



MINERVA
INTELLIGENCE

Minerva Intelligence Inc.

Unaudited Condensed Consolidated Interim Financial Statements
For the Nine-Month Period ended September 30, 2020

Unaudited

Prepared by Management

Notice to Reader

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

The accompanying unaudited condensed consolidated interim financial statements have been prepared by and are the responsibility of management.

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

Minerva Intelligence Inc.

Unaudited Condensed Consolidated Interim Statements of Financial Position

September 30, 2020 and December 31, 2019

(Stated in Canadian Dollars)

| | Note | September 30, 2020 | December 31, 2019 |
|---|------|----------------------------|----------------------------|
| Assets | | | |
| Current Assets | | | |
| Cash | | \$ 1,972,060 | \$ 3,948,299 |
| GST receivable | | 36,932 | 34,098 |
| Accounts receivable | | - | 49,521 |
| Prepaid and other expenses | | 82,198 | 74,369 |
| | | <u>2,091,190</u> | <u>4,106,287</u> |
| Non-Current Assets | | | |
| Equipment | 5 | 52,508 | 79,559 |
| Right of use assets | 6 | 89,895 | 126,931 |
| Intangible assets | 7 | 268,363 | 335,454 |
| | | <u>350,766</u> | <u>541,944</u> |
| Total Assets | | <u>\$ 2,501,956</u> | <u>\$ 4,648,231</u> |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | 12 | \$ 148,687 | \$ 312,425 |
| Lease liability - current portion | 8 | 58,266 | \$ 62,608 |
| Deposits | | 28,343 | - |
| | | <u>235,296</u> | <u>375,033</u> |
| Other Liabilities | | | |
| Lease liability | 8 | 16,843 | 52,736 |
| | | <u>16,843</u> | <u>52,736</u> |
| Shareholders' Equity | | | |
| Common shares | 9 | 9,442,692 | 9,442,692 |
| Option reserve | 9 | 477,921 | 424,917 |
| Deficit | | (7,670,796) | (5,647,147) |
| Total Equity (Deficiency) | | <u>2,249,817</u> | <u>4,220,462</u> |
| Total Liabilities and Shareholders' Equity | | <u>\$ 2,501,956</u> | <u>\$ 4,648,231</u> |

Approved on behalf of the Board of Directors on November 17, 2020 by:

"Scott Tillman"

Director

"Clinton Smyth"

Director

Minerva Intelligence Inc.

Unaudited Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

For the periods ended September 30, 2020 and 2019

(Stated in Canadian Dollars)

| | Note | Three month period ended September 30, | | Nine month period ended September 30, | |
|---|-------|--|---------------------|---------------------------------------|-----------------------|
| | | 2020 | 2019 | 2020 | 2019 |
| Sales | | \$ 148,984 | \$ - | \$ 201,984 | \$ 172,600 |
| Expenses | | | | | |
| Advertising and promotion | | 46,520 | 8,068 | 164,267 | 83,094 |
| Amortization | 5,6,7 | 45,632 | 39,744 | 136,146 | 118,522 |
| Consulting - Corporate development | | - | 29,917 | 26,198 | 183,670 |
| Consulting - Product development | | 92,813 | 115,497 | 200,669 | 407,277 |
| Directors fees | 12 | 16,800 | 22,500 | 64,500 | 30,000 |
| General and administrative | | 25,069 | 41,667 | 88,458 | 100,481 |
| Outsourced services | | - | - | 31,800 | 64,578 |
| Professional fees | | 9,427 | 12,635 | 71,016 | 40,334 |
| Research and development | | - | - | - | 6,000 |
| Salaries and wages | 12 | 480,262 | 348,088 | 1,495,943 | 889,090 |
| Share-based compensation | 9, 12 | 4,626 | 2,863 | 53,004 | 33,333 |
| Software application subscriptions | | 49,517 | 44,438 | 74,187 | 70,744 |
| Transfer agent and filing fees | | 3,481 | 6,284 | 10,864 | 7,407 |
| Travel | | 2,229 | 36,554 | 23,770 | 109,576 |
| | | <u>(776,376)</u> | <u>(708,255)</u> | <u>(2,440,822)</u> | <u>(2,144,106)</u> |
| Loss from Operations | | (627,392) | (708,255) | (2,238,838) | (1,971,506) |
| Other Items | | | | | |
| Foreign exchange gain (loss) | | (3,920) | 47,321 | 192,482 | (220,114) |
| Interest Expense | | (1,009) | (583) | (3,511) | (1,750) |
| Interest Income | | 6,220 | 21,037 | 26,218 | 26,112 |
| Listing expense | | - | - | - | (856,686) |
| | | <u>1,291</u> | <u>67,775</u> | <u>215,189</u> | <u>(1,052,438)</u> |
| Loss and comprehensive loss | | \$ (626,101) | \$ (640,480) | \$ (2,023,649) | \$ (3,023,944) |
| Loss per share: | | | | | |
| Basic and diluted | | <u>\$ (0.01)</u> | <u>\$ (0.02)</u> | <u>\$ (0.05)</u> | <u>\$ (0.13)</u> |
| Weighted average number of common shares outstanding | | | | | |
| Basic and diluted | | <u>44,675,005</u> | <u>39,575,005</u> | <u>44,675,005</u> | <u>23,518,936</u> |

Minerva Intelligence Inc.

Unaudited Condensed Consolidated Interim Statements of Changes in Shareholders' Equity For the periods ended September 30, 2020 and 2019

(Stated in Canadian Dollars)

| | Common Shares | | | | Total Shareholders' Equity | |
|--------------------------------------|---------------|-------------------|---------------------|-------------------|-------------------------------|------------------|
| | Note | Number of Shares | Amount | Option reserve | | Deficit |
| Balance at December 31, 2018 | | 38,575,005 | \$ 8,250,723 | \$ 335,353 | \$ (1,557,149) | 7,028,927 |
| Reverse takeover | 3 | 3,100,000 | 790,500 | 48,000 | - | 838,500 |
| Finders fees | 3 | 1,000,000 | 255,000 | - | - | 255,000 |
| Share-based compensation | | - | - | 33,334 | - | 33,334 |
| Loss for the period | | - | - | - | (3,023,944) | (3,023,944) |
| Balance at September 30, 2019 | | 42,675,005 | \$ 9,296,223 | \$ 416,687 | \$ (4,581,093) | 5,131,817 |
| Issue of common shares for cash | 3 | 2,000,000 | 150,000 | - | - | 150,000 |
| Share issuance costs | | - | (3,531) | - | - | (3,531) |
| Share-based compensation | 9 | - | - | 8,230 | - | 8,230 |
| Loss for the period | | - | - | - | (1,066,054) | (1,066,054) |
| Balance at December 31, 2019 | | 44,675,005 | 9,442,692 | 424,917 | (5,647,147) | 4,220,462 |
| Share-based compensation | 9 | - | - | 53,004 | - | 53,004 |
| Loss for the period | | - | - | - | (2,023,649) | (2,023,649) |
| Balance at September 30, 2020 | | 44,675,005 | \$ 9,442,692 | \$ 477,921 | \$ (7,670,796) | 2,249,817 |

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

Minerva Intelligence Inc.

Unaudited Condensed Consolidated Interim Statements of Cash Flows

For the periods ended September 30, 2020 and 2019

(Stated in Canadian Dollars)

| | Nine month period ended September 30, | |
|--|---------------------------------------|---------------------|
| | 2020 | 2019 |
| Operating Activities | | |
| Loss for the period | \$ (2,023,649) | \$ (2,167,257) |
| Items not involving cash | | |
| Amortization | 136,146 | 118,522 |
| Share-based compensation | 53,004 | 33,333 |
| Unrealize foreign exchange (gain) loss | 1,207 | 122,733 |
| Changes in non-cash working capital items | | |
| GST receivable | (2,834) | (11,765) |
| Accounts receivable | 49,521 | 26,259 |
| Due from related party | - | - |
| Prepaid expenses | (7,829) | (23,871) |
| Accounts payable and accrued liabilities | (163,738) | (46,906) |
| Cash used in operating activities | <u>(1,958,172)</u> | <u>(1,948,952)</u> |
| Financing Activities | | |
| Cash received on reverse takeover | - | 320,684 |
| Payment of lease obligations | (43,700) | (50,180) |
| Cash provided by financing activities | <u>(43,700)</u> | <u>270,504</u> |
| Investing Activities | | |
| Disposal (acquisition) of equipment | (1,815) | (15,979) |
| Deposit | 28,343 | (1,140) |
| Cash used by investing activities | <u>26,528</u> | <u>(17,119)</u> |
| Effect of exchange differences on cash | (895) | (122,733) |
| Net change in cash | (1,976,239) | (1,818,300) |
| Cash, beginning balance | <u>3,948,299</u> | <u>6,595,908</u> |
| Cash, ending balance | <u>\$ 1,972,060</u> | <u>\$ 4,777,608</u> |

Minerva Intelligence Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the periods ended September 30, 2020 and 2019

(Stated in Canadian Dollars)

1. Nature and Continuance of Operations

Minerva Intelligence Inc. (formerly Two Owls Ventures Corp.) (the “Company” or “Two Owls”) was incorporated on August 16, 2017 pursuant to the *Business Corporations Act* of British Columbia and was classified as a Capital Pool Company as defined in the TSX Venture Exchange (“TSX-V”) Policy 2.4. On March 14, 2018, the Company completed its Initial Public Offering (“IPO”) and on March 26, 2018, the Company’s shares commenced trading on the TSX-V.

On February 22, 2019, the Company incorporated a wholly owned subsidiary, 1198574 B.C. Ltd., under the *Business Corporations Act* (British Columbia). This subsidiary was incorporated solely for the purpose of completing the Qualifying Transaction (“QT”) discussed in Note 3.

Minerva Intelligence (Canada) Ltd. (formerly Minerva Intelligence Inc.) (“Minerva Canada”) was incorporated on May 17, 2017 pursuant to the Business Corporations Act of Ontario. On April 23, 2019, Minerva Canada continued its jurisdiction of incorporation from Ontario to British Columbia, to become subject to the B.C. *Business Corporations Act* (“BCBCA”).

During the year ended December 31, 2019, the Company acquired Minerva Canada. See Note 3.

On September 24, 2019, the Company established a German subsidiary company, Minerva Intelligence GmbH.

The head office of the Company is located at Suite 301, 850 West Hastings Street, Vancouver, British Columbia V6C 1E1. The registered office of the Company is located at 2900 - 595 Burrard Street, Vancouver, B.C. V7X 1J5.

The Company has developed artificial intelligence (“AI”) software for industries dependent on reasoning with complex technical and scientific data. The Company’s AI combines proprietary evidence-based decision-making software with human intelligence to reach conclusions faster than possible by humans alone, while providing actionable and auditable advice to the client. The Company is currently pursuing two industries: Geology and Geohazards.

These unaudited condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern, which contemplates the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Future operations are dependent on the Company’s ability to raise additional financing and the attainment of profitable operations. The Company will require equity or debt financings in order to continue research and development of its intangible assets and fund its administrative operations. These material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern.

These unaudited condensed consolidated interim financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

On March 11, 2020, the World Health Organization categorized COVID-19 as a pandemic. The potential economic effects within the entity’s environment and in the global markets, possible disruption in supply chains, and measures being introduced at various levels of government to curtail the spread of the virus (such as travel restrictions, closures of non-essential municipal and private operations, imposition of quarantines and social distancing) could have a material impact on the entity’s operations. The extent of the impact of this outbreak and related containment measures on the entity’s operations cannot be reliably estimated at the date of these financial statements.

Minerva Intelligence Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the periods ended September 30, 2020 and 2019

(Stated in Canadian Dollars)

2. Basis of Preparation

Statement of compliance

These unaudited condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting under International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). These unaudited condensed consolidated interim financial statements follow the same accounting policies and methods of application as the Company’s most recent annual financial statements, except as disclosed on adoption of IFRS 16, but do not contain all of the information required for full annual financial statements. Accordingly, these unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s most recent annual financial statements, which were prepared in accordance with IFRS as issued by the IASB.

Basis of presentation

The unaudited condensed consolidated interim financial statements have been prepared on an accrual basis, except for cash flow information, and are based on historical costs except for certain financial instruments, which are measured at fair value. The unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is also the Company’s functional currency, unless otherwise indicated. The preparation of the unaudited condensed consolidated interim financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the unaudited condensed consolidated interim financial statements are disclosed in Note 4.

The unaudited condensed consolidated interim financial statements include the accounts of the following entities:

| | Relationship | Percentage |
|---|--------------|------------|
| Minerva Intelligence Inc. (formerly Two Owls Ventures Corp.) | Parent | 100% |
| Minerva Intelligence (Canada) Ltd. (formerly Minerva Intelligence Inc.) | Subsidiary | 100% |
| Minerva Intelligence GmbH | Subsidiary | 100% |

Inter-company balances and transactions are eliminated on consolidation.

Minerva Intelligence Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the periods ended September 30, 2020 and 2019

(Stated in Canadian Dollars)

3. Summary of Significant Accounting Policies

The accounting policies applied in these unaudited condensed consolidated interim financial statements are the same as those applied in the Company's annual audited financial statements for the year ended December 31, 2019.

Acquisition of Minerva Intelligence (Canada) Ltd.

On May 23, 2019 the Company closed its arm's length QT, by acquiring all of the issued and outstanding shares of Minerva Intelligence (Canada) Ltd. from the former holders thereof, in exchange for shares of the Company. Pursuant to a Plan of Arrangement and Arrangement Agreement (the "Arrangement") the following was completed during the year:

- the Company completed a consolidation of its 6,200,000 outstanding common shares on a two-for-one basis (resulting in 3,100,000 shares outstanding);
- the Company changed its name to "Minerva Intelligence Inc.";
- Minerva Canada continued its jurisdiction of incorporation from Ontario to British Columbia, to become subject to the B.C. *Business Corporations Act* ("BCBCA");
- Minerva Canada amalgamated with 1198574 B.C. Ltd. (a wholly owned subsidiary of the Company) and continued as "Minerva Intelligence (Canada) Ltd." under the BCBCA;
- the Company issued an aggregate of 38,575,005 post-consolidated shares in exchange for all of the outstanding shares of Minerva; and
- the Company also issued (i) 1,000,000 post-consolidated shares as a finder's fee, and (ii) a total of 1,950,000 stock options in replacement of outstanding options in the capital of Minerva, each new option entitling the holder to acquire one share of the Company at the exercise price of \$0.2534 per share.

As a result of the QT, the former shareholders of Minerva Canada own in excess of 50% of the outstanding shares of the amalgamated entity. For accounting purposes Minerva Canada is considered to be the accounting acquirer and therefore, the corporate merger has been accounted for as a reverse takeover. For financial reporting purposes, the Company is considered a continuation of Minerva Canada, the legal subsidiary, except with regard to authorized and issued share capital which is that of the Company, the legal parent. Consequently, certain comparative amounts in these unaudited condensed consolidated interim financial statements are those of Minerva Canada only.

Minerva Intelligence Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the periods ended September 30, 2020 and 2019

(Stated in Canadian Dollars)

4. Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both. Information about critical estimates and judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the unaudited condensed consolidated interim financial statements are discussed below:

Share-based Payment Transactions related to Equities

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them.

Deferred tax assets

Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

Economic recoverability and probability of future economic benefits of intangible assets and amortization

Management has determined that intangible asset costs incurred which were capitalized have future economic benefits and will be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including anticipated cash flows and estimated economic life. The amortization expense related to intangible assets has been determined using estimates relating to the useful life of the intangible assets.

Judgments that have the most significant effect on the amounts recognized in these unaudited condensed consolidated interim financial statements include:

Determination of functional currency

The functional currency of the Company is the currency of the primary economic environment in which it operates. Determination of the functional currency may involve certain judgments to determine the primary economic environment. The functional currency may change if there is a change in events and conditions which determine the primary economic environment.

Minerva Intelligence Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the periods ended September 30, 2020 and 2019

(Stated in Canadian Dollars)

5. Equipment

| | Leasehold Improvements | Furniture and Fixtures | Computer Equipment | Total |
|--|---------------------------|---------------------------|-----------------------|--------------------|
| Cost: | | | | |
| December 31, 2019 | \$ 28,503 | \$ 19,698 | \$ 65,501 | \$ 113,702 |
| Additions | - | - | 2,035 | 2,035 |
| Disposals | - | (220) | - | (220) |
| September 30, 2020 | \$ 28,503 | \$ 19,478 | \$ 67,536 | \$ 115,517 |
| Depreciation: | | | | |
| December 31, 2019 | \$ (1,521) | \$ (2,213) | \$ (30,409) | \$ (34,143) |
| Additions | (9,501) | (2,937) | (16,428) | (28,866) |
| September 30, 2020 | \$ (11,022) | \$ (5,150) | \$ (46,837) | \$ (63,009) |
| Net book value: At September 30, 2020 | \$ 17,481 | \$ 14,328 | \$ 20,699 | \$ 52,508 |
| Cost: | | | | |
| December 31, 2018 | \$ - | \$ 4,533 | \$ 41,252 | \$ 45,785 |
| Additions | 28,503 | 15,165 | 24,249 | 67,917 |
| December 31, 2019 | \$ 28,503 | \$ 19,698 | \$ 65,501 | \$ 113,702 |
| Depreciation: | | | | |
| December 31, 2018 | \$ - | \$ (831) | \$ (15,170) | \$ (16,001) |
| Additions | (1,521) | (1,382) | (15,239) | (18,142) |
| December 31, 2019 | \$ (1,521) | \$ (2,213) | \$ (30,409) | \$ (34,143) |
| Net book value: At December 31, 2019 | \$ 26,982 | \$ 17,485 | \$ 35,092 | \$ 79,559 |

Minerva Intelligence Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the periods ended September 30, 2020 and 2019

(Stated in Canadian Dollars)

6. Right-of-Use Assets

| | Nine month period ended September 30, 2020 | Year ended December 31, 2019 |
|---|--|---------------------------------|
| Cost: | | |
| Opening balance | \$ 179,479 | \$ - |
| Right of use asset at recognition | - | 162,021 |
| Lease deposits reclassified from prepaid expenses | - | 10,480 |
| Lease deposit and other adjustments | 4,664 | 6,978 |
| Closing balance | <u>\$ 184,143</u> | <u>\$ 179,479</u> |
| Amortization: | | |
| Opening balance | \$ (52,548) | \$ - |
| Amortization | (41,700) | (52,548) |
| Closing balance | <u>\$ (94,248)</u> | <u>\$ (52,548)</u> |
| Net balance at period end | <u>\$ 89,895</u> | <u>\$ 126,931</u> |

On October 16, 2018, the Company renewed the lease on its head office, consolidating two prior leases which were to expire on October 31, 2018 and January 31, 2019, respectively. On March 4, 2019, the Company added an addendum to the lease for another contiguous office space with an effective date of July 1, 2019. The lease for the amalgamated office space expires on January 31, 2022. There are no other leases in effect.

The right-of-use asset is measured based on the initial amount of the lease liability adjusted for any initial direct costs incurred, less any lease incentives received. The right-of-use assets are subsequently amortized from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term using the straight-line method. The lease term includes consideration of an option to renew or to terminate if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset may be periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The Company determined that January 1, 2019 was the appropriate commencement date, with the lease term being 37 months.

Minerva Intelligence Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the periods ended September 30, 2020 and 2019

(Stated in Canadian Dollars)

7. Intangible Assets

During the year ended December 31, 2017, Minerva Canada purchased certain intangible assets from a private company with Directors in common for \$123,490 (USD\$100,000). The acquired intangible assets were used in the development of the Company's internally generated intangible assets. During the year ended December 31, 2018 the Company commenced using the assets with its clients on a limited basis while continuing to enhance the software. During 2019 there were no additions to intangible assets.

The Company reviews the intangible assets for amortization and impairment each reporting period, and is amortizing the software over a period of five years. Amortization of \$67,091 was recognized during the nine-month period ended September 30, 2020 (2019: \$67,091).

| | Nine month period ended September 30, 2020 | Year ended December 31, 2019 |
|---------------------------|---|------------------------------------|
| Cost: | | |
| Opening balance | \$ 447,272 | \$ 447,272 |
| Amortization: | | |
| Opening balance | \$ (111,818) | \$ (22,364) |
| Additions | (67,091) | (89,454) |
| Closing balance | <u>\$ (178,909)</u> | <u>\$ (111,818)</u> |
| Net balance at period end | <u>\$ 268,363</u> | <u>\$ 335,454</u> |

Minerva Intelligence Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the periods ended September 30, 2020 and 2019

(Stated in Canadian Dollars)

8. Lease Liability

| | Nine month period ended September 30, 2020 | Year ended December 31, 2019 |
|--------------------------------------|--|---------------------------------|
| Opening balance | \$ 115,344 | \$ - |
| Lease liability at adoption | - | 162,021 |
| Payments applied | (43,746) | (49,592) |
| Interest expense | 3,511 | 2,915 |
| Closing balance | <u>\$ 75,109</u> | <u>\$ 115,344</u> |
| | | |
| Current portion or lease liability | \$ 58,266 | \$ 62,608 |
| Long term portion of lease liability | 16,843 | 52,736 |
| Closing balance | <u>\$ 75,109</u> | <u>\$ 115,344</u> |

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method.

The Company determined that January 1, 2019 was the appropriate commencement date. The term of the lease is for 37 months, with a discount rate of 5%, being the interest rate specified in the lease for certain payments.

Minerva Intelligence Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the periods ended September 30, 2020 and 2019

(Stated in Canadian Dollars)

9. Shareholders' Equity

Authorized and issued share capital

The Company has authorized an unlimited number of common shares without par value.

During the nine-month period ended September 30, 2020, there were no share issuances.

During the year ended December 31, 2019, the Company completed an amalgamation and a private placement which resulted in the following share transactions:

- 6,200,000 outstanding common shares were consolidated on a two-for-one basis, resulting in 3,100,000 shares outstanding;
- 38,575,005 post-consolidated common shares were issued in exchange for all of the outstanding shares of Minerva Canada at a price of \$0.255 per common share;
- 1,000,000 post-consolidated common shares were issued at a price of \$0.255 as a finder's fee; and
- 2,000,000 common shares were issued pursuant to a non-brokered private placement at \$0.075 per share to raise \$150,000. The CEO of the Company was the sole subscriber to the placement. No finder's fees were paid in connection with this placement.

As of March 31, 2020, and December 31, 2019, the Company has 44,675,005 shares issued and outstanding.

As of September 30, 2020, a total of 7,000,003 common shares were subject to escrow restrictions (2019: 9,575,003). All escrowed shares will be released from escrow as to 10% on completion of the QT (released), and an additional 15% every six months thereafter over 36 months.

Minerva Intelligence Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the periods ended September 30, 2020 and 2019

(Stated in Canadian Dollars)

9. Shareholders' Equity (continued)

Stock options

The Company has adopted an incentive stock option plan in accordance with the policies of the TSX-V (the "Stock Option Plan") which provides that the Board of Directors of the Company may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Company non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance under the Stock Option Plan shall not exceed ten percent (10%) of the then issued and outstanding common shares. The options will be exercisable for a year of up to ten (10) years. In addition, the number of common shares reserved for issuance to any one person shall not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to any one consultant will not exceed two percent (2%) of the issued and outstanding common shares. The Board of Directors will determine the price per common share and the number of common shares which may be allocated to each director, officer, employee and consultant and all other terms and conditions of the option, subject to the rules of TSX-V.

| | September 30, 2020 | | December 31, 2019 | |
|--------------------------------------|--------------------|---------------------------------|-------------------|---------------------------------|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of the period | 2,887,500 | 0.25 | 1950000 | 0.25 |
| Issued to replace Two Owls options | - | - | 310,000 | 0.25 |
| Granted | - | - | 250,000 | 0.13 |
| | 61,500 | 0.10 | 178,500 | 0.10 |
| | 82,000 | 0.30 | 238,000 | 0.30 |
| | 61,500 | 0.50 | 178,500 | 0.50 |
| | 1,081,625 | 0.07 | - | - |
| Cancelled and Expired | (233,875) | 0.25 | (217,500) | 0.20 |
| Outstanding, end of the period | <u>3,940,250</u> | <u>\$ 0.20</u> | <u>2,887,500</u> | <u>\$ 0.25</u> |

Minerva Intelligence Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the periods ended September 30, 2020 and 2019

(Stated in Canadian Dollars)

9. Shareholders' Equity (continued)

Stock options outstanding at September 30, 2020 are as follows:

| Expiry Date | Outstanding | Exercisable | Exercise Price per Share | Remaining Contractual Life (years) |
|-------------|------------------|------------------|-----------------------------|--|
| 2022-07-22 | 1,950,000 | 1,950,000 | \$ 0.2534 | 1.81 |
| 2023-11-01 | 250,000 | 229,163 | \$ 0.07 | 3.09 |
| 2023-11-12 | 163,500 | 127,500 | \$ 0.10 | 3.12 |
| 2023-11-12 | 218,000 | 150,904 | \$ 0.30 | 3.12 |
| 2023-11-12 | 163,500 | 117,498 | \$ 0.50 | 3.12 |
| 2023-04-07 | 1,075,250 | 1,025,000 | \$ 0.07 | 2.50 |
| 2023-08-24 | 15,000 | - | \$ 0.10 | 2.90 |
| 2023-08-24 | 20,000 | - | \$ 0.30 | 2.90 |
| 2023-08-24 | 15,000 | - | \$ 0.50 | 2.90 |
| 2023-09-01 | 10,500 | - | \$ 0.10 | 2.92 |
| 2023-09-01 | 14,000 | - | \$ 0.30 | 2.92 |
| 2023-09-01 | 10,500 | - | \$ 0.50 | 2.92 |
| 2023-09-16 | 10,500 | - | \$ 0.10 | 2.96 |
| 2023-09-16 | 14,000 | - | \$ 0.30 | 2.96 |
| 2023-09-16 | 10,500 | - | \$ 0.50 | 2.96 |
| | <u>3,940,250</u> | <u>3,600,065</u> | <u>\$ 0.20</u> | <u>2.29</u> |

During 2019, 217,500 options exercisable at \$0.20 were cancelled as a result of the QT. During the nine-month period ended September 30, 2020 a total of 233,875 options expired or were cancelled.

A further 200,000 agent's options were outstanding and are exercisable at \$0.20 per share until March 26, 2020. These options expired unexercised.

During the period, the Company granted 1,286,625 stock options. 205,000 stock options are exercisable at prices of \$0.10, \$0.30 and \$0.50 per share over a period of three years. 1,081,625 stock options are exercisable at a price of \$0.07 per share, in varying terms within the next 12 months.

The options have a total fair value, calculated using the Black-Scholes option pricing model of \$477,921 (2019 - \$432,760) assuming an expected life of varying from one to three years, a risk-free interest rate of 0.53% to 1.62%, an expected dividend rate of 0.00%, a share price varying from \$0.07 to \$0.50 and an expected annual volatility coefficient from 85% to 215%.

Minerva Intelligence Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the periods ended September 30, 2020 and 2019

(Stated in Canadian Dollars)

10. Financial Instruments

The Company is exposed to various financial risks resulting from its operations. The Company's management manages financial risks. The Company has not entered into financial instruments agreements, including derivative financial instruments for speculative purposes. The Company's main financial risk exposures and its financial policies are as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and accounts receivable are exposed to credit risk, with the carrying values being the Company's maximum exposure. The Company's cash consists of deposit accounts with chartered banks. The Company's accounts receivable consist of contract payments due from governments and companies, with the carrying values also being the Company's maximum exposure. Management believes the Company's exposure to credit risk is not significant.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's accounts payable and accrued liabilities are all current and due within 90 days of the consolidated statement of financial position date. The Company seeks to ensure that it has sufficient capital to meet short term financial obligations after taking into account its operating obligations and cash on hand.

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 equity prices.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company maintains certain cash balances in term deposits which renew periodically, and which rates reflect the market at the time of renewal. Management believes that the interest rate risk on these investments is nominal. The Company is not exposed to any other significant interest rate risk aside from the term deposits noted. Cash comprised bank balances and guaranteed investment certificates as of September 30, 2020 and December 31, 2019.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to foreign exchange risk as it engages in transactions in other foreign currencies, from time to time. As at September 30, 2020, the Company held US cash of \$34,774 (December 31, 2019: \$2,868,640), converted to CAD at a rate of 1.3363 (2019: 1.3016). A 10% change in the foreign exchange rate would have an impact on profit or loss of \$3,477 (2019: \$286,864).

Minerva Intelligence Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the periods ended September 30, 2020 and 2019

(Stated in Canadian Dollars)

10. Financial Instruments (continued)

Price risk

Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company does not have any financial instruments which are exposed to this risk.

11. Capital Management

The Company's capital currently consists of common shares. Its principal source of cash is from the issuance of common shares. The Company's capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient capital to be able to identify, evaluate, acquire, and operate an interest in businesses or assets. The Company does not have any externally imposed capital requirements to which it is subject. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares.

12. Related Party Transactions

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers. The remuneration of key management personnel during the nine-month periods ended September 30, 2020 and 2019 was as follows:

| | Three-month period ended September 30, | | Nine-month period ended September 30, | |
|----------------------------------|---|------------------|--|-------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Salaries and wages | \$ 152,229 | \$ 1,287 | \$ 436,857 | \$ 104,245 |
| Professional and consulting fees | - | 18,000 | - | 51,000 |
| Share-based compensation | - | 2,861 | 23,936 | 33,333 |
| | <u>\$ 152,229</u> | <u>\$ 22,148</u> | <u>\$ 460,793</u> | <u>\$ 188,578</u> |

Certain comparative amounts in 2019 were reclassified as some related party consultants became salaried employees.

As at September 30, 2020 accounts payable and accrued liabilities included \$6,000 (2019 - \$6,000) owing to the Chief Software Architect of the Company.

As at September 30, 2020 accounts receivable included \$nil (2019 - \$24,842 I) owing from a related party.

Minerva Intelligence Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the periods ended September 30, 2020 and 2019

(Stated in Canadian Dollars)

12. Related Party Transactions (continued)

Other related parties

The remuneration of other related parties during the three and nine-month periods ended March 31, 2020 and 2019 was as follows:

| | Three-month period ended September 30, | | Nine-month period ended September 30, | |
|----------------------------------|---|------------------|--|-------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Directors fees | \$ 27,300 | \$ 22,500 | \$ 75,000 | \$ 30,000 |
| Professional and consulting fees | - | 50,290 | - | 199,510 |
| Share-based compensation | - | - | 15,233 | 14,323 |
| | <u>\$ 27,300</u> | <u>\$ 72,790</u> | <u>\$ 90,233</u> | <u>\$ 243,833</u> |

As at September 30, 2020 accounts payable and accrued liabilities included \$nil (2019 - \$10,500) owing to other related parties. Amounts due to related parties, including amounts due to key management personnel, at September 30, 2020 are unsecured and interest free.