

# **Cloud DX, Inc.**

## **Condensed Interim Consolidated Financial Statements (Unaudited)**

**For the three months ended March 31, 2021 and 2020**

Cloud DX, Inc.

## Condensed Interim Consolidated Financial Statements

For the Three Months Ended March 31, 2021 and 2020

(Unaudited - in US dollars unless otherwise stated)

### Notice of No Auditors Review of Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed interim financial statements for the three months ended March 31, 2021 and 2020 which have been prepared by and are the responsibility of the Company's management.

APPROVED ON BEHALF OF THE BOARD on May 14, 2021.

Signed "*Robert Kaul*" Director

Signed "*William Charnetski*" Director

**Condensed Interim Consolidated Statements of Financial Position**

As at March 31, 2021 and December 31, 2020 (Unaudited - in US dollars unless otherwise stated)

|   | March 31,<br>2021  | December 31,<br>2020 |
|---|--------------------|----------------------|
| <b>Assets</b>   |                    |                      |
| Current Assets:   |                    |                      |
| Cash and cash equivalents   | \$ 200,273         | \$ 500,739           |
| Trade and other receivables (Note 5)                                | 435,003            | 329,047              |
| Marketable securities (Note 6)                                      | 48,022             | 340,276              |
| Inventories   | 582,548            | 439,901              |
| Prepaid expenses and deposits                                       | 451,965            | 243,172              |
| Contract assets   | 5,114              | -                    |
|   | <u>1,722,925</u>   | <u>1,853,135</u>     |
| Non-Current Assets:   |                    |                      |
| Intangible assets   | 398,822            | 428,004              |
| Property, plant and equipment and Asset in progress                 | 153,065            | 127,701              |
| Right of use asset (Note 10)  | 569,137            | 593,352              |
| Advances to related parties (Note 14)                               | -                  | -                    |
| Total Assets  | <u>2,843,949</u>   | <u>3,002,192</u>     |
| <b>Liabilities and Shareholders' Deficit</b>                        |                    |                      |
| Current Liabilities:  |                    |                      |
| Trade and other payables  | 1,763,099          | 1,232,867            |
| Deferred revenue  | 523,344            | 736,379              |
| Lease liabilities (Note 10)   | 112,274            | 108,702              |
| Advances from related parties (Note 14)                             | 235,129            | 201,379              |
| Current portion of Loans Payable (Note 16)                          | 198,600            | -                    |
| Current portion of conversion feature on convertible debt (Note 12) | 718,706            | 502,651              |
| Current portion of convertible debt (Note 12)                       | 3,054,986          | 1,483,508            |
|   | <u>6,606,138</u>   | <u>4,265,486</u>     |
| Non-Current Liabilities:  |                    |                      |
| Lease Liabilities (Note 10)   | 478,793            | 501,450              |
| Conversion feature on convertible debt (Note 12)                    | -                  | 426,019              |
| Convertible debt (Note 12)  | -                  | 1,178,856            |
| Loans Payable (Note 16)   | 155,533            | -                    |
| Total liabilities   | <u>7,240,464</u>   | <u>6,371,811</u>     |
| Shareholders' Deficit:  |                    |                      |
| Share capital (Note 7)  | 14,654,165         | 14,654,165           |
| Deficit   | (22,683,087)       | (21,614,646)         |
| Share-based payment reserve (Note 8)                                | 3,813,634          | 3,765,309            |
| Warrants reserve  | 7,080              | 7,080                |
| Accumulated other comprehensive loss                                | (188,307)          | (181,527)            |
|   | <u>(4,396,515)</u> | <u>(3,369,619)</u>   |
| Total Liabilities and Shareholders' Deficit                         | <u>2,843,949</u>   | <u>3,002,192</u>     |

See accompanying notes to consolidated financial statements.

Cloud DX, Inc.

## Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

Three months ended March 31, 2021 and 2020

(Unaudited - in US dollars unless otherwise stated)

|  | Three<br>Months<br>ended March<br>31, 2021 | Three<br>Months<br>ended March<br>31, 2020 |
|--|--|--|
| Revenue (Note 15):                                     |  |  |
| Subscription revenue                                   | \$ 65,758                                  | 69,552                                     |
| Product sales  | 140,245                                    | 44,298                                     |
| Professional services                                  | 96,841                                     | 4,922                                      |
| Other  | -  | -  |
|  | 302,844                                    | 118,772                                    |
| Cost of inventories sold                               | (155,212)                                  | (46,679)                                   |
| Gross profit   | 147,632                                    | 72,093                                     |
| Operating expenses:                                    |  |  |
| Advertising and promotion                              | 79,867                                     | 5,469                                      |
| Amortization & depreciation                            | 67,952                                     | 66,463                                     |
| Bad debt expense                                       | 2,930                                      | -  |
| Dues and memberships                                   | 14,953                                     | 43,060                                     |
| Insurance  | 11,703                                     | 7,312                                      |
| Office   | 91,518                                     | 70,133                                     |
| Professional fees                                      | 349,815                                    | 22,078                                     |
| Research   | 70,344                                     | 23,754                                     |
| Salaries, wages and benefits                           | 1,137,814                                  | 497,543                                    |
| Share based compensation                               | 48,325                                     | 99,419                                     |
| Travel   | 15   | 9,951                                      |
| Other general and administrative                       | 6,747                                      | -  |
|  | (1,881,983)                                | (845,182)                                  |
| Operating loss   | (1,734,351)                                | (773,089)                                  |
| Other (expenses)/ income:                              |  |  |
| Foreign exchange gain/(loss)                           | (2,818)                                    | (34,245)                                   |
| Interest expense                                       | (259,420)                                  | (62,988)                                   |
| Fair value gain (loss) (Note 12)                       | 269,861                                    | 92,827                                     |
| Government funding and grant income                    | 487,083                                    | -  |
| Gain (Loss) on marketable securities (Note 6)          | 171,204                                    | (107,029)                                  |
| Other income/(loss) (Note 6)                           | -  | -  |
|  | 665,910                                    | (111,435)                                  |
| Loss before income taxes                               | (1,068,441)                                | (884,524)                                  |
| Income taxes   | -  | -  |
| Net loss   | (1,068,441)                                | (884,524)                                  |
| Other comprehensive income/(loss):                     |  |  |
| Foreign currency translation, net of income tax of nil | (6,780)                                    | 138,498                                    |
| Comprehensive loss                                     | (1,075,221)                                | (746,026)                                  |
| Basic and diluted loss per share                       | (0.54)                                     | (0.55)                                     |
| Weighted average number of shares outstanding          | 1,962,509                                  | 1,604,831                                  |

**Condensed Interim Consolidated Statements of Changes in Shareholders' Deficit****Three months ended March 31, 2021 and 2020**

(Unaudited - in US dollars unless otherwise stated)

|                                      | Number of<br>shareholders'<br>shares | Share<br>capital<br>(Notes 7<br>and 12) | Share-based<br>payment reserve<br>(Note 8) | Warrants<br>Reserve<br>(Note 8) | Accumulated<br>other<br>comprehensive<br>loss | Deficit             | Total              |
|--------------------------------------|--------------------------------------|---|--|---------------------------------|---|---------------------|--------------------|
| <b>December 31, 2019</b>             | <b>1,621,130</b>                     | <b>12,669,153</b>                       | <b>3,515,206</b>                           | -                               | <b>(310,265)</b>                              | <b>(17,278,118)</b> | <b>(1,404,024)</b> |
| Issuance of capital                  | 132,413                              | 662,064                                 | -  | -                               | -   | -                   | 662,064            |
| Conversion of debt                   | 97,505                               | 487,525                                 | -  | -                               | -   | -                   | 487,525            |
| Share-based compensation             | -                                    | -                                       | 99,419                                     | -                               | -   | -                   | 99,419             |
| Issuance cost                        | -                                    | -                                       | -  | -                               | -   | -                   | -                  |
| Loss for the period                  | -                                    | -                                       | -  | -                               | 138,498                                       | (884,524)           | (746,026)          |
| <b>March 31, 2020</b>                | <b>1,851,048</b>                     | <b>13,818,742</b>                       | <b>3,614,625</b>                           | -                               | <b>(171,562)</b>                              | <b>(18,162,642)</b> | <b>(901,042)</b>   |
| <b>December 31, 2020</b>             | <b>1,962,509</b>                     | <b>14,654,165</b>                       | <b>3,765,309</b>                           | <b>7,080</b>                    | <b>(181,527)</b>                              | <b>(21,614,646)</b> | <b>(3,369,619)</b> |
| Issuance of capital                  | -                                    | -                                       | -  | -                               | -   | -                   | -                  |
| Conversion of convertible debentures | -                                    | -                                       | -  | -                               | -   | -                   | -                  |
| Share-based compensation             | -                                    | -                                       | 48,325                                     | -                               | -   | -                   | 48,325             |
| Issuance cost                        | -                                    | -                                       | -  | -                               | -   | -                   | -                  |
| Loss for the period                  | -                                    | -                                       | -  | -                               | (6,780)                                       | (1,068,441)         | (1,075,221)        |
| <b>March 31, 2021</b>                | <b>1,962,509</b>                     | <b>14,654,165</b>                       | <b>3,813,634</b>                           | <b>7,080</b>                    | <b>(188,307)</b>                              | <b>(22,683,087)</b> | <b>(4,396,515)</b> |

See accompanying notes to consolidated financial statements.

**Condensed Interim Consolidated Statements of Cash Flows****Three months ended March 31, 2021 and 2020**

(Unaudited - in US dollars unless otherwise stated)

|  | 2021               | 2020             |
|--|--------------------|------------------|
| Cash flows used in operating activities:   |                    |                  |
| Net loss before tax  | \$ (1,068,441)     | \$ (884,524)     |
| Items not affecting cash:  |                    |                  |
| Depreciation of property, plant and equipment  | 38,770             | 37,281           |
| Amortization of intangible assets  | 29,182             | 29,182           |
| Realized loss (gain) from disposal of marketable securities                          | (181,302)          | 2,684            |
| Unrealized (gain) loss on revaluation of marketable securities                       | 10,098             | 104,345          |
| Bad debt expense   | 2,930              | -                |
| Consulting expense settled by issuance of shares, convertible debt or options        | -                  | 80,865           |
| Fair value (gain) loss (Note 12)   | (269,424)          | (92,827)         |
| Fair value adjustment on interest-free loan from FedDev                              | (84,563)           | -                |
| Non cash interest expense  | 11,835             | 12,194           |
| Share-based compensation expense   | 48,325             | 99,419           |
| Non-cash increase in marketable securities (Note 6)                                  | -                  | (51,581)         |
| Finance costs - net  | 236,492            | 47,704           |
| Net foreign exchange difference  | 908                | 18,613           |
| Changes in working capital (Note 13)   | (21,956)           | (13,844)         |
| <b>Cash generated used in operating activities</b>                                   | <b>(1,247,581)</b> | <b>(610,489)</b> |
| Cash flows generated from (used in) investing activities:                            |                    |                  |
| Proceeds from disposal of marketable securities (Note 6)                             | 463,457            | 32,284           |
| Purchase of property, plant and equipment and Asset in Progress                      | (69,378)           | -                |
| <b>Cash generated from (used in) investing activities</b>                            | <b>394,079</b>     | <b>32,284</b>    |
| Cash flows generated from financing activities:                                      |                    |                  |
| Proceeds from the issuance of common shares net of payment of notes payable (Note 7) | -                  | 654,500          |
| Loan proceeds  | 371,442            | -                |
| Proceeds from issuance of convertible debt, net of issuance costs (Note 12)          | 218,158            | -                |
| Payment for lease obligation (Note 10)   | (38,341)           | (24,602)         |
| <b>Cash generated from financing activities</b>                                      | <b>551,259</b>     | <b>629,898</b>   |
| Decrease in cash and cash equivalents  | (302,243)          | 51,693           |
| Effect of exchange rates on cash and cash equivalents                                | 1,777              | (3,659)          |
| Cash and cash equivalents, beginning of the period                                   | 500,739            | 25,141           |
| <b>Cash and cash equivalents, end of the period</b>                                  | <b>200,273</b>     | <b>73,175</b>    |

See accompanying notes to consolidated financial statements.

## 1. Nature of operations

These consolidated financial statements include the following companies: Cloud Diagnostics Canada ULC and Cloud DX, Inc. (together the "Company"). Cloud Diagnostics Canada ULC was incorporated under the laws of the Province of British Columbia on September 14, 2014. Cloud DX, Inc. was incorporated in the State of Delaware on September 11, 2014.

The Company provides remote patient monitoring hardware and software. The registered head office address is 834-20 Jay Street, Brooklyn, New York, 11201.

## 2. Going concern

These consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

As at March 31, 2021, the Company had a deficit of \$22,683,087 (December 31, 2020 - \$21,614,646), including a net loss of \$1,068,441 for the three months ended March 31, 2021 (2020 – \$884,524)

The Company's ability to continue as a going concern is dependent upon its ability to raise equity and debt financing and on the ability to sell patient monitoring hardware and software and obtain profitable operations. There are no assurances that the Company will be successful in achieving these goals. As such, there is a material uncertainty related to these events and conditions that may cast significant doubt on the Company's ability to continue as a going concern and ultimately on the appropriateness of the use of the accounting policies applicable to going concern. These consolidated financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue its operations.

## 3. Financial Statement Preparation

### Statement of compliance with IFRS

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Accordingly, they do not include all of information required for full annual financial statements and should be read in conjunction with the audited financial statements for the year ended December 31, 2020. The accounting policies adopted are consistent with those of the previous financial year and the corresponding interim reporting period. In the opinion of the Company's management, the accompanying unaudited condensed interim consolidated financial statements contain only normal recurring adjustments that are necessary for a fair presentation of its financial position, financial performance, changes in equity and cash flows for the interim period. The unaudited interim condensed consolidated financial statements as at March 31, 2021 and for the three months ended March 31, 2021 and 2020 were derived from the audited annual consolidated financial statements but do not contain all of the footnote disclosures from the annual financial statements.

**Notes to the Condensed Interim Consolidated Financial Statements**

Three months ended March 31, 2021 and 2020 (Unaudited - in US dollars unless otherwise stated)

**Basis of measurement and presentation**

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value through profit or loss. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

These consolidated financial statements are presented In US dollars, which is the Company's functional currency.

**Principles of consolidation**

The Company's consolidated financial statements include the accounts of Cloud DX, Inc and its wholly owned subsidiary, Cloud Diagnostics Canada ULC.

The acquisition method of accounting is used to account for business combinations by the group. The ownership interest in the subsidiary was by incorporation hence no goodwill exists in the consolidated financial statements. The year end of the subsidiary is December 31.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to ensure consistency with those used by other members of the group.

Intercompany transaction balances and unrealized gains on transactions between group companies are eliminated upon consolidation. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

**4. Use of estimates and judgements**

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. The estimates and judgements applied by the Company in these condensed interim consolidated financial statements are the same as those applied in the Company's annual consolidated financial statements for the year ended December 31, 2020.

**5. Trade and other receivables**

|                                 | March 31<br>2021 | December 31<br>2020 |
|---------------------------------|------------------|---------------------|
| Trade receivables               | \$ 357,204       | \$ 276,865          |
| Harmonized Sales tax receivable | 80,729           | 58,688              |
| Less expected credit losses     | (2,930)          | (6,506)             |
|                                 | 435,003          | 329,047             |



## 6. Marketable securities

In conjunction with a revenue contract with a customer during 2019, a portion of the consideration included 458,349 shares valued at \$559,578 of the related customer. The share value was determined based on the publicly traded share price less a 25% discount attributed to a six month hold restriction. The discount due to lack of marketability was determined using the Finnerty option pricing model using estimated volatility of 191%, a six month expected life, a 2.47% risk free rate and nil expected dividends.

During 2020, the customer settled its remaining outstanding accounts plus a contract amendment penalty clause for consideration of a further 965,578 shares valued at \$241,430 which was applied against outstanding accounts receivable with the remaining \$51,581 recognized in income. The share value was determined based on the publicly traded share price less a 21.8% discount attributed to a six month hold restriction. The discount due to lack of marketability was determined using the Finnerty option pricing model using estimated volatility of 150%, a six month expected life, a 0.65% risk free rate and nil expected dividends.

On February 2, 2021, the customer had a 10:1 reverse split of its stock. During the three month period ended March 31, 2021, the Company sold the equivalent of 679,458 shares pre reverse split (2020 – 93,000) generating proceeds of \$463,457 (2020 – \$32,284).

During the three month period ended March 31, 2021, an unrealized loss of \$10,098 and a realized gain of \$181,302 were recorded on the consolidated statement of income and comprehensive loss (2020 - \$32,994 and \$2,684 respectively).

## 7. Share capital

### Authorized and issued

The Company's authorized share capital consists of 10,000,000 of common shares with \$0.0001 par value per share.

There were no issuances of shares in the three months ended March 31, 2021.

## 8. Share-based payments

The Company has two Share-based compensation plans: the "Incentive Share Option Plan" and the "Non-Qualified Share Option Plan". The maximum number of shares reserved and available for issuance under these plans is restricted to 300,000 shares. For purposes of this limitation, the shares underlying any awards which are forfeited, canceled, reacquired by the Company, satisfied without the issuance of share or otherwise terminated (other than by exercise) are added back to the authorized share number under the plan. All options are exercisable at the exercise price of each option, as determined on the grant date. Each share option expires on the date that is generally the earlier of 5 years from the date of grant or such earlier date as may be set out in the participant's award agreement.

### *Incentive Share Option Plan*

On January 1, 2015, the directors of the Company authorized the establishment of the "Incentive Share Option Plan" with the objective of attracting, retaining and motivating key employees, officers and directors in long-term success of the Company.

There were no incentive share options issued in the three months ended March 31, 2021.

**Notes to the Condensed Interim Consolidated Financial Statements**

Three months ended March 31, 2021 and 2020 (Unaudited - in US dollars unless otherwise stated)

*Non-qualified Share Option Plan*

On January 1, 2015, the directors of the Company authorized the establishment of the “Non-qualified Share Option Plan”. Non-Qualified Share Options are granted to external consultants (whether individuals or entities) as part of the consideration for services rendered. All Share Options that are not designated as Incentive Share Options or do not qualify as Incentive Share Options are deemed Non-Qualified Share Options.

There were no non-qualified share options issued in the three months ended March 31, 2021.

During the three months ended March 31, 2021, the Company incurred share-based payment expenses to employees, consultants and directors of the Company in the amount of \$48,325 (2020 - \$99,769) in relation to its share option programs as a result of the vesting of previous grants.

The Company observed similar public companies in order to estimate volatility over the estimated life of the options. Changes in these variables can materially impact the estimated fair value of share-based compensation and consequently, the related amount recognized to share-based compensation expenses in the consolidated statements of loss and comprehensive loss.

**9. Litigation**

The Company is subject to routine legal proceedings. The Company does not believe that the outcome of any of these matters, individually or in aggregate, would have a material adverse effect on its consolidated losses, cash flow or financial position.

**10. Leases****Short Term Leases**

The Company and its subsidiaries are parties to various rent and software license costs. For leases in which the lease has a term less than 12 months on the commencement date, all commitments are on a month-to-month basis and can be cancelled at any time within a 30 to 60-day notice period.

The following is a summary of the right of use asset and lease liabilities as reported on the statements of financial position:

|                            |    | March 31<br>2021 |    | December 31<br>2020 |
|----------------------------|----|------------------|----|---------------------|
| <b>Right of use assets</b> |    |                  |    |                     |
| Opening right-of-use asset | \$ | 969,884          | \$ | 331,007             |
| New leases                 |    | -                |    | 618,883             |
| Foreign exchange           |    | 10,381           |    | 19,994              |
| Closing right of use asset |    | 980,265          |    | 969,884             |

**Notes to the Condensed Interim Consolidated Financial Statements**

Three months ended March 31, 2021 and 2020 (Unaudited - in US dollars unless otherwise stated)

|                                  |    |                |                |
|----------------------------------|----|----------------|----------------|
| <b>Accumulated depreciation</b>  |    |                |                |
| Opening accumulated depreciation | \$ | (376,532)      | \$ (258,643)   |
| Depreciation for the period      |    | (31,392)       | (110,291)      |
| Foreign exchange                 |    | (3,204)        | (7,598)        |
| Closing accumulated depreciation |    | (411,128)      | (376,532)      |
| <b>Right of use assets, net</b>  |    | <b>569,137</b> | <b>593,352</b> |
| <b>Lease liabilities</b>         |    |                |                |
| Opening Lease Liability          | \$ | 610,152        | \$ 35,520      |
| Accretion during the year        |    | 11,835         | 16,119         |
| Principal payments               |    | (38,341)       | (61,106)       |
| New leases                       |    | -              | 605,316        |
| Foreign exchange                 |    | 7,421          | 14,303         |
| Closing lease liabilities        |    | 591,067        | 610,152        |
| <b>Current portion</b>           |    | <b>112,274</b> | <b>108,702</b> |
| <b>Non-Current portion</b>       |    | <b>478,793</b> | <b>501,450</b> |

The weighted average incremental borrowing rate for the lease liabilities was estimated to be 8%.

Right-of-use assets are amortized over the expected average lease term of 5 years.

**11. Financial risks****Currency risk**

The Company is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Company has revenue and purchases that are denominated in a currency other than the functional currency of the Company, being the US dollar. These transactions are primarily denominated in Canadian dollars. The Company does not currently enter into forward contracts to mitigate this risk. There have been no changes in the risk exposure from fiscal 2020.

**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 through ongoing review of accounts receivable balances; following up on amounts past due; and management of cash.

**Notes to the Condensed Interim Consolidated Financial Statements**

Three months ended March 31, 2021 and 2020 (Unaudited - in US dollars unless otherwise stated)

These financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business. The following tables outline the Company's remaining contractual maturities for its non-derivative financial liabilities based on the earliest date the Company is required to make payment on these amounts:

|  | Carrying Amount  | Total            | Contractual payments due |                |                |
|--|------------------|------------------|--------------------------|----------------|----------------|
|  |                  |                  | Less than 1 year         | 1-3 years      | After 3 years  |
| Trade payables and accrued liabilities | \$1,763,099      | \$ 1,763,099     | \$ 1,763,099             | \$ –           | \$ –           |
| Lease liabilities                      | 591,067          | 700,709          | 154,472                  | 313,864        | 232,373        |
| Loans Payable                          | 354,133          | 437,160          | 198,600                  | 59,638         | 178,922        |
| Convertible debt                       | 3,054,986        | 3,758,090        | 3,758,090                | -              | -              |
| <b>Total</b>                           | <b>5,409,152</b> | <b>6,659,058</b> | <b>5,874,261</b>         | <b>373,502</b> | <b>411,295</b> |

Contractual payments due are inclusive of the imputed interest that is excluded in the carrying amount. Due to the stage of completion of the qualifying transaction with Roosevelt Capital Group Inc., all convertible debt has been classified as current. See subsequent events.

**Credit risk**

Credit risk is that a counterparty will not meet its obligation under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities primarily from cash and trade and other receivables. As at March 31, 2021 the trade and other receivables were within normal repayment terms.

**Interest rate risk**

The Company's sole non derivative variable interest rate exposure is associated with its loan with Roosevelt Capital Group Inc.; see Note 16.

**12. Derivative financial instruments and convertible notes**

During 2020, the Company had a voluntary conversion of a portion of its then issued and outstanding unsecured convertible debentures into share capital of the Company at \$5 per share with the remaining portion of these debentures rolling into a new unsecured convertible debenture offering that was made open for further subscription. Upon this event, the Company recognized a fair value loss on extinguishment of \$156,480 on the terminated notes. In addition to the amount rolled from the old notes, the new convertible debenture had aggregate proceeds of \$2,626,886 to December 31, 2020 and a further \$223,925 in the three months ended March 31, 2021. These notes bear interest at prime + 10%, have a maturity date of 18 months from the date of each individual agreement and are automatically convertible to common shares in a qualifying transaction at an 20% discount of the price per share. A qualifying transaction is defined as a transaction pursuant to which the Company (a) merges, amalgamates, or consolidates with or into any other company or business entity in which the Company is not the surviving entity and the Company's shareholders hold less than 50% of the surviving entity, (b) sells all or substantially all of its issued and outstanding shares of Common Stock or (c) completes and initial public offering of shares of Common Stock or

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other going public transaction. If the convertible debenture is outstanding upon maturity the holder has a right to either convert all of the principal and accrued but unpaid interest into Common Stock at a price of \$10 per share or have all principal and accrued but unpaid interest converted to Common Stock paid in full. As the closing of the qualifying transaction with Roosevelt Capital Group Inc (see Note 17) was closed subsequent to March 31, 2021, the Company classified all derivative liabilities and convertible notes as current.

**Inputs for measurement of issuance date fair values**

As the conversion feature results in a variable number of shares, they do not meet the fixed-for-fixed condition and accordingly, are accounted for as a derivative liability. At the end of each reporting period, the conversion feature of the derivative liabilities is measured at fair value with any gains or losses recorded in the consolidated statements of loss and comprehensive loss. The fair value of the conversion feature was estimated using a Black Scholes model and the assumptions at the issuance date and revaluation dates were as follows for the currently open convertible debt tranche:

|                                    | <b>Issuance date</b><br><b>January 31, 2021</b> | <b>Revaluation date</b><br><b>March 31, 2021</b> |
|------------------------------------|---|--|
| Risk-free interest rate            | .11%  | .05%   |
| Expected Volatility                | 132%  | 71%-134%   |
| Share price                        | \$8.76  | \$18.4   |
| Expected life                      | 1.5 years                                       | 0.5 - 1.34 years                                 |
| Expected dividends                 | \$0   | \$0  |
| Probability of qualified financing | 95%   | 99%  |

The summary of the convertible debt liability and related conversion features is as follows:

|                                       | Debt host value | Derivative liability | Total     |
|---------------------------------------|-----------------|----------------------|-----------|
| <b>Balance at December 31, 2020</b>   | 2,662,364       | 928,670              | 3,591,034 |
| New debt issued net of issuance costs | 158,261         | 59,897               | 218,158   |
| Interest and accretion expense        | 234,361         | –                    | 234,361   |
| Fair value adjustments                | –               | (269,861)            | (269,861) |
| <b>Balance at March 31, 2021</b>      | 3,054,986       | 718,706              | 3,773,692 |

**Notes to the Condensed Interim Consolidated Financial Statements**

Three months ended March 31, 2021 and 2020 (Unaudited - in US dollars unless otherwise stated)

**13. Supplementary cash flow information****Change in working capital for the three months ended March 31, 2021 and 2020**

|  | 2021            | 2020            |
|--|-----------------|-----------------|
| Trade and other receivables            | (47,343)        | 77,778          |
| Prepaid expenses and deposits          | 14,460          | 4,367           |
| Inventory                              | (137,343)       | (67,059)        |
| Contract assets                        | (6,952)         | 9,034           |
| Trade payables and accrued liabilities | 343,145         | (18,361)        |
| Deferred revenue                       | (218,783)       | (15,796)        |
| Advances to related parties            | 30,863          | (3,807)         |
| <b>Total change in working capital</b> | <b>(21,953)</b> | <b>(13,844)</b> |

**14. Related party transactions**

During the three months ended March 31, 2021 the Company has recorded an expense associated with consulting fees and wages to directors and their wholly owned companies of \$248,769 (2020 - \$76,124).

The notes payable previously recorded on the statements of financial position, represented notes due to a company controlled by a director of the Company. During 2015, the Company issued a promissory note in the amount of \$570,168 (CAD\$685,000) bearing interest at prime + 2%. The note maturity was September 15, 2019 and the note was secured against the assets of the Company. On March 27, 2020, the note, accrued interest and a forbearance fee were converted into common shares of the Company at the conversion price of \$5 per share.

Interest associated with the above notes payable totalled nil for the three months ended March 31, 2021 (2020 - \$17,210).

The advances to/from related parties, relate to advances to/from certain directors of the Company. These amounts have no fixed repayment terms, are unsecured and are non-interest bearing.

Compensation for key management personnel, including the Company's officers and Board of Directors, and private companies controlled by the Company's Officers and Board of Directors, was as follows:

|  | 2021           | 2020           |
|--|----------------|----------------|
| Contractor expense for services          | \$146,793      | \$37,824       |
| Wages                                    | 101,976        | 38,300         |
| Share-based payments expense             | 18,028         | 46,916         |
| <b>Total key management compensation</b> | <b>266,797</b> | <b>123,037</b> |

**Notes to the Condensed Interim Consolidated Financial Statements**

Three months ended March 31, 2021 and 2020 (Unaudited - in US dollars unless otherwise stated)

**15. Revenue from contracts with customers**

The Company earned revenue from the following geographical areas in the three months ended March 31:

|                      | Three Months ended<br>March 31, 2021 | Three Months ended<br>March 31, 2020 |
|----------------------|--------------------------------------|--------------------------------------|
| Canada               | 255,284                              | 49,485                               |
| United States        | 47,560                               | 69,287                               |
| <b>Total revenue</b> | <b>302,844</b>                       | <b>118,772</b>                       |

**16. Loans Payable**

In the three months ended March 31, 2020, the company received \$300,000CAD of its \$500,000 CAD Business Scale Up and Productivity Contribution Agreement with the Federal Economic Development Agency for Southern Ontario. The facility is designed to assist with the Company's scale up in the North American markets, is non-interest bearing with repayments commencing in June 2023. The Company has recognized US\$84,477 of government funding as a result of the below market interest rate and is amortizing the balance owing over the repayment period of 7 years. The carrying amount of this loan at March 31, 2021 is US\$155,533.

On February 26, 2021, Roosevelt Capital Group advanced a secured loan in the amount of \$250,000 CAD to the Company. The loan carries interest at a rate of prime plus 5% which accrues and is compounded on a monthly basis. The loan was evidenced by a loan agreement and secured by a general security agreement and is payable on demand on the maturity date, being the closing date or termination of the qualifying transaction.

**17. Subsequent events**

On April 5, 2021 the Company and Roosevelt Capital Group Inc. received conditional approval from the TSXV for the closing of the proposed qualifying transaction. A filing statement in respect of the transaction was prepared in accordance with the requirements of the TSXV.

On April 12, 2021, the Company and Roosevelt Capital Group Inc. completed its qualifying transaction. As a result of this transaction, the Company became a wholly owned subsidiary of 12632926 Canada Ltd which in turn became a wholly owned subsidiary of Roosevelt Capital Group Inc. Roosevelt changed its name to Cloud DX Inc. and continued business under the jurisdiction of the CBCA and adopted new articles and bylaws. The subscription receipts issued by 12632926 Canada Ltd in connection with a private placement offering undertaken in connection with this transaction were also exchanged and net proceeds of approximately \$5.5M CAD were released.

On April 14, 2021, the final bulletin was issued by the Exchange and on April 15, 2021, the resultant company began trading on the TSXV under the symbol "CDX".