Direct Communication Solutions, Inc.

Consolidated Financial Statements
(Expressed in US Dollars)

As at and for the years ended December 31, 2019 and 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Direct Communication Solutions, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Direct Communication Solutions, Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018 and the consolidated statements of operating income (loss) and comprehensive income (loss), other changes in shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates as of December 31, 2019, the Company had an accumulated deficit of $3,309,511 and had available cash totaling $408,787. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Erez Bahar.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Professional Accountants

May 8, 2020

Direct Communication Solutions, Inc.
Consolidated Statements of Financial Position
(Expressed in US dollars)
As at December 31, 2019 and 2018

	December 31, 2019	December 31, 2018
ASSETS		
Current		
Cash	$ **408,787**	$ 910,315
Trade Receivables (Note 17)	**2,411,273**	3,166,843
Inventory (Note 4)	**1,012,247**	1,264,127
Prepaid expenses	**8,280**	13,386
Deferred offering costs (Note 6)	**233,432**	-
Current assets	**4,074,019**	5,354,671
Property and equipment (Note 5)	**39,768**	35,935
Security Deposit	**18,714**	12,541
Intangible (Note 7)	**586,386**	254,233
Right-of-use assets (Note 12)	**347,421**	-
Total assets	$ **5,066,308**	$ 5,657,380
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts Payable	$ **4,591,770**	$ 3,764,858
Accrued liabilities (Note 9)	**413,830**	531,680
Credit facility (Note 10)	**510,418**	963,484
Short-term debt (Note 11)	**20,945**	2,112,074
Customer deposits	**47,830**	39,950
Deferred revenue	**48,535**	52,715
Lease liabilities (Note 12)	**184,869**	-
Current liabilities	**5,818,197**	7,464,761
Lease liabilities (Note 12)	**178,447**	-
Long Term debt (Note 11)	**-**	30,000
Total liabilities	**5,996,644**	7,494,761
Shareholders' deficiency		
Common stock (Note 13)	**26**	1
Reserves	**2,379,149**	376,005
Accumulated deficit	**(3,309,511)**	(2,213,387)
Total shareholders' deficiency	**(930,336)**	(1,837,381)
Total liabilities and shareholders' deficiency	$ **5,066,308**	$ 5,657,380

Nature of Operations and Going Concern (Note 1)
Subsequent Events (Note 20)

Approved on May 7, 2020 on behalf of the Board:

"Chris Bursey"
Chris Bursey – CEO & Director

"Ed O'Sullivan"
Ed O'Sullivan – Director

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

Direct Communication Solutions, Inc.

Consolidated Statements of Operating Income (Loss) and Comprehensive Income (Loss)

(Expressed in US dollars)

As at December 31, 2019 and 2018

		2019		2018
Revenues:				
Products	**$**	**13,961,434**	$	14,626,244
Solutions and other services		**2,102,124**		1,330,111
Total Revenues (Note 14)		**16,063,558**		15,956,355
Cost of Revenues				
Products		**11,601,967**		11,920,709
Solutions and other services		**414,181**		406,297
Total cost of revenues		**12,016,148**		12,327,006
Gross Profit		**4,047,410**		3,629,349
OPERATING EXPENSES				
Research and development		**782,692**		351,157
General and administrative				
Compensation and benefits		**2,321,252**		1,744,167
Professional fees		**806,180**		369,106
Bank fees		**250,350**		179,115
Facilities		**145,673**		138,128
Other		**574,665**		518,506
Total Operating Expenses		**4,880,812**		3,300,179
Net Operating Income (Loss)		**(833,402)**		329,170
OTHER INCOME (EXPENSES)				
Royalty Income		**99,221**		-
Interest Expense		**(361,943)**		(266,626)
Net income (loss) and comprehensive income (loss) for the year	**$**	**(1,096,124)**	$	62,544
Weighted Average number of common shares:				
Basic		**10,180,829**		9,608,000
Diluted		**10,180,829**		15,007,250
Basic income (loss) per share		**($0.11)**		$0.01
Diluted income (loss) per share		**($0.11)**		$0.00

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

Direct Communication Solutions, Inc.
Consolidated Statements of Changes in Shareholders' Deficiency
(Expressed in US dollars)
As at December 31, 2019 and 2018

	Number of Common Shares	Common Stock Amount	Reserves	Accumulated Deficit	Total Shareholders' Deficiency
Balance, December 31, 2017	**9,608,000**	**$ 1**	**$ 361,694**	**$ (2,275,931)**	**$ (1,914,236)**
Stock-based compensation expense	-	-	11,364	-	11,364
Issuance of warrants to placement agents in conjunction with convertible debentures	-	-	2,947	-	2,947
Net income for the year	-	-	-	62,544	62,544
Balance, December 31 ,2018	**9,608,000**	**1**	**376,005**	**(2,213,387)**	**(1,837,381)**
Stock-based compensation expense	-	-	11,364	-	11,364
Issuance of shares in a private placement	60,000	1	74,999	-	75,000
Exercise of warrants	506,800	5	16,800	-	16,805
Issuance of shares in conjunction with conversion of debentures	1,900,000	19	1,899,981	-	1,900,000
Net loss for the year	-	-	-	(1,096,124)	(1,096,124)
Balance, December 31 ,2019	**12,074,800**	**$ 26**	**$ 2,379,149**	**$ (3,309,511)**	**$ (930,336)**

Direct Communication Solutions, Inc.
Consolidated Statements of Cash Flows
(Expressed in US dollars)
As at December 31, 2019 and 2018

	2019	2018
Cash provided by / (used for):		
Operating Activities:		
Net income (loss) for the year	**$ (1,096,124)**	$ 62,544
Items not affecting cash:		
Depreciation	**165,384**	21,034
Finance costs for right-of-use assets	**52,803**	-
Amortization of loans payable discount	**50,871**	47,754
Stock-based compensation	**11,364**	11,364
Provision for bad debts	**24,311**	36,980
Provision for excess and obsolete inventory	**113,596**	120,768
Net change in non-cash working capital items:		
Accounts receivable	**731,259**	(2,026,676)
Inventory	**138,284**	(816,888)
Prepaid expenses	**5,106**	8,743
Other assets	**(6,173)**	(850)
Accounts payable	**733,361**	2,054,811
Accrued liabilities	**(117,850)**	282,356
Customer deposits	**7,880**	10,021
Deferred revenue	**(4,180)**	22,659
Net cash provided (used) in operating activities	**809,892**	(165,380)
Investing Activities:		
Additions of intangible assets	**(310,309)**	(254,233)
Purchase of property and equipment	**(23,544)**	(4,716)
Net cash used in investing activities	**(333,853)**	(258,949)
Financing Activities:		
Proceeds from issuance of debt (Note 10)	**-**	879,000
Repayments of debt	**(272,000)**	(72,000)
Lease payments	**(182,581)**	-
Deferred offering costs	**(161,725)**	-
Net borrowings (repayments) on credit facility	**(453,066)**	411,233
Share issuance	**75,000**	-
Exercise of warrants	**16,805**	-
Net cash provided (used) by financing activities	**(977,567)**	1,218,233
Change in cash for the year	**(501,528)**	793,904
Cash, beginning of the year	**910,315**	116,411
Cash, end of the year	**$ 408,787**	$ 910,315
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense:	**363,232**	151,535
Income taxes	**-**	-
Supplemental disclosure of non-cash investing and financing activities		
Issuance of shares in conjunction with conversion of debentures	**1,900,000**	-
Issuance of warrants to placement agents for convertible debenture financing	**-**	2,947
Deferred offering costs in accounts payable	**71,704**	-
Investment in intangible assets in accounts payable	**21,844**	-

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Direct Communication Solutions, Inc. (the "Company" or "DCS") was incorporated in Florida on September 9, 2006 and reincorporated in Delaware in April 2017. The Company is a provider of solutions for the Internet of Things ("IoT"), including monitoring-as-a-service ("MaaS") solutions for the telematics market. The Company's range of products includes GPS devices, modems, embedded modules, routers and mobile tracking machine-to-machine ("M2M") devices, communications and applications software and cloud services.

The Company's M2M products and solutions enable devices to communicate with each other and with server or cloud-based application infrastructures and include M2M embedded modules, integrated M2M communications devices and SaaS delivery platforms, including MiFleet, which provides fleet and vehicle SaaS telematics, MiSensors, which provides easy M2M device management and service enablement for wireless sensors and MiFailover which provides high-speed wireless internet failover to small and medium sized businesses as a redundancy solution to continue to run their business in the event the internet isn't available.

On October 2, 2017, the Company completed its acquisition (the "Acquisition") of Two Lions Technologies, a private Canadian company ("Two Lions"). Concurrently with the Acquisition, the Company changed the name of Two Lions to Direct Communications Solutions, Canada ("DCS Canada"). DCS Canada has been inactive since its acquisition.

On January 7, 2020, the Company completed an Initial Public Offering listing on the Canadian Securities Exchange (Note 20)

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of its liabilities in the normal course of business. The Company has recently incurred operating losses and as of December 31, 2019, had an accumulated deficit of $3,309,511. As of December 31, 2019, the Company had available cash totaling $408,787. The Company may finance its operations through a variety of ways, including the issuance of debt or sales of equity. Successful transition to attaining profitable operations is dependent upon achieving a level of revenues adequate to support its cost structure. If events or circumstances occur such that the Company does not meet its operating plan as expected, the Company may be required to reduce planned research and development activities, incur additional restructuring charges or reduce other operating expenses which may raise substantial doubt on its ability to achieve its intended business objectives. These additional reductions in expenditures, if required, could have an adverse impact on the Company's ability to achieve certain of its business objectives during 2020.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

Basis of consolidation

These consolidated financial statements of the Company have been prepared on the historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, the consolidated financial statements have been prepared using the accrual basis of accounting.

These consolidated financial statements incorporate the financial statements of the Company and its wholly controlled subsidiaries. These consolidated financial statements of the Company are presented in United States dollars, which is the functional currency of the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements include the accounts of the Company and its direct wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries:

Name of Subsidiary	Place of Incorporation	Ownership
Direct Communication Solutions, Canada (i)	British Columbia, Canada	100%

(i) The accounts of this subsidiary has been included in these consolidated financial statements from October 2, 2017 onwards.

Foreign currency translation

Items included in the financial statements of each entity in the Company are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”) and has been determined for each entity within the Company. The functional currency of Direct Communication Solutions, Inc., is the U.S dollar. DCS Canada’s functional currency is in Canadian Dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the entity’s functional currency are translated at the exchange rates in effect on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect as at the statement of financial position date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities. Foreign currency differences arising on translation are recognized in the statement of operating income (loss).

Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

2. BASIS OF PREPARATION (cont'd)

i) Critical accounting estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about critical estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated interim financial statements are, but not limited to the following:

- Allowance for doubtful accounts receivable - The Company makes allowances for doubtful accounts based on its best estimate of the amount of probable credit losses in existing accounts receivable. These are determined based on historical write-off experiences and customer economic data.

- Provision for excess and obsolete inventory - Inventory is valued at the lower of cost and net realizable value. Cost of inventory includes cost of purchase (purchase price, import duties, transport, handling, and other costs directly attributable to the acquisition of inventories), cost of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realizable value for inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Provisions are made in profit or loss of the current period on any difference between book value and net realizable value.

- Fair value of stock options and warrants - Determining the fair value of warrants and stock options requires judgments related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could have a significant impact on the Company's future operating results or on other components of shareholders' equity (deficiency).

- Income taxes - Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and future periods. Deferred tax assets, if any, are recognized to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse.

- Estimated product returns -Revenue from product sales is recognized net of estimated sales discounts, credits, rebates and allowances. The Company recognizes product returns when incurred due to the infrequent occurrence of returns.

ii) Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are, but are not limited to, the following:

- Deferred income taxes – judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

- Going concern – As disclosed in Note 1 to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents. At December 31, 2019 and 2018, there were no cash equivalents.

(b) Accounts Receivable and Allowance for Doubtful Accounts

Trade and other accounts receivable are reported at face value less any provisions for uncollectible accounts considered necessary. Accounts receivable primarily includes trade receivables from customers. The Company provides an allowance for its accounts receivable for estimated losses that may result from its customers' inability to pay. The Company determines the amount of the allowance by analyzing known uncollectible accounts, aged receivables, economic conditions, historical losses, and changes in customer payment cycles and the customers' credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged or written off against this allowance. To minimize the likelihood of uncollectibility, the Company reviews its customers' credit-worthiness periodically based on credit scores generated by independent credit reporting services, its experience with its customers, and the economic condition of its customers' industries. Material differences may result in the amount and timing of expense for any period if the Company were to make different judgments or utilize different estimates.

(c) Inventories and Provision for Excess and Obsolete Inventory

Inventories are stated at the lower of cost, (based on the weighted average cost method) or market. The Company reviews the components of its inventory and its inventory purchase commitments on a regular basis for excess and obsolete inventory based on estimated future usage and sales. Write-downs in inventory value or losses on inventory purchase commitments depend on various items, including factors related to customer demand, economic and competitive conditions, technological advances or new product introductions by the Company or its customers that vary from its current expectations. A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed (ie the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realisable value.

The Company believes that, when made, the estimates used in calculating the inventory provision are reasonable and properly reflect the risk of excess and obsolete inventory. If customer demand for the Company's inventory is substantially less than its estimates, inventory write-downs may be required, which could have a material adverse effect on its consolidated financial statements.

(d) Property and Equipment

Property and equipment are initially stated at cost and depreciated using the straight-line method. Depreciation is determined on a straight-line basis over the estimated useful lives of the assets, which ranges from three to five years. Leasehold improvements are depreciated over the shorter of the related remaining lease period or useful life.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Impairment of long lived assets

Long-lived 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 net cash flows expected to be generated by the asset. If such assets are considered to be 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. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less costs to sell.

The carrying amounts of the Company's non-financial assets, other than deferred tax assets if any, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

(f) Financial Instruments

Financial assets

We initially recognize financial assets when the Company becomes party to the contractual provisions of the instrument. Subsequent to initial recognition, we classify financial assets as measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL") after considering both our business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

A financial asset is measured at amortized cost if both of the following conditions are met:

a. the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and
b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if both of the following conditions are met:

a. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

We may make an irrevocable election at initial recognition to carry at FVOCI particular investments in equity instruments that would otherwise be measured at FVTPL.

A financial asset is required to be measured at FVTPL unless it is measured at amortized cost or at FVOCI.

As an exception to the rules above, we may, at initial recognition, irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

If we change our business model for managing financial assets, we reclassify all affected financial assets on a prospective basis, without restating any previously recognized gains, losses or interest.

If the asset is reclassified to fair value, we determine the fair value at the reclassification date, and recognize in profit or loss any gain or loss arising from a difference between the previous carrying amount and fair value.

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative, and is treated as a separate financial instrument.

Upon initial recognition, we measure a financial asset at its fair value. However, we measure trade receivables that do not have a significant financing component at their transaction price. After initial recognition, we measure financial assets at amortized cost, FVOCI, or FVTPL.
Changes in fair value of a financial asset that is carried at FVTPL are recognized in profit or loss, and changes in fair value of a financial asset that is carried at FVOCI are recognized in other comprehensive income, unless it is part of a hedging relationship.

We apply the impairment requirements to financial assets that are measured at amortized cost and to those that are measured at FVOCI. We apply the hedge accounting requirements to all financial assets that are designated as hedged items. We have not had any hedges in any prior years or the current year.

Gains or losses on a financial asset that is carried at FVTPL are recognized in profit or loss, and gains or losses on a financial asset that is carried at FVOCI are recognized in other comprehensive income, unless it is part of a hedging relationship. A gain or loss on a financial asset that is measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized, impaired, amortized, or reclassified.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial liabilities

We initially recognize financial liabilities when the Company becomes party to the contractual provisions of the instrument. At initial recognition, we measure each financial liability at its fair value minus, in the case of a financial liability not at FVTPL, transaction costs that are directly attributable to the issue of the financial liability.

Subsequent to initial recognition, we classify and measure all financial liabilities at amortized cost using the effective interest method, except for:

a. financial liabilities at FVTPL;
b. financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
c. financial guarantee contracts;
d. commitments to provide a loan at a below-market interest rate; and
e. contingent consideration recognized when we are the acquirer in a business combination.

We apply the hedge accounting requirements to all financial liabilities that are designated as hedged items. We have not had any hedges in any prior years or the current year.

We may, at initial recognition, irrevocably designate a financial liability as measured at FVTPL.

Gains or losses on a financial liability that is measured at fair value and is not part of a hedging relationship are recognized in profit or loss. A gain or loss on a financial liability that is measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the financial liability is derecognized or amortized.

We present a gain or loss on a financial liability designated as FVTPL as follows:

a. the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income; and
b. the remaining amount of change in the fair value of the liability is presented in profit or loss.

(g) Income Taxes

The Company's income tax filings are subject to audit by various taxing authorities. The Company's open audit periods are 2014-2019. In evaluating the Company's tax provisions and accruals, future taxable income, and the reversal of temporary differences, interpretations, and tax planning strategies are considered. The Company believes their estimates are appropriate based on current facts and circumstances. Accordingly, as of December 31, 2019, the Company has no uncertain tax positions that qualify for recognition or disclosure in the accompanying consolidated financial statements.

In October 2017, the Company revoked its S Corporation tax status and became a C Corporation.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable operations, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(h) Revenue and Cost of Revenue

The Company generates a portion of its revenue from the sale of wireless modems, routers and modules to wireless operators, OEM customers and value added resellers and distributors. In addition, the Company generates revenue from the sale of asset-management solutions utilizing wireless technology and M2M communication devices predominantly to transportation and industrial companies, medical device manufacturers and security system providers. Revenue from product sales is generally recognized upon the transfer of title of the product to the customer. Revenues from SaaS services are recognized pro-rata over the contract term. The Company records deferred revenue for cash payments received from customers in advance of when revenue recognition criteria are met.

The Company considers IFRS 5-step revenue recognition framework when assessing appropriate revenue recognition as follows:

- Identify the contract(s) with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The Company provides SaaS subscriptions for its fleet management and vehicle finance applications in which customers are provided with the ability to wirelessly communicate with monitoring devices installed in vehicles and other mobile assets via software applications hosted by either the Company or partner vendor. When the customer purchases the monitoring device, the Company recognizes the revenue at the time of purchase. The Company recognizes revenues from SaaS services over the term of the contract.

The Company's cost of revenue for products is composed of the cost of hardware purchased and labor for any services performed on the hardware before it is shipped. Cost of revenue for solutions and other services includes labor for services, license fees for fleet management platform and wireless data.

(i) Currency and Foreign Exchange

These consolidated financial statements are expressed in U.S. dollars as the Company's operations are based only in the United States. Virtually all of the Company's non-monetary or monetary assets and liabilities are in U.S. dollar currency. All revenues earned from customers outside the U.S. were denominated in U.S dollars.

(j) Stock-Based Compensation

The Company measures and recognizes compensation expense for all stock-based payment awards based on the estimated fair values of the awards as of the grant date. Stock option awards are accounted for based on the grant-date fair value estimated using the Black-Scholes option pricing model. The fair value is measured at grant date at each tranche is recognized over the period during which the options vest.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The stock option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the option is reclassified from share-based payment reserve to share capital.

In situations where equity instruments are issued to non-employees and some or all of the services received by the entity as consideration cannot be specifically identified, they are all measured at the fair value of the share-based payment, otherwise, share-based payments are measured at the fair value of the services received.

The fair value is measured at grant date at each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

(k) Basic and Diluted Net Income (Loss) per Shares of Common Shares

Basic net income (loss) per share is computed by dividing the net income (loss) by the weighted average number of shares that were outstanding during the period. Diluted net income (loss) per share reflects the potential dilution that could occur if securities or other contracts to acquire common stock were exercised or converted into common stock. Potentially dilutive securities are excluded from the diluted net income (loss) per share computation in loss periods as their effect would be anti-dilutive.

(l) Intangible assets

Intangible assets consist of development costs for products to be sold and are carried at cost at the time of initial recognition. Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated;

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
(b) the intention to complete the intangible asset and use or sell it;
(c) the ability to use or sell the intangible asset;
(d) how the intangible asset will generate probable future economic benefits;
(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
(f) the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for intangible assets is the sum of the expenses incurred from the date when the intangible assets first meet the recognition criteria listed above. If no future economic benefit is expected before the end of the life of assets, the residual book value is expensed. Subsequent to initial recognition, intangible assets are reported at cost less amortization. Where no intangible asset can be recognized, development costs are recognized as an expense in the period in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) Impairment of intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered impairment losses. If any such indication exists, the recoverable amount of the cash-generating unit to which the asset belongs is estimated in order to determine the extent of the impairment losses (if any).

Where a reasonable and consistent basis of allocation can be identified, assets are allocated into individual cash generating units ("CGU"), or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

Where impairment losses subsequently reverse, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment losses been recognized for the asset (or CGU) in prior years. A reversal of impairment losses is recognized immediately in profit or loss.

(n) New accounting pronouncements adopted

The Company adopted IFRS 16 Leases on January 1, 2019 using the modified retrospective approach. IFRS 16 replaces IAS 17 Leases. IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Company used the practical expedient permitted under IFRS 16 and accounts for any lease and associated non-lease components as a single arrangement and applied the standard only to leases which were previously identified as leases under IAS 17 and IFRIC 4.

The Company, on adoption of IFRS 16, recognized lease liabilities in relation to office leases which had previously been classified as operating leases under the principles of IAS 17. In relation, under the principles of the new standard these leases are measured as lease liabilities at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 13% as at January 1, 2019. The associated right-of-use asset has been measured at the amount equal to the lease liability on January 1, 2019. The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset.

Furthermore, the right-of-use asset may be reduced due to impairment losses.

The following table reconciles the Company's operating lease commitments at December 31, 2018, as previously disclosed in the Company's Annual Financial Statements, to the lease liability recognized on adoption of IFRS 16 at January 1, 2019:

	Adoption of IFRS 16
Lease commitments as at December 31, 2018	$ 421,898
Impact of discounting	(76,623)
Lease liability as of January 1, 2019	$ 345,275

4. INVENTORY

Inventory consists of the following:

	December 31,	
	2019	2018
Components and raw materials	$ 750,385	$ 1,176,133
Assemblies	261,862	87,994
	$ 1,012,247	$ 1,264,127

Inventory has been reduced by $310,935 and $356,781 as a provision for excess and obsolete inventory at December 31, 2019 and 2018, respectively.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31,	
	2019	2018
Computer equipment and purchased software	$ 104,674	$ 93,820
Furniture and fixtures	37,417	24,727
Leasehold improvements	7,538	7,538
	149,629	126,085
Less—accumulated depreciation	(109,861)	(90,150)
	$ 39,768	$ 35,935

Depreciation expense was $19,711 and $21,034 for the years ended December 31, 2019 and 2018, respectively.

6. DEFERRED OFFERING COSTS

Deferred offering costs incurred through December 31, 2019 relate to fees incurred in connection with the Company's listing of its common stock on the Canadian Securities Exchange that occurred on January 7, 2020.

	December 31,	
	2019	2018
Legal fees	$ 141,942	$ -
Consulting, underwriter and filing fees	50,490	-
Accounting fees	41,000	-
	$ 233,432	$ -

7. INTANGIBLE ASSET

Intangible asset consists of development costs for the design and construction of the Company's Brewsee™ keg management and monitoring system.

Balance at December 31, 2018	$ 254,233
Additions	332,153
Amortization	-
Balance at December 31, 2019	$ 586,386

8. SALE OF MODULAR DISTRIBUTION AGREEMENT AND ASSOCIATED ASSETS

In January 2019, the Company sold its Telit modular distribution agreement and associated assets. The Company will receive $250,000 cash based on certain milestones plus 6% of net sales of Telit products ("Royalty") through December 31, 2019. For the year ended December 31, 2019, the Company recorded $250,000 products revenue associated with the sale of the inventory and $99,221 Royalty income in other income (expense). Inventory sold totaling $144,656 is recorded in products cost of revenues.

9. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	December 31,	
	2019	**2018**
Inventory in-transit	$ -	$ 240,277
Accrued sales tax	206,768	16,245
Payroll related expenses	184,537	61,232
Accrued interest	-	104,986
Other	22,525	108,940
	$ 413,830	$ 531,680

10. CREDIT FACILITY

In January 2018, the Company entered into a two-year agreement with Gibraltar Capital. Under the Gibraltar Capital credit facility, the Company is obligated to assign all its accounts receivable and the Company may request advances up to 90% of domestic accounts less than 90 days from invoice date and not subject to offset up to $1,000,000 outstanding. Interest is payable monthly at a rate of (i) prime rate plus 3.00%. In addition, there is a monthly collateral/management fee equal to 0.50% of the average daily obligations per month.

The Company does not retain any legal or equitable interest in any account sold under this credit facility. The Company assumes full risk of non-payment and guarantees full payment of all accounts. At December 31, 2019 and 2018, the carrying amount of the accounts transferred to Gibraltar was $1,389,135 and $2,475,429, respectively.

At December 31, 2019 and 2018, the outstanding balance on the credit facility was $510,418 and $963,484, respectively.

11. DEBT

Convertible Promissory Debentures

In conjunction with the Acquisition, the Company could sell and issue up to $3,000,000 of convertible promissory debentures pursuant to a subscription agreement. At December 31, 2018, the Company had issued convertible promissory debentures totalling $2,100,000. The debentures accrued interest at a rate of 10% per annum and was payable semi-annually unless the holder elected to defer payment. All unpaid principal and accrued interest was due October 2, 2019. The holder of the debenture at any time could convert in whole or any part principal and interest into common shares of the Company at a conversion price of $1.00 per share. In the event of default, all principal and interest due shall become immediately due and payable.

In June 2019, holders of convertible promissory debentures totalling $2,000,000 agreed to amend their debentures. The amendment provided that upon getting a conditional approval letter for the listing of the common stock of the Company through the Canadian Securities Exchange ("CSE"), all unpaid principal will be automatically converted into common stock of the Company at a conversion rate of $1.00 per share. In addition, the holder would receive 50% of all interest paid in cash that would have been payable from the date of the approval letter until October 2, 2019.

In September 2019, holders of convertible debentures totalling $1,900,000 agreed to extend the maturity date from October 2, 2019 to November 22, 2019. On October 2, 2019, the Company paid $200,000 of principal to the holders of convertible debentures who did not elect to extend the maturity date. In November 2019, holders of convertible debentures agreed to extend the maturity date to December 31, 2019.

On December 2, 2019, the CSE provided its conditional approval letter and the convertible debentures were converted into 1,900,000 shares of common stock.

Debt issuance costs were amortized to interest expense over the life of the debentures. As of December 31, 2019, and 2018, the net carrying value of unamortized debt issuance costs was $0 and $30,647 which is included in short-term debt in the Consolidated statement of financial position. The Company's debt issuance cost amortization was $30,647 and $29,506 in 2019 and 2018, respectively.

Inventory Financing

In May 2017, the Company purchased $158,660 of inventory by agreeing to financing from the vendor of monthly payments of $6,000 over 36 months totalling $216,000. The Company recorded the $57,340 difference between the payments and the value of the inventory as a discount to the financing and is amortizing the discount using the effective interest rate method over the 36-month period. The Company made payments of $72,000 in each of the years ended December 31, 2019 and 2018. Interest expense recognized associated with the discount and the unamortized portion of the discount for the years ended December 31, 2019 and 2018 was $20,224 and $18,248, respectively. The unamortized portion of the discount at December 31, 2019 and 2018 was $9,055 and $29,279.

12. RIGHT-OF-USE ASSETS & LEASE LIABILITIES

Right of use asset

During the first-time application of IFRS 16 to operating leases, the right to use leased assets were generally measured at the amount of the lease liabilities using the Company current incremental borrowing rate of 13%.

In June 2019, the Company entered into a lease agreement for approximately 3,232 square feet in San Diego, California for office and other related uses. The term of the lease is 29 months commencing July 1, 2019. The base rent is $5,818 per with 3% increases effective December 1, 2019 and 2020. The right to use leased asset was measured at the amount of the lease liability of $147,819 using the Company current incremental borrowing rate of 13%.

The following table present the right-of-use-assets as at January 1, 2019 and December 31, 2019:

Initial recognition, January 1, 2019	$ 345,275
Initial recognition, July 1, 2019 for additional office space	147,819
Amortization	(145,673)
Balance at December 31, 2019	$ 347,421

Lease liabilities

As at December 31, 2019, the Company recorded $363,316 of lease liabilities. The incremental borrowing rate for lease liabilities initially recognized as of January 1, 2019 and as of July 1, 2019 was 13%.

IFRS adoption as at January 1, 2019	$ 345,275
Initial recognition, July 1, 2019 for additional office space	147,819
Cash flows:	
Lease payments	(182,581)
Non-cash changes:	
Interest expenses	52,803
Balance at December 31, 2019	$ 363,316
Less Lease liabilities - current	(184,869)
Lease liabilities – non-current	$ 178,447

The Company does not face a significant liquidity risk with regard to its lease liability. Lease liability is monitored within the Company treasury function.

The Company leases consist of office space in San Diego, California and Tulsa, Oklahoma under non-cancelable operating leases that expires October 2021 and February 2021. Future minimum lease payments under the lease agreement as of December 31, 2019 are as follows:

Years ending December 31:	
2020	$ 224,099
2021	190,189
	$ 414,288

The Company does not have any short-term or low value leases.

13. SHARE CAPITAL

(a) Authorized

20,000,000 common shares authorized with a par value of $0.00001. In June 2019, the Board of Directors and a majority of the stockholders approved the following amendments to the Articles of Incorporation: (a) increase in the number of authorized shares of common stock from 20,000,000 to 40,000,000 and (b) changes necessary for a contemplated listing on the Canadian Securities Exchange (“CSE”). The Amendment to the Articles of Incorporation was effectuated in January 2020 upon approval of the listing on the CSE.

(b) Common share transactions

Transactions for the year ended December 31, 2019

i) 1,900,000 shares were issued in conjunction with the conversion of convertible debentures (Note 11)
ii) 506,800 shares were issued due to the exercising of 506,800 warrants.
iii) 60,000 shares were issued in a private placement offering for proceeds of $75,000

There were no common share transactions for the year ended December 31, 2018

(c) Stock options

In October 2017, the Company’s board of directors and stockholders approved the 2017 Stock Plan under which 3,500,000 shares of common stock are reserved for the granting of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock and performance awards to employees, directors and consultants. Recipients of stock option awards are eligible to purchase shares of the Company’s common stock at an exercise price equal to no less than the estimated fair market value of such stock on the date of grant. The maximum term of awards granted under the 2017 Plan is ten years and vesting is determined by the board of directors. Stock awards are generally not exercisable prior to the applicable vesting date, unless otherwise accelerated under the terms of the applicable stock plan agreement. Unvested shares of the Company’s common stock issued in connection with an early exercise allowed by the Company may be repurchased by the Company upon termination of the optionee’s service with the Company.

In June 2019, the Board of Directors and a majority of the stockholders approved the following amendments to the 2017 Stock Plan: (a) increase in the number of authorized shares for issuance to 4,100,000 and (b) add an annual evergreen provision that will adjust the number of authorized shares reserved for issuance to an amount equal to 29.99% of the Company’s issued common stock.

The following table summarizes stock option transactions under the 2017 Plan:

	Number of Options	Weighted average exercise price
Outstanding, December 31, 2018 and 2017	2,750,000	$ 0.47
Granted	-	-
Forfeited	-	-
Outstanding, December 31, 2019	2,750,000	$ 0.47

13. SHARE CAPITAL (cont'd)

At December 31, 2019, the Company had outstanding and exercisable stock options as follows:

Date of Expiry	Number of Options Outstanding	Number of Options Exercisable	Exercise Price	Weighted Average Remaining Life (years)
October 5, 2027	2,750,000	2,511,717	$ 0.47	7.76

The Company uses a Black-Scholes option valuation model to determine the fair value of stock-based compensation. The expected volatility is based on the historical volatility of a peer group of publicly-traded companies. The risk-free interest rate is based on the yield on the measurement date of a zero-coupon U.S. Treasury bond whose maturity period approximately equals the option's expected term. The expected life represents the time the options granted are expected to be outstanding. Forfeitures are estimated at the time of grant and adjusted, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Stock-based non-employee compensation is recognized over the vesting period. The value of options granted to non-employees is periodically re-measured as they vest over a performance period.

(d) Warrants

In conjunction with the convertible promissory debentures (Note 11), the placement agents received warrants to purchase common stock totaling 21,000 in 2018. The warrants have an exercise price of $1.00 and they expire on October 2, 2019. The Company determined the fair value of the warrants to be $2,947 in 2018 using the Black-Scholes valuation model and the following assumptions:

	Year Ended December 31, 2018
Fair value of common stock	$0.40
Exercise price	$1.00
Expected term (years)	1.05 – 1.33
Risk-free interest rate	2.28% - 2.56%
Expected volatility	27%
Dividend yield	0.00%

The following table summarizes the warrant activity for the years ended December 31, 2019 and 2018:

	Number of warrants	Weighted average exercise price
Outstanding, December 31, 2017	528,250	$ 0.07
Granted	21,000	1.00
Outstanding, December 31, 2018	549,250	0.11
Exercised	(506,800)	0.03
Forfeited	(42,450)	1.00
Outstanding, December 31, 2019	-	$ -

14. SEGMENT INFORMATION

Operating segments are defined as components of an enterprise (business activity from which it earns revenue and incurs expenses) for which discrete financial information is available and regularly reviewed by the chief decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker (CODM) is its Chief Executive Officer. The Company views its operations and manages its business as a single operating and reporting segment. All assets of the Company were held in the U.S. for the years ended December 31, 2019 and 2018.

Although all operations are based in the U.S., the Company generated a portion of its revenue from customers outside of the U.S. Information about the Company's revenue from different geographic regions for the years ended December 31, 2018 and 2018 is as follows:

	2019		2018	
United States	$ 15,518,611	96.0%	$ 14,348,994	89.9%
Canada	449,107	2.8%	460,388	2.9%
China	-	0.0%	625,719	3.9%
Other combined	195,061	1.2%	521,254	3.3%
Total revenues	$ 16,162,779	100.0%	$ 15,956,355	100.0%

All of the Company's significant identifiable assets were located in the United States as of December 31, 2019 and 2018.

15. CONCENTRATION RISK

The Company derived revenue from two and one customer(s) totaling 22% and 20% of the Company's total revenue in 2019 and 2018, respectively. At December 31, 2019 and 2018, one and two customer(s) accounted for 45% and 52% of total accounts receivable, respectively.

The Company has concentrations in the purchases with its suppliers. In December 2019 and 2018, one and two supplier(s) accounted for 85% and 98% of total purchases, respectively.

16. INCOME TAXES

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

	2019	2018
Net Income (Loss) before Tax	$ (1,096,124)	$ 62,544
Expected income tax (recovery)	(230,186)	13,134
Change in statutory, foreign tax, foreign exchange rates and	800	1,275
Permanent differences	89,691	9,968
Expiry of non-capital losses	-	(16,690)
Changes in unrecognized deductible temporary differences	140,495	(6,887)
Total income tax expense (recovery)	$ 800	$ 800

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	2019	2018
Deferred Tax Assets (Liabilites)		
Allowance for Bad Debts	$ 34,650	$ 27,613
Inventory Reserves	90,704	104,289
Right-of-use Assets	(101,348)	-
Lease Liabilities	105,985	-
Accrued Vacation	25,257	16,956
Sec. 263A Unicap	9,394	25,560
Fixed Asset Basis Difference incl. Depreciation	403	(1,418)
State Income Taxes - CA mandatory lag method	2,167	973
Capitalized R & D	(171,057)	(74,313)
Non-Qualified Stock Options - GAAP	3,861	430
Non-Capital losses available for future period	327,365	18,259
	327,381	118,349
Unrecognized deferred tax assets	(327,381)	(118,349)
Net Deferred Tax Assets (Liabilitites)	$ -	$ -

16. INCOME TAXES (cont'd)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

		2019	Expiry Date Range		2018	Expiry Date Range
Temporary Differences						
Allowance for Bad Debts	$	118,779	No expiry date	$	94,467	No expiry date
Inventory Reserves		310,935	No expiry date		356,781	No expiry date
Right-of-use Assets		(347,421)	No expiry date		-	No expiry date
Lease Liabilities		363,316	No expiry date		-	No expiry date
Accrued Vacation		86,580	No expiry date		58,006	No expiry date
Sec. 263A Unicap		32,203	No expiry date		87,444	No expiry date
Fixed Asset Basis Difference incl. Depreciation		1,329	No expiry date		(4,997)	No expiry date
State Income Taxes - CA mandatory lag method		7,429	No expiry date		3,329	No expiry date
Capitalized R & D		(586,385)	No expiry date		(254,232)	No expiry date
Non-Qualified Stock Options - GAAP		13,235	No expiry date		1,471	No expiry date
Non-Capital losses available for future period		1,108,034	No expiry date		62,362	No expiry date

17. CAPITAL MANAGEMENT

The CEO has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company defines capital as consisting of loans, credit facility, convertible debentures and shareholder's deficiency. The Company's objectives when managing capital are to support the creation of shareholder value, as well as to ensure that the Company is able to meet its financial obligations as they become due.

The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital, but rather relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

At December 31, 2019 and 2018, the Company is not subject to any externally imposed capital requirements or debt covenants.

The Company has in place an accounts receivable credit facility whereby the Company assigns all its accounts receivable and can request advances up to 90% of eligible accounts up to $2,000,000 outstanding (Note 20).

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

18. FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values.

Financial instruments measured at fair value are classified into three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly;
Level 3 – Inputs that are not based on observable market data.

The fair values of the Company’s cash, trade receivables, accounts payable, accrued liabilities and credit facility and long term debt approximate carrying value, which is the amount recorded on the consolidated statement of financial position.

The following table illustrates the classification of the Company’s financial instruments within the fair value hierarchy As at December 31, 2019 and 2018:

	Level 1	Level 2	Level 3
December 31, 2019:			
Cash	$ 408,787	$ -	$ -
December 31, 2018:			
Cash	$ 910,315	$ -	$ -

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company places its cash with institutions of high credit worthiness. Management has assessed there to be a low level of credit risk associated with its cash balances.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. Approximately 22% of the Company's revenue (2018 - 20%) is attributable to sales transactions with two customers (2018 - single customer).

The Company has established a credit policy under which each major new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available, and in some cases bank references. Purchase limits and terms are established for each customer and reviewed periodically. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Company's wholesale and retail customers.

18. FINANCIAL INSTRUMENTS (cont'd)

Trade and other receivables consist of:

	December 31, 2019	December 31, 2018
Accounts Receivable	$ 2,530,052	$ 3,261,311
Allowance for doubtful accounts	(118,779)	(94,468)
Total	$ 2,411,273	$ 3,166,843

Aged trade receivable listing:

Days outstanding	December 31, 2019	December 31, 2018
Current	$ 1,708,131	$ 2,760,938
1 – 30	510,227	385,815
31 – 60	179,074	46,580
61 - 90	46,431	5,263
> 90	86,189	62,715
Total	$ 2,530,052	$ 3,261,311

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company examines current forecasts of its liquidity requirements so as to make certain that there is sufficient cash for its operating needs. These forecasts take into consideration matters such as the Company's plan to use debt for financing its activity, compliance with any required financial covenants and liquidity ratios, and compliance with external requirements such as laws or regulation.

The Company has a factoring agreement with external funding (Note 10). The Company's accounts payable and accrued liabilities have contractual terms of 30 to 90 days.

18. FINANCIAL INSTRUMENTS (cont'd)

Market risk

a) *Currency Risk*

The Company is located in the United States and virtually all transactions including the company's sales and debt are negotiated in US dollars.

b) *Interest Rate Risk*

The Company's debt has fixed interest rates and are not exposed to interest rate risk until maturity. The Company's credit facility is variable based on the prime rate. A 1% increase in the prime rate in 2019 would result in approximately $6,000 additional interest expense for the year ended December 31, 2019.

c) *Price Risk*

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk, financial market risk or currency risk. The Company is not exposed to significant price risk.

19. RELATED PARTY TRANSACTIONS

Related parties and related party transactions impacting the accompanying financial statements are summarized below and include transactions with the following individuals or entities:

Key management personnel:

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

Remuneration attributed to key management personnel can be summarized as follows:

	Twelve Months Ended December 31, 2019	Twelve Months Ended December 31, 2018
Salary	$924,159	$819,906
Consulting fees	247,475	110,385
Share-based compensation	2,886	2,886
Totals	$1,174,520	$933,177

As at December 31, 2019, $76,275 (December 31, 2018 – $42,161) was included in accounts payable and accrued liabilities for fees owed to related parties.

20. SUBSEQUENT EVENTS

The Company evaluated subsequent events through May 7, 2020, which is the date the consolidated financial statements are available for issuance.

Initial Public Offering

On January 7,2020, the Company closed its initial public offering and sold 1,328,500 shares of common stock at $2.00 CAD per share for net proceeds of $1,751,721 after underwriter's commission and offering expenses of $269,426. In conjunction with the offering, the Company issued warrants to the underwriter to purchase 106,280 shares of common stock with an exercise price of $2.00 CAD per share and a term of two years. The Company also granted 755,000 options to directors and officers of the Company. 735,000 of the options are exercisable at $1.53 ($2.00 CAD equivalent) and 20,000 of the options are exercisable at $1.68 per share ($2.20 CAD equivalent).

New Credit Facility

In January 2020, the Company terminated its credit facility with Gibraltar Capital and entered into a two-year agreement with TAB Bank ("TAB") for a $2,500,000 credit facility. Under the TAB Bank credit facility, the Company is obligated to assign all its accounts receivable and the Company may request advances up to 90% of domestic accounts less than 90 days from invoice date and not subject to offset up to $2,000,000. Interest is payable monthly at a rate the greater of (a) 90-Day LIBOR rate plus 4.50% and (b) 6.41%. In addition, there is an administration fee equal to 0.008% per diem of the outstanding daily obligations.

The Company may also borrow an amount limited to the lesser of: (a) 50% of the cost of eligible inventory, (b) 50% of funds employed and, (c) $500,000 (the "Inventory Advance"). Under the Inventory Advance, Interest is payable monthly at a rate the greater of (a) 90-Day LIBOR rate plus 4.50% and (b) 6.41%. In addition, there is an administration fee equal to 0.01% per diem of the outstanding daily obligations.

Loan

On April 20, 2020, the Company was granted a loan (the "Loan") from TAB in the aggregate amount of $422,500 pursuant to the Paycheck Protection Program (the "PPP") established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") in the United States. The Loan, which was in the form of a Note dated April 10, 2020 matures April 10, 2022 and bears interest at a rate of 1.00% per annum, payable monthly commencing on November 10, 2020. The Loan may be prepaid at any time prior to maturity with no prepayment penalties. The Loan and accrued interest are forgivable after eight weeks as long as the borrower uses the proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The Company intends to use the entire Loan amount for eligible purposes.