



Direct Communication Solutions, Inc.

Condensed Interim Consolidated Financial Statements
(Expressed in US Dollars)

For the three and nine months ended September 30, 2020
(Unaudited)

Direct Communication Solutions, Inc.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited and Expressed in US dollars)

As at September 30, 2020 and December 31, 2019

| | September 30, 2020 | December 31, 2019 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 241,227 | \$ 408,787 |
| Trade Receivables (Note 16) | 1,560,793 | 2,411,273 |
| Inventory (Note 3) | 1,028,052 | 1,012,247 |
| Prepaid expenses | 6,636 | 8,280 |
| Deferred offering costs (Note 5) | 25,000 | 233,432 |
| Current assets | 2,861,708 | 4,074,019 |
| Property and equipment (Note 4) | 48,410 | 39,768 |
| Security Deposit | 18,714 | 18,714 |
| Contract assets | 11,741 | - |
| Intangible (Note 6) | 625,555 | 586,386 |
| Right-of-use assets (Note 11) | 215,227 | 347,421 |
| Total assets | \$ 3,781,355 | \$ 5,066,308 |
| LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY) | | |
| Current | | |
| Accounts Payable | \$ 2,362,926 | \$ 4,591,770 |
| Accrued liabilities (Note 8) | 469,388 | 413,830 |
| Credit facility (Note 9) | 476,675 | 510,418 |
| Short-term debt (Note 10) | - | 20,945 |
| Customer deposits | 17,714 | 47,830 |
| Deferred revenue | 67,968 | 48,535 |
| Lease liabilities (Note 11) | 202,292 | 184,869 |
| Current liabilities | 3,596,963 | 5,818,197 |
| Note Payable (Note 10) | 422,500 | - |
| Lease liabilities (Note 11) | 27,243 | 178,447 |
| Total liabilities | 4,046,706 | 5,996,644 |
| Shareholders' equity (deficiency) | | |
| Common stock (Note 12) | 39 | 26 |
| Reserves | 4,454,379 | 2,379,149 |
| Accumulated deficit | (4,719,769) | (3,309,511) |
| Total shareholders' equity (deficiency) | (265,351) | (930,336) |
| Total liabilities and shareholders' equity (deficiency) | \$ 3,781,355 | \$ 5,066,308 |

Nature of Operations and Going Concern (Note 1)

Subsequent Events (Note 18)

Approved on November 13, 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.

Condensed Interim Consolidated Statements of Operating Loss and Comprehensive Loss

(Unaudited and Expressed in US dollars)

Three and Nine Month Periods Ended September 30, 2020 and 2019

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|-------------|--|-------------|
| | 2020 | 2019 | 2020 | 2019 |
| Revenues: | | | | |
| Products | \$2,696,151 | \$3,760,815 | \$8,236,150 | \$9,871,351 |
| Solutions and other services | 508,057 | 529,149 | 1,606,701 | 1,530,566 |
| Total Revenues | 3,204,208 | 4,289,964 | 9,842,851 | 11,401,917 |
| Cost of Revenues | | | | |
| Products | 2,103,077 | 3,187,282 | 6,605,285 | 8,174,979 |
| Solutions and other services | 118,327 | 84,685 | 356,865 | 274,567 |
| Total cost of revenues | 2,221,404 | 3,271,967 | 6,962,150 | 8,449,546 |
| Gross Profit | 982,804 | 1,017,997 | 2,880,701 | 2,952,371 |
| OPERATING EXPENSES | | | | |
| Research and development | 251,843 | 229,064 | 747,833 | 552,352 |
| General and administrative | | | | |
| Compensation and benefits | 596,751 | 533,640 | 1,921,031 | 1,591,855 |
| Professional fees | 166,361 | 186,709 | 830,976 | 621,851 |
| Bank fees | 58,676 | 80,965 | 203,053 | 245,686 |
| Facilities | 44,065 | 44,065 | 132,194 | 101,609 |
| Other | 86,184 | 171,934 | 366,624 | 474,878 |
| Total Operating Expenses | 1,203,880 | 1,246,377 | 4,201,711 | 3,588,231 |
| Net Operating Loss | (221,076) | (228,380) | (1,321,010) | (635,860) |
| OTHER INCOME (EXPENSES) | | | | |
| Royalty Income | - | 7,920 | - | 90,513 |
| Interest Expense | (25,250) | (97,686) | (89,248) | (292,941) |
| Net loss for the period | (246,326) | (318,146) | (1,410,258) | (838,288) |
| Weighted Average number of common shares: | | | | |
| Basic and Diluted | 13,403,300 | 10,151,009 | 13,374,209 | 9,974,069 |
| Loss per share – basic and diluted | (\$0.02) | (\$0.03) | (\$0.11) | (\$0.08) |

Direct Communication Solutions, Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Unaudited and Expressed in US dollars)

| | Number of Common Shares | Common Stock Amount | Reserves | Accumulated Deficit | Total Shareholders' Equity (Deficiency) |
|---|-------------------------------|------------------------|---------------------|-----------------------|--|
| Balance, December 31, 2018 | 9,608,000 | \$ 1 | \$ 376,005 | \$ (2,213,387) | \$ (1,837,381) |
| Stock-based compensation expense | - | - | 2,841 | - | 2,841 |
| Exercise of warrants | 490,000 | - | 5 | - | 5 |
| Net and comprehensive loss | - | - | - | (353,403) | (353,403) |
| Balance, March 31, 2019 | 10,098,000 | 1 | 378,851 | (2,566,790) | (2,187,938) |
| Stock-based compensation expense | - | - | 2,841 | - | 2,841 |
| Net and comprehensive loss | - | - | - | (166,739) | (166,739) |
| Balance, June 30, 2019 | 10,098,000 | \$ 1 | \$ 381,692 | \$ (2,733,529) | \$ (2,351,836) |
| Issuance of shares in a private placement | 60,000 | 1 | 74,999 | - | 75,000 |
| Stock-based compensation expense | - | - | 2,841 | - | 2,841 |
| Exercise of warrants | 16,800 | - | 16,800 | - | 16,800 |
| Net and comprehensive loss | - | - | - | (318,164) | (318,164) |
| Balance, September 30, 2019 | 10,174,800 | \$ 2 | \$ 476,332 | \$ (3,051,693) | \$ (2,575,359) |
| Balance, December 31, 2019 | 12,074,800 | 26 | 2,379,149 | (3,309,511) | (930,336) |
| Issuance of shares in an initial public offering, net of offering costs | 1,328,500 | 13 | 1,740,692 | - | 1,740,705 |
| Issuance of warrants to placement agent in conjunction with initial public offering | - | - | 32,358 | - | 32,358 |
| Stock-based compensation expense | - | - | 113,768 | - | 113,768 |
| Net and comprehensive loss | - | - | - | (669,353) | (669,353) |
| Balance, March 31, 2020 | 13,403,300 | \$ 39 | \$ 4,265,967 | \$ (3,978,864) | \$ 287,142 |
| Stock-based compensation expense | - | - | 122,716 | - | 122,716 |
| Net and comprehensive loss | - | - | - | (494,579) | (494,579) |
| Balance, June 30, 2020 | 13,403,300 | \$ 39 | \$ 4,388,683 | \$ (4,473,443) | \$ (84,721) |
| Stock-based compensation expense | - | - | 65,696 | - | 65,696 |
| Net and comprehensive loss | - | - | - | (246,326) | (246,326) |
| Balance, September 30, 2020 | 13,403,300 | \$ 39 | \$ 4,454,379 | \$ (4,719,769) | \$ (265,351) |

Direct Communication Solutions, Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited and Expressed in US dollars)

Three and Nine Month Periods Ended September 30, 2020 and 2019

| | 2020 | 2019 |
|---|-----------------------|---------------------|
| Cash provided by / (used for): | | |
| Operating Activities: | | |
| Net loss for the period | \$ (1,410,258) | \$ (838,288) |
| Items not affecting cash: | | |
| Depreciation | 147,996 | 116,252 |
| Finance costs for right-of-use assets | 32,074 | 38,851 |
| Amortization of loans payable discount | 9,055 | 45,576 |
| Amortization of debt issuance costs for credit facility | 14,500 | - |
| Stock-based compensation | 302,180 | 8,523 |
| Deferred offering costs | 136,725 | - |
| Provision for bad debts | (87,239) | 24,665 |
| Provision for excess and obsolete inventory | 248,248 | 44,805 |
| Net change in non-cash working capital items: | | |
| Accounts receivable | 937,719 | 1,483,141 |
| Inventory | (264,053) | 140,764 |
| Prepaid expenses | 1,644 | (67,038) |
| Contract assets | (11,741) | - |
| Other assets | - | (6,173) |
| Accounts payable | (2,157,137) | (82,949) |
| Accrued liabilities | 55,558 | (71,150) |
| Customer deposits | (30,116) | (16,926) |
| Deferred revenue | 19,433 | 9,209 |
| Net cash provided (used) in operating activities | (2,055,412) | 829,262 |
| Investing Activities: | | |
| Additions of intangible assets | (39,169) | (300,262) |
| Purchases of property and equipment | (24,444) | (20,065) |
| Net cash used in investing activities | (63,613) | (320,327) |
| Financing Activities: | | |
| Net proceeds from issuance of shares in an initial public offering (Note 13) | 1,773,063 | - |
| Proceeds from issuance of shares in a private placement | - | 75,000 |
| Proceeds from note payable | 422,500 | - |
| Repayments of debt | (30,000) | (54,000) |
| Lease payments | (165,855) | (127,795) |
| Net borrowings (repayments) on credit facility | (48,243) | (292,519) |
| Exercise of warrants | - | 16,805 |
| Net cash provided (used) by financing activities | 1,951,465 | (382,509) |
| Change in cash for the period | (167,560) | 126,426 |
| Cash, beginning of the period | 408,787 | 910,315 |
| Cash, end of the period | \$ 241,227 | \$ 1,036,741 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest expense: | 30,845 | 129,147 |
| Income taxes | - | - |
| Supplemental disclosure of non-cash investing and financing activities | | |
| Deferred offering cost paid in the current year | 71,704 | - |
| Issuance of warrants to placement agent for initial public offering | 32,358 | - |

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

Direct Communication Solutions, Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited and Expressed in US dollars unless otherwise stated)

For the Three and Nine Month Periods Ended September 30, 2020 and 2019

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 12)

On June 19, 2020, the Company became listed in the United States on the OTCQB Market.

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 September 30, 2020, had an accumulated deficit of \$4,719,769. As of September 30, 2020, the Company had available cash totaling \$241,227. 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.

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.

Direct Communication Solutions, Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited and Expressed in US dollars unless otherwise stated)

For the Three and Nine Month Periods Ended September 30, 2020 and 2019

2. BASIS OF PREPARATION

Statement of compliance

These condensed consolidated interim financial statements, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and their interpretations as issued by the International Accounting Standards Board (“IASB”). The condensed consolidated interim financial statements have been prepared in conformity with IAS 34 *Interim Financial Reporting* and do not include all the information required for full annual consolidated financial statements in accordance with IFRS and should be read in conjunction with the audited consolidated financials for the year ended December 31, 2019.

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.

Direct Communication Solutions, Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited and Expressed in US dollars unless otherwise stated)

For the Three and Nine Month Periods Ended September 30, 2020 and 2019

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.

Direct Communication Solutions, Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited and Expressed in US dollars unless otherwise stated)

For the Three and Nine Month Periods Ended September 30, 2020 and 2019

3. INVENTORY

Inventory consists of the following:

| | <u>September 30</u> <u>2020</u> | <u>December 31</u> <u>2019</u> |
|------------------------------|------------------------------------|-----------------------------------|
| Components and raw materials | \$ 803,389 | \$ 750,385 |
| Assemblies | 224,663 | 261,862 |
| | <u>\$ 1,028,052</u> | <u>\$ 1,012,247</u> |

Inventory has been reduced by \$559,183 and \$310,935 as a provision for excess and obsolete inventory at September 30, 2020 and December 31, 2019, respectively.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | <u>September 30</u> <u>2020</u> | <u>December 31</u> <u>2019</u> |
|---|------------------------------------|-----------------------------------|
| Computer equipment and purchased software | \$ 128,418 | \$ 104,674 |
| Furniture, fixtures and tooling | 38,117 | 37,417 |
| Leasehold improvements | 7,538 | 7,538 |
| | 174,073 | 149,629 |
| Less—accumulated depreciation | (125,663) | (109,861) |
| | <u>\$ 48,410</u> | <u>\$ 39,768</u> |

Depreciation expense was \$15,802 and \$14,643 for the nine months ended September 30, 2020 and 2019, respectively.

5. 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. Deferred offering costs incurred through September 30, 2020 relate to fees incurred in connection with a private placement offering.

| | <u>September 30</u> <u>2020</u> | <u>December 31</u> <u>2019</u> |
|---|------------------------------------|-----------------------------------|
| Legal fees | \$ 25,000 | \$ 141,942 |
| Consulting, underwriter and filing fees | - | 50,490 |
| Accounting fees | - | 41,000 |
| | <u>\$ 25,000</u> | <u>\$ 233,432</u> |

Direct Communication Solutions, Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited and Expressed in US dollars unless otherwise stated)

For the Three and Nine Month Periods Ended September 30, 2020 and 2019

6. 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, 2019 | \$ 586,386 |
| Additions | 39,169 |
| Amortization | - |
| Balance at September 30, 2020 | \$ 625,555 |

7. 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 nine months ended September 30, 2019, the Company recorded \$250,000 products revenue associated with the sale of the inventory and \$90,513 Royalty income in other income (expense). Inventory sold totaling \$144,656 is recorded in products cost of revenues.

8. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

| | September 30 2020 | December 31 2019 |
|--------------------------|----------------------|---------------------|
| Payroll related expenses | \$ 222,249 | \$ 184,537 |
| Accrued sales tax | 132,145 | 206,768 |
| Other | 114,994 | 22,525 |
| | <u>\$ 469,388</u> | <u>\$ 413,830</u> |

9. 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.

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.

Direct Communication Solutions, Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited and Expressed in US dollars unless otherwise stated)

For the Three and Nine Month Periods Ended September 30, 2020 and 2019

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 September 30, 2020 and December 31, 2019, the outstanding balance on the credit facility was \$476,675 and \$510,418, respectively.

10. 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. The Company's debt issuance cost amortization was \$30,647 for the nine months ending September 30, 2019.

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 \$30,000 and \$54,000 in the nine month periods ended September 30, 2020 and 2019, respectively. Interest expense recognized associated with the discount and the unamortized portion of the discount for the nine months ended September 30, 2020 and 2019 was \$9,055 and \$14,929, respectively. The unamortized portion of the discount at September 30, 2020 and December 31, 2019 was \$0 and \$9,055.

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 twenty-four weeks as

Direct Communication Solutions, Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited and Expressed in US dollars unless otherwise stated)

For the Three and Nine Month Periods Ended September 30, 2020 and 2019

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.

11. RIGHT-OF-USE ASSETS & LEASE LIABILITIES

As at January 1, 2019, the Company recognized a right-of use asset and corresponding liability for its office leases.

| | Adoption of IFRS 16 |
|---|---------------------|
| Lease commitments as at December 31, 2018 | \$ 421,898 |
| Impact of discounting | (76,623) |
| Lease liabilities recognized as at January 1, 2019 | \$ 345,275 |
| Right-of use asset recognized as at January 1, 2019 | \$ 345,275 |

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, 2020 and September 30, 2020:

| | |
|-------------------------------|------------|
| As at January 1, 2020 | \$ 347,421 |
| Amortization | (132,194) |
| Balance at September 30, 2020 | \$ 215,227 |

Lease liabilities

The incremental borrowing rate for lease liabilities initially recognized as of January 1, 2019 and as of July 1, 2019 was 13%.

| | |
|----------------------------------|------------|
| As at January 1, 2020 | \$ 363,316 |
| Cash flows: | |
| Lease payments | (165,855) |
| Non-cash changes: | |
| Interest expenses | 32,074 |
| Balance at September 30, 2020 | \$ 229,535 |
| Less Lease liabilities - current | (202,292) |
| Lease liabilities – non-current | \$ 27,243 |

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

Direct Communication Solutions, Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited and Expressed in US dollars unless otherwise stated)

For the Three and Nine Month Periods Ended September 30, 2020 and 2019

12. SHARE CAPITAL

(a) Authorized

40,000,000 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 nine months ended September 30, 2020

On January 7, 2020, the Company closed its initial public offering and sold 1,328,500 shares of common stock at CAD\$2.00 (\$1.53 equivalent) per share for net proceeds of \$1,773,063 after certain expenses and share issuance costs of \$248,085. In conjunction with the offering, the Company issued a warrant 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 estimated the fair value of the warrants at \$32,358 and recorded this value in reserves in shareholders' equity.

Transactions for the nine months ended September 30, 2019

In March 2019, 490,000 shares were issued due to the exercising of 490,000 warrants for proceeds of \$5.

(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.

Direct Communication Solutions, Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited and Expressed in US dollars unless otherwise stated)

For the Three and Nine Month Periods Ended September 30, 2020 and 2019

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

| | Number of Options | Weighted average exercise price |
|--|----------------------|------------------------------------|
| Outstanding, December 31, 2019 and 2018 | 2,750,000 | \$ 0.47 |
| Granted | 1,045,000 | 1.33 |
| Forfeited | (75,000) | 1.28 |
| Outstanding, September 30, 2020 | 3,720,000 | \$ 0.70 |

At September 30, 2020, 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 | 2,588,540 | \$ 0.47 | 7.02 |
| January 7, 2030 | 705,000 | 235,831 | \$ 1.53 | 9.28 |
| May 20, 2030 | 265,000 | 29,166 | \$0.79 | 9.65 |

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.

The following are the assumptions used in the Black-Scholes option valuation model for option granted during the nine months ended September 30, 2020:

| | |
|----------------------------|-----------------|
| Fair value of common stock | \$0.79 - \$1.53 |
| Expected term (years) | 5.31 - 6.08 |
| Risk-free interest rate | 0.44% - 1.68% |
| Expected volatility | 30.23%-40.49% |
| Dividend yield | 0.00% |

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.

Direct Communication Solutions, Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited and Expressed in US dollars unless otherwise stated)

For the Three and Nine Month Periods Ended September 30, 2020 and 2019

(d) Warrants

In conjunction with the initial public offering, the placement agent received warrants to purchase common stock totaling 106,280. The warrants have an exercise price of CAD \$2.00 and they expire on January 7, 2022. The Company determined the fair value of the warrants to be \$32,358 using the Black-Scholes valuation model and the following assumptions:

| | |
|----------------------------|--------|
| Fair value of common stock | \$1.53 |
| Exercise price | \$1.53 |
| Expected term (years) | 2.00 |
| Risk-free interest rate | 1.54% |
| Expected volatility | 33.33% |
| Dividend yield | 0.00% |

The following table summarizes the warrant activity:

| | Number of warrants | Weighted average exercise price |
|---------------------------------|--------------------|---------------------------------|
| As at January 1, 2019 | 549,250 | \$ 0.11 |
| Exercised | (506,800) | 0.03 |
| Forfeited | (42,450) | 1.00 |
| As at December 31, 2019 | - | \$ - |
| Granted | 106,280 | CAD \$2.00 |
| As at September 30, 2020 | - 106,280 | CAD \$2.00 |

13. 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 of the Company's significant identifiable assets were located in the United States. for the periods September 30, 2020 and 2019.

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 nine months ended September 30, 2020 and 2019 is as follows:

| | Nine months ended September 30, | | | |
|-----------------|---------------------------------|--------|---------------|--------|
| | 2020 | | 2019 | |
| United States | \$ 9,496,113 | 96.5% | \$ 11,062,752 | 96.2% |
| Canada | 176,035 | 1.8% | 272,671 | 2.4% |
| Others combined | 170,703 | 1.7% | 157,007 | 1.4% |
| Total revenues | \$ 9,842,851 | 100.0% | \$ 11,492,430 | 100.0% |

Direct Communication Solutions, Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited and Expressed in US dollars unless otherwise stated)

For the Three and Nine Month Periods Ended September 30, 2020 and 2019

14. CONCENTRATION RISK

The Company derived revenue from three customers totaling 37% of the Company's total revenue for the nine months ended September 30, 2020 and 2019. At September 30, 2020 and December 31, 2019, two and one customer(s) accounted for 54% and 45% of total accounts receivable, respectively.

The Company has concentrations in the purchases with its suppliers. For the nine months ended September 30, 2020 and 2019, one and two supplier(s) accounted for 91% and 97% of total purchases, respectively.

15. 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 September 30, 2020 and 2019, the Company is not subject to any externally imposed capital requirements or debt covenants. The change to the Company's approach to capital management during the periods ended September 30, 2020 and 2019 relate to the issuance of shares in an initial public offering for and entering into a new credit facility.

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 9).

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

Direct Communication Solutions, Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited and Expressed in US dollars unless otherwise stated)

For the Three and Nine Month Periods Ended September 30, 2020 and 2019

16. 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 September 30, 2020 and December 31, 2019:

| | Level 1 | Level 2 | Level 3 |
|---------------------|------------|---------|---------|
| September 30, 2020: | | | |
| Cash | \$ 241,227 | \$ - | \$ - |
| December 31, 2019: | | | |
| Cash | \$ 408,787 | \$ - | \$ - |

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 37% of the Company's revenue (2019 - 37%) is attributable to sales transactions with three customers (2019 - three customers).

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.

Direct Communication Solutions, Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited and Expressed in US dollars unless otherwise stated)

For the Three and Nine Month Periods Ended September 30, 2020 and 2019

16. FINANCIAL INSTRUMENTS (cont'd)

Trade and other receivables consist of:

| | September 30, 2020 | December 31, 2019 |
|---------------------------------|---------------------------|--------------------------|
| Accounts Receivable | \$ 1,592,333 | \$ 2,530,052 |
| Allowance for doubtful accounts | (31,540) | (118,779) |
| Total | \$ 1,560,793 | \$ 2,411,273 |

Aged trade receivable listing:

| Days outstanding | September 30, 2020 | December 31, 2019 |
|-------------------------|---------------------------|--------------------------|
| Current | \$ 1,297,839 | \$ 1,708,131 |
| 1 – 30 | 222,119 | 510,227 |
| 31 – 60 | 62,637 | 179,074 |
| 61 - 90 | 5,902 | 46,431 |
| > 90 | 3,836 | 86,189 |
| Total | \$ 1,592,333 | \$ 2,530,052 |

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 credit facility with external funding (Note 9). The Company's accounts payable and accrued liabilities have contractual terms of 30 to 90 days.

Direct Communication Solutions, Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited and Expressed in US dollars unless otherwise stated)

For the Three and Nine Month Periods Ended September 30, 2020 and 2019

16. 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 2020 would result in immaterial additional interest expense for the nine month ended September 30, 2020.

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.

17. 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:

| | Nine Months Ended September 30, 2020 | Nine Months Ended September 30, 2019 |
|--------------------------|--|--|
| Salary | \$616,765 | \$640,517 |
| Consulting fees | 225,665 | 176,605 |
| Share-based compensation | 218,736 | 2,164 |
| Totals | \$1,061,166 | \$819,286 |

As at September 30, 2020, \$78,428 (December 31, 2019 – \$76,275) was included in accounts payable and accrued liabilities for fees owed to related parties.

Direct Communication Solutions, Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited and Expressed in US dollars unless otherwise stated)

For the Three and Nine Month Periods Ended September 30, 2020 and 2019

18. SUBSEQUENT EVENTS

The Company evaluated subsequent events through November 13, 2020, which is the date the consolidated financial statements are available for issuance.

Issuance of Warrants

On November 13, 2020, the Company issued warrants to purchase 880,000 shares of common stock with an exercise price of \$0.80 per share and a term of six months for proceeds of \$30,556. If the closing price of the shares of the Company as traded on the CSE is greater than CAD \$1.50 per share for any consecutive 14 trading days, the holders will have 30 days to exercise 50% of the warrants ("First Accelerated Expiration Date"). If the holder does not exercise those warrants subject to the First Accelerated Expiration Date, then those warrants shall be deemed to be cancelled. If the closing price of the shares of the Company as traded on the CSE is greater than CAD \$2.00 per share for any consecutive 14 trading days, the holders will have 30 days to exercise the remaining 50% of the warrants ("Second Accelerated Expiration Date"). If the holder does not exercise those warrants subject to the Second Accelerated Expiration Date, then those warrants shall be deemed to be cancelled.