

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Innovative Payment Solutions, Inc.

Form: 10-Q

Date Filed: 2020-08-14

Corporate Issuer CIK: 1591913

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2020

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 333-192877

INNOVATIVE PAYMENT SOLUTIONS, INC
(Exact Name of Registrant as Specified in its Charter)

Nevada

(State or Other Jurisdiction of
Incorporation or Organization)

33-1230229

(I.R.S. Employer
Identification No.)

**19355 Business Center Drive., #9
Northridge, CA**

Address of Principal Executive Offices

91324

Zip Code

(818) 864-8404

Registrant's Telephone Number, Including Area Code

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

Securities registered pursuant to Section 12(b) of the Act: None

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---------------------|-------------------|---|
| N/A | N/A | N/A |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Number of shares of common stock outstanding as of August 13, 2020 was 185,565,089.

INNOVATIVE PAYMENT SOLUTIONS, INC.

The COVID-19 pandemic has required the Company's management to focus their attention primarily on responding to the challenges presented by the pandemic, including ensuring continuous operations, and adjusting the Company's operations to address changes in the virtual payments industry.

The Company provides an integrated network of kiosks, terminals and payment channels that enable consumers to deposit cash, convert it into a digital form and remit the funds to any merchant in its network quickly and securely. The Company has plans to roll out 50 kiosks in Southern California to provide digital payments for the unbanked and underbanked using self-service kiosks and an E wallet ecosystem. The kiosks are currently located in the Company's warehouses in Southern California awaiting installation. Due to measures imposed by the local governments in areas affected by COVID-19, businesses have been suspended due to quarantine intended to contain this outbreak and many people have been forced to work from home in those areas. As a result, installation of the Company's network of kiosks, terminals and payment channels in Southern California has been delayed, which has had an adverse impact on the Company's business and financial condition and has hampered its ability to generate revenue and access usual sources of liquidity on reasonable terms.

The Company has been following the recommendations of local health authorities to minimize exposure risk for its employees for the past several weeks, including the temporary closures of its offices and having employees work remotely to the extent possible, which has to an extent adversely affected their efficiency.

Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In particular, statements contained in this Quarterly Report on Form 10-Q, including but not limited to, the sufficiency of our cash, our ability to finance our operations and business initiatives and obtain funding for such activities; our future results of operations and financial position, business strategy and plan prospects, or costs and objectives of management for future acquisitions, are forward-looking statements. These forward-looking statements relate to our future plans, objectives, expectations and intentions and may be identified by words such as "may," "will," "should," "expects," "plans," "anticipates," "intends," "targets," "projects," "contemplates," "believes," "seeks," "goals," "estimates," "predicts," "potential" and "continue" or similar words. Readers are cautioned that these forward-looking statements are based on our current beliefs, expectations and assumptions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed, projected or implied in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

NOTE REGARDING COMPANY REFERENCES

Throughout this Quarterly Report on Form 10-Q, "Innovative Payment Solutions, Inc" ("IPSI"), the "Company," "we," "us" and "our" refer to IPSI.

INNOVATIVE PAYMENT SOLUTIONS, INC.

Index

| | <u>Page</u> |
|---|-------------|
| PART I. FINANCIAL INFORMATION | |
| Item 1. Condensed Consolidated Financial Statements (unaudited) | F-1 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 1 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risks | 5 |
| Item 4. Controls and Procedures | 5 |
| PART II. OTHER INFORMATION | |
| Item 1. Legal Proceedings | 6 |
| Item 1A. Risk Factors | 6 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 6 |
| Item 3. Defaults Upon Senior Securities | 6 |
| Item 4. Mine Safety Disclosures | 6 |
| Item 5. Other Information | 6 |
| Item 6. Exhibits | 7 |

Item 1.

INNOVATIVE PAYMENT SOLUTIONS, INC.

TABLE OF CONTENTS

June 30, 2020

| | |
|--|----------|
| Condensed Consolidated Balance Sheets as of June 30, 2020 (unaudited) and December 31, 2019 | F-2 |
| Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2020 and 2019 (unaudited) | F-3 |
| Condensed Consolidated Statements of Changes in Stockholders' Deficit for the three and six months ended June 30, 2020 and 2019 (unaudited) | F-4 |
| Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019, (unaudited) | F-5 |
| Notes to the Unaudited Condensed Consolidated Financial Statements | F-6–F-27 |

INNOVATIVE PAYMENT SOLUTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

| | June 30, 2020 (Unaudited) | December 31, 2019 |
|--|---------------------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash | \$ 549 | \$ 2,979 |
| Other current assets | 12,066 | 55,059 |
| Total Current Assets | 12,615 | 58,038 |
| Non-current assets | | |
| Investment | 1 | 1,019,961 |
| Plant and equipment, net | 45,833 | - |
| Right of use asset | 72,399 | - |
| Security deposit | 4,000 | - |
| Total non-current assets | 122,233 | 1,019,961 |
| Total Assets | \$ 134,848 | \$ 1,077,999 |
| Liabilities and Stockholders' Deficit | | |
| Current Liabilities | | |
| Accounts payable | \$ 499,157 | \$ 314,523 |
| Federal relief loan | 60,292 | - |
| Loans payable | 22,136 | 61,631 |
| Loans payable - Related parties | - | 30,026 |
| Convertible debt, net of unamortized discount of \$324,959 and \$371,387, respectively | 623,708 | 359,362 |
| Operating lease liability | 41,990 | - |
| Derivative liability | 923,215 | 905,576 |
| Total Current Liabilities | 2,170,498 | 1,671,118 |
| Non-current liabilities | | |
| Operating lease liability | 30,409 | - |
| Total Liabilities | 2,200,907 | 1,671,118 |
| Stockholders' Deficit | | |
| Preferred stock, \$0.0001 par value, 25,000,000 shares authorized, and 0 shares issued and outstanding as of June 30, 2020 and December 31, 2019. | - | - |
| Common stock, \$0.0001 par value; 500,000,000 shares authorized, 163,142,595 and 128,902,124 shares issued and outstanding as of June 30, 2020 and December 31, 2019, respectively.* | 16,314 | 12,890 |
| Additional paid-in-capital* | 22,478,459 | 21,579,022 |
| Accumulated deficit | (24,560,832) | (22,185,031) |
| Total Stockholders' Deficit | (2,066,059) | (593,119) |
| Total Liabilities and Stockholders' Deficit | \$ 134,848 | \$ 1,077,999 |

* After giving effect to a 10 for 1 reverse stock split effective November 1, 2019.

See notes to the unaudited condensed consolidated financial statements.

INNOVATIVE PAYMENT SOLUTIONS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

| | Three months ended June 30, 2020 | Three months ended June 30, 2019 | Six months ended June 30, 2020 | Six months ended June 30, 2019 |
|--|---|---|---|---|
| Net Revenue | \$ - | \$ - | \$ - | \$ - |
| Cost of Goods Sold | - | - | - | - |
| Gross profit | - | - | - | - |
| General and administrative | 297,764 | 197,234 | 952,663 | 353,992 |
| Depreciation and amortization | 4,167 | - | 4,167 | - |
| Total Expense | <u>301,931</u> | <u>197,234</u> | <u>956,830</u> | <u>353,992</u> |
| Loss from Operations | (301,931) | (197,234) | (956,830) | (353,992) |
| Investment impairment charge | (509,979) | - | (1,019,960) | - |
| Loss on debt conversion | (79,467) | (188,854) | (150,274) | (554,558) |
| Loss on settlement of liabilities | - | - | (50,082) | - |
| Interest expense | (29,750) | (108,255) | (84,088) | (198,346) |
| Amortization of debt discount | (213,101) | (471,391) | (373,178) | (1,012,537) |
| Derivative liability movements | 176,490 | 319,888 | 278,611 | 862,413 |
| Other (expense) income | (20,000) | 3,499 | (20,000) | 3,499 |
| Foreign currency loss | - | (18) | - | - |
| Loss before Income Taxes from continuing operations | <u>(977,738)</u> | <u>(642,365)</u> | <u>(2,375,801)</u> | <u>(1,253,521)</u> |
| Income Taxes | - | - | - | - |
| Net Loss from continuing operations | \$ (977,738) | \$ (642,365) | \$ (2,375,801) | \$ 1,253,521 |
| Loss from discontinued operations, net of income taxes | - | (236,076) | - | (491,763) |
| Net Loss | <u>(977,738)</u> | <u>(878,441)</u> | <u>(2,375,801)</u> | <u>(1,745,284)</u> |
| Basic and diluted loss per share* | | | | |
| Continuing operations | (0.01) | (0.06) | (0.02) | (0.11) |
| Discontinued operations | - | (0.02) | - | (0.04) |
| | <u>(0.01)</u> | <u>(0.08)</u> | <u>(0.02)</u> | <u>(0.15)</u> |
| Weighted Average Number of Shares Outstanding * | | | | |
| Basic and diluted | <u>158,738,117</u> | <u>11,338,354</u> | <u>155,830,492</u> | <u>11,337,255</u> |
| Other Comprehensive gain | | | | |
| Foreign currency translation adjustment | - | 7,705 | - | 17,724 |
| Total Comprehensive income (loss) | <u>(977,738)</u> | <u>(870,736)</u> | <u>(2,375,801)</u> | <u>(1,727,560)</u> |

* After giving effect to a 10 for 1 reverse stock split effective November 1, 2019.

See notes to the unaudited condensed consolidated financial statements

INNOVATIVE PAYMENT SOLUTIONS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' DEFICIT

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019

| | Preferred Stock | | Common Stock | | Additional Paid-in Capital* | Accumulated Deficit | Accumulated Other Comprehensive Income | Total Stockholders' Deficit |
|--|-----------------|--------------|-----------------------------------|------------------------|---|-----------------------------------|---|-----------------------------------|
| | Shares | Amount | Shares* | Amount* | | | | |
| Balance as of December 31, 2019 | - | \$ - | 128,902,124 | \$ 12,890 | \$ 21,579,022 | \$ (22,185,031) | \$ - | \$ (593,119) |
| Settlement of liabilities | - | - | 2,504,110 | 250 | 99,914 | - | - | 100,164 |
| Conversion of debt to equity | - | - | 1,692,764 | 169 | 105,966 | - | - | 106,135 |
| Shares issued for services | - | - | 535,714 | 54 | 29,946 | - | - | 30,000 |
| Share subscriptions | - | - | 1,400,000 | 140 | 32,860 | - | - | 33,000 |
| Stock based compensation | - | - | 2,000,000 | 200 | 87,800 | - | - | 88,000 |
| Fair value of Restricted Stock Awards | - | - | 20,495,000 | 2,050 | 311,781 | - | - | 313,831 |
| Net loss | - | - | - | - | - | (1,398,063) | - | (1,398,063) |
| Balance as of March 31, 2020 | - | - | 157,529,712 | 15,753 | 22,247,289 | (23,583,094) | - | (1,320,052) |
| Conversion of debt to equity | - | - | 5,330,737 | 533 | 154,933 | - | - | 155,466 |
| Shares issued for services | - | - | 282,146 | 28 | 13,472 | - | - | 13,500 |
| Fair value of Restricted Stock Awards | - | - | - | - | 62,765 | - | - | 62,765 |
| Net income | - | - | - | - | - | (977,738) | - | (977,738) |
| Balance as of June 30, 2020 | | \$ - | 163,142,595 | \$ 16,314 | \$ 22,478,459 | \$ (24,560,832) | \$ - | \$ (2,066,059) |
| | Preferred Stock | Common Stock | Additional Paid-in Capital* | Accumulated Deficit | Accumulated Other Comprehensive Income | Total Stockholders' Deficit | | |
| | Shares | Amount | Shares* | Amount* | | | | |
| Balance as of December 31, 2018 | - | \$ - | 88,839,218 | \$ 8,884 | \$ 14,857,769 | \$ (18,455,925) | \$ 380,907 | \$ (3,208,365) |
| Conversion of debt to equity | - | - | 24,376,164 | 2,438 | 675,525 | - | - | 677,963 |
| Translation adjustment | - | - | - | - | - | - | 10,019 | 10,019 |
| Net loss | - | - | - | - | - | (866,843) | - | (866,843) |
| Balance as of March 31, 2019 | - | \$ - | 113,215,382 | \$ 11,322 | \$ 15,533,294 | \$ (19,322,768) | \$ 390,926 | \$ (3,387,226) |
| Conversion of debt to equity | - | - | 35,170,840 | 3,517 | 368,413 | - | - | 371,930 |
| Shares issued for services | - | - | 825,718 | 82 | 162,172 | - | - | 162,254 |
| Translation adjustment | - | - | - | - | - | - | 7,705 | 7,705 |
| Net loss | - | - | - | - | - | (878,441) | - | (878,441) |
| Balance as of June 30, 2019 | - | \$ - | 149,211,940 | \$ 14,921 | \$ 16,063,879 | \$ (20,201,209) | \$ 398,631 | \$ (3,723,778) |

* After giving effect to a 10 for 1 reverse stock split effective November 1, 2019.

See notes to the unaudited condensed consolidated financial statements.

INNOVATIVE PAYMENT SOLUTIONS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six months ended June 30, 2020 | Six months ended June 30, 2019 |
|--|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (2,375,801) | \$ (1,745,284) |
| Less: net loss from discontinued operations | - | 491,763 |
| Net loss from continuing operations | (2,375,801) | (1,253,521) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Derivative liability movements | (278,611) | (862,413) |
| Depreciation | 4,167 | - |
| Amortization of debt discount | 373,178 | 1,012,537 |
| Investment impairment charge | 1,019,960 | - |
| Loss on conversion of debt to equity | 150,274 | 554,558 |
| Loss on settlement of liabilities | 50,082 | - |
| Convertible notes issued for services | - | 4,423 |
| Shares issued for services | 43,500 | - |
| Stock based compensation | 464,596 | 162,254 |
| Amortization of right of use asset | 14,342 | - |
| Changes in Assets and Liabilities | | |
| Other current assets | 38,993 | (1,425) |
| Accounts payable and accrued expenses | 184,635 | (97,892) |
| Operating lease liabilities | (14,342) | - |
| Interest accruals | 51,055 | 190,785 |
| Cash used in operating activities – continuing operations | (273,972) | (290,694) |
| Cash used in operating activities – discontinued operations | - | (160,655) |
| CASH USED IN OPERATING ACTIVITIES | (273,972) | (451,349) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Plant and equipment purchased | (50,000) | - |
| Net cash used in investing activities – continuing operations | (50,000) | - |
| Net cash used in investing activities – discontinued operations | - | (1,272) |
| NET CASH USED IN INVESTING ACTIVITIES | (50,000) | (1,272) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from share issuances | 33,000 | - |
| Proceeds from loans payable | - | 125,000 |
| Repayment of loans payable | (20,000) | - |
| Repayment of convertible notes | (48,000) | - |
| Proceeds from short term notes and convertible notes | 296,250 | 267,000 |
| Proceeds from federal relief funds | 60,292 | - |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 321,542 | 392,000 |
| Effect of exchange rate changes on cash and cash equivalents | - | (1,054) |
| NET DECREASE IN CASH | (2,430) | (59,567) |
| CASH AT BEGINNING OF PERIOD | 2,979 | 71,294 |
| CASH AT END OF PERIOD | \$ 549 | \$ 11,727 |
| CASH PAID FOR INTEREST AND TAXES: | | |
| Cash paid for income taxes | \$ - | \$ - |
| Cash paid for interest | \$ 33,030 | \$ - |
| NON CASH INVESTING AND FINANCING ACTIVITIES | | |
| Recognition of right of use lease | \$ 86,741 | \$ - |
| Conversion of convertible debt to equity | \$ 261,601 | \$ 1,049,893 |
| Settlement of liabilities with equity | \$ 100,164 | \$ - |

See notes to the unaudited condensed consolidated financial statements.

INNOVATIVE PAYMENT SOLUTIONS, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

a) Organization

On May 12, 2016, Innovative Payment Solutions, Inc. (formerly known as QPAGOS and Asiya Pearls, Inc.), a Nevada corporation ("IPSI" or the "Company"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with Qpagos Corporation, a Delaware corporation ("Qpagos Corporation"), and Qpagos Merge, Inc., a Delaware corporation and wholly owned subsidiary of IPSI ("Merger Sub"). Pursuant to the Merger Agreement, on May 12, 2016, the merger was consummated, and Qpagos Corporation and Merger Sub merged (the "Merger"), with Qpagos Corporation continuing as the surviving corporation of the Merger.

Pursuant to the Merger Agreement, upon consummation of the Merger, each share of Qpagos Corporation's capital stock issued and outstanding immediately prior to the Merger was converted into the right to receive two shares of IPSI common stock, par value \$0.0001 per share (the "Common Stock"). Additionally, pursuant to the Merger Agreement, upon consummation of the Merger, IPSI assumed all of Qpagos Corporation's warrants issued and outstanding immediately prior to the Merger, which were exercisable for approximately 6,219,200 pre reverse split (621,920 post reverse split that was effected in November 2019) shares of Common Stock, respectively, as of the date of the Merger. Prior to and as a condition to the closing of the Merger, the then-current IPSI stockholder of 5,000,000 pre reverse split (500,000 post reverse split that was effected in November 2019) shares of Common Stock agreed to return to IPSI 4,975,000 pre reverse split (497,500 post reverse split that was effected in November 2019) shares of Common Stock held by such holder to IPSI and the then-current IPSI stockholder retained an aggregate of 25,000 pre reverse split (2,500 post reverse split that was effected in November 2019) shares of Common Stock and the other stockholders of IPSI retained 5,000,000 pre reverse split (500,000 post reverse split that was effected in November 2019) shares of Common Stock. Therefore, immediately following the Merger, Qpagos Corporation's former stockholders held 49,929,000 pre reverse split (4,992,900 post reverse split that was effected in November 2019) shares of IPSI common stock which represented approximately 91% of the outstanding Common Stock.

The Merger was treated as a reverse acquisition of IPSI, a public shell company, for financial accounting and reporting purposes. As such, Qpagos Corporation was treated as the acquirer for accounting and financial reporting purposes while IPSI was treated as the acquired entity for accounting and financial reporting purposes.

Qpagos Corporation ("Qpagos") was incorporated on May 1, 2015 under the laws of the state of Delaware to effectuate a reverse merger transaction with Qpagos, S.A.P.I. de C.V. (Qpagos Mexico) and Redpag Electrónicos S.A.P.I. de C.V. (Redpag). Each of the entities were incorporated in November 2013 in Mexico.

Qpagos, S.A.P.I. de C.V. was formed to process payment transactions for service providers it contracts with, and Redpag Electrónicos S.A.P.I. de C.V. was formed to deploy and operate kiosks as a distributor.

On May 27, 2016 Asiya changed its name to QPAGOS. QPAGOS and its direct and indirect subsidiaries Qpagos Corporation, Qpagos, S.A.P.I. de C.V. and Redpag Electrónicos S.A.P.I. de C.V., will be referred to hereafter as "the Company".

On June 1, 2016, the board of directors changed the Company's fiscal year end from October 31 to December 31.

On November 1, 2019, the Company changed its name to Innovative Payment Solutions Inc.

Also on November 1, 2019, immediately following the name change, the Company filed a Certificate of Change with the Secretary of State of the State of Nevada to effect a reverse split of Company's common stock at a ratio of 1-for-10, effective on November 1, 2019. As a result of the Reverse Stock Split, each ten pre-split shares of common stock outstanding automatically combined into one new share of common stock without any further action on the part of the holders, and the number of outstanding shares common stock was reduced from 320,477,867 shares to 32,047,817 after rounding for fractional shares.

On December 31, 2019, Innovative Payment Solutions consummated the disposal of Qpagos Corporation, including the two Mexican subsidiaries, Qpagos Mexico and Redpag in exchange for 2,250,000 shares of common stock of Vivi Holdings, of which nine percent (9%) was allocated to the following: Gaston Pereira (5%), Andrey Novikov (2.5%), and Joseph Abrams (1.5%). The SPA was closed on December 31, 2019 after the satisfaction of customary conditions, the receipt of a final fairness opinion and the approval of our shareholders. Innovative Payment Solutions no longer has any business operations in Mexico and has retained its U.S. operations based in Calabasas, California.

INNOVATIVE PAYMENT SOLUTIONS, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 ORGANIZATION AND DESCRIPTION OF BUSINESS (continued)

b) Description of the business

Subsequent to the merger of Qpagos Corporation into IPSI and until the divestiture of Qpagos Corporation, our focus was on the operations of Qpagos Corporation in Mexico. Our current focus is on providing physical and virtual payment services to the United States market, leveraging the knowledge we obtained from the operations of Qpagos Corporation. On December 31, 2019, the Company consummated the disposal of Qpagos Corporation, including the two Mexican subsidiaries, Qpagos Mexico and Redpag in terms of a Stock Purchase Agreement entered into with Vivi Holdings, Inc on August 5, 2019, in exchange for 2,250,000 shares of common stock of Vivi Holdings, of which nine percent (9%) was allocated to the following: Gaston Pereira (5%), Andrey Novikov (2.5%), and Joseph Abrams (1.5%). The SPA was closed on December 31, 2019 after the satisfaction of customary conditions, the receipt of a final fairness opinion and the approval of our shareholders. Innovative Payment Solutions no longer has any business operations in Mexico and has retained its U.S. operations based in Northridge, California.

Qpagos Corporation, through its subsidiaries Qpagos S.A.P.I de C.V. ("Qpagos") and Redpag Electronicos S.A.P.I de C.V. ("Redpag"), provided physical and virtual payment services to the Mexican market. Qpagos Corporation provided an integrated network of kiosks, terminals and payment channels that enabled consumers in Mexico to deposit cash, convert it into a digital form and remit the funds to any merchant in our network quickly and securely. Qpagos helped consumers and merchants connect more efficiently in markets and consumer segments, such as Mexico, that are largely cash-based and lack convenient alternatives for consumers to pay for goods and services in physical, online and mobile environments. For example, Qpagos licensed technology can be used to pay bills, add minutes to mobile phones, purchase transportation and tickets, shop online or at a retail store, buy digital services or send money to a friend or relative.

2 ACCOUNTING POLICIES AND ESTIMATES

a) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, these unaudited condensed consolidated financial statements do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring adjustments), which the Company considers necessary, for a fair presentation of those financial statements. The results of operations and cash flows for the three and six months ended June 30, 2020 may not necessarily be indicative of results that may be expected for any succeeding quarter or for the entire fiscal year. The information contained in this Quarterly Report on Form 10-Q should be read in conjunction with the audited financial statements of IPSI for the year ended December 31, 2019, included in the Annual Report on Form 10-K as filed with the Securities and Exchange Commission (the "SEC") on May 14, 2020.

All amounts referred to in the notes to the unaudited condensed consolidated financial statements are in United States Dollars (\$) unless stated otherwise.

b) Principles of Consolidation

The unaudited condensed consolidated financial statements include the financial statements of the Company. In the prior year the financial statements included the Company and its wholly owned subsidiary and its indirect subsidiaries. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements. The entities included in these consolidated financial statements are as follows:

| Entity | Percentage owned | Country | Disposed of |
|--|------------------|---------|-------------------|
| Innovative Payment Solutions, Inc | - | USA | - |
| Qpagos Corporation | 100% | USA | December 31, 2019 |
| Qpagos, S.A.P.I de C.V. | 99.996% | Mexico | December 31, 2019 |
| Redpag Electrónicos, S.A.P.I. de C.V | 99.990% | Mexico | December 31, 2019 |

c) Mexican Operations

The financial statements of the Company's discontinued Mexican operations in the prior period are measured using local currencies as their functional currencies.

The Company translated the assets and liabilities of its discontinued Mexican subsidiaries at the exchange rates in effect at the period end and the results of operations at the average rate throughout the period. The translation adjustments are recorded directly as a separate component of stockholders' equity, while transaction gains (losses) are included in net income (loss). All sales were to customers are in Mexico.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ESTIMATES (continued)

d) Use of Estimates

The preparation of unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions, which are evaluated on an ongoing basis, that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and on various other assumptions that it believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the amounts of revenues and expenses that are not readily apparent from other sources. Actual results could differ from those estimates and judgments. In particular, significant estimates and judgments include those related to; the estimated useful lives for plant and equipment, investment valuation, the fair value of warrants and stock options granted for services or compensation, estimates of the probability and potential magnitude of contingent liabilities, derivative liabilities, the valuation allowance for deferred tax assets due to continuing operating losses, those related to revenue recognition and the allowance for doubtful accounts.

Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the unaudited condensed consolidated financial statements, which management considered in formulating its estimate could change in the near-term due to one or more future confirming events. Accordingly, the actual results could differ significantly from our estimates.

e) Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur.

The Company's management assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material would be disclosed. Loss contingencies considered to be remote by management are generally not disclosed unless they involve guarantees, in which case the guarantee would be disclosed.

f) Fair Value of Financial Instruments

The Company adopted the guidance of Accounting Standards Codification ("ASC") 820 for fair value measurements which clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1-Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2-Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3-Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The carrying amounts reported in the balance sheets for the investment in Vivi Holdings Inc., was evaluated at fair value using Level 3 Inputs based on the Company's estimate of the market value of the entities disposed to Vivi Holdings, Inc. Vivi Holdings Inc., does not have sufficient information available to assess the current market price of its equity.

The carrying amounts reported in the balance sheets for cash, other current assets, other assets, accounts payable, accrued liabilities, and notes payable, approximate fair value due to the relatively short period to maturity for these instruments. The Company has identified the short-term convertible notes and certain warrants attached to certain of the notes that are required to be presented on the balance sheets at fair value in accordance with the accounting guidance.

ASC 825-10 "*Financial Instruments*" allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value (fair value option). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable, unless a new election date occurs. If the fair value option is elected for an instrument, unrealized gains and losses for that instrument should be reported in earnings at each subsequent reporting date. We evaluate the fair value of variably priced derivative liabilities on a quarterly basis and report any movements thereon in earnings.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ESTIMATES (continued)

g) Risks and Uncertainties

The Company's operations will be subject to significant risk and uncertainties including financial, operational, regulatory, and other risks associated, including the potential risk of business failure. The recent global Covid-19 breakout has caused an economic crisis which may result in a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, and extreme volatility in credit, equity and fixed income markets. These conditions may not only limit the Company's access to capital, but also make it difficult for its customers, vendors and the Company to accurately forecast and plan future business activities. In addition, businesses have been suspended due to quarantines intended to contain this outbreak and many people have been forced to work from home in those areas. As a result, installation of the Company's network of kiosks, terminals and payment channels in Southern California has been delayed, which has had an adverse impact on our business and financial condition and has hampered the Company's ability to generate revenue and access usual sources of liquidity on reasonable terms.

The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, and rates and methods of taxation, among other things.

h) Recent accounting pronouncements

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740)

The Amendments in this update reduce the complexity in accounting for income taxes by removing certain exceptions to accounting for income taxes and deferred taxes and simplifying the accounting treatment of franchise taxes, a step up in the tax basis of goodwill as part of business combinations, the allocation of current and deferred tax to a legal entity not subject to tax in its own financial statements, reflecting changes in tax laws or rates in the annual effective rate in interim periods that include the enactment date and minor codification improvements.

This ASU is effective for fiscal years and interim periods beginning after December 15, 2020.

The effects of this ASU on the Company's financial statements is not considered to be material.

The FASB issued several updates during the period, none of these standards are either applicable to the Company or require adoption at a future date and none are expected to have a material impact on the consolidated financial statements upon adoption.

i) Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. At June 30, 2020 and December 31, 2019, respectively, the Company had no cash equivalents.

The Company minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution in the United States. The balance at times may exceed federally insured limits. At June 30, 2020 and December 31, 2019, the balance did not exceed the federally insured limit.

INNOVATIVE PAYMENT SOLUTIONS, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ESTIMATES (continued)

j) Investments

The Company's non-marketable equity securities are investments in privately held companies without readily determinable market values. The carrying value of our non-marketable equity securities is adjusted to fair value for observable transactions for identical or similar investments of the same issuer or impairment (referred to as the measurement alternative). All gains and losses on non-marketable equity securities, realized and unrealized, are recognized in other income (expense), net. Non-marketable equity securities that have been remeasured during the period are classified within Level 3 in the fair value hierarchy because the Company estimates the value based on valuation methods using the observable transaction price at the transaction date and other unobservable inputs including volatility, rights, and obligations of the securities the Company holds. The cost method is used when the Company has a passive, long-term investment that doesn't result in influence over the company. The cost method is used when the investment results in an ownership stake of less than 20%, and there is no substantial influence. Under the cost method, the stock purchased is recorded on a balance sheet as a non-current asset at the historical acquisition/purchase price, and is not modified unless shares are sold, additional shares are purchased or there is evidence of the fair market value of the investment declining below carrying value. Any dividends received are recorded as income.

The Company recorded an impairment charge of \$509,979 and \$1,019,960 on its non-marketable equity securities for the three and six months ended June 30, 2020, respectively. The impairment charge was based on management's determination that due to the lack of ability, to date, by Vivi Holdings ("Vivi") to fulfill its capital raising requirements and implement its business strategy that there is a significant risk that Vivi may not be able to meet its obligations.

k) Plant and Equipment

Plant and equipment is stated at cost, less accumulated depreciation. Plant and equipment with costs greater than \$1,000 are capitalized and depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets are as follows:

| <u>Description</u> | <u>Estimated Useful Life</u> |
|------------------------|--|
| Kiosks | 3 years |
| Computer equipment | 3 years |
| Leasehold improvements | Lesser of estimated useful life or life of lease |
| Office equipment | 10 years |

The cost of repairs and maintenance is expensed as incurred. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the year of disposition.

l) Long-Term Assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ESTIMATES (continued)

m) Revenue Recognition

The Company's revenue recognition policy is consistent with the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606, Revenue.

The Company's revenues are recognized when control of the promised goods or services are transferred to a customer, in an amount that reflects the consideration that the Company expects to receive in exchange for those services. The Company derives its revenues from the sale of its services, as defined below. The Company applies the following five steps in order to determine the appropriate amount of revenue to be recognized as it fulfills its obligations under each of its revenue transactions:

- i. identify the contract with a customer;
- ii. identify the performance obligations in the contract;
- iii. determine the transaction price;
- iv. allocate the transaction price to performance obligations in the contract; and
- v. recognize revenue as the performance obligation is satisfied.

The Company had the following sources of revenue which is recognized on the basis described below.

- **Revenue from the sale of services.**

Prepaid services were acquired from providers and were sold to end-users through kiosks that the Company owned or kiosks that were owned by third parties. The Company recognized the revenue on the sale of these services when the end-user deposited funds into the terminal and the prepaid service was delivered to the end-user. The revenue was recognized at the gross value, including margin, of the prepaid service to the Company, net of any value-added tax which was collected on behalf of the Mexican Revenue Authorities.

- **Payment processing provided to end-users**

The Company provides a secure means for end-users to pay for certain services, such as utilities through its kiosks. The Company earns either a fixed per-transaction fee or a fixed percentage of the service sold. The Company acts as a collection agent and recognizes the payment processing fee, net of any value-added taxes collected on behalf of the Mexican Revenue Authorities (with respect to revenue generated prior to the sale of the Mexican operations), when the funds are deposited into the kiosk and the customer has settled his liability or has acquired a prepaid service.

- **Revenue from the sale of kiosks.**

The Company intends to import, assemble and sell kiosks that will be used to generate the revenues discussed above. Revenue will be recognized on the full value of the kiosks sold, net of any sales taxation collected on behalf of the Revenue authorities, when the customer takes delivery of the kiosk and all the risks and rewards of ownership are passed to the customer.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ESTIMATES (continued)

n) Share-Based Payment Arrangements

Generally, all forms of share-based payments, including stock option grants, restricted stock grants and stock appreciation rights are measured at their fair value on the awards' grant date, based on the estimated number of awards that are ultimately expected to vest. Share-based compensation awards issued to non-employees for services rendered are recorded at either the fair value of the services rendered or the fair value of the share-based payment, whichever is more readily determinable. The expense resulting from share-based payments is recorded in operating expenses in the consolidated statement of operations.

Prior to the Company's reverse merger which took place on May 12, 2016, all share-based payments were based on management's estimate of market value of the Company's equity. The factors considered in determining managements estimate of market value includes, assumptions of future revenues, expected cash flows, market acceptability of our technology and the current market conditions. These assumptions are complex and highly subjective, compounded by the business being in its early stage of development in a new market with limited data available.

Where equity transactions with arms-length third parties, who had applied their own assumptions and estimates in determining the market value of our equity, had taken place prior to and within a reasonable time frame of any share-based payments, the value of those share transactions have been used as the fair value for any share-based equity payments.

Where equity transactions with arms-length third parties, included both shares and warrants, the value of the warrants have been eliminated from the unit price of the securities using a Black-Scholes valuation model to determine the value of the warrants. The assumptions used in the Black Scholes valuation model includes market related interest rates for risk-free government issued treasury securities with similar maturities; the expected volatility of the Company's common stock based on companies operating in similar industries and markets; the estimated stock price of the Company; the expected dividend yield of the Company and; the expected life of the warrants being valued.

Subsequent to the Company's reverse merger which took place on May 12, 2016, the Company has utilized the market value of its common stock as quoted on the OTCQB, as an indicator of the fair value of its common stock in determining share- based payment arrangements.

o) Derivative Liabilities

ASC 815 generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re- measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument subject to the requirements of ASC 815. ASC 815 also provides an exception to this rule when the host instrument is deemed to be conventional, as described.

p) Reclassification of prior year presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

INNOVATIVE PAYMENT SOLUTIONS, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3 GOING CONCERN

These financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred an operating loss since inception resulting in an accumulated deficit of \$24,560,832 as of June 30, 2020 and has not generated sufficient revenue to cover its operating expenditure, raising substantial doubt about the Company's ability to continue as a going concern. In addition to operational expenses, as the Company executes its US business plan, additional capital resources will be required. The Company will need to raise capital in the near term in order to continue operating and executing its new US business plan. The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and/or obtaining the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. The Company has acquired kiosks that it plans to deploy in the US market and establish a payment solution to certain demographic sectors, thereby generating revenues in the US market with an expected improvement in margins. In addition, the Company intends to raise additional equity or loan funds to meet its short-term working capital needs. The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern for at least the next twelve months from the date the financial statements were issued.

4 DISCONTINUED OPERATIONS

Effective December 31, 2019, the Company sold 100% of the outstanding common stock of its subsidiary, Qpagos Corp to Vivi. The operations of Qpagos Corp and its two Mexican entities; QPagos S.A.P.I. de C.V. and Redpag Electrónicos S.A.P.I. de C.V, which represent substantially all of its assets, are reported as discontinued operations.

The statement of operations from discontinued operations is as follows:

| | Three months ended June 30, 2019 | Six months ended June 30, 2019 |
|---|--|---|
| Net Revenue | \$ 2,833,417 | \$ 4,069,619 |
| Cost of Goods Sold | <u>2,756,802</u> | <u>3,980,986</u> |
| Gross profit | 76,615 | 88,633 |
| General and administrative | 297,451 | 553,662 |
| Depreciation and amortization and impairment costs | 11,306 | 22,609 |
| Total Expense | <u>308,757</u> | <u>576,271</u> |
| Loss from Operations | (232,142) | (487,638) |
| Other income (expense) | (3,158) | 1,873 |
| Foreign currency loss | (776) | (5,998) |
| Loss before taxation | <u>(236,076)</u> | <u>(491,763)</u> |
| Taxation | - | - |
| Loss from discontinued operations, net of taxation | <u>(236,076)</u> | <u>\$ (491,763)</u> |

INNOVATIVE PAYMENT SOLUTIONS, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5 INVESTMENT

Investment in Vivi Holdings, Inc.

Effective December 31, 2019, the Company sold 100% of the outstanding common stock of its subsidiary, Qpagos Corp, together with its 99.9% ownership interest of Qpagos Corporations' two Mexican entities: QPagos S.A.P.I. de C.V. and Redpag Electrónicos S.A.P.I. de C.V, to Vivi.

As consideration for the disposal Vivi issued an aggregate of 2,250,000 Shares of its common stock as follows: 2,047,500 Shares to the Company; 56,250 Shares to the Company's designee, Mr. Andrey Novikov; 33,750 Shares to the Company's designee, the Joseph W. & Patricia G. Abrams Family Trust; and 112,500 Shares to the Company's designee, Mr. Gaston Pereira.

Due to the lack of available information, the Vivi Shares were valued by a modified market method, whereby the value of the assets disposed of were determined by management using the enterprise value of the entire Company less the liabilities and assets retained by the Company.

As of June 30, 2020, the Company impaired the carrying value of the investment in Vivi Holdings, Inc by \$1,019,960 based on Vivi's lack of ability to execute on its proposed IPO and fund raising activities, largely impacted by the COVID-19 pandemic.

The shares in Vivi Holdings, Inc., are unlisted as of June 30, 2020.

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|-----------------------------------|--------------------------|------------------------------|
| Investment in Vivi Holdings, Inc. | \$ 1,019,961 | \$ 1,019,961 |
| Impairment provision | (1,019,960) | - |
| | <u>\$ 1</u> | <u>\$ 1,019,961</u> |

6 LEASES

Adoption of ASC Topic 842, "Leases"

On January 1, 2019, the Company adopted Topic 842 using the prospective transition method applied to leases that were in place as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 840.

The Company entered into a real property lease for office and warehouse space located at 19355 Business Center Drive in Northridge California, Los Angeles County. The lease commenced on February 15, 2020 and expires on February 28, 2022, monthly rental expense is \$3,945 per month with no escalations during the term of the lease.

The initial value of the right-of-use asset was \$86,741 and the operating lease liability was \$86,741. The Company monitors for events or changes in circumstances that require a reassessment of our lease. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding right-of-use asset unless doing so would reduce the carrying amount of the right-of-use asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative right-of-use asset balance is recorded as a loss in the statement of operations.

Discount Rate

To determine the present value of minimum future lease payments for operating leases at February 15, 2020, the Company was required to estimate a rate of interest that it would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment (the "incremental borrowing rate" or "IBR").

The Company determined the appropriate IBR by identifying a reference rate and making adjustments that take into consideration financing options and certain lease-specific circumstances. For the reference rate, the Company used the 5 year ARM interest rate at the time of entering into the agreement and compared that rate to the Company's weighted average cost of funding at the time of entering into the operating lease. The Company determined that 10.00% was an appropriate incremental borrowing rate to apply to its real-estate operating lease.

INNOVATIVE PAYMENT SOLUTIONS, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6 LEASES (continued)

Right of use assets

Right of use assets are included in the unaudited condensed consolidated Balance Sheet are as follows:

| | <u>June 30, 2020</u> |
|--|--------------------------|
| Non-current assets | |
| Right of use assets, operating leases, net of amortization | \$ 72,399 |

Total Lease Cost

Individual components of the total lease cost incurred by the Company is as follows:

| | <u>Six months ended June 30, 2020</u> |
|--------------------------------|---|
| Operating lease expense | \$ 17,753 |

Maturity of Operating Leases

The amount of future minimum lease payments under operating leases are as follows:

| | <u>Amount</u> |
|---|------------------|
| Undiscounted minimum future lease payments | |
| Total instalments due: | |
| 2020 | \$ 23,670 |
| 2021 | 47,340 |
| 2022 | <u>7,890</u> |
| | 78,900 |
| Imputed interest | (6,501) |
| Total operating lease liability | <u>\$ 72,399</u> |
| Disclosed as: | |
| Current portion | \$ 41,990 |
| Non-current portion | <u>30,409</u> |
| | <u>\$ 72,399</u> |

Other lease information:

| | <u>Six months ended June 30, 2020</u> |
|---|---|
| Cash paid for amounts included in the measurement of lease liabilities | |
| Operating cash flows from operating leases | \$ (17,753) |
| Remaining lease term – operating lease | 20 months |
| Discount rate – operating lease | 10.0% |

INNOVATIVE PAYMENT SOLUTIONS, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7 FEDERAL RELIEF LOAN

Payroll Protection Program loan

On May 7, 2020, the Company received a payroll Protection Program loan through its bankers, Wells Fargo Bank amounting to \$60,292 earning interest at 1% per annum, maturing on May 5, 2022 and repayable in instalments of \$2,538 commencing on November 5, 2020. The Company may apply for the loan to be forgiven in whole or in part based on the loan being utilized for payroll costs, continuation of healthcare benefits, mortgage interest payments, rent, utility and interest payments on any other debt obligation. The Company anticipates that the loan will be forgivable.

8 LOANS PAYABLE

Loans payable consisted of the following:

| Description | Interest Rate | Maturity | June 30, 2020 | December 31, 2019 |
|-----------------------|---------------|--------------------|---------------|-------------------|
| Stanislav Minaychenko | 4.0% | September 16, 2020 | 14,250 | 23,930 |
| Maxim Pukhoskiy | 4.0% | June 16, 2020 | 7,886 | 17,683 |
| Alexander Motorin | 4.0% | December 23, 2020 | - | 20,018 |
| Total loans payable | | | \$ 22,136 | \$ 61,631 |

Interest expense totaled \$238 and \$561 for the three and six months ended June 30, 2020, respectively, and \$2,312 and \$9,871 for the three and six months ended June 30, 2019, respectively.

Stanislav Minaychenko

On December 17, 2019, in terms of a settlement agreement entered into between the Company, Qpagos Corporation and Stanislav Minaychenko, the Company issued a promissory note to Mr. Minaychenko in settlement of \$23,893 owing to him in terms of a service agreement dated September 1, 2015. The promissory note bears interest at 4% per annum, is unsecured and matures on June 16, 2020.

During the six months ended June 30, 2020, the Company repaid an aggregate principal amount of \$10,000.

On July 1, 2020, the Company entered into an extension agreement with Stanislav Minaychenko, extending the maturity date to September 16, 2020.

The balance of the promissory note, including interest thereon at June 30, 2020 is \$14,250.

Maxim Pukhoskiy

On December 17, 2019, in terms of a settlement agreement entered into between the Company, Qpagos Corporation and Maxim Pukhoskiy, the Company issued a promissory note to Mr. Pukhoskiy in settlement of \$17,856 owing to him in terms of a service agreement dated May 1, 2015. The promissory note bears interest at 4% per annum, is unsecured and matures on June 16, 2020.

During the six months ended June 30, 2020, the Company repaid an aggregate principal amount of \$10,000.

The note is currently in default as we were unable to pay the outstanding balance by June 16, 2020. The note has no default penalties and we anticipate repaying the note as soon as we have sufficient funds.

The balance of the promissory note, including interest thereon at June 30, 2020 is \$7,886.

Alexander Motorin

On December 23, 2019, in terms of a debt purchase agreement entered into with Waketec OU, Mr. Motorin acquired \$20,000 of the promissory note issued to Waketec OU by Qpagos Corporation. On December 23, 2019, the Company entered into a debt settlement agreement whereby the company agreed to the assignment of the debt owed to Mr. Motorin by Qpagos Corporation to the Company in exchange for a new promissory note in the principal amount of \$20,000 issued by the Company. The promissory note is unsecured, bears interest at 4% per annum and matures on December 23, 2020.

On January 7, 2020, the Company entered into a debt exchange agreement whereby the aggregate principal sum of \$20,000 plus accrued interest of \$33 was exchanged for 1,001,644 shares of common stock at an issue price of \$0.02 per share, realizing a loss on exchange of \$20,033.

INNOVATIVE PAYMENT SOLUTIONS, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9 CONVERTIBLE NOTES PAYABLE

Convertible notes payable consists of the following:

| Description | Interest rate | Maturity Date | Principal | Accrued interest | Unamortized debt discount | June 30, 2020 Balance, net | December 31, 2019 Balance, net |
|--|---------------|-------------------|-------------------|------------------|---------------------------|----------------------------|--------------------------------|
| Power Up Lending Group | 12% | November 12, 2020 | 54,000 | 6,641 | (20,420) | 40,221 | 11,643 |
| | 12% | December 23, 2020 | 63,000 | 3,935 | (30,295) | 36,640 | 1,543 |
| | 12% | January 22, 2021 | 43,000 | 2,262 | (24,202) | 21,060 | - |
| GS Capital Partners, LLC | 8% | August 14, 2019 | - | - | - | - | 27,557 |
| | 8% | August 14, 2019 | 150,000 | 42,740 | - | 192,740 | 174,789 |
| | 8% | February 4, 2020 | - | - | - | - | 49,243 |
| Crown Bridge Partners, LLC | 8% | August 31, 2019 | 19,914 | 4,898 | - | 24,812 | 30,803 |
| | 8% | October 16, 2019 | 27,500 | 4,533 | - | 32,033 | 30,387 |
| Odyssey Funding LLC | 10% | November 15, 2020 | 200,000 | 12,493 | (75,410) | 137,083 | 27,658 |
| | 10% | January 13, 2021 | 100,000 | 4,630 | (53,825) | 50,805 | - |
| Black Ice Advisors, LLC | 10% | November 25, 2020 | 15,500 | 2,931 | (6,268) | 12,163 | 5,739 |
| Adar Alef, LLC | 10% | February 5, 2021 | 105,000 | 4,200 | (63,115) | 46,085 | - |
| LG Capital Funding LLC | 10% | February 24, 2021 | 78,750 | 2,740 | (51,424) | 30,066 | |
| Total convertible notes payable | | | \$ 856,664 | \$ 92,003 | \$ (324,959) | \$ 623,708 | \$ 359,362 |

Interest expense totaled \$29,535 and \$83,526 for the three and six months ended June 30, 2020, respectively and \$46,371 and \$117,719 for the three and six months ended June 30, 2019, respectively.

Amortization of debt discount totaled \$213,100 and \$373,178 for the three and six months ended June 30, 2020, respectively and \$454,321 and \$1,012,537 for the three and six months ended June 30, 2019, respectively.

The convertible notes have variable conversion prices based on a discount to market price of trading activity over a specified period of time. The variable conversion features were valued using a Black Scholes valuation model. The difference between the fair market value of the common stock and the calculated conversion price on the issuance date was recorded as a debt discount with a corresponding credit to derivative financial liability.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9 CONVERTIBLE NOTES PAYABLE (continued)

The total value of the beneficial conversion feature recorded as a debt discount during the three and six months ended June 30, 2020 was \$0 and \$326,750, respectively and for the three and six months ended June 30, 2019 was \$109,510 and \$394,394, respectively.

Power Up Lending Group Ltd

- On November 21, 2019, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$93,000 to Power up Lending Group Ltd. The note has a maturity date of November 12, 2020 and a coupon of 12% per annum. The Company may prepay the note with prepayment penalties ranging from 115% to 135%. The outstanding principal amount of the note is convertible after 180 days, at the election of the holder into shares of the Company's common stock at a conversion price equal to 61% of the lowest three trading prices during the previous fifteen trading days.

Between June 16, 2020 and June 22, 2020, the Company received notices of conversion from Power Up Lending Group converting \$39,000 of principal into 3,360,149 shares of common stock at an average conversion price of \$0.0116. The Company incurred a loss on conversion of \$41,096.

The balance of the note plus accrued interest at June 30, 2020 was \$40,221 after unamortized debt discount of \$20,420.

- On December 23, 2019, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$63,000 to Power up Lending Group Ltd. The note has a maturity date of December 23, 2020 and a coupon of 12% per annum. The Company may prepay the note with prepayment penalties ranging from 115% to 135%. The outstanding principal amount of the note is convertible after 180 days, at the election of the holder into shares of the Company's common stock at a conversion price equal to 61% of the lowest three trading prices during the previous fifteen trading days.

The balance of the note plus accrued interest at June 30, 2020 was \$36,640, after unamortized debt discount of \$30,295.

- On January 22, 2020, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$43,000 to Power Up Lending Group Ltd. The note has a maturity date of January 22, 2021 and a coupon of 12% per annum. The Company may prepay the note with prepayment penalties ranging from 115% to 135%. The outstanding principal amount of the note is convertible after 180 days, at the election of the holder into shares of the Company's common stock at a conversion price equal to 61% of the lowest trading price during the previous fifteen trading days.

The balance of the note plus accrued interest at June 30, 2020 was \$21,060, after unamortized debt discount of \$24,202.

GS Capital Partners, LLC

- On August 14, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$150,000 to GS Capital Partners, LLC. The note had a maturity date of August 14, 2019 and a coupon of 8% per annum. The Company had the right to prepay the note up to 180 days, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time after the six-month anniversary of the note, at the election of the holder into shares of the Company's common stock at a conversion price equal to 62% of lowest trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

Between August 12, 2019 and September 11, 2019, the Company received notices of conversion from GS Capital Partners converting \$50,000 of principal and \$3,945 of interest into 17,432,265 pre reverse split (1,743,227 post reverse split that was effected in November 2019) shares of common stock at an average conversion price of \$0.00309 pre reverse stock split (\$0.031 post reverse stock split that was effected in November 2019) per share. The Company incurred a loss on conversion of \$56,315.

As of August 14, 2019 the note was in default and accrues interest at the default interest rate of 24% per annum.

On December 30, 2019, the Company repaid the principal sum of \$90,000 on the convertible note.

On January 28, 2020, in terms of a conversion notice received, the remaining principal balance of \$10,000 plus accrued interest thereon of \$17,741 was converted into 1,132,764 shares of common stock at a conversion price of \$0.02449, thereby extinguishing the note.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9 CONVERTIBLE NOTES PAYABLE (continued)

GS Capital Partners, LLC (continued)

- On September 11, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$150,000 to GS Capital Partners, LLC. The note has a maturity date of August 14, 2019 and a coupon of 8% per annum. The note may not be prepaid. The outstanding principal amount of the note was convertible at any time after the six month anniversary of the note, at the election of the holder into shares of the Company's common stock at a conversion price equal to 62% of lowest trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

As of August 14, 2019 the note was in default and accrues interest at the default interest rate of 24% per annum.

The balance of the note plus accrued interest at June 30, 2020 was \$192,740.

- On February 4, 2019, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$96,000 to GS Capital Partners LLC. The note has a maturity date of February 4, 2020 and a coupon of 8% per annum. The Company may not prepay the note. The outstanding principal amount of the note is convertible after 180 days, at the election of the holder into shares of the Company's common stock at a conversion price equal to 62% of the lowest three trading prices during the previous ten (10) trading days.

On December 19, 2019, the Company repaid the principal sum of \$48,000 on the convertible note.

On January 14, 2020, the Company repaid the principal sum of \$48,000 and accrued interest and penalty interest of \$33,030, thereby extinguishing the note.

Crown Bridge Partners

- On August 31, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$27,500 to Crown Bridge Partners. The note had a maturity date of August 31, 2019 and a coupon of 8% per annum. The Company had the right to prepay the note for the first 180 days, subject to a penalty ranging from 10% to 35% of the prepayment, dependent upon the timing of the prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the lowest trading price during the previous ten (10) trading days.

As of August 31, 2019 the note is in default and interest accrues at the default interest rate of 12% per annum and the note holder may require the Company to pay a penalty of 50% of the value of the note outstanding, including default interest.

On March 11, 2020, the Company received a conversion notice from Crown Bridge Partners, converting an aggregate principal amount of \$7,586 and fees thereon of \$500, at a conversion price of \$0.01444 into 560,000 shares of common stock.

The balance of the note plus accrued interest at June 30, 2020 was \$24,812.

- On October 16, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$27,500 to Crown Bridge Partners. The note has a maturity date of October 16, 2019 and a coupon of 8% per annum. The Company may not prepay the note. The outstanding principal amount of the note is convertible after 180 days, at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the lowest trading price during the previous fifteen (15) trading days.

As of October 31, 2019 the note is in default and accrues interest at the default interest rate of 12% per annum and the note holder may require the Company to pay a penalty of 50% of the value of the note outstanding, including default interest.

The balance of the note plus accrued interest at June 30, 2020 was \$32,033.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9 CONVERTIBLE NOTES PAYABLE (continued)

Odyssey Funding, LLC

- On November 15, 2019, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$200,000 to Odyssey Funding, LLC. The note has a maturity date of November 15, 2020 and a coupon of 10% per annum. The Company may prepay the note with prepayment penalties ranging from 120% to 145%. The outstanding principal amount of the note is convertible after 180 days, at the election of the holder into shares of the Company's common stock at a conversion price equal to 58% of the lowest trading price during the previous fifteen trading days.

The balance of the note plus accrued interest at June 30, 2020 was \$137,083, after unamortized debt discount of \$75,410.

- On January 13, 2020, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$100,000 to Odyssey Funding, LLC. The note has a maturity date of January 13, 2021 and a coupon of 10% per annum. The Company may prepay the note with prepayment penalties ranging from 120% to 145%. The outstanding principal amount of the note is convertible after 180 days, at the election of the holder into shares of the Company's common stock at a conversion price equal to 58% of the lowest trading price during the previous fifteen trading days.

The balance of the note plus accrued interest at June 30, 2020 was \$50,805, after unamortized debt discount of \$53,825.

Black Ice Advisors, LLC

On November 25, 2019, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$52,500 to Black Ice Advisors, LLC. The note has a maturity date of November 25, 2020 and a coupon of 10% per annum. The Company may prepay the note with prepayment penalties ranging from 120% to 145%. The outstanding principal amount of the note is convertible after 180 days, at the election of the holder into shares of the Company's common stock at a conversion price equal to 58% of the lowest trading price during the previous fifteen trading days.

Between May 27, 2020 and June 8, 2020, the Company received notices of conversion from Black Ice Advisors, LLC converting \$37,000 of principal into 1,970,588 shares of common stock at an average conversion price of \$0.0188. The Company incurred a loss on conversion of \$38,371.

The balance of the note plus accrued interest at June 30, 2020 was \$12,163, after unamortized debt discount of \$6,268.

Adar Alef, LLC

On February 5, 2020, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$105,000 to Adar Alef, LLC. The note has a maturity date of February 5, 2021 and a coupon of 10% per annum. The Company may prepay the note with prepayment penalties ranging from 120% to 145%. The outstanding principal amount of the note is convertible after 180 days, at the election of the holder into shares of the Company's common stock at a conversion price equal to 58% of the lowest trading price during the previous fifteen trading days.

The balance of the note plus accrued interest at June 30, 2020 was \$46,085, after unamortized debt discount of \$63,115.

LG Capital Funding, LLC

On February 24, 2020, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$78,750 to LG Capital Funding LLC. The note has a maturity date of February 24, 2021 and a coupon of 10% per annum. The Company may prepay the note with prepayment penalties ranging from 120% to 145%. The outstanding principal amount of the note is convertible after 180 days, at the election of the holder into shares of the Company's common stock at a conversion price equal to 58% of the lowest trading price during the previous fifteen trading days.

The balance of the note plus accrued interest at June 30, 2020 was \$30,066, after unamortized debt discount of \$51,424.

INNOVATIVE PAYMENT SOLUTIONS, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10 DERIVATIVE LIABILITY

Certain of the short-term convertible notes disclosed in note 9 above, have variable priced conversion rights with no fixed floor price and will re-price dependent on the share price performance over varying periods of time, due to the variable priced conversion rights, all convertible notes and any warrants attached thereto, issued subsequent to the variable priced conversion notes are valued and give rise to a derivative financial liability, which was initially valued at inception of the convertible notes using a Black-Scholes valuation model.

During the six months ended June 30, 2020, an additional \$296,250 was raised as a derivative liability on variably priced convertible notes.

The value of this derivative financial liability was re-assessed at June 30, 2020, and \$278,611 was credited to the statement of operations and comprehensive loss, respectively. The value of the derivative liability will be re-assessed at each financial reporting period, with any movement thereon recorded in the statement of operations in the period in which it is incurred.

The following assumptions were used in the Black-Scholes valuation model:

| | Six months ended June 30, 2020 | Year ended December 31, 2019 |
|---|---|------------------------------------|
| Conversion price* | \$ 0.016 to 2.00 | \$ 0.02 to 2.00 |
| Risk free interest rate | 0.11 to 1.53% | 1.53 to 2.59% |
| Expected life of derivative liability | 1 to 9 months | 1 to 12 months |
| Expected volatility of underlying stock | 219.1 to 222.6% | 148.5 to 224.3% |
| Expected dividend rate | 0% | 0% |

The movement in derivative liability is as follows:

| | June 30, 2020 | December 31, 2019 |
|--|-------------------|----------------------|
| Opening balance | \$ 905,576 | \$ 1,833,672 |
| Derivative financial liability arising from convertible note | 296,250 | 1,053,842 |
| Fair value adjustment to derivative liability | (278,611) | (1,981,938) |
| | <u>\$ 923,215</u> | <u>\$ 905,576</u> |

11 STOCKHOLDERS' EQUITY

a. Common Stock

The Company has authorized 500,000,000 common shares with a par value of \$0.0001 each. The Company has issued and outstanding 163,142,595 and 128,902,124 shares of common stock as of June 30, 2020 and December 31, 2019.

The following common shares were issued by the Company during the six months ended June 30, 2020.

- In terms of debt conversion notices received between January 28, 2020 and June 22, 2020, the Company issued an aggregate of 7,023,501 shares of common stock for the conversion of \$111,828 of convertible debt, realizing a loss on conversion of \$149,774 and in terms of debt exchange agreements entered into on January 7, 2020, the Company issued an aggregate of 2,504,110 shares of common stock, in settlement of \$50,082 of loans payable, resulting in a net loss on exchange of \$50,082.
- In terms of subscription agreements entered into with investors on February 20, 2020 and March 16, 2020, the Company issued 1,400,000 shares of common stock for gross proceeds of \$33,000.
- In terms of an agreement entered into with a supplier, the Company issued 535,714 shares of common stock valued at \$30,000 on grant date, as partial compensation for services provided.
- In terms of an employment agreement entered into with the Company's Chief Operating Officer, the Company issued 282,146 shares of common stock valued at \$13,500.
- The Company granted a director 2,000,000 shares of common stock for services to be rendered as a director of the Company, these shares were valued at grant date at \$88,000.

INNOVATIVE PAYMENT SOLUTIONS, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11 STOCKHOLDERS' EQUITY (continued)

b. Restricted stock awards

The following restricted stock awards were made during the six months ended June 30, 2020.

- (a) An aggregate of 5,123,750 shares of restricted common stock were issued to our Chief Executive Officer in terms of an employment agreement entered into with him. These shares are restricted and were fully vested on January 1, 2020. These restricted shares were valued at \$251,064 or \$0.049 per share, the market price of the Company's common stock on grant date.
- (b) An aggregate of 15,371,250 shares of restricted common stock were issued to our Chief Operating Officer in terms of an employment agreement entered into with him. These shares are restricted and vest over a three year period commencing on December 31, 2020. These restricted shares were valued at \$753,191 or \$0.049 per share, the market price of the Company's common stock on grant date.

The restricted stock granted and exercisable at June 30, 2020 is as follows:

| Grant date Price | Restricted Stock Granted | | Restricted Stock Vested | |
|------------------|--------------------------|---------------------------------------|-------------------------|---------------------------------------|
| | Number Granted | Weighted Average Fair Value per Share | Number Vested | Weighted Average Fair Value per Share |
| \$ 0.049 | 20,495,000 | \$ 0.049 | 5,123,750 | \$ 0.049 |

The Company has recorded an expense of \$62,765 and \$376,596 for the three months and six months ended June 30, 2020, respectively, relating to the restricted stock awards.

c. Preferred Stock

The Company has authorized 25,000,000 shares of preferred stock with a par value of \$0.0001 authorized, no preferred stock is issued and outstanding as of June 30, 2020 and December 31, 2019.

d. Warrants

In connection with the subscription agreement entered into with an investor, a three year warrant exercisable over 1,000,000 shares of common stock was granted to the investor, together with 1,000,000 shares of common stock for subscription proceeds of \$25,000.

The fair value of the warrants issued were determined by allocating the proceeds received using the relative fair value method after the warrants were valued using a Black Scholes valuation model using the following assumptions:

| | Six months ended June 30, 2020 |
|---|--------------------------------|
| Conversion price* | \$ 0.05 |
| Risk free interest rate | 1.35% |
| Expected life of derivative liability | 3 years |
| Expected volatility of underlying stock | 190.4% |
| Expected dividend rate | 0% |

INNOVATIVE PAYMENT SOLUTIONS, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11 STOCKHOLDERS' EQUITY (continued)

d. Warrants (continued)

A summary of warrant activity during the period January 1, 2019 to June 30, 2020 is as follows:

| | Shares Underlying Warrants* | Exercise price per share | Weighted average exercise price |
|--------------------------------------|-----------------------------------|--------------------------------|--|
| Outstanding January 1, 2019 | 852,775 | \$ 2.00 to 6.25 | \$ 5.10 |
| Granted | - | - | - |
| Forfeited/Cancelled | - | - | - |
| Exercised | - | - | - |
| Outstanding December 31, 2019 | 852,775 | \$ 2.00 to 6.25 | \$ 5.10 |
| Granted | 1,000,000 | 0.05 | 0.05 |
| Forfeited/Cancelled | (318,630) | 2.00 to 6.25 | 3.37 |
| Exercised | - | - | - |
| Outstanding June 30, 2020 | <u>1,534,145</u> | <u>\$ 0.05 to 6.25</u> | <u>\$ 2.14</u> |

The warrants outstanding and exercisable at June 30, 2020 are as follows:

| Exercise Price* | Warrants Outstanding | | | Warrants Exercisable | | |
|--------------------|-----------------------|--|--|-----------------------|--|--|
| | Number Outstanding | Weighted Average Remaining Contractual life in years | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price | Weighted Average Remaining Contractual life in years |
| \$ 6.25 | 519,520 | 0.25 | | 519,520 | | |
| \$ 2.00 | 14,625 | 0.08 | | 14,625 | | |
| \$ 0.05 | 1,000,000 | 2.64 | | 1,000,000 | | |
| | <u>1,534,145</u> | <u>1.51</u> | <u>\$ 2.14</u> | <u>1,534,145</u> | <u>\$ 2.14</u> | <u>1.51</u> |

The warrants outstanding have an intrinsic value of \$0 and \$0 as of June 30, 2020 and December 31, 2019.

e. Stock options

On June 18, 2018, the Company established its 2018 Stock Incentive Plan. The purpose of the plan is to promote the interests of the Company and the stockholders of the Company by providing directors, officers, employees and consultants of the Company with appropriate incentives and rewards to encourage them to enter into and continue in the employ or service of the Company, to acquire a proprietary interest in the long-term success of the Company and to reward the performance of individuals in fulfilling long-term corporate objectives. The plan terminates after a period of ten years in June 2028.

The Plan is administered by the Board of Directors or a Committee appointed by the Board of Directors who have the authority to administer the Plan and to exercise all the powers and authorities either specifically granted to it under the Plan.

The maximum number of securities available under the plan is 800,000 shares of common stock. The maximum number of shares of common stock awarded to any individual during any fiscal year may not exceed 100,000 shares of common stock.

INNOVATIVE PAYMENT SOLUTIONS, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11 STOCKHOLDERS' EQUITY (continued)

e. Stock options (continued)

No options were granted for the three and six months ended June 30, 2020.

A summary of option activity during the period January 1, 2019 to June 30, 2020 is as follows:

| | Shares Underlying options | Exercise price per share | Weighted average exercise price |
|--------------------------------------|---------------------------------|--------------------------------|--|
| Outstanding January 1, 2019 | 200,000 | \$ 0.40 | \$ 0.40 |
| Granted | - | - | - |
| Forfeited/Cancelled | (100,000) | - | - |
| Exercised | - | - | - |
| Outstanding December 31, 2019 | 100,000 | 0.40 | 0.40 |
| Granted | - | - | - |
| Forfeited/Cancelled | - | - | - |
| Exercised | - | - | - |
| Outstanding June 30, 2020 | 100,000 | \$ 0.40 | \$ 0.40 |

The options outstanding and exercisable at June 30, 2020 are as follows:

| Options Outstanding | | | | Options Exercisable | | |
|---------------------|------------------------|--|---|-----------------------|---|---|
| Exercise Price* | Number Outstanding* | Weighted Average Remaining Contractual life in years | Weighted Average Exercise Price* | Number Exercisable | Weighted Average Exercise Price* | Weighted Average Remaining Contractual life in years |
| 0.40 | 100,000 | 8.50 | \$ 0.40 | 100,000 | \$ 0.4 | 8.50 |

The options outstanding have an intrinsic value of \$0 and \$0 as of June 30, 2020 and December 31, 2019.

12 NET LOSS PER SHARE

Basic loss per share is based on the weighted-average number of common shares outstanding during each period. Diluted loss per share is based on basic shares as determined above plus common stock equivalents. The computation of diluted net loss per share does not assume the issuance of common shares that have an anti-dilutive effect on net loss per share. For the six months ended June 30, 2020 and 2019 all warrants, options and convertible debt securities were excluded from the computation of diluted net loss per share.

Dilutive shares which could exist pursuant to the exercise of outstanding stock instruments and which were not included in the calculation because their affect would have been anti-dilutive for the three and six months ended June 30, 2020 and 2019 are as follows:

| | Three and six months ended June 30, 2020 (Shares) | Three and six months ended June 30, 2019 (Shares) |
|---|--|--|
| Convertible debt | 99,663,682 | 43,300,749 |
| Stock options | 100,000 | 200,000 |
| Warrants to purchase shares of common stock | 1,534,145 | 852,775 |
| | <u>101,297,827</u> | <u>44,353,524</u> |

INNOVATIVE PAYMENT SOLUTIONS, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13 RELATED PARTY TRANSACTIONS

The following transactions were entered into with related parties:

Strategic IR

Strategic IR advanced the Company \$38,597 to meet short term commitments, the amounts advanced are non-interest bearing and have no fixed repayment terms. This amount is included in accounts payable.

James Fuller

On March 19, 2020, the Company granted Mr. Fuller, a director of the Company, 2,000,000 shares of restricted common stock in terms of the Stock Incentive Plan.

William Corbett

Effective January 1, 2020, the Company granted Mr. Corbett, the Chief Executive Officer of the Company, a total of 20,495,000 restricted shares of common stock of which 5,123,750 vested immediately and a further 15,371,250 which vest annually and equally over a three year period commencing on December 31, 2020.

Effective June 24, 2020, the Company entered into an executive employment agreement with William Corbett, to employ Mr. Corbett as the Company's Chief Executive Officer for a term of three (3) years, provide for an annual base salary of \$150,000, provide for a signing bonus of \$25,000, structure for a bonus of up to 50% of base salary upon the Company's achievement of \$2,000,000 EBITDA and additional performance bonus payments as may be determined by the Company's board of directors and provide for severance in the event of a termination without cause in amount equal to equal to fifty percent (50%) of his annual base salary rate then in effect, provided that if such termination without cause occurs after an Acquisition of the Company, Mr. Corbett will be entitled to receive severance in an amount equal to equal to 100% of his annual base salary rate then in effect.

The Employment Agreement provides for the grant to Mr. Corbett of 5,123,750 shares of the Company's common stock, which are fully vested and not subject to forfeiture.

On June 24, 2020, the Company entered into a restricted stock agreement with Mr. Corbett pursuant to which the Company granted him a restricted stock award of 15,371,250 shares of the Company's common stock, which forfeiture restriction lapse 33%, 33% and 34%, respectively, on the first, second and third anniversary of the date of grant.

On June 24, 2020, the Company entered into an indemnification agreement with Mr. Corbett to indemnify him, in connection with his position of employment with Company and in the discharge of his duties and responsibilities to Company, to the maximum extent allowed under the laws of the State of Nevada. The Company is not be required or obligated to indemnify Mr. Corbett to extent it would violate the Securities Act, or the Securities Exchange Act of 1934, as amended, or the rules and regulations thereunder.

LOANS PAYABLE

| Description | Interest Rate | Maturity Date | June 30, 2020 | December 31, 2019 |
|--|---------------|-------------------|------------------|----------------------|
| Vladimir Skigin | 4% | December 12, 2020 | - | 30,026 |
| Loans payable - Related parties | | | <u>\$ -</u> | <u>\$ 30,026</u> |

Interest expense amounted to \$23 and \$6,784 for the three months ended June 30, 2020 and 2019, respectively.

Vladimir Skigin

Mr. Skigin is considered to be a related party as his shareholding and that of the Companies under his control exceeds 5%.

• **Promissory note**

On December 23, 2019, in terms of a debt purchase agreement entered into with Waketec OU, Mr. Skigin acquired \$30,000 of the promissory note issued to Waketec OU by Qpagos Corporation. On December 23, 2019, the Company entered into a debt settlement agreement whereby the Company agreed to the assignment of the debt owed to Mr. Skigin by Qpagos Corporation to the Company in exchange for a new promissory note in the principal amount of \$30,000 issued by the Company. The promissory note is unsecured, bears interest at 4% per annum and matures on December 23, 2020. The balance of the promissory note, including interest thereon at December 31, 2019 is \$30,026.

On January 7, 2020, the Company entered into a debt exchange agreement with Mr. Skigin, whereby the aggregate principal sum of \$30,000 plus accrued interest of \$49 was exchanged for 1,502,466 shares of common stock at an issue price of \$0.02 per share, realizing a loss on exchange of \$30,049.

INNOVATIVE PAYMENT SOLUTIONS, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14 COMMITMENTS AND CONTINGENCIES

The Company entered into a property lease agreement as disclosed under note 6 above.

The future minimum lease commitments are as follows:

| | Amount |
|---|------------------|
| Undiscounted minimum future lease payments | |
| Total instalments due | \$ 78,900 |
| Imputed interest | (6,501) |
| Total operating lease liability | \$ 72,399 |
| Disclosed as: | |
| Current portion | \$ 41,990 |
| Non-current portion | 30,409 |
| | \$ 72,399 |

15 SUBSEQUENT EVENTS

COVID-19 Outbreak

In March 2020, the outbreak of COVID-19 (coronavirus) caused by a novel strain of the coronavirus was recognized as a pandemic by the World Health Organization, and the outbreak has become increasingly widespread in the United States, including in each of the areas in which the Company operates. While to date the Company has not been required to stop operating, management is evaluating its use of its office space, virtual meetings and the like.

The Company provides an integrated network of kiosks, terminals and payment channels that enable consumers to deposit cash, convert it into a digital form and remit the funds to any merchant in its network quickly and securely. The Company has plans to roll out 50 kiosks in Southern California to provide digital payments for the unbanked and underbanked using self-service kiosks and an E wallet ecosystem. The kiosks are currently located in the Company's warehouses in Southern California awaiting installation. Due to measures imposed by the local governments in areas affected by COVID-19, businesses have been suspended due to quarantine intended to contain this outbreak and many people have been forced to work from home in those areas. As a result, installation of the Company's network of kiosks, terminals and payment channels in Southern California has been delayed, which has had an adverse impact on the Company's business and financial condition and has hampered its ability to generate revenue and access usual sources of liquidity on reasonable terms.

The Company has been following the recommendations of local health authorities to minimize exposure risk for its employees for the past several weeks, including the temporary closures of its offices and having employees work remotely to the extent possible, which has to an extent adversely affected their efficiency. As a result, the Company's books and records were not easily accessible, resulting in delays in preparation and completion of its financial statements. Further, the various governmental mandatory closures of businesses in these locations have precluded the Company's personnel, particularly its senior accounting staff, from obtaining access to its books and records necessary to prepare the Company's financial statements to be included in the Quarterly Report.

The Company continues to monitor the impact of the COVID-19 (coronavirus) outbreak closely. The extent to which the COVID-19 (coronavirus) outbreak will continue to impact the Company's operations, ability to obtain financing or future financial results is uncertain.

Convertible debt issued

On July 1, 2020, the Company closed a transaction with Cavalry Fund I LP ("Calvary"), pursuant to which the Company received net proceeds of \$246,600, after certain expenses in exchange for the issuance of a \$300,000 Senior Secured Convertible Note ("Initial Note"), with an original issue discount of 12.5% or \$37,500, bearing interest at 10% per annum and maturing on June 30, 2021, the note is convertible into shares of common stock at an initial conversion price of 0.035 per share, in addition, the Company issued a warrant exercisable over 8,571,428 shares of common stock at an initial exercise price of \$.0.05 per share.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15 SUBSEQUENT EVENTS (continued)

Calvary has agreed to purchase an additional \$300,000 Senior Secured Convertible Note (the "Second Note"); from the Company upon the same terms as the Initial Note, within three trading days of a registration statement registering the shares of the Company's common stock issuable under the Notes and upon exercise of the Warrants being declared effective by the SEC. On July 28, 2020 the registration statement was declared effective and on July 31, 2020, the Company received the additional net proceeds of \$262,500.

The Notes may be prepaid at any time for the first 90 days at face value plus accrued interest. From day 91 through day 180, the Notes may be prepaid in an amount equal to 115% of the principal amount plus accrued interest. From day 181 through day 365, it may be prepaid in an amount equal to 125% of the principal amount plus accrued interest. The Note contains certain covenants, such as restrictions on: (i) distributions on capital stock, (ii) stock repurchases, and (iii) sales and the transfer of assets.

In connection with the Securities Purchase Agreement, the Company entered into a Registration Rights Agreement, dated June 30, 2020 with Calvary pursuant to which it is obligated to file a registration statement with the SEC within sixty (60) days after the date of the agreement to register the resale by the Investor of the Conversion Shares and Warrant Shares, and use all commercially reasonable efforts to have the registration statement declared effective by the SEC within seventy five (75) days after the registration statement is filed.

The Company has pledged substantially all of its assets as security for amounts due under the Notes, upon the terms and subject to the conditions set forth in a Security Agreement, dated June 30, 2020, between the Company and Calvary.

On July 13, 2020, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$63,000 to Power Up Lending Group Ltd for net proceeds of \$60,000 after certain expenses. The note has a maturity date of July 13, 2021 and a coupon of 12% per annum. The Company may prepay the note with prepayment penalties ranging from 115% to 135%. The outstanding principal amount of the note is convertible after 180 days, at the election of the holder into shares of the Company's common stock at a conversion price equal to 61% of the lowest trading price during the previous fifteen trading days.

Convertible debt settled

On July 8, 2020, the Company paid \$90,446.60 to Power Up Lending Group, thereby extinguishing the convertible note issued on December 23, 2019, in the principal amount of \$63,000 including interest and penalty interest thereon.

On July 10, 2020, the Company paid \$25,975 to Black Ice Investors LP, thereby extinguishing the convertible note issued on November 25, 2020, in the remaining principal amount of \$15,500 including interest and penalty interest thereon.

On July 15, 2020, the Company paid \$61,294 to Power Up Lending Group, thereby extinguishing the convertible note issued on January 22, 2020, in the principal amount of \$43,000 including interest and penalty interest thereon.

Promissory Note issued

On July 17, 2020, the Company issued a promissory note to Dieter Busenhart in the aggregate principal amount of \$50,000 for net proceeds of \$50,000, bearing interest at 10% per annum and maturing on January 17, 2021.

Small Business Administration ("SBA") loan

On July 7, 2020, the SBA advanced a loan of \$150,000 in the form of a promissory note to the Company, the note bears interest at 3.75% and is repayable monthly in installments of \$731 beginning on July 7, 2021, the balance of the principal and interest is payable 30 years from the date of the note. The note is secured by all tangible and intangible property of the Company. The proceeds are to be used for working capital purposes to alleviate economic injury caused by the COVID-19 pandemic.

Debt Conversions

Between July 15, 2020 and July 22, 2020, in terms of conversion notices received from Odyssey Funding LLC, converting an aggregate principal amount of \$40,000 and interest thereon of \$2,668, at an average conversion price of conversion prices of \$0.007 into 6,059,443 shares of common stock.

Between July 8, 2020 and July 20, 2020, in terms of conversion notices received from Power Up Lending Group, converting an aggregate principal amount of \$54,000 and interest thereon of \$5,580, at an average conversion price of conversion prices of \$0.0087 into 6,843,319 shares of common stock.

On July 20, 2020, in terms of a conversion notice received from GS Capital Partners, converting an aggregate principal amount of \$35,000 and interest thereon of \$10,418 at a conversion price of \$0.0083 per share into 5,466,723 shares of common stock.

Item 2. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with and is qualified in its entirety by our audited annual financial statements and the related notes thereto, each of which appear on Form 10-K filed with the SEC on May 13 2020. This discussion contains certain forward-looking statements that involve risks and uncertainties, as described under the heading "Note Regarding Forward-Looking Statements" in this Quarterly Report on Form 10-Q. Actual results could differ materially from those projected in the forward-looking statements. The Management Discussion and Analysis of Financial Condition and Results of Operations below is based upon only the financial performance of Innovative Payment Solutions, Inc.

Overview and Financial Condition

We intend to continue to expand our operations in the United States with a focus initially on Southern California. We are also exploring acquisition opportunities that we believe will be accretive to our business.

We offer a simple payment solution for consumers and businesses. We have plans to roll out 50 kiosks in Southern California to provide digital payments for the unbanked and underbanked using self-service kiosks and an E wallet ecosystem. The kiosks are currently located in our warehouses in Southern California awaiting installation. Due to measures imposed by the local governments in areas affected by COVID-19, businesses have been suspended due to quarantine intended to contain this outbreak and many people have been forced to work from home in those areas. As a result, installation of our network of kiosks, terminals and payment channels in Southern California has been delayed, which has had an adverse impact on our business and financial condition and has hampered our ability to generate revenue and access usual sources of liquidity on reasonable terms.

Management Discussion and Analysis of financial condition

The discussion and analysis of our financial condition and results of operations is based upon the unaudited condensed consolidated financial statements as of June 30, 2020 and 2019, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent liabilities at the financial statement date and reported amounts of revenue and expenses during the reporting period. On an on-going basis, we review our estimates and assumptions. The estimates are based on our historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results are likely to differ from those estimates under different assumptions or conditions.

Results of Operations for the Three Months Ended June 30, 2020 and June 30, 2019

Net revenue

We have treated our Mexican operations as a discontinued operation in these interim financial statements, we have not generated any revenues from our US operations to date. We anticipate that we will recommence generating revenue once we are able to install our kiosks, the timing of which is uncertain due to the COVID-19 pandemic.

Cost of goods sold

We have treated our Mexican operations as a discontinued operation in these interim financial statements we have not generated any cost of goods sold from our US operations to date. We anticipate that our cost of goods sold will increase once we are able to install our kiosks.

General and administrative expenses

General and administrative expenses were \$297,764 and \$197,234 for the three months ended June 30, 2020 and 2019, respectively, an increase of \$100,530 or 51.0%. The increase is primarily due to the issuance of restricted stock to our CEO with a related expense of \$62,766 during the current period, certain consulting fees of \$22,500 related to the development of our platform for the US market and certain payroll expenses of \$12,000 incurred during the current period.

Depreciation

Depreciation was \$4,167 and \$0 for the three months ended June 30, 2020 and 2019, respectively, an increase of \$4,167. Depreciation during the current period represents depreciation on the kiosks received from Qpagos Mexico.

Investment impairment charge

Investment impairment charge was \$509,979 and \$0 for the three months ended June 30, 2020 and 2019, respectively. The Company raised an impairment charge against the investment in Vivi Holdings Inc, as Vivi continues to not meet any of its indicated milestones concerning its proposed IPO and fund raising efforts.

Loss on debt conversion

Loss on debt conversion was \$79,467 and \$188,854 for the three months ended June 30, 2020 and 2019, respectively, a decrease of \$109,387 or 57.9%. The loss on debt conversion represents a loss realized on the conversion of convertible notes into equity at conversion prices ranging from 38% to 40% below current market prices. During the three months ended June 30, 2020 and 2019, \$76,000 and \$185,076 of principal and interest was converted into equity.

Interest expense, net

Interest expense was \$29,750 and \$108,255 for the three months ended June 30, 2020 and 2019, respectively, a decrease of \$78,505 or 72.5%. The decrease is primarily due to the reduction in convertible debt from \$1,804,891, net of debt discounts, in the prior year to \$623,482, net of debt discounts, in the current period.

Amortization of debt discount

Amortization of debt discount was \$213,101 and \$471,391 for the three months ended June 30, 2020 and 2019, respectively, a decrease of \$258,290 or 54.8%. The decrease is primarily due to the reduction in convertible debt from \$1,804,891, net of debt discounts, in the prior year to \$623,482, net of debt discounts, in the current period.

Derivative liability movements

Derivative liability movements were \$176,490 and \$319,888 for the three months ended June 30, 2020 and 2019, respectively. The derivative liability arose due to the issuance of convertible securities with variable conversion prices and no floor conversion price. The charge during the current period represents the mark-to-market of the derivative liability outstanding as of June 30, 2020.

Net loss from continuing operations

We incurred a net loss of \$977,738 and \$642,365 for the three months ended June 30, 2020 and 2019 respectively, an increase in loss of \$335,373 or 52.2%, primarily due to the increase in general and administrative expenses and the current period investment impairment charge and a decrease in the derivative liability gain of \$143,398.

Loss from discontinued operations

The loss from discontinued operations was \$0 and \$236,076 the three months ended June 30, 2020 and 2019, respectively. We sold our Mexican operations effective December 31, 2019.

Net loss

Net loss was \$977,738 and \$878,441 for the three months ended June 30, 2020 and 2019, respectively, an increase in loss of \$99,297 or 11.3%. The increase is due to the increase in net loss from continuing operations offset by the loss from discontinued operations in the prior period, discussed in detail above.

Results of Operations for the Six Months Ended June 30, 2020 and June 30, 2019

Net revenue

We have treated our Mexican operations as a discontinued operation in these interim financial statements, we have not generated any revenues from our US operations to date. We anticipate that we will recommence generating revenue once we are able to install our kiosks, the timing of which is uncertain due to the COVID-19 pandemic.

Cost of goods sold

We have treated our Mexican operations as a discontinued operation in these interim financial statements we have not generated any cost of goods sold from our US operations to date. We anticipate that our cost of goods sold will increase once we are able to install our kiosks.

General and administrative expenses

General and administrative expenses were \$952,663 and \$353,992 for the six months ended June 30, 2020 and 2019, respectively, an increase of \$598,671 or 169.1%. The increase is primarily due to the issuance of restricted stock to our CEO with a related expense of \$376,596 during the current period, directors fees of \$88,000 and an increase in professional fees of \$72,971 related to the development of our platform for the US market and certain payroll expenses of \$12,000 incurred during the current period.

Depreciation

Depreciation was \$4,167 and \$0 for the six months ended June 30, 2020 and 2019, respectively, an increase of \$4,167. Depreciation during the current period represents depreciation on the kiosks received from Qpagos Mexico.

Investment impairment charge

Investment impairment charge was \$1,019,960 and \$0 for the six months ended June 30, 2020 and 2019, respectively, the Company raised an impairment charge against the investment in Vivi Holdings Inc, as Vivi continues to not meet any of its indicated milestones concerning its proposed IPO and fund raising efforts.

Loss on debt conversion

Loss on debt conversion was \$150,274 and \$554,558 for the six months ended June 30, 2020 and 2019, respectively, a decrease of \$404,284 or 72.9%. The loss on debt conversion represents a loss realized on the conversion of convertible notes into equity at conversion prices ranging from 38% to 40% below current market prices. During the six months ended June 30, 2020 and 2019, \$111,328 and \$495,335, respectively, of principal and interest was converted into equity.

Loss on settlement of liabilities

Loss on settlement of liabilities was \$50,082 and \$0 for the six months ended June 30, 2020 and 2019, respectively, an increase of \$50,082. The loss on settlement of liabilities represents the settlement of certain promissory notes during the current period by the issuance of 1,692,764 shares of common stock at a discount to current market prices.

Interest expense, net

Interest expense was \$84,088 and \$198,346 for the six months ended June 30, 2020 and 2019, respectively, a decrease of \$114,258 or 57.6%. The decrease is primarily due to the reduction in convertible debt from \$1,804,891, net of debt discounts, in the prior year to \$623,482, net of debt discounts, in the current period.

Amortization of debt discount

Amortization of debt discount was \$373,178 and \$1,012,537 for the six months ended June 30, 2020 and 2019, respectively, a decrease of \$639,359 or 63.1%. The decrease is primarily due to the reduction in convertible debt from \$1,804,891, net of debt discounts, in the prior year to \$623,482, net of debt discounts, in the current period.

Derivative liability movements

Derivative liability movements were \$278,611 and \$862,413 for the six months ended June 30, 2020 and 2019, respectively. The derivative liability arose due to the issuance of convertible securities with variable conversion prices and no floor conversion price. The charge during the current period represents the mark-to-market of the derivative liability outstanding as of June 30, 2020.

Net loss from continuing operations

We incurred a net loss of \$2,375,801 and \$1,253,521 for the six months ended June 30, 2020 and 2019 respectively, an increase in loss of \$1,122,280 or 89.5%, primarily due to the increase in general and administrative expenses and the investment impairment charge, offset by a reduction in interest expense, amortization of debt discount and derivative liability movements of \$583,802 as discussed above.

Loss from discontinued operations

The loss from discontinued operations was \$0 and \$491,763 the six months ended June 30, 2020 and 2019, respectively. We sold our Mexican operations effective December 31, 2019.

Net loss

Net loss was \$2,375,801 and \$1,745,284 for the six months ended June 30, 2020 and 2019, respectively, an increase in loss of \$630,517 or 36.1%. The increase is due to the increase in net loss from continuing operations offset by the loss from discontinued operations, discussed in detail above.

Liquidity and Capital Resources

To date, our primary sources of cash have been funds raised primarily from the sale of our debt securities as well as revenue derived from operations.

We incurred an accumulated deficit of \$24,560,832 through June 30, 2020 and incurred negative cash flow from operations of \$273,972 for the six months ended June 30, 2020. The new direction of the Company into the US payment services market will require us to spend, substantial amounts in connection with implementing our business strategy, including our planned product development effort and we will be required to raise additional funding.

We will need to generate additional revenue from operations and/or obtain additional financing to pursue our business strategy, which includes expansion in the US market, repay our outstanding note obligations and take advantage of business opportunities that may arise. To meet our financing needs, we are considering multiple alternatives, including, but not limited to, additional equity financings and, debt financings and/or funding from partnerships. There can be no assurance that we will be able to complete any such transactions on acceptable terms or otherwise and may have to significantly curtail our operations.

At June 30, 2020, we had cash of \$549 and a negative working capital of \$2,157,883, including a derivative liability of \$923,215. There is substantial doubt about our ability to continue as a going concern. After eliminating the derivative liability our working capital deficit is \$1,234,668. We believe that the current cash balances together with revenue anticipated to be generated from operations will not be sufficient to meet our current working capital needs and as mentioned above, we will seek further funding from either equity issues or further debt funding, should we not be successful, we may have to curtail our operations significantly. Due to the COVID-19 pandemic our ability to generate revenue has been significantly impacted and it is difficult to determine when we my start to generate revenue from operations.

We utilized cash of \$273,972 and \$290,694 from continuing operations for the six months ended June 30, 2020 and 2019, respectively and utilized cash of \$0 and \$160,655 from discontinued operations for the six months ended June 30, 2020 and 2019, respectively. Overall cash utilized in operations decreased by \$177,377.

We acquired terminals for gross proceeds of \$50,000 from Qpagos Corporation during the six months ended June 30, 2020, in terms of the SPA agreement entered into with Vivi Holdings in December 2019.

During the six months ended June 30, 2020, we funded our operations by proceeds from convertible notes of \$296,250, share issuances of \$33,000 and proceeds from Federal relief funds of \$60,292.

Other than amounts owed under convertible notes, we have a commitment for a property lease which expires in February 2022.

The amount of future minimum lease payments under operating leases are as follows:

| | <u>Amount</u> |
|---|---------------|
| Undiscounted minimum future lease payments | |
| Total instalments due: | |
| 2020 | \$ 23,670 |
| 2021 | 47,340 |
| 2022 | 7,890 |
| | <u>78,900</u> |

Off Balance Sheet Arrangements

None

Item 3. Quantitative and Qualitative Disclosures About Market Risks

None.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 ("Exchange Act"), the Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") who is also its interim Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Company's CEO who also serves as its interim CFO concluded that due to a lack of segregation of duties and insufficient controls over review and accounting for certain complex transactions, that the Company's disclosure controls and procedures as of June 30, 2020 were not effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, was recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO, who also serves as its interim CFO, as appropriate, to allow timely decisions regarding required disclosure. The Company intends to retain additional individuals to remedy the ineffective controls. We have begun to take actions that we believe will substantially remediate the material weaknesses identified. In response to the identification of our material weaknesses, we are in the process of expanding our finance and accounting staff. However, we cannot assure you that our internal control over financial reporting, as modified, will enable us to identify or avoid material weaknesses in the future.

(b) Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our fiscal quarter ended June 30, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business.

We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, financial condition or cash flows.

Item 1A. Risk Factors

As a smaller reporting company, we are not required to provide disclosure regarding risk factors

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Other than as set forth below or as previously disclosed in our filings with the Securities and Exchange Commission, we did not sell any equity securities during the quarter ended June 30, 2020 transactions that were not registered under the Securities Act.

Issuance of common stock

On April 8, 2020, we issued 282,146 shares of common stock to our Chief Operating Officer as part of his compensation arrangement.

In terms of debt conversion notices received between May 27, 2020 and June 22, 2020, we issued an aggregate of 5,330,737 shares of common stock in settlement of \$76,000 of convertible notes payable. The shares were issued in reliance upon Section 3(a)(9).

The sales set forth above was issued relying on Regulation S. The recipient of the securities relying on Regulation S represented that he was not a U.S. Person as that term is defined in Regulation S, that at the time of purchase of the securities he was located outside the United States and that he acquired the securities solely for his own account and not for the account or the benefit of a U.S. person.

Item 3. Defaults upon senior Securities

As of August 19, 2019, we are in default in payment of the note that we issued to GS Capital Partners on August 14, 2019. As of June 30, 2020, the balance of the note plus accrued interest was \$192,740.

As of June 30, 2020, we are in default in payment of the note that we issued to Crown Bridge Partners on August 31, 2018. As of June 30, 2020, the balance of the note plus accrued interest was \$24,585.

As of June 30, 2020, we are in default in payment of the notes we issued to Crown Bridge Partners on October 31, 2019. As of June 30, 2020, the balance of the note plus accrued interest was \$32,033.

As of June 16, 2020, we are in default in payment of a note issued to Maxim Pukhoskiy on December 17, 2019. As of June 30, 2020, the balance of the note plus accrued interest was \$7,886.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits**EXHIBIT INDEX**

| Exhibit Number | Description of Exhibit |
|-----------------------|---|
| 4.1 | Form of 10% Original Issue discount Senior Secured Note (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed July 2, 2020 (File no. 000-55648)) |
| 4.2 | Warrant Agreement dated June 30, 2020 (incorporated by reference to exhibit 4.2 to the Current Report on Form 8-K filed July 2, 2020 (File no. 000-55648)) |
| 10.1 | Securities Purchase Agreement between the Registrant and Calvary Fund I LP (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed July 2, 2020 (File no. 000-55648)) |
| 10.2 | Registration Rights Agreement between the Registrant and Calvary Fund I LP (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on July 2, 2020 (File no. 000-55648)) |
| 10.3 | Security Agreement dated June 30, 2020 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed July 2, 2020 (File no. 000-55648)) |
| 10.4 | Executive Employment Agreement between Innovative Payment Solutions, Inc. and William Corbett (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed June 29, 2020 (File no.000-55648)) |
| 10.5 | Restricted Stock Agreement between Innovative Payment Solutions, Inc. and William Corbett (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed June 29, 2020 (File no. 000-55648)) |
| 10.6 | Indemnification Agreement between Innovative Payment Solutions, Inc. and William Corbett (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed June 29, 2020 (File no. 000-55648)) |
| 31.1 | Certification of William Corbett, Chief Executive Officer and Interim Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of William Corbett, Chief Executive Officer and Interim Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Innovative Payment Solutions, Inc.

Date: August 14, 2020

By: /s/ William Corbett
William Corbett
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO RULE 13a-14 OR RULE
15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, William Corbett, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 of Innovative Payment Solutions, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2020

By: /s/ William Corbett
William Corbett
Chief Executive Officer and
Interim Chief Financial Officer
(Principal Executive Officer and Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Innovative Payment Solutions, Inc. (the "Registrant") on Form 10-Q for the period ending June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William Corbett, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section. 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 14, 2020

By: /s/ William Corbett
William Corbett
Chief Executive Officer and
Interim Chief Financial Officer
(Principal Executive Officer
and Principal Financial Officer)
