RECEIVABLES**

**Trade and tax receivables**

The Company has credit evaluation, approval and monitoring processes to assess new customers' credit quality that mitigate potential credit risks. Credit limits are imposed on each customer, which are reviewed annually. The Company measures bad debts using the expected credit loss model.

	2020	2019
Trade receivable	\$ 7,537	\$ 2,012
Tax receivable	<u>30,357</u>	<u>70,754</u>
Balance, December 31	\$ 37,894	\$ 72,766

**4. LOAN RECEIVABLES**

	2020	2019
Loans receivable	\$ 142,741	\$ 172,729
Loans receivable – foreign currency exchange	(9,426)	-
Loans receivable – bad debt provision	<u>(131,219)</u>	<u>-</u>
Balance, December 31	\$ 2,096	\$ 172,729

Outstanding loans are due on 2021. Bad debt provision was registered considering financial position of the debtor.

**5. PREPAIDS AND ADVANCES**

	2020	2019
Prepaid expenses	\$ 218	\$ 145,940
Advances	<u>-</u>	<u>60,965</u>
Balance, December 31	\$ 218	\$ 206,905

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**6. INVESTMENT IN UPCOTECH SRL**

On June 6, 2019, the Company purchased a 30% interest in UpcoTech SRL for \$3,764.

From the period from purchase on June 6, 2019 to December 31, 2019, UpcoTech SRL incurred a loss of \$18,188 of which the Company's share was \$5,456. The loss in excess of the carrying value of the investment has not been recognized.

During 2020, UpcoTech SRL did not have any revenues or income.

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UpcoTech SRL	2020	2019
Balance, January 1	\$ -	\$ -
Purchase of investment	-	3,764
Loss on equity investment	-	(3,605)
Other comprehensive income	<u>-</u>	<u>(159)</u>
Balance, December 31	\$ -	\$ -

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**7. INTANGIBLE ASSET**

The Company previously incurred certain costs related to its development of a smartphone application, which will allow a customer to send and receive local and international long-distance calls through an internet connection with the advantages of the Company's existing VoIP network.

During the year ended December 31, 2019, the Company released an updated version of its mobile messaging application. As the application was redeveloped the Company capitalized all costs related to it under intangible assets which will be amortized over 3 years.

	2020	2019
<b>Cost</b>		
Balance, beginning of year	\$ 215,362	\$ 201,984
Additions	-	8,000
Foreign exchange	10,340	5,378
Balance, end of year	225,702	215,362
<b>Accumulated Amortization</b>		
Balance, beginning of year	\$ 98,089	\$ 20,102
Amortization expense	69,760	77,383
Impairment	56,330	-
Foreign exchange	1,523	604
Balance, end of year	225,702	98,089
<b>Net Book Value</b>	<b>\$ -</b>	<b>\$ 117,273</b>

**8. TRADE PAYABLES AND OTHER LIABILITIES**

	2020	2019
Trade payables	\$ 357,291	\$ 745,565
Accrued liabilities	48,822	181,194
Balance, December 31	\$ 406,113	\$ 926,759

**9. LOANS PAYABLE**

	2020	2019
Loans payable	\$ 6,283	\$ 107,550
Balance, December 31	\$ 6,283	\$ 107,550

Annual interest rate of above loan is 5%, and amounts are unsecured and due on demand.

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**10. RELATED PARTY TRANSACTIONS AND BALANCES**

	2020	2019
Related party loans	\$ 144,613	\$ 115,405
Balance, December 31	\$ 144,613	\$ 115,405

As at December 31, 2020, the Company has loans outstanding with the CEO of \$144,613 (2019 - \$ 115,405). Annual interest rate is 3%, and amounts are unsecured and due on demand.

Key management personnel of the Company include the President and Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”), current and former Directors of the Company. Some of the management fees were settled in the Company’s common shares as disclosed in Note 12. b. Compensation to key management personnel is as follows:

<b>Payments to key management personnel</b>	2020	2019
Consulting fees	\$ 2,880	\$ 377,243
Management fees	771,908	180,885



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**11. CONVERTIBLE DEBENTURES**

On May 22, 2019, the Company issued convertible debentures in the principal amount of CDN \$288,750 with a maturity date of May 20, 2024. The debentures carry an interest rate of 5% and are convertible at a price of CDN \$0.35 per common share at the holder's choice. The fair value of debt portion is CDN \$143,560 and the remaining amount of CDN \$145,190 was the equity portion.

On September 4, 2019, the Company issued convertible debentures in the principal amount of CDN \$31,500 with a maturity date of September 2, 2024. The debentures carry an interest rate of 5% and are convertible at a price of CDN \$0.35 per common share. The fair value of debt portion is CDN \$15,661 and the remaining amount of CDN \$15,839 was the equity portion.

A summary of the movement in the debt portion of the convertible debentures is as follows:

<u>Convertible debentures</u>	
Balance, December 31, 2018	\$ -
Issuance for cash	239,075
Equity feature	(120,081)
Interest paid	(1,110)
Finance expense	17,520
Translation adjustment	<u>3,951</u>
Balance, December 31, 2019	\$ 139,355
Issuance for cash	-
Equity feature	-
Interest paid	(587)
Finance expense	29,553
Translation adjustment	<u>4,326</u>
Balance, December 31, 2020	\$ 172,647

After valuing the financial liability component of the convertible debentures, a residual value was assigned to the conversion feature. The Company considered the market interest rate for comparable entities and instruments in the market. The Company has estimated that comparable instruments would bear an interest rate of 15%.

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**12. SHARE CAPITAL AND RESERVES**

a) Authorized share capital

Unlimited common shares, without par value.

b) Issued share capital

*Year ended December 31, 2020*

On January 20, 2020, the Company closed a private placement issuing 2,955,032 units (“Unit”) at C\$0.10 per share for gross proceeds of \$226,385, of which \$117,801 had been received at December 31, 2019 and remaining amount was received in January 6, 2020. Each Unit is comprised one common share and one-half share purchase warrant. Each warrant entitles the holder to purchase a further common share at a price of \$0.15 per share until January 20, 2025. Share issue cost of \$4,176 was paid and deducted from share capital. The share purchase warrants are classified as equity instruments because fixed amount of cash is exchanged for a fixed amount of equity (“fixed for fixed” criteria). The Company applied residual approach, the fair value of the shares at the date of issue was determined first and the residual amount was allocated to warrants reserve which shown in contributed surplus. Warrants classified as equity instruments are not subsequently re-measured.

On February 28, 2020, the Company issued 5,531,704 common shares with fair value of C\$387,219, of which 3,428,571 were to related parties to settle C\$240,000 debt with no gains or losses recognized. The remaining common shares of 2,103,133 were to settle debts carrying amount of C\$164,944 with C\$17,725 gain was recognized as gain on settlement of debt on the statement of loss and comprehensive loss.

On July 17, 2020 and September 28, 2020, the Company issued 1,229,112 and 103,398 common shares in settlement of debts of \$63,384 and \$5,797, respectively. As the fair value of common share issued equal to the carrying amount of debt, no gains or losses being recognized.

On September 28, 2020, the Company issued 5,750,000 common shares with fair value of C\$258,750 in settlement of related party loans with no gains or losses being recognized.

On November 25, 2020, the Company issued 4,870,796 common shares in the settlement of various third party debts. The fair value of common share issued was C\$243,540, and the aggregate carrying amount debts was C\$365,862. C\$122,322 gain was recognized on the consolidated statements of loss and comprehensive loss as a result of this transaction.

On June 1, 2020, the Company issued 7,500,000 common shares to a director for services rendered at a fair value of C\$337,500. During the year 2020, the Company issued 7,003,752 common shares pursuant to the management agreement commitments with the fair value of C\$421,938(Note 19). The fair value of services received were measured by reference to the fair value of the equity instruments granted.

*Year ended December 31, 2019*

In October 2019, the Company completed a private placement of 4,500,000 units for gross proceeds of \$340,625. Each unit is comprised of one common share and one-half share purchase warrant (“Unit”). Each warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.15 for a period of 4 years. The Company paid finders’ fees of \$17,031 and other share issue costs of \$2,274.

c) Stock options

The Company allows total number of shares of stock reserved and available for distribution under the Plan shall be a rolling 10% of common stock issued and outstanding of the Company. The number of shares reserved hereunder may consist in whole or in part of authorized and unissued shares or treasury shares. Options under the Plan may be granted to officers, employees, agents and consultants to the Company. Options shall expire five years from the date of grant but may be cancelled after 30 days of the grantee ceasing from providing the agreed upon service.

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**12. SHARE CAPITAL AND RESERVES (cont'd...)**

c) Stock options (cont'd...)

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2018	6,470,000	0.19
Granted	<u>300,000</u>	0.10
Balance, December 31, 2019	6,770,000	0.19
Cancelled or expired	(4,580,000)	0.20
Exercised	<u>(750,000)</u>	0.06
Balance outstanding, December 31, 2020	1,440,000	\$ 0.22
Balance exercisable, December 31, 2020	1,440,000	\$ 0.22

Stock options outstanding as at December 31, 2020:

Number	Exercise price	Expiry date	Remaining expected life (years)
900,000	0.23	April 30, 2023	2.33
50,000	0.22	June 5, 2023	2.43
340,000	0.20	June 7, 2023	2.43
<u>150,000</u>	<u>0.20</u>	September 14, 2023	2.70
1,440,000	\$ 0.22		

d) Share-based payments

During the year ended December 31, 2020, the Company granted Nil (2019 – 300,000) stock options with a fair value of Nil (2019 - \$17,940).

The following weighted average assumptions were used for Black-Scholes option-pricing model valuation of stock options granted during the year:

	2020	2019
Risk-free interest rate	-	2.25%
Expected life of options	-	5 years
Expected annualized volatility	-	100.0%
Dividend rate	-	-
Forfeiture rate	-	-

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**12. SHARE CAPITAL AND RESERVES (cont'd...)**

e) Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2018	343,425	0.25
Granted	<u>2,250,000</u>	0.15
Balance, December 31, 2019	2,593,425	0.16
Granted	1,477,516	0.15
Expired	<u>343,425</u>	0.25
Balance outstanding and exercisable, December 31, 2020	3,727,516	\$ 0.15

Warrants outstanding as at December 31, 2020:

Number	Exercise price	Expiry date	Remaining expected life (years)
2,250,000	0.15	October 14, 2023	2.79
<u>1,477,516</u>	<u>0.15</u>	January 20, 2025	4.06
3,727,516	\$ 0.15		

f) Equinox Group

During the year ended December 31, 2020, the Company issued 7,023,145 shares on November 2020 for the purchase of 51% membership interest of the Equinox Group.

On February 22, 2021, the Company signed a termination and reverse agreement with Equinox Group in which the previous agreement to buy 51% of the Equinox Group was terminated. Equinox is a provider in the telecommunications, technology and services areas. Under the terms of the agreement, Equinox Group will return the obtained to the Company for cancellation.

**13. SUPPLEMENTARY DISCLOSURE WITH RESPECT TO CASH FLOWS**

During the year ended December 31, 2019, the Company acquired 30% of UpcoTech SRL at a value of \$3,764 through accounts payable and accrued liabilities (Note 6).

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**14. INCOME TAXES**

A reconciliation of income taxes at statutory rates is as follows:

	<b>2020</b>	<b>2019</b>
Loss for the year before income tax	\$ (1,501,467)	\$ (1,967,189)
Expected income tax recovery	(374,600)	(531,000)
Changes in statutory, foreign tax, and foreign exchange rates	-	(5,000)
Permanent differences	-	8,000
Share issue costs	(4,175)	(5,000)
Adjustment to prior years provision	-	-
Change in unrecognized deductible	<u>378,775</u>	<u>533,000</u>
Income tax recovery	\$ -	\$ -

The Company's tax filings are subject to the review and assessment of the relevant tax authorities.

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes. No deferred tax assets were recognized as at December 31, 2020 and 2019 due to the uncertain tax position of the Company. Expiration date of the non-capital loss carry forward will be between 2035 and 2040.

	2020		2019	
Non-capital loss carry forwards	\$	7,831,087	\$	6,329,620
Balance, December 31	\$	7,831,087	\$	6,329,320

**15. SEGMENTED INFORMATION**

The Company operated in single reportable operating segment – international VoIP wholesale business. Revenues earned by the Company's VoIP wholesale business broken into their respective regions are as follows:

*Year Ended December 31, 2020*

No revenue was generated for the year ended December 31, 2020.

*Year Ended December 31, 2019*

	Percentage		Total	
Asia	0.00%	\$	-	
Canada	0.01%		20	
Europe	94.98%		289,030	
USA	4.99%		15,195	
Other	<u>0.02%</u>		<u>57</u>	
Total	100.00%	\$	304,302	

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**16. LOSS PER SHARE**

	2020	2019
Numerator		
Net loss for the period	(1,501,467)	(1,967,189)
Denominator		
Weighted average number of common shares outstanding	90,349,181	68,322,471
Basic	(0.02)	(0.03)
Diluted	(0.02)	(0.03)

For the purpose of calculating diluted earnings per share for the years ended December 31, 2020, 2019, all outstanding stock options and warrants were excluded from the determination of dilutive loss per share as their effect would be anti-dilutive.

**17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**Financial instruments**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors is responsible for developing and monitoring the Company's risk management policies. The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

**Financial risk factors**

*Credit risk*

Credit risk is the risk of a loss if a counterparty to a financial instrument fails to meet its contractual obligations. Trade receivables are the most significant financial instrument that is exposed to credit risk. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry, as these factors may have an influence on credit risk.

A credit policy is established under which each new customer is analyzed individually or in groups for creditworthiness and given appropriate credit limits. The Company's review includes agent review, external ratings when available, and in some cases, bank references. Credit limits are established for each customer and these limits are reviewed on an ongoing basis. Customers that fail to meet the Company's creditworthiness benchmark may transact with the Company only on a prepayment basis.

Credit risk associated with cash is minimized significantly by ensuring that these financial instruments are placed with major financial institutions. Credit risk associated with trade and other receivables is mitigated by the Company's large and unrelated customer base and the application of its credit evaluation, control and monitoring processes.

Credit risk with respect to loans receivable is considered on an ongoing basis and the collectability of loans receivable is evaluated on an ongoing basis. The Company works closely with the debtors and considers the amounts collectible.

**17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)**

**Financial risk factors (cont'd...)**

*Liquidity risk*

Trade liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and working capital levels. The Company does not currently believe it will encounter difficulty in meeting its obligations associated with its financial liabilities.

The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and working capital levels. The following are the contractual maturities of financial liabilities, including estimated interest payments. At December 31, 2020, the Company has cash of \$ 5,134 to settle current liabilities of \$557,009.

*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.

*Currency risk*

Currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company's statements are presented in US dollars, but it regularly transacts in EUR and CAD for a portion of its business activities. The value of financial instruments or cash flows associated with the instruments denominated in US dollars will be affected by changes in the exchange rate fluctuations in the market between the EUR/CAD and US dollar.

There has been no change to the Company's exposure to market risks or the manner in which these risks are managed and measured from the prior year.

**18. CAPITAL MANAGEMENT**

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions, so that it can provide above average returns for its shareholders. The Company defines capital that it manages as the aggregate of its shareholders' equity (deficiency).

The Company manages its capital structure and makes adjustments to it in light of general economic conditions and the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust the capital structure, the Company, upon approval from its Board of Directors, may issue long-term debt, issue shares, repurchase shares through a normal course issuer bid and pay dividends. The Board of Directors reviews and approves any material transactions not in the ordinary course of business that may include various acquisition proposals, as well as capital and operating budgets.

There were no changes in the Company's approach to capital management during the year ended December 31, 2020. The Company is not subject to any externally imposed capital requirements.

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**19. COMMITMENTS**

On January 1, 2020, the Company signed three management agreements with its directors and officers. Each management agreement is effective for a period of three years at a rate of US\$7,500 per month and US\$30,000 payable quarterly in common shares of the Company (Note 12). During 2020, the Company issued 7,003,752 common shares with respect to this commitment.

**20. SUBSEQUENT EVENTS**

On February 22, 2021, the Company signed a termination and reverse agreement with Equinox Group in which the previous agreement to buy 51% of the Equinox Group was terminated. Equinox is a provider in the telecommunications, technology and services areas. Under the terms of the agreement, the Company will cancel the 7,023,145 shares issued on November 2020 for this operation.

On April 20th 2021, a Board Resolution was issued taking the appropriate actions to initiate the liquidation of Upco Systems SRL, a wholly owned subsidiary registered in Italy.

The Company entered into a Capital Commitment agreement with LDA Capital LLC. The Capital Commitment is in the form of a 'Put Option' that may be exercisable on a bi-weekly basis; each amount will vary depending on the Company's volume during the previous fifteen-day period and price per share during the forward looking 15-day pricing period. The strike price of the put option is determined by the VWAP - volume weighted average price during such period. As part of this agreement, the Company issued 14,000,000 common shares in January 2021 raising C\$2,120,000.

In January 2021, the Company issued 3,850,000 shares pursuant to the exercise of stock options. In January 2021 the Company issued 667,589 shares to related parties in settlement of debt for C\$ 35,270.

In February 2021 the Company issued 2,320,000 common shares in a private placement for C\$ 348,000.

During February and April 2021 the Company issued a total of 1,777,634 common shares pursuant to management agreements signed on January 2020 as disclosed in Note 19 for C\$ 151,664.