



**NEXTECH AR**  
**S O L U T I O N S**

**NEXTECH AR SOLUTIONS CORP.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020**

**DATED: NOVEMBER 12, 2020**

*Unless the context requires otherwise, all references in this management's discussion and analysis (the "MD&A") to "NexTech", "we", "us", "our" and the "Company" refer to NexTech AR Solutions Inc. and its subsidiaries as constituted on September 30, 2020. This MD&A has been prepared with an effective date of November 12, 2020.*

*This MD&A for the three and nine months ended September 30, 2020 should be read in conjunction with our condensed consolidated interim financial statements and the related notes thereto as at and for the three months ended March 31, 2020, six months ended June 30, 2020 and the annual audited consolidated financial statements for the year ended December 31, 2019. The financial information presented in this MD&A is derived from our interim financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A contains forward-looking statements that involve risks, uncertainties and assumptions, including statements regarding anticipated developments in future financial periods and our future plans and objectives. There can be no assurance that such information will prove to be accurate, and readers are cautioned not to place undue reliance on such forward-looking statements. See "Forward-Looking Statements".*

*This MD&A includes trade-marks, such as "NexTech", and "ARitize", which are protected under applicable intellectual property laws and are the property of NexTech. Solely for convenience, our trade-marks and trade names referred to in this MD&A may appear without the ® or ™ symbol, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trade-marks and trade names. All other trade-marks used in this MD&A are the property of their respective owners.*

*All references to \$ or dollar amounts in this MD&A are to Canadian currency unless otherwise indicated.*

*Additional information relating to the Company, including the Company's most recently completed Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).*

## **NON-IFRS MEASURES**

This MD&A makes reference to certain non-IFRS measures such as "Total Bookings" and "Backlog". These non-IFRS measures are not recognized, defined or standardized measures under IFRS. Our definition of Total Bookings and Backlog will likely differ from that used by other companies and therefore comparability may be limited.

Total Bookings: the total dollar value of all services/goods included in contracts with our customers. 'Value' is the total revenue (recognizable or not) associated with each transaction, as opposed to the amount invoiced in the period.

Backlog: the estimated unearned portion of customer contracts that are in process and have not been completed as at the specified date.

Total Bookings and Backlog should not be considered a substitute for or in isolation from measures prepared in accordance with IFRS. These non-IFRS measures should be read in conjunction with our condensed consolidated interim financial statements and the related notes thereto as at and for the three and nine months ended September 30, 2020. Readers should not place undue reliance on non-IFRS measures and should instead view them in conjunction with the most comparable IFRS financial measures. See the reconciliations to these IFRS measures in the "Reconciliation of Non-IFRS Measures" section of this MD&A.

## **FORWARD-LOOKING STATEMENTS**

This MD&A contains forward-looking statements that relate to our current expectations and views of future events. In some cases, these forward-looking statements can be identified by words or phrases such as "may", "will", "expect", "anticipate", "aim", "estimate", "intend", "plan", "seek", "believe", "potential", "continue", "is/are likely to" or the negative of these terms, or other similar expressions intended to identify forward-looking statements. Forward-looking statements are intended to assist readers in understanding management's expectations as of the date of this MD&A and may not be suitable for other purposes.

We have based these forward-looking statements on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- our expectations regarding our revenue, expenses and operations;
- our anticipated cash needs and its needs for additional financing;
- our plans for and timing of expansion of our solutions and services;
- our future growth plans;
- the acceptance by our customers and the marketplace of new technologies and solutions;
- our ability to attract new customers and develop and maintain existing customers;
- our ability to attract and retain personnel;
- our expectations with respect to advancement in our technologies;
- our competitive position and our expectations regarding competition;
- regulatory developments and the regulatory environments in which we operate; and
- anticipated trends and challenges in our business and the markets in which we operate; and
- expected impact of COVID-19 on the Company's future operations and performance.

Forward-looking statements are based on certain assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments and other factors we believe are appropriate. Expected future developments include growth in our target market, an increase in our revenue based on trends in customer behaviour, increasing sales and marketing expenses, research and development expenses and general and administrative expenses based on our business plans. Although we believe that the assumptions underlying the forward-looking statements are reasonable, they may prove to be incorrect.

These risks are described in further detail in the section entitled "Risk Factors" in our most recently filed Annual Information Form, including those set forth below under the heading "Risks and Uncertainties". Although the forward-looking statements contained in this MD&A are based upon assumptions management believes to be reasonable, these risks, uncertainties, assumptions and other factors could cause our actual results, performance, achievements and experience to differ materially from our expectations, future results, performances or achievements expressed or implied by the forward-looking statements. In light of these risks, uncertainties and assumptions, readers should not place undue reliance on forward-looking statements.

On March 3, 2020, COVID-19 was characterized as a pandemic by the World Health Organization. The spread of COVID-19 has significantly impacted the global economy. We are closely monitoring the potential effects and impact on our operations and financial performance; however, the extent of impact is difficult to fully predict at this time due to the rapid evolution of this uncertain situation. We are conducting business with substantial modifications to employee travel, employee work locations and virtualization or cancellation of all sales and marketing events, along with substantially modified interactions with customers and suppliers, among other modifications. We will continue to actively monitor the impact of the COVID-19 pandemic on all aspects of our business, including customer purchasing decisions, and may take further actions that alter our business operations as may be required by governments, or that we determine are in the best interest of our employees, customers, partners, suppliers, and shareholders. It is uncertain and difficult to predict what the potential effects any such alterations or modifications may have on our business including the effects on our customers and prospects, or our financial results and our ability to successfully execute our business strategies and initiatives.

To date, the COVID-19 pandemic has not had a significant impact on our operational and financial performance however, given the uncertainty associated with the duration and spread of the virus, the future impact on our customers and our sales cycle, the impact on business development and marketing activities, and potential delays in customer deployment projects and activities, and the impact on our vendors and partners cannot be predicted. The extent to which the COVID-19 pandemic may impact our financial position or results of operations is uncertain. Due to our service offerings to enhance remote working and commerce we have not experienced a significant decline in revenue, but any impact, if at all, may not be fully reflected in our results of operations until future periods.

The forward-looking statements made in this MD&A relate only to events or information as of the date on which the statements are made in this MD&A and are expressly qualified in their entirety by this cautionary statement. Except as required by law, we do not assume any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

All of the forward-looking statements in this MD&A are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, NexTech.

## **RISKS AND UNCERTAINTIES**

We are exposed to risks and uncertainties in our business, including the risk factors set forth below:

- If we are unable to attract new customers or sell additional products to our existing customers, our revenue growth and profitability will be adversely affected.
- We encounter long sales cycles, particularly with our larger customers, which could have an adverse effect on the amount, timing and predictability of our revenue.
- Downturns or upturns in new sales will not be immediately reflected in operating results and may be difficult to discern.
- Our quarterly results of operations may fluctuate. As a result, we may fail to meet or exceed the expectations of investors or securities analysts which could cause our share price to decline.
- Our ability to retain customers and attract new customers could be adversely affected by an actual or perceived breach of security relating to customer information.
- We have incurred operating losses in the past and may incur operating losses in the future.
- If we are unable to develop new products and services, sell our solutions into new markets or further penetrate our existing markets, our revenue will not grow as expected.
- Our inability to assess and adapt to rapid technological developments could impair our ability to remain competitive.
- Downturns in general economic and market conditions and reductions in spending may reduce demand for our solutions, which could negatively affect our revenue, results of operations and cash flows.
- We are subject to fluctuations in currency exchange rates.
- The markets in which we participate may become competitive, and our failure to compete successfully would make it difficult for us to add and retain customers and would reduce or impede the growth of our business.
- If we fail to retain our key employees, our business would be harmed and we might not be able to implement our business plan successfully.
- Our growth is dependent upon the continued development of our direct sales force.
- If we experience significant fluctuations in our rate of anticipated growth and fail to balance our expenses with our revenue forecasts, our results could be harmed.
- Interruptions or delays in the services provided by third party data centers and/or internet service providers could impair the delivery of our solutions and our business could suffer.
- The use of open source software in our products may expose us to additional risks and harm our intellectual property.
- We may not receive significant revenue as a result of our current research and development efforts.
- We may be subject to political situations that may affect the company's ability to conduct cross-border operations.
- Because our long-term success depends, in part, on our ability to continue to expand the sales of our solutions to customers located outside of North America, our business will be susceptible to risks associated with international operations.
- Current and future accounting pronouncements and other financial reporting standards might negatively impact our financial results.

- We are subject to taxation in various jurisdictions and the taxing authorities may disagree with our tax positions.
- We are subject to risks and hazards, including operational accidents, changes in the regulatory environment and natural phenomena such as inclement weather, floods, and earthquakes. Such occurrences could result in damage to the Company's property or facilities, equipment and personal injury.
- The Company's directors and officers may serve as directors or officers of other companies or have significant shareholdings in other companies may have a conflict of interest.
- If we fail to develop widespread brand awareness cost-effectively, our business may suffer.
- Our strategy includes pursuing acquisitions and our potential inability to successfully integrate newly acquired companies or businesses may adversely affect our financial results.
- The market price for our common shares may be volatile.
- We may issue additional common shares in the future which may dilute our shareholders' investments.
- We may need to raise additional funds to pursue our growth strategy or continue our operations, and we may be unable to raise capital when needed or on acceptable terms.

Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of our shares to decline. If any of the noted risks actually occur, our business may be harmed and our financial condition and results of operations may suffer significantly.

## **OVERVIEW**

NexTech is a provider of augmented reality ("AR") solutions. NexTech's solutions provide customers with critical functionality needed to provide three dimensional ("3D") AR immersive experiences as opposed to experiences in two dimensional ("2D") formats. NexTech's solutions have the potential to be used across many verticals and is currently being utilized in e-commerce, virtual events and experiences (events held in a digital format or physically in-person), learning and training, digital advertising and entertainment. NexTech's product and service offerings allow its customers to deliver photo-realistic, volumetric 3D AR at scale for mass adoption. With the Company's ARitize360 application, NexTech further gives the ability to anyone with a smartphone to capture and create 3D objects. NexTech's technology stack is best described as having eight (8) distinct parts. NexTech's technology stack includes the following core elements:

### **ARitize360 App**

The "ARitize360 App" is a mobile app available for Android and iOS devices that enables users to use their smart phone to scan a real-world object and transform it into a photo-realistic 3D model for use with the other components of NexTech's technology.

### **ARitize™ App**

The "ARitize™ App" is a mobile app that enables a user to view and experience AR content by running immersive, native AR experiences built and published using development tools designed for the popular game development software, Unity and hosted on the NexTech AR content delivery network for high-availability access across the world.

### **ARitize™ for eCommerce**

"ARitize™ for eCommerce" is a component of the NexTech AR platform, and is an end-to-end AR platform designed specifically to increase online sales for users' ecommerce websites. The ARitize™ for eCommerce tools give users the ability to embed a 3D model in a product page on an ecommerce website. This embedded experience, once rendered in a shopper's browser, will provide a 3D model experience that a shopper can easily manipulate and explore. On a mobile browser, if the device contains the right set of sensor and access to them, the experience is rendered as an app-less AR visualization of the product.

**AR 3D Ads**

The Company's AR 3D Ad unit is an HTML5 banner ad. HTML5 is the latest version of Hypertext Markup Language, the code that describes web pages. A banner ad is an advertisement displayed into a web page. The advertisement consists of an image and can be static or animated, depending on the technology used to make them. Banner ads are intended to generate traffic to a website by linking to it. The script for the AR 3D Ad unit is generated from the NexTech AR platform. The banner ad is available in all possible ad unit sizes (ideally best viewed in sizes large enough for a user to interact with the 3D asset in the banner). The AR 3D Ad unit leverages the Company's ARitize™ for eCommerce technology as well as remotely hosted 3D assets on the NexTech content delivery network to provide a potentially more engaging ad unit. The AR 3D Ad unit allows users on mobile devices to pull the object in the ad off the screen and into their own environment using AR. This experience has been demonstrated to promote longer engagement time and interactivity with potential customers directly within the ad unit.

**AR University**

The NexTech AR platform allows users to design, build and publish native AR experiences for delivery through a learning platform. These learning experiences provide students the opportunity to learn through pre-recorded AR learning objects on their smart phones, tablets and AR headsets.

**InfernoAR Platform**

The "InfernoAR Platform" is an AR enhanced virtual events platform that allows users to create events using a robust set of event types and tools. The tools allow event organizers to fully brand an experience for attendees from the registration email right down the follow up survey. Each view of the system is customizable and can be modified to suit the needs of any virtual event. An InfernoAR Platform virtual event is built using smaller events grouped together and arranged to suit the purpose. These are the building blocks; live streamed video sessions, on-demand video, AR enhanced video, collaborative meetings.

**Next Level Ninjas**

The Next Level Ninjas software platform allows customers to increase their brand momentum by matching products to product testers. The platform increases awareness of products and allows customers to increase accessibility of their products on various platforms.

**AiR Show**

AiR Show is a mobile, entertainment-based app designed to create a personalized AR concert experience. Users can watch performers as holograms in their own home and use the built-in camera features to take photos and videos to share on social media. AiR Show focuses on delivering an easy to use AR experience with high quality holograms and will soon allow in-app purchases to buy access to premium content.

**THIRD QUARTER HIGHLIGHTS**

During the three months ended September 30, 2020, and up to the date of this report the Company:

- On August 20, 2020, the Company closed its marketed short form prospectus offering of 2,035,000 units at a price of \$6.50 per unit for gross proceeds of \$13,227,500 (\$12,301,575 net of share issuance costs). Each unit is consisted of one common share of the Company and one-half of one common share purchase warrant of the Company. Each warrant is exercisable into one common share at a price of \$8.00 for a period of two years, subject accelerated expiry provisions.
- On August 27, 2020, the Company acquired 100% of the assets of Next Level Ninjas LLC ("Next Level Ninjas"). Next Level Ninjas provides is a platform that matches buyers with focus groups to allow for brands to gain momentum in marketplaces. The total cash consideration of the acquisition was US\$550,500, including acquisition related costs of US\$500 which have been recorded in general and administrative expense. The operating results of Next Level Ninjas have been consolidated into the Company's results subsequent to the acquisition date.
- On October 1, 2020, the Company acquired the AiR Show application ("AiR Show"). Air Show is an application which allows consumers to view and interact with a human holograms for applications such as virtual concerts, conferences, and other events. The fair value of consideration paid for the acquisition was US \$300,000 consisting of US \$150,000 of cash consideration and US \$150,000 of the Company's shares.

**SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS**

Our results of operations are influenced by a variety of factors, including:

**Revenue**

Our revenue consists of software-as-a-service ("SaaS") revenue from technology services, delivery of service revenue and sales of products through E-Commerce.

**Cost of Sales**

Cost of sales includes the expenses incurred to acquire the inventory for sale, including product costs, shipping costs as well as provisions for reserves related to product shrinkage, obsolete inventory and lower of cost and net realizable value adjustments when required.

**Selling and marketing expenses**

Selling and marketing expenses consist primarily of personnel and related costs for our sales, channel and marketing teams, including salaries and benefits, contract acquisition costs including commissions earned by sales personnel and partner referral fees, partner programs support and training, and trade show and promotional marketing costs. We plan to continue to invest in sales and marketing by expanding our domestic and international selling and marketing activities, building brand awareness, developing partners, and sponsoring additional marketing events. We expect that in the future, selling and marketing expenses will continue to increase.

**Research and development expenses**

Research and development ("R&D") expenses consist primarily of personnel and related costs for the teams responsible for the ongoing research, development and product management of our technology solutions. We anticipate that spending on R&D will also be higher in absolute dollars as we expand our research and development and product management teams.

**General and administrative expenses**

General and administrative expenses consist primarily of personnel and related costs associated with administrative functions of the business including finance, human resources and internal information system support, as well as legal, accounting and other professional fees. We expect that, in the future, general and administrative expenses will increase in absolute dollars as we invest in our infrastructure and we incur additional employee-related costs and professional fees related to the growth of our business and international expansion.

**Foreign exchange**

Our presentation and functional currency is Canadian dollar with the exception of our subsidiaries in the United States (US Dollar). We derive most of our revenue in USD. Our head office and a significant portion of our employees are located in Canada, and as such a portion of our expenses are incurred in Canadian dollars.

**RESULTS OF OPERATIONS**

The following table sets forth a summary of our results of operations:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Statement of Operations</b>				
Revenue	\$ 4,662,928	\$ 1,561,425	\$ 10,683,942	\$ 4,001,068
Cost of sales	(1,705,571)	(895,859)	(4,209,001)	(2,247,258)
Gross profit	2,957,357	665,567	6,474,941	1,753,810
Operating expenses	(7,694,584)	(2,325,427)	(14,625,054)	(5,750,209)
Loss before income taxes	(4,737,227)	(1,659,860)	(8,150,113)	(3,996,399)
Deferred income tax recovery	24,139	-	72,617	-
Net loss	(4,713,088)	(1,659,860)	(8,077,496)	(3,996,399)
Net loss per share (basic and diluted)	(\$0.07)	(\$0.03)	(\$0.12)	(\$0.07)
<b>Financial Position</b>				
	<b>As at</b>	<b>As at</b>		
	<b>September 30, 2020</b>	<b>December 31, 2019</b>		
Working Capital	\$ 16,920,362	\$ 3,333,527		
Total Assets	\$ 28,729,235	8,636,863		
Non-current liabilities	\$ 1,020,625	96,956		

**Reconciliation of Non-IFRS measures**

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Total Bookings</b>	\$6,660,239	\$ 1,561,425	\$12,899,530	\$ 4,001,068
Total Revenue	4,662,928	1,561,425	10,683,942	4,001,068
Adjustment for bookings	1,997,311	-	2,215,588	-
Adjustment for backlog	-	-	218,277	-
<b>Backlog</b>	1,997,311	-	1,997,311	-



Revenue for the three and nine months ended September 30, 2020 was \$4,662,928 and \$10,683,942 an increase of \$3,101,503 and \$7,315,491 or 199% and 217% compared to the same periods in 2019. This increase was due to contracts secured with new customers, expansion of existing customers and additional conversions from e-commerce channels.

Cost of sales for the three and nine months ended September 30, 2020 was \$1,705,571 and \$4,209,001 an increase of \$809,712 and \$2,244,955 or 90% and 114% compared to the same periods in 2019. Cost of sales increased due to additional revenue.

Gross profit for the three and nine months ended September 30, 2020 was \$2,957,357 and \$6,474,941 an increase of \$2,291,790 and \$5,070,536 or 344% and 361% compared to the same periods in 2019. Gross Profit increased due to larger customer contracts, expansion of existing customers and improvement of the product mix.

Operating expenses for the three and nine months ended September 30, 2020 was \$7,694,582 and \$14,625,052 an increase of \$5,369,155 and \$9,336,339 or 231% and 177% compared to the same periods in 2019. The increase in Operating expenses was due to acquisitions costs related to the Jolokia acquisition, higher headcount and related compensation costs, stock-based compensation as well as higher marketing, technology, general office and depreciation costs. These increases reflect investments in corporate infrastructure and capability to support our expansion and growth strategy.

For the three and nine months ended September 30, 2020, the Company had a Net loss of \$4,713,086 or \$0.07 and \$8,077,494 or \$0.13, an increase of \$3,053,226 or \$0.03 per share and \$4,193,186 or \$0.05 per share compared to the same periods in 2019. This increase reflects the increase in operating expenses as noted above as investments in our business to support our expansion and growth strategy.

Working capital as at September 30, 2020 was \$16,920,362, an increase of \$13,586,835 or 408% compared to December 31, 2019. The increase in Working Capital was due to the revenue growth, the short form prospectus, the private placement, warrant exercises, stock option exercise and acquisition of Jolokia and Next Level Ninjas.

Total Assets as at September 30, 2020 were \$28,729,235, an increase of \$20,092,372 or 233% compared to December 31, 2019. A majority of the increase is due to the increase in cash from the short form prospectus, private placement and conversion of warrants and options. The acquisitions of Jolokia and Next Level Ninjas also increased intangible assets and goodwill, equipment, and revaluation of intangible assets. Other increases in assets are attributable to increases in inventory to facilitate sales as well as, the addition of a right to use asset on the balance sheet for a warehouse lease agreement reported for accounting purposes.

Total Non-current liabilities as at September 30, 2020 were \$1,020,625, an increase of 953% compared to December 31, 2019. The change relates to the inclusion of the future payments for the long-term lease agreement for the warehouse noted in the above paragraph.

Total Bookings for the three and nine months ended September 30, 2020 was \$6,660,239 and \$12,899,530 an increase of \$5,098,813 and \$9,531,079 or 327% and 283% compared to the same periods in 2019. This increase was due to contracts secured with new customers, expansion of existing customers and additional conversions from e-commerce channels.

Total Backlog as at September 30, 2020 was \$1,997,311 an increase from nil in the prior period. This increase is due to an increased demand in the virtual events and as a result extended delivery times for customers.

**LIQUIDITY AND CAPITAL RESOURCES**

On September 30, 2020, we had cash of \$16,388,012, inventory of \$2,745,299 and a positive working capital of \$16,920,362. We anticipate further sales of our product offerings as we continue to grow. Our cash and inventory position are healthy and allows for us to continue to deliver on our strategy and growth. We anticipate the additional revenue and our acquisitions will generate cash flow to reduce the amount of working capital required to sustain operations. We also have more than 5.4 million warrants outstanding as at September 30, 2020 with a weighted average exercise price of \$1.33 and a shareholder base that continues to support our company. The acquisition of Next Level Ninjas was 100% cash consideration of US\$ 550,000 and is expected to help generated additional cash flow in the next year. Depending on how much cash is generated, how aggressively we pursue further acquisitions, and increasing our sales and marketing efforts the company may have to raise additional working capital to maintain operations for the next twelve months.

**OUTSTANDING SHARE DATA**

As of the date of this MD&A, the Company had 74,376,499 common shares issued and outstanding. The Company also has 5,582,000 share purchase options outstanding at exercise prices ranging from \$0.25 to \$8.35 per option and expiry dates ranging from September 28, 2021 to October 2, 2023.

**SUMMARY OF QUARTERLY RESULTS**

The following table summarizes selected results for the eight most recent completed quarters

	2020	2020	2020	2019	2019	2019	2019	2018
Quarter Ended	September 30	June 30	March 31	Dec. 31 <sup>(a)</sup>	Aug. 31	May 31	Feb. 28	Nov. 30
Revenue	\$ 4,662,928	\$ 3,529,029	\$2,491,985	\$ 2,490,464	\$ 1,513,196	\$ 1,405,503	\$ 531,185	\$ 43,133
Net loss	4,737,227	2,000,972	1,363,436	3,977,907	1,319,227	2,025,416	1,328,326	714,783
Net Loss per share (basic and diluted)	(\$0.07)	(\$0.04)	(\$0.02)	(\$0.08)	(\$0.02)	(\$0.04)	(\$0.03)	(\$0.02)

(a) Four month quarter

Our quarterly results have trended upwards over the past eight quarters. The trend is showing that revenues are continuing to grow as we execute on our growth strategy and the acceptance of our pioneering technology. In the earlier part of the last eight quarters we invested heavily into research and development to get our product to market. As we found our product market fit we have increased our efforts in sales and marketing and also will need to invest into general and administrative to support our growth. During the period from August 31, 2018 to November 30, 2018 which had revenues below \$100,000 and it was evident we were still completing research and development. The company made further investment in Sales and Marketing and completed acquisitions between January and April 2019. These acquisitions created an increase in revenue and associated Net loss. As the business operationalized and executed on the acquisition strategy and technology the revenues increased significantly with growth of 1,131% for February 28, 2019 and 165% for May 31, 2019 quarter over quarter. During the quarter ended December 31, 2019 the Net loss was increased by a one-off impairment loss of \$2,207,750 related to licenses that were no longer cash generating. This impairment of the licenses increased our Net loss per share to \$0.08 from our \$0.02 to \$0.04 per share range. For the period March 31, 2020 revenue is flat on a quarter over quarter perspective when compared to December 31, 2020. Net loss for March 31, 2020 was \$0.02. It should further be noted that comparing March 31, 2020 to December 31, 2019 is not particularly comparable due to the change in year-end resulting in a four month quarter for the period ending December 31, 2019. For the June 30, 2020 period we grew our revenues by 42% from the prior quarter while our Net loss per share increased from \$0.02 to \$0.04. For the period September 30, 2020 the revenue grew by 32% from the prior quarter and Net Loss per share was \$0.07. The Company will continue to invest heavily to achieve its future revenue growth objectives. Since inception of the Company, we have not experienced seasonality within our business.

Our offerings serve both business to consumer and business to business. We will put a stronger focus on business to business offerings to enterprise consumers and developing our channel sales program. Given the nature of large enterprise sales model, bookings will vary between periods depending upon timing of new customer wins. Overall operating costs have increased as the company continues to invest in sales and marketing and research and development. The company continues to find ways to further optimize these costs while continuing the growth and expansion plans.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

**RELATED PARTY TRANSACTIONS**

The Company's policy is to conduct all transactions with related parties at arm's length to align with market terms and conditions. The Company has entered, or proposes to enter, into employment agreements with related parties and related parties may also participate in the Company's share-based compensation plans. In December 2019, the executive management team consisting of the CEO, President and CFO entered into shares for services agreements that elect up to 100% of compensation in shares.

On May 5, 2020 the Company extinguished the convertible debenture issued on July 19, 2019 with an effective interest rate of 9% with a thirty-six month term by converting the remaining principal balance of \$739,125 and accrued interest of \$2,741 for 1,236,444 common shares. The extinguishment was subject to a 15% cash prepayment penalty of \$158,384. Of this extinguishment, \$492,750 of principal and \$1,828 of accrued interest were converted for 824,296 common shares and \$105,589 cash pre-payment penalty were to the CEO. See Note 10 and Note 12 to our interim financial statements for information.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

See our annual consolidated financial statements for the year ended December 31, 2019 and the related notes thereto for a discussion of the accounting policies and estimates that are critical to the understanding of our business operations and the results of our operations.

**FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

We recognize financial assets and liabilities when we become party to the contractual provisions of the instrument. On initial recognition, financial assets and liabilities are measured at fair value plus transaction costs directly attributable to the financial assets and liabilities, except for financial assets or liabilities at fair value through profit and loss, whereby the transactions costs are expensed as incurred. The carrying amounts of our financial instruments approximate fair market value due to the short-term maturity of these instruments. The Company's financial instruments are exposed to certain financial risks, which include credit risk, liquidity risk, currency risk, and interest rate risk.

**Credit Risk**

Credit risk arises from cash as well as credit exposures to counterparties of outstanding receivables and committed transactions. There is no significant concentration of credit risk other than cash deposits and receivables. The Company's cash deposits are primarily held with a Canadian chartered bank and receivables are due from the distributors of the company's products and customers.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's main source of cash resources is through equity financings and from convertible debentures. The Company's financial obligations are limited to its current liabilities which have contractual maturities of less than one year. The Company manages liquidity risk as part of its overall "Management of Capital" as described below.

**Currency Risk**

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and a portion of the Company's expenses are incurred in U.S. dollars ("USD"). A significant change in the currency exchange rates between the Canadian dollar relative to the USD could affect the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations. As at September 30, 2020, the Company is exposed to currency risk through cash, accounts receivable and accounts payable denominated in USD. A 10% change in exchange rate could increase/decrease the Company's net loss by \$239,042.

**Interest Rate Risk**

The interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The company is not exposed to significant cash flow fluctuations due to interest rate changes. As such, fluctuations in the market interest rates during the three and nine months ended September 30, 2020 had no significant impact on the Company's financing expense.

**Management of Capital**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern to pursue the development of its technologies. The Company relies mainly on equity issuances to raise new capital. In the management of capital, the Company includes the components of equity. The Company's investment policy is to invest its cash in savings accounts or highly liquid short-term deposits with terms of one year or less and which can be liquidated after thirty days without penalty. The Company is not subject to any externally imposed capital requirements. Management believes that the Company may have to raise additional capital to sustain its operations for the next twelve months.

**Fair Values**

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities. Financial instruments are initially recognized at fair value with subsequent measurement depending on classification as described below. Classification of financial instruments depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the Company's designation of such instruments. As at September 30, 2020 the Company's financial instruments were classified as at amortized at cost. The carrying values of cash, receivables, and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.



**NEXTECH AR**  
S O L U T I O N S

Condensed Consolidated Interim Financial Statements of

**NexTech AR Solutions Corp.**

Three and nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

(Unaudited)

## **NOTICE TO READER**

The accompanying condensed consolidated interim financial statements of NexTech AR Solutions Corp. for the three and nine months ended September 30, 2020 and 2019 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These condensed consolidated interim financial statements have not been reviewed by the Company's external auditors.

# NexTech AR Solutions Corp.

Condensed Consolidated Interim Statements of Financial Position  
(Unaudited - Expressed in Canadian dollars)

	September 30, 2020	December 31, 2019
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	16,388,012	2,849,344
Receivables (Note 4)	1,132,033	403,651
Prepaid expenses and deposits	320,024	200,650
Contract assets	96,642	-
Inventory	2,745,299	1,353,584
<b>Total current assets</b>	<b>20,682,010</b>	<b>4,807,229</b>
<b>Non-current assets</b>		
Equipment (Note 5)	277,258	146,555
Right of Use Asset (Note 6)	1,116,201	-
Intangible assets (Note 7)	2,442,199	1,420,552
Goodwill (Note 7)	4,211,566	2,262,527
<b>Total non-current assets</b>	<b>8,047,224</b>	<b>3,829,634</b>
<b>TOTAL ASSETS</b>	<b>28,729,234</b>	<b>8,636,863</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 8)	2,052,016	1,243,528
Other payables (Note 9)	-	230,174
Deferred revenue	526,005	-
Current portion of lease liability (Note 6)	116,447	-
Contingent consideration (Note 3)	1,067,181	-
<b>Total current liabilities</b>	<b>3,761,649</b>	<b>1,473,702</b>
<b>Long-term liabilities</b>		
Long term portion of lease liability (Note 6)	996,286	-
Deferred income tax liability	24,339	96,956
<b>Total Long-term liabilities</b>	<b>1,020,625</b>	<b>96,956</b>
<b>TOTAL LIABILITIES</b>	<b>4,782,274</b>	<b>1,570,658</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 10)	37,001,572	15,210,041
Convertible debentures (Note 10)	-	1,025,595
Reserves (Note 11)	5,735,985	1,407,330
Deficit	(18,790,597)	(10,576,761)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>23,946,960</b>	<b>7,066,205</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>28,729,234</b>	<b>8,636,863</b>
Nature of operations and going concern (Note 1)		

Approved by the Board of Directors

"Evan Gappelberg" , Director

"Paul Duffy" , Director

## NexTech AR Solutions Corp.

Condensed Consolidated Interim Statement of Comprehensive Loss  
For the three and nine months ended September 30, 2020 and 2019  
(Unaudited - Expressed in Canadian dollars)

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
<b>Revenue</b>	4,662,928	1,561,425	10,683,942	4,001,068
<b>Cost of sales</b>	(1,705,571)	(895,859)	(4,209,001)	(2,247,258)
<b>Gross profit</b>	2,957,357	665,567	6,474,941	1,753,810
<b>Operating expenses</b>				
Sales and marketing	3,882,636	1,048,699	6,929,946	2,559,401
General and administrative	975,876	900,272	3,666,063	1,950,931
Research and development	2,675,954	315,931	3,612,956	1,064,707
Amortization (Note 6 & 7)	149,962	52,047	370,673	114,998
Depreciation (Note 5)	25,440	-	52,723	24,342
Foreign exchange loss (gain)	(15,284)	8,478	(7,307)	35,830
<b>Total operating expenses</b>	7,694,584	2,325,427	14,625,054	5,750,209
<b>Operating loss</b>	(4,737,227)	(1,659,860)	(8,150,113)	(3,996,399)
<b>Loss before income taxes</b>	(4,737,227)	(1,659,860)	(8,150,113)	(3,996,399)
Deferred income tax recovery	24,139	-	72,617	-
<b>Net loss</b>	(4,713,088)	(1,659,860)	(8,077,496)	(3,996,399)
<b>Other comprehensive income (loss)</b>				
Exchange differences on translating foreign operations	(167,617)	-	12,147	-
<b>Total comprehensive loss</b>	(4,880,705)	(1,659,860)	(8,065,349)	(3,996,399)
<b>Loss per common share</b>				
Basic and diluted loss per common share	(0.07)	(0.03)	(0.12)	(0.07)
Weighted average number of common shares outstanding	71,979,018	55,216,009	66,112,703	53,320,252



## NexTech AR Solutions Corp.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity  
For the nine months ended September 30, 2020 and 2019  
(Unaudited - Expressed in Canadian dollars)

	Number of shares	Share capital	Equity portion of convertible debenture	Reserves	Deficit	Total
		\$	\$	\$	\$	\$
<b>Balance, December 31, 2018</b>	43,687,872	6,365,393	-	423,463	(2,345,482)	<b>4,443,374</b>
Partial escrow cancellation	(960,000)	-	-	-	-	-
Acquisition of AR Ecommerce LLC	2,000,000	1,620,000	-	-	-	<b>1,620,000</b>
Shares issued for exercise of warrants	8,461,500	2,655,750	-	-	-	<b>2,655,750</b>
Shares issued for acquisition payable	100,000	66,630	-	-	-	<b>66,630</b>
Private placement	2,942,965	1,765,779	-	-	-	<b>1,765,779</b>
Share-based payment	-	-	-	830,732	-	<b>830,732</b>
Shares issued for services	76,913	62,999	-	-	-	<b>62,999</b>
Translation of foreign operations	-	-	-	-	-	-
Net loss	-	-	-	-	(3,996,399)	<b>(3,996,399)</b>
<b>Balance, September 30, 2019</b>	<b>56,309,250</b>	<b>12,536,551</b>	-	<b>1,254,195</b>	<b>(6,341,881)</b>	<b>7,448,865</b>
<b>Balance, December 31, 2019</b>	60,509,250	15,210,041	1,025,595	1,407,330	(10,576,761)	<b>7,066,205</b>
Convertible debentures	1,910,163	1,161,935	(1,025,595)	-	(136,340)	-
Shares issued for exercise of warrants	4,282,128	2,987,062	-	-	-	<b>2,987,062</b>
Shares issued for exercise of options	1,938,666	895,099	-	-	-	<b>895,099</b>
Shares issued for purchase of Jolokia	1,000,000	1,491,889	-	-	-	<b>1,491,889</b>
Shares issued to settle related party liability	47,799	38,239	-	-	-	<b>38,239</b>
Share-based payment	1,063,851	855,894	-	3,550,183	-	<b>4,406,077</b>
Private placement	1,528,036	3,208,876	-	-	-	<b>3,208,876</b>
Short form prospectus	2,035,000	13,227,500	-	-	-	<b>13,227,500</b>
Share issuance costs	-	(2,074,963)	-	766,325	-	<b>(1,308,638)</b>
Translation of foreign operations	-	-	-	12,147	-	<b>12,147</b>
Net loss	-	-	-	-	(8,077,496)	<b>(8,077,496)</b>
<b>Balance as at September 30, 2020</b>	<b>74,314,893</b>	<b>37,001,572</b>	-	<b>5,735,985</b>	<b>(18,790,597)</b>	<b>23,946,960</b>

## NexTech AR Solutions Corp.

Condensed Consolidated Interim Statement of Cash Flows  
For the three and nine months ended September 30, 2020 and 2019  
(Unaudited - Expressed in Canadian dollars)

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
<b>OPERATING ACTIVITIES</b>				
Net loss	(4,713,088)	(1,659,860)	(8,077,496)	(3,996,399)
<b>Items not affecting cash:</b>				
Amortization of intangible assets	149,962	52,047	370,673	114,998
Amortization of right to use asset	(79)	-	(79)	-
Deferred income tax recovery	(24,139)	-	(72,617)	-
Depreciation of property and equipment	25,440	-	52,723	24,342
Shares issued to settle related party liability	(0)	-	38,239	-
Share-based payments	2,893,173	307,030	4,406,077	830,732
Option and warrant exercised shares outstanding	183,737	-	-	-
<b>Changes in non-cash working capital items</b>				
Receivables	(867,929)	324,915	(728,382)	(150,727)
Prepaid expenses and deposits	(124,034)	60,877	(119,374)	(576,969)
Inventory	(1,160,476)	(817,608)	(1,488,357)	(1,372,975)
Accounts payable and accrued liabilities	119,806	891,524	600,593	12,065
Other payables	-	183,770	(230,174)	183,770
Deferred revenue	526,005	-	526,005	-
<b>Net cash used in operating activities</b>	<b>(2,991,622)</b>	<b>(657,305)</b>	<b>(4,722,169)</b>	<b>(4,931,163)</b>
<b>INVESTING ACTIVITIES</b>				
Cash acquired in a business combination	-	-	-	128,670
Cash paid for acquisition of HootView	-	-	-	(85,664)
Cash paid for acquisition of Next Level Ninjas	(719,895)	-	(719,895)	-
Purchase of equipment	(68,022)	-	(68,022)	(12,125)
<b>Net cash used in investing activities</b>	<b>(787,917)</b>	<b>-</b>	<b>(787,917)</b>	<b>30,881</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds from exercise of options and warrants	1,765,700	-	3,882,161	2,655,750
Payment of lease obligations	(39,475)	-	(39,475)	-
Net proceeds from short term prospectus	12,118,689	-	12,118,689	-
Net proceeds from private placement	-	1,426,179	3,009,047	1,765,779
<b>Net cash provided by financing activities</b>	<b>13,844,914</b>	<b>1,426,179</b>	<b>18,970,422</b>	<b>4,421,529</b>
Foreign exchange	40,438	-	78,332	(170,542)
Net change in cash	10,105,815	768,874	13,538,668	(649,295)
Cash, beginning	6,282,197	228,689	2,849,344	1,646,858
<b>Cash, ending</b>	<b>16,388,012</b>	<b>997,563</b>	<b>16,388,012</b>	<b>997,563</b>

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

# NexTech AR Solutions Corp.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three and nine months ended September 30, 2020 and 2019  
(Unaudited - Expressed in Canadian dollars)

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## 1. NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN

NexTech AR Solutions Corp. (the “Company” or “NexTech”) was incorporated in the province of British Columbia on January 12, 2018. The Company’s principal business activities are the acquisition and development of augmented reality technology for purposes of generating revenue from multiple sources including a platform for omni channel solutions for augmented reality, eCommerce, analytics advertising, and virtual events. The Company’s shares are traded on the Canadian Securities Exchange under the trading symbol “NTAR”, in the United States of America on the OTCQB under the trading symbol “NEXCF”. The Company’s registered office is located at 1200-750 West Pender Street, Vancouver, British Columbia, Canada V6C 2T8.

The unaudited condensed consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to generate revenue to establish profitable operations and to obtain the necessary equity or debt financing to fund operations as required. These factors indicate the existence of a material uncertainty that casts significant doubt on the ability of the Company to continue as a going concern. The unaudited condensed consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

### Basis of Presentation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) and should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2019. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2019.

These condensed consolidated interim financial statements have been prepared on a historical cost basis. The preparation of these condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

These condensed consolidated interim financial statements have been prepared in accordance with the same accounting policies and methods of application as the most recent audited consolidated financial statements for the period ended December 31, 2019. The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 12, 2020.

### Basis of Consolidation

These consolidated financial statements include the financial statement of the Company and the entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances have been eliminated.

## NexTech AR Solutions Corp.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three and nine months ended September 30, 2020 and 2019  
(Unaudited - Expressed in Canadian dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases. The Company's wholly owned subsidiaries are NexTech AR Solutions USA LLC, AR Ecommerce LLC, and Jolokia Corporation.

#### Significant accounting policies

During the nine months ended September 30, 2020, the Company acquired businesses as described in Note 3 and applied the following accounting policies for business combinations, acquired intangible assets, goodwill and government grants. The remaining accounting policies applied in these unaudited condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements as at and for the year ending December 31, 2019.

#### *Business combinations*

The Company accounts for business combinations using the acquisition method. Goodwill arising on acquisitions is measured as the fair value of the consideration transferred less the net recognized amount of the estimated fair value of identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Transaction costs that the Company incurs in connection with a business combination are expensed as incurred. The Company uses its best estimates and assumptions to reasonably value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, and these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with a corresponding offset to goodwill. Upon conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in profit or loss.

#### *Acquired intangible assets*

The Company's intangible assets consist of customer relationships, brand and technology acquired in business combinations. These intangible assets are recorded at their fair value at the acquisition date. The Company estimates the fair value based on the present value of expected future cash flows. After initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment losses. Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. The following table presents the Company's assessment of the useful life of intangible assets:

Website	10 years
Customer relationships	5 years
Supplier relationships	10 years
Trademarks	4 years
Brand	3 years
Technology	3 years

Intangible assets are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment loss is recognized if the recoverable amount of the asset is less than the carrying amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

## NexTech AR Solutions Corp.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three and nine months ended September 30, 2020 and 2019  
(Unaudited - Expressed in Canadian dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

#### *Government grants*

The company recognises government grants only once there is reasonable assurance that the entity will comply with the conditions attaching to them and the grants will be received. Forgivable loans from government are treated as a government grant when there is reasonable assurance that the entity will meet the terms of forgiveness of the loan. The amounts received shall be recognized into profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. The company has elected to deduct the grants received against the qualified expenses incurred. During the period, the company received \$238,490 in forgivable loans which has been recognized against payroll expenses for the period.

#### *Use of estimates and judgements*

In preparing these unaudited condensed consolidated interim financial statements, Management makes judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgments made by Management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2019, with the addition of the following:

#### *Contingent consideration*

The Company measures the contingent consideration payable in a business combination at the estimated fair value at each reporting date. The fair value is estimated based on the range of possible outcomes and Management's assessment of the likelihood of each outcome.

#### *Fair value of acquired intangible assets*

The Company estimates the fair value of intangible assets acquired in a business combination based on the present value of expected future cash flows. This valuation involves subjectivity and estimation uncertainty, including assumptions related to future revenues attributable to customer relationships, customer attrition rates, future expenses, and discount rates.

### 3. BUSINESS COMBINATIONS

#### *Jolokia Corporation*

On April 30, 2020, the Company acquired 100% of the outstanding voting shares of Jolokia Corporation ("Jolokia") in exchange for the Company's common shares and contingent consideration. Jolokia provides a video hosted learning and events platform with live streaming capabilities. The operating results of Jolokia have been consolidated into the Company's results subsequent to the acquisition date. The Company incurred acquisition related costs of \$72,033 which have been recorded in general and administrative expense.

The purchase price consists of 1,000,000 common shares of the Company (A) (Note 11), of which 100,000 were issued to the Company and held in treasury for the repayment of liabilities assumed in the transaction (B), cash and contingent consideration with an initial estimated fair value as noted below (C). The contingent consideration payable is measured at the estimated fair value at each reporting date and is expected to be settled in full within a year. The contingent consideration arrangement consists of an additional payment to the selling shareholders for attainment of specific revenue metrics in the year following the acquisition. The potential undiscounted amount of all future payments that the Company could be required to make under this arrangement is between US\$200,000 and US\$4,000,000 payable in common shares of NexTech. The Company noted no change since acquisition date in the estimate of the fair value of the contingent consideration as at September 30, 2020.

## NexTech AR Solutions Corp.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three and nine months ended September 30, 2020 and 2019  
(Unaudited - Expressed in Canadian dollars)

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### 3. BUSINESS COMBINATIONS (continued)

Share consideration (A)	\$	1,657,655
Indebtedness shares (B)		(165,765)
Earn-out payment (contingent) (C)		1,067,181
<b>Total Consideration</b>	<b>\$</b>	<b>2,559,071</b>

The finalization of the purchase price allocation is pending the finalization of the valuation of the fair value of assets acquired and liabilities assumed, including intangible assets. The following table presents the preliminary purchase price allocation at the acquisition date:

<b>Net Tangible Assets</b>	\$
Cash and cash equivalents	(45,715)
Trade receivable	5,713
Other receivable	1,113
Equipment	118,165
Accounts payable and accrued liabilities	(43,430)
Line of credit	(125,575)
	<u>(89,729)</u>
<b>Identifiable intangible assets</b>	
Customer relationships	769,223
Brand	37,557
Technology	185,003
	<u>991,783</u>
Goodwill	1,657,017
<b>Total Consideration</b>	<u>2,559,071</u>

For the three and nine months ended September 30, 2020 the Company recorded amortization of \$53,554 and \$90,790 for the intangible assets. The goodwill is mainly attributable to the skills and technical talent of Jolokia's work force and the synergies expected to be achieved from integrating Jolokia business with the company's technology and services.

Since the date of acquisition, the acquired company increased group revenues by an estimated \$1,299,312 and profit by \$117,301 for the nine months ended September 30, 2020

#### *Next Level Ninjas LLC*

On August 27, 2020, the Company acquired 100% of the assets of Next Level Ninjas LLC ("Next Level Ninjas"). Next Level Ninjas is a platform that matches buyers with focus groups to allow for brands to gain momentum in marketplaces. The total cash consideration of the acquisition was \$720,549, including acquisition related costs of \$654 which have been recorded in general and administrative expense. The operating results of Next Level Ninjas have been consolidated into the Company's results subsequent to the acquisition date.

## NexTech AR Solutions Corp.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three and nine months ended September 30, 2020 and 2019  
(Unaudited - Expressed in Canadian dollars)

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### 3. BUSINESS COMBINATIONS (continued)

The finalization of the purchase price allocation is pending the finalization of the valuation of the fair value of assets acquired and liabilities assumed, including intangible assets. The following table presents the preliminary purchase price allocation at the acquisition date:

<b>Cash consideration</b>	\$	719,895
<b>Identifiable intangible assets</b>		
Brand		104,712
Technology		302,356
		<u>407,068</u>
<b>Goodwill</b>		<u>312,827</u>
<b>Total Consideration</b>		<u>719,895</u>

For the three and nine months ended September 30, 2020 the Company recorded amortization of \$11,308 for the brand and technology. The goodwill is mainly attributable to the synergies expected to be achieved from integrating Next Level Ninjas business with the company's technology and services.

Since the date of acquisition, the acquisition had no significant impact on revenue and net earnings for the three and nine months ended September 30, 2020.

### 4. RECEIVABLES

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Trade receivables	\$ 996,386	\$ 319,972
GST receivable (payable)	135,647	83,679
Receivables	<u>\$ 1,132,033</u>	<u>\$ 403,651</u>

## NexTech AR Solutions Corp.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three and nine months ended September 30, 2020 and 2019  
(Unaudited - Expressed in Canadian dollars)

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### 5. EQUIPMENT

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	<b>Equipment</b>
<b>Costs</b>	<b>\$</b>
December 31, 2019	196,524
Additions	68,022
Acquisition of Jolokia Corp (Note 3)	293,172
Effects of movement in exchange rates	(14,848)
September 30, 2020	542,870
<b>Accumulated depreciation</b>	
December 31, 2019	50,212
Additions	52,723
Acquisition of Jolokia Corp (Note 3)	175,007
Effects of movement in exchange rates	(12,330)
September 30, 2020	265,612
<b>Net book value</b>	
December 31, 2019	\$ 146,555
September 30, 2020	\$ 277,258

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## NexTech AR Solutions Corp.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three and nine months ended September 30, 2020 and 2019  
(Unaudited - Expressed in Canadian dollars)

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### 6. RIGHT OF USE ASSETS

The company entered into a long-term lease agreement related to warehouse space. The lease term is eight years commencing July 1, 2020. The roll-forward of lease right of use assets is as follows:

#### Right of use assets

		<b>Total</b>
Balance, December 31, 2019	\$	-
Additions	\$	1,152,208
Depreciation	-\$	36,007
Effects of movement in exchange rates		-
At September 30, 2020		<b>1,116,201</b>

The maturity analysis of the lease liabilities as at September 30, 2020 is as follows:

#### Lease obligations

	September 30, 2020
Current	\$ 116,447
Non-current	996,286
At September 30, 2020	<b>\$ 1,112,733</b>
Undiscounted cash flows for lease obligations	
Less than one year	122,127
One to five years	687,558
Over five years	265,254
Balance at September 30, 2020	<b>\$ 1,074,939</b>

Interest expense for the three and nine months ended September 30, 2020 was \$298 (2019 - \$Nil).

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### 7. INTANGIBLE ASSETS AND GOODWILL

The following table summarizes the continuity of the Company's intangible assets:

	Websites	Customer relationship	Supplier relationship	Trademark	Brand	Technology	Goodwill	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Costs</b>								
December 31, 2019	85,664	243,695	321,072	1,042,812	-	-	2,262,527	3,955,770
Acquisition of Jolokia (Note 3)	-	769,223	-	-	37,557	185,003	1,657,017	2,648,800
Acquisition of Next Level Ninjas (Note 3)	-	-	-	-	104,712	302,356	312,827	719,895
Effects of movement in exchange rates	-	(28,507)	7,503	24,369	(1,670)	(8,226)	(20,805)	(27,336)
September 30, 2020	85,664	984,411	328,575	1,067,181	140,599	479,133	4,211,566	7,297,129
<b>Accumulated depreciation</b>								
December 31, 2019	7,674	17,696	31,779	215,542	-	-	-	272,691
Additions	6,425	98,661	24,644	200,097	7,894	32,952	-	370,673
September 30, 2020	14,099	116,357	56,423	415,639	7,894	32,952	-	643,364
<b>Net book value</b>								
December 31, 2019	77,990	225,999	289,293	827,270	-	-	2,262,527	3,683,079
September 30, 2020	71,565	868,054	272,152	651,542	132,705	446,181	4,211,566	6,653,765

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### 7. INTANGIBLE ASSETS AND GOODWILL (continued)

#### Goodwill

In January 2019, the Company acquired a 100% interest in AR Ecommerce LLC, which included goodwill, valued at \$929,680, at the time of acquisition. In April 2019, the Company acquired a 100% interest Infinite Pet Life, which included goodwill, valued at \$1,397,670, at the time of acquisition. In April 2020, the Company acquired a 100% interest in Jolokia Corp, which included goodwill, valued at \$1,657,017, at the time of acquisition. In September 2020 the Company acquired 100% of the assets of Next Level Ninjas LLC, which included goodwill valued at \$459,424.

The Company estimated the recoverable amount based on the value-in-use method of the group of cash-generating units that both of the acquired businesses contribute to was higher than the carrying value at December 31, 2019. The key assumptions used in the calculations of the recoverable amounts include sales growth per year, changes in cost of sales and capital expenditures based on internal forecasts. Cash flows were projected out 5 years and a terminal value was calculated using a long-term steady growth of 5%. An after-tax discount rate of 20% was used.

### 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2020		December 31, 2019	
Accounts payable	\$	1,891,522	\$	1,149,901
Accrued liabilities		160,494		93,627
	\$	2,052,016	\$	1,243,528

### 9. OTHER PAYABLES

In June 2019, the Company issued 100,000 common shares with a fair value of US\$50,000 (\$66,630) as partial settlement of this debt in addition to a regular instalment payment of US\$121,110. Due to issuance of the common shares, the remaining instalment payments were reduced to US\$108,611 from US\$121,110 per month. The company paid two instalments of this amount through July and August 2019. In September 2019, the Company renegotiated the repayment terms of its remaining instalment payments owed. Under these renegotiated terms, the Company paid US\$20,000 per month from September 2019 through May 2020 and a final payment of US\$37,220. As at September 30, 2020 the balance owed for deferred payments is \$nil (December 31, 2019 - \$230,174)

The continuity of the other payables is as follows:

	September 30, 2020		December 31, 2019	
Opening	\$	230,174	\$	772,078
Monthly installments		(230,174)		(475,274)
Issuance of common shares		-		(66,630)
Ending	\$	-	\$	230,174

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### 10. CONVERTIBLE DEBENTURES

On July 19, 2019, NexTech issued \$985,500 of convertible debentures with an effective interest rate of 9%, which mature thirty-six months from the issuance date. The principal will be repaid in twelve equal instalments and each payment will include interest payable up to the date of repayment. Notwithstanding the foregoing, the first payment will be made six months after the issuance date. The Company, at its discretion, has the option to pay the amount due at each payment date in cash or common shares based on a fixed conversion price of \$0.60 per share. The Company has treated these convertible debentures as equity on its statement of financial position. The first payment was made by common shares with the issuance of 347,663 shares (Note 10).

On May 5, 2020 the Company extinguished the convertible debenture issued on July 19, 2019 with an effective interest rate of 9% with a thirty-six month term by converting the remaining principal balance of \$739,125 and accrued interest of \$2,741 for 1,236,444 common shares. The extinguishment was subject to a 15% cash prepayment penalty of \$158,384. Of this extinguishment, \$492,750 of principal and \$1,828 of accrued interest were converted for 824,296 common shares and \$105,589 cash pre-payment penalty were to the CEO who is a related party (Note 12).

### 11. SHARE CAPITAL

#### Authorized

As at September 30, 2020 the authorized share capital of the Company was an unlimited number of common shares.

#### Share Capital

During the period ended September 30, 2020, the Company had the following share capital transactions:

- issued 1,063,851 shares as part of a share-based payment arrangement;
- issued 47,799 shares to settle a related party liability (Note 12);
- issued 1,910,163 shares as payment on convertible debenture (Note 10);
- issued 1,000,000 shares for the acquisition of Jolokia Corp with 100,000 of these issued shares held by the Company in treasury for liabilities assumed as part of the transaction (Note 3);
- issued 1,528,036 units for gross proceeds of \$3,208,876. Each unit consists of one share and one-half warrant. Each warrant is exercisable at \$3.00 per share for a period of 2 years from issuance. In relation, the Company issued 86,433 broker warrants, with the same terms as the private placement warrants but a different exercise price of \$2.19 per share. The fair value of the broker warrants is \$113,242 using Black Scholes Option Pricing Model;
- issued 2,035,000 units for gross proceeds of \$13,227,000. Each Unit is comprised of one common share in the capital of the Company and one-half of one common share purchase warrant of the Company. Each warrant is exercisable into one common share at a price of \$8.00 for a period of 24 months following the closing of the offering, subject to an accelerated expiry if the volume-weighted average price of the Common Shares on the Canadian Securities Exchange (or such other stock exchange where the majority of the trading volume occurs) exceeds \$11.00 for 15 consecutive trading days. In relation, the Company issued 142,250 broker warrants, with the same terms as the short form prospectus warrants but a different exercise price of \$6.50 per share. The fair value of the broker warrants is \$653,083 using Black Scholes Option Pricing Model;
- issued 1,938,666 shares for the exercise of options; and
- issued 4,282,128 shares for the exercise of warrants.

## NexTech AR Solutions Corp.

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### 11. SHARE CAPITAL (continued)

#### Share purchase warrants

		Weighted Average
	Number	Exercise Price
Balance, as at May 31, 2019	-	\$ -
Granted	7,302,340	0.83
Exercised	(335,000)	(0.73)
Balance, as at December 31, 2019	6,967,340	\$ 0.83
Granted	2,760,401	5.74
Exercised	(4,282,128)	(0.70)
Balance, as at September 30, 2020	5,445,613	\$ 2.62

The weighted average remaining life on the warrants is 1.33 years.

#### Stock options

		Weighted Average
	Number	Exercise Price
Balance, as at May 31, 2019	5,274,000	\$ 0.36
Granted	1,790,000	0.77
Cancelled	(2,495,000)	(0.37)
Exercised	(90,000)	(0.25)
Balance, as at December 31, 2019	4,479,000	\$ 0.52
Granted	5,500,000	3.56
Cancelled	(1,800,000)	(1.56)
Exercised	(1,948,666)	(0.46)
Forfeited	(325,000)	(0.88)
Balance, as at September 30, 2020	5,905,334	\$ 3.04

The weighted average remaining life of the outstanding stock options is 2.46 years.

Stock-based compensation was recognized using the graded vesting method over the vesting period of each tranche. The fair value of all options granted is estimated on the grant date using the Black-Scholes option pricing model.

## NexTech AR Solutions Corp.

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### 11. SHARE CAPITAL (continued)

#### Stock options (continued)

The weighted average assumptions used in calculating the fair values are as follows:

	Nine months ended September 30, 2020
Weighted average	
Risk free interest rate	1.32%
Expected life of options in years	3.00
Expected dividend yield	0%
Expected stock option volatility	140%
Fair value per option	\$ 0.46

Date Granted	Expiry Date	Exercise Price	Number Outstanding	Number Exercisable
November 1, 2018	November 1, 2021	\$0.29	340,000	340,000
November 2, 2018	November 2, 2021	\$0.25	138,000	138,000
March 28, 2019	September 28, 2021	\$0.60	45,000	45,000
April 17, 2019	April 17, 2022	\$0.78	100,000	33,333
May 9, 2019	May 9, 2022	\$0.72	39,000	13,000
June 14, 2019	June 14, 2022	\$0.65	93,334	63,334
August 19, 2019	August 19, 2022	\$0.75	125,000	41,667
October 10, 2019	October 10, 2022	\$0.84	775,000	175,000
April 9, 2020	April 9, 2023	\$1.34	970,000	-
June 3, 2020	June 3, 2023	\$2.28	100,000	-
June 19, 2020	June 19, 2023	\$2.20	1,000,000	-
July 2, 2020	July 2, 2023	\$5.10	250,000	-
July 9, 2020	July 9, 2023	\$6.20	50,000	-
July 13, 2020	July 13, 2023	\$8.35	300,000	-
July 28, 2020	July 13, 2023	\$6.65	50,000	-
August 25, 2020	August 25, 2023	\$5.88	550,000	-
September 30, 2020	September 30, 2023	\$5.59	980,000	-
<b>Total</b>			<b>5,905,334</b>	<b>849,334</b>

On December 5, 2019, the company entered share-based payment arrangements with consultants for services. The weighted average grant date fair value of the equity instruments granted during the year ended December 31, 2019 was \$0.80. The arrangement dictates that the instruments are vested, and as such recognized, as services are delivered by the consultants. During the three and nine months ended September 30, 2020 the Company recognized \$207,890 and \$741,171 of expenditure related to this arrangement.

## NexTech AR Solutions Corp.

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### 12. RELATED PARTY TRANSACTIONS AND BALANCES

The Company entered into a number of transactions with key management personnel. The Company considers the executive officers and directors as the key management of the Company. The remuneration of key management personnel includes those persons having the authority and responsibility for the planning, directing and controlling of the activities of the Company are as follows:

	Three months ended 30-Sep-20	Nine months ended 30-Sep-20
Remuneration for services	\$ 79,351	\$ 122,479
Share-based payments	165,352	\$ 576,990
	\$ 244,703	\$ 699,469

Amounts due to and from related parties as at September 30, 2020 and December 31, 2019 are as follows:

Related party assets (liabilities)	September 30, 2020	December 31, 2019
Key management personnel	\$ 2,451	(143,727)

The amounts owing to the related parties as described above are non-secured, non-interest bearing, with no specific terms of repayment. During the period the Company issued 47,799 shares to settle \$38,239 of outstanding liabilities to the CEO. During the period, the Company extinguished the convertible debenture, of this extinguishment, \$492,750 of principal and \$1,828 of accrued interest were converted for 824,296 common shares and \$105,589 cash pre-payment penalty were to the CEO. During the period ended December 31, 2019, the company issued \$627,000 of convertible debentures to the CEO (Note 10).

### 13. FINANCIAL AND CAPITAL RISK MANAGEMENT

#### Financial Risk Management

The Company's financial instruments are exposed to certain financial risks, which include credit risk, liquidity risk, currency risk, and interest rate risk.

#### Credit Risk

Credit risk arises from cash as well as credit exposures to counterparties of outstanding receivables and committed transactions. There is no significant concentration of credit risk other than cash deposits and receivables. The Company's cash deposits are primarily held with a Canadian chartered bank and receivables are due from the distributors of the company's products and customers.

#### Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's main source of cash resources is through equity financings and from convertible debentures. The Company's financial obligations are limited to its current liabilities which have contractual maturities of less than one year. The Company manages liquidity risk as part of its overall "Management of Capital" as described below.

## **NexTech AR Solutions Corp.**

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### **14. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)**

#### **Currency Risk**

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and a portion of the Company's expenses are incurred in U.S. dollars ("USD"). A significant change in the currency exchange rates between the Canadian dollar relative to the USD could affect the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations. As at September 30, 2020, the Company is exposed to currency risk through cash, accounts receivable and accounts payable denominated in USD. A 10% change in exchange rate could increase/decrease the Company's net loss by \$239,042.

#### **Interest Rate Risk**

The interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The company is not exposed to significant cash flow fluctuations due to interest rate changes. As such, fluctuations in the market interest rates during the three months and nine months ended September 30, 2020 had no significant impact on the Company's financing expense.

#### **Management of Capital**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern to pursue the development of its technologies. The Company relies mainly on equity issuances to raise new capital. In the management of capital, the Company includes the components of equity. The Company's investment policy is to invest its cash in savings accounts or highly liquid short-term deposits with terms of one year or less and which can be liquidated after thirty days without penalty. The Company is not subject to any externally imposed capital requirements. Management believes that the Company may have to raise additional capital to sustain its operations for the next twelve months.

#### **Fair Values**

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities. Financial instruments are initially recognized at fair value with subsequent measurement depending on classification as described below. Classification of financial instruments depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the Company's designation of such instruments. As at September 30, 2020, the Company's financial instruments were classified as at amortized at cost. The carrying values of cash, receivables, and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

### **15. SUBSEQUENT EVENTS**

On October 1, 2020, the Company acquired the AiR Show ("AiR Show") application, which allows consumers to view and interact with a human holograms for applications such as virtual concerts, conferences, and other events. The fair value of consideration paid for the acquisition was US \$300,000 consisting of US \$150,000 of cash consideration and US \$150,000 of the Company's shares.