



**Direct Communication Solutions, Inc.**

Condensed Interim Consolidated Financial Statements  
(Expressed in US Dollars)

For the three and nine months ended September 30, 2021  
(Unaudited)

**Direct Communication Solutions, Inc.**

## Condensed Interim Consolidated Statements of Financial Position

(Unaudited and Expressed in US dollars)

As at September 30, 2021 and December 31, 2020

	September 30, 2021	December 31, 2020
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 451,402	\$ 1,473,749
Trade Receivables (Note 15)	1,519,243	1,344,052
Inventory (Note 3)	693,351	701,547
Prepaid expenses (Note 5)	348,456	30,675
<b>Current assets</b>	<b>3,012,452</b>	<b>3,550,023</b>
Property and equipment (Note 4)	91,166	105,387
Security Deposits (Note 10)	68,770	18,714
Contract assets	6,018	10,140
Intangible (Note 6)	630,166	630,166
Other assets (Note 5)	120,196	-
Right-of-use assets (Note 10)	31,122	171,163
<b>Total assets</b>	<b>\$ 3,959,890</b>	<b>\$ 4,485,593</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts Payable	\$ 1,730,504	\$ 2,376,558
Accrued liabilities (Note 7)	335,802	447,832
Credit facility (Note 8)	1,612,530	490,602
Customer deposits	117,906	16,557
Deferred revenue	63,792	64,022
Lease liabilities (Note 10)	27,457	182,123
<b>Current liabilities</b>	<b>3,887,991</b>	<b>3,577,694</b>
Note Payable (Note 9)	-	422,500
<b>Total liabilities</b>	<b>3,887,991</b>	<b>4,000,194</b>
<b>Shareholders' equity</b>		
Common stock (Note 11)	61	56
Reserves	6,537,637	5,742,430
Accumulated deficit	(6,465,799)	(5,257,087)
<b>Total shareholders' equity</b>	<b>71,899</b>	<b>485,399</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,959,890</b>	<b>\$ 4,485,593</b>

Nature of Operations and Going Concern (Note 1)

Subsequent Events (Note 17)

Approved on November 12, 2021 on behalf of the Board:

"Chris Bursey"

Chris Bursey – CEO &amp; Director

"Ed O'Sullivan"

Ed O'Sullivan – Director

*The accompanying notes are an integral part of these condensed interim 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, 2021 and 2020

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
<b>Revenues:</b>				
Products	<b>\$2,303,477</b>	\$2,696,151	<b>\$9,371,462</b>	\$8,236,150
Solutions and other services	<b>524,181</b>	508,057	<b>1,474,925</b>	1,606,701
Total Revenues (Note 12)	<b>2,827,658</b>	3,204,208	<b>10,846,387</b>	9,842,851
<b>Cost of Revenues</b>				
Products	<b>1,816,330</b>	2,103,077	<b>7,364,000</b>	6,605,285
Solutions and other services	<b>169,094</b>	118,327	<b>456,706</b>	356,865
Total cost of revenues	<b>1,985,424</b>	2,221,404	<b>7,820,706</b>	6,962,150
<b>Gross Profit</b>	<b>842,234</b>	982,804	<b>3,025,681</b>	2,880,701
<b>OPERATING EXPENSES</b>				
Research and development	<b>299,556</b>	251,843	<b>971,211</b>	747,833
General and administrative				
Compensation and benefits	<b>644,334</b>	596,751	<b>2,260,127</b>	1,921,031
Professional fees	<b>266,664</b>	166,361	<b>928,700</b>	830,976
Bank fees	<b>72,990</b>	58,676	<b>241,183</b>	203,053
Facilities	<b>53,665</b>	44,065	<b>147,025</b>	132,194
Other	<b>173,426</b>	86,184	<b>496,048</b>	366,624
Total Operating Expenses	<b>1,510,635</b>	1,203,880	<b>5,044,294</b>	4,201,711
<b>Net Operating Loss</b>	<b>(668,401)</b>	(221,076)	<b>(2,018,613)</b>	(1,321,010)
<b>OTHER INCOME (EXPENSES)</b>				
Gain on debt extinguishment (Note 9)	<b>434,105</b>	-	<b>856,605</b>	-
Employee retention tax credit (Note 2)	<b>24,247</b>	-	<b>24,247</b>	-
Interest Expense	<b>(30,613)</b>	(25,250)	<b>(70,951)</b>	(89,248)
<b>Net loss for the period</b>	<b>(240,662)</b>	(246,326)	<b>(1,208,712)</b>	(1,410,258)
Weighted Average number of common shares:				
Basic and Diluted	<b>15,634,727</b>	13,403,300	<b>15,493,321</b>	13,374,209
Loss per share – basic and diluted	<b>(\$0.02)</b>	(\$0.02)	<b>(\$0.08)</b>	(\$0.11)

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

**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)
<b>Balance, December 31 ,2019</b>	<b>12,074,800</b>	<b>\$ 26</b>	<b>\$ 2,379,149</b>	<b>\$ (3,309,511)</b>	<b>\$ (930,336)</b>
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)
<b>Balance, March 31 ,2020</b>	<b>13,403,300</b>	<b>39</b>	<b>4,265,967</b>	<b>(3,978,864)</b>	<b>287,142</b>
Stock-based compensation expense	-	-	122,716	-	122,716
Net and comprehensive loss	-	-	-	(494,094)	(494,094)
<b>Balance, June 30 ,2020</b>	<b>13,403,300</b>	<b>39</b>	<b>4,388,683</b>	<b>(4,472,958)</b>	<b>(84,236)</b>
Stock-based compensation expense	-	-	65,696	-	65,696
Net and comprehensive loss	-	-	-	(246,326)	(246,326)
<b>Balance, September 30 ,2020</b>	<b>13,403,300</b>	<b>\$ 39</b>	<b>\$ 4,454,379</b>	<b>\$ (4,719,769)</b>	<b>\$ (265,351)</b>
<b>Balance, December 31 ,2020</b>	<b>15,098,500</b>	<b>\$ 56</b>	<b>\$ 5,742,430</b>	<b>\$ (5,257,087)</b>	<b>\$ 485,399</b>
Stock-based compensation expense	-	-	67,290	-	67,290
Exercise of warrants	533,140	5	426,507	-	426,512
Net and comprehensive loss	-	-	-	(196,988)	(196,988)
<b>Balance, March 31 ,2021</b>	<b>15,631,640</b>	<b>61</b>	<b>6,236,227</b>	<b>(5,454,075)</b>	<b>\$ 782,213</b>
Stock-based compensation expense	-	-	190,481	-	190,481
Net and comprehensive loss	-	-	-	(771,062)	(771,062)
<b>Balance, June 30 ,2021</b>	<b>15,631,640</b>	<b>61</b>	<b>6,426,708</b>	<b>(6,225,137)</b>	<b>201,632</b>
Stock-based compensation expense	-	-	107,049	-	107,049
Exercise of options	4,000	-	3,880	-	3,880
Net and comprehensive loss	-	-	-	(240,662)	(240,662)
<b>Balance, September 30 ,2021</b>	<b>15,635,640</b>	<b>\$ 61</b>	<b>\$ 6,537,637</b>	<b>\$ (6,465,799)</b>	<b>\$ 71,899</b>

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

**Direct Communication Solutions, Inc.**

## Condensed Interim Consolidated Statements of Cash Flows

(Unaudited and Expressed in US dollars)

Nine Month Period Ended September 30, 2021 and 2020

	2021	2020
Cash provided by / (used for):		
Operating Activities:		
<b>Net loss for the period</b>	<b>\$ (1,208,712)</b>	<b>\$ (1,410,258)</b>
Items not affecting cash:		
Depreciation	174,049	147,996
Finance costs for right-of-use assets	10,858	32,074
Amortization of loans payable discount	-	9,055
Amortization of debt issuance costs for credit facility	10,146	14,500
Gain on debt extinguishment	(856,605)	-
Stock-based compensation	364,820	302,180
Deferred offering costs	-	136,725
Provision for bad debts	23,665	(87,239)
Provision for excess and obsolete inventory	59,126	248,248
Net change in non-cash working capital items:		
Accounts receivable	(198,856)	937,719
Inventory	(50,930)	(264,053)
Prepaid expenses	(317,781)	1,644
Contract assets	4,122	(11,741)
Security deposits	(50,056)	-
Other assets	(120,196)	-
Accounts payable	(646,054)	(2,157,137)
Accrued liabilities	(112,030)	55,558
Customer deposits	101,349	(30,116)
Deferred revenue	(230)	19,433
<b>Net cash used in operating activities</b>	<b>(2,813,315)</b>	<b>(2,055,412)</b>
<b>Investing Activities:</b>		
Additions of intangible assets	-	(39,169)
Purchases of property and equipment	(19,787)	(24,444)
<b>Net cash used in investing activities</b>	<b>(19,787)</b>	<b>(63,613)</b>
<b>Financing Activities:</b>		
Net proceeds from issuance of shares in an initial public offering (Note 11)	-	1,773,063
Proceeds from note payable	434,105	422,500
Repayments of debt	-	(30,000)
Lease payments	(165,524)	(165,855)
Net borrowings (repayments) on credit facility	1,111,782	(48,243)
Exercise of options	3,880	-
Exercise of warrants	426,512	-
<b>Net cash provided by financing activities</b>	<b>1,810,755</b>	<b>1,951,465</b>
Change in cash for the period	<b>(1,022,347)</b>	<b>(167,560)</b>
Cash, beginning of the period	<b>1,473,749</b>	<b>408,787</b>
<b>Cash, end of the period</b>	<b>\$ 451,402</b>	<b>\$ 241,227</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Interest expense:	49,946	30,845
Income taxes	-	-
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Forgiveness of note	856,605	-
Deferred offering cost paid in the current year	-	71,704
Allocation of deferred offering cost to share issuance costs	-	47,102
Issuance of warrants to placement agent for initial public offering	-	32,358

*The accompanying notes are an integral part of these condensed interim 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, 2021 and 2020

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#### 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 11)

On June 19, 2020, the Company became listed in the United States on the OTCQB Market and on December 16, 2020 graduated to the OTCQX Market.

#### *Going Concern*

The accompanying condensed interim 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, 2021, had an accumulated deficit of \$6,465,799. As of September 30, 2021, the Company had available cash totaling \$451,402. 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, 2021 and 2020

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## 2. BASIS OF PREPARATION

### Statement of compliance

These condensed interim consolidated 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, 2020.

### Basis of consolidation

These condensed interim 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 condensed interim 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 condensed interim 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 <sup>(i)</sup>	British Columbia, Canada	100%

<sup>(i)</sup> The accounts of this subsidiary has been included in these condensed interim 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, 2021 and 2020

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## 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.
- Employee retention tax credits – Under the provisions of the CARES Act, the Company is eligible for refundable employee retention credits subject to certain criteria. In connection with the CARES Act, the Company adopted a policy to recognize the employee retention credit when received given the uncertainty of when the credit will be received. Accordingly, the Company recorded \$24,247 employee retention tax credit during the three months ending September 30, 2021, which is included in other income in the condensed interim consolidated statements of operating loss.

### 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, 2021 and 2020

### 3. INVENTORY

Inventory consists of the following:

	<b>September 30</b>	<b>December 31</b>
	<b>2021</b>	<b>2020</b>
Components and raw materials	\$ 370,535	\$ 451,691
Assemblies	322,816	249,856
	<u>\$ 693,351</u>	<u>\$ 701,547</u>

Inventory has been reduced by \$531,385 and \$472,259 as a provision for excess and obsolete inventory at September 30, 2021 and December 31, 2020, respectively.

### 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<b>September 30</b>	<b>December 31</b>
	<b>2021</b>	<b>2020</b>
Computer equipment and purchased software	\$ 143,684	\$ 140,297
Furniture and equipment	51,427	38,427
Tooling	59,300	55,900
Leasehold improvements	7,538	7,538
	<u>261,949</u>	<u>242,162</u>
Less—accumulated depreciation	(170,783)	(136,775)
	<u>\$ 91,166</u>	<u>\$ 105,387</u>

Depreciation expense was \$34,008 and \$15,802 for the nine months ended September 30, 2021 and 2020, respectively.

### 5. PREPAID EXPENSES AND OTHER ASSETS

In January 2021, the Company engaged Gold Standard Media to provide marketing and consulting services to raise public awareness of the Company. The agreement (“GSM Agreement”) is for a term of two years commencing in March 2021. The Company prepaid an aggregate cost of \$576,940 of which \$276,940 is for advertising and \$300,000 is for publishing and other services. The Company will recognize the expense ratably over the two-year period. As of September, 2021, the prepaid expenses and other assets balances associated with the GSM agreement are \$288,471 and \$120,196, respectively.

Prepaid expenses consist of the following:

	<b>September 30</b>	<b>December 31</b>
	<b>2021</b>	<b>2020</b>
GSM Agreement	\$ 288,471	\$ -
Subscriptions	30,083	18,666
Insurance	6,340	11,030
Rent	23,562	979
	<u>\$ 348,456</u>	<u>\$ 30,675</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, 2021 and 2020

## 6. INTANGIBLE ASSET

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

Balance at December 31, 2020	\$ 630,166
Additions	-
Amortization	-
Balance at September 30, 2021	\$ 630,166

As Brewsee is not completed and available to sell, it is not being amortized.

## 7. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	September 2021	December 31 2020
Payroll related expenses	\$ 177,626	\$ 232,926
Accrued sales tax	77,119	133,924
Other	81,057	80,982
	<u>\$ 335,802</u>	<u>\$ 447,832</u>

## 8. 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.

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, 2021 and December 31, 2020, the carrying amount of the accounts transferred was \$1,034,123 and \$611,524, respectively.

At September 30, 2021 and December 31, 2020, the outstanding balance on the credit facility was \$1,241,930 and \$490,602, respectively. For the nine months ended September 30, 2021 and 2020, debt issuance costs of \$10,146 and \$14,500 associated with the TAB credit facility were amortized to interest expense, respectively. The unamortized portion of the debt issuance costs at September 30, 2021 was \$4,167.

### **Temporary Increase in Credit Facility**

On July 27, 2021, the Company entered into an Addendum to its credit facility with TAB Bank whereby the Company in its discretion, can take a one-time overadvance of an amount up to \$500,000 ("Overadvance"). The interest rate for the Overadvance is 12.4% per annum. The Overadvance and accrued interest is due in full no later than 90 days after the Company takes the Overadvance. The Company received the Overadvance on August 6, 2021. At September 30, 2021, the outstanding balance on the Overadvance was \$374,767. On November 3, 2021, the Overadvance was paid in full.

## 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, 2021 and 2020

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## 9. DEBT

### *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 \$0 and \$30,000 in the nine month period ended September 30, 2021 and 2020, respectively. Interest expense recognized associated with the discount and the unamortized portion of the discount for the nine months ended September 30, 2021 and 2020 was \$0 and \$9,055, respectively. The inventory financing was paid in full in May 2020.

### *Loans*

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 long as the borrower uses the proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. On March 5, 2021, the Company received notice from the U.S. Small Business Administration and TAB Bank the Loan was forgiven in full. The Company recorded a gain of debt extinguishment of \$422,500 under Other Income in the condensed interim consolidated statements of operating loss and comprehensive loss.

On February 19, 2021, the Company was granted a second loan (the "Second Loan") from TAB in the aggregate amount of \$434,105 pursuant to the PPP. The Second Loan, which was in the form of a Note dated February 19, 2021 matures February 19, 2026 and bears interest at a rate of 1.00% per annum, payable in 44 equal monthly payments commencing on June 19, 2022. The Second Loan may be prepaid at any time prior to maturity with no prepayment penalties. The Second Loan and accrued interest are forgivable after 24 weeks as long as the borrower uses the proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. On August 5, 2021, the Company received notice from the U.S. Small Business Administration and TAB Bank the Loan was forgiven in full. The Company recorded a gain of debt extinguishment of \$434,105 under Other Income in the condensed interim consolidated statements of operating loss and comprehensive loss.

## 10. 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, 2021 and September 30, 2021:

As at December 31, 2020	\$ 171,163
Amortization	(140,041)
Balance at September 30, 2021	\$ 31,122

## 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, 2021 and 2020

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#### *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 December 31, 2020	\$ 182,123
Cash flows:	
Lease payments	(165,524)
Non-cash changes:	
Interest expenses	10,858
Balance at September 30, 2021 – current portion	\$ 27,457

In conjunction with above leases, the Company paid security deposits of \$18,714. 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.

#### *Entry into a Lease Agreement*

On May 27, 2021, the Company entered into a lease agreement with Bernardo Windell LLC (“Landlord”) whereby the Company will lease premises in San Diego, California effective November 1, 2021. The lease (“Lease”) will have an initial 60 month term and include approximately 11,543 rentable square feet. The initial rent for the lease is approximately \$1.55 per square foot plus operating expenses and is subject to an annual increase. Not less than six months prior to the expiration of the Lease, the Company has an option to extend the Lease term for an additional five years at then current market rates.

In conjunction with entering the Lease, the Company paid a security deposit of \$50,056. In addition, the Company paid \$22,712 for first month rent and operating expenses which is reflected in prepaid expenses.

## 11. SHARE CAPITAL

### **(a) Authorized**

40,000,000 common shares authorized with a par value of \$0.00001.

### **(b) Common share transactions**

#### *Transactions for the nine months ended September 30, 2021*

In March 2021, 533,140 common shares were issued due to the exercising of 533,140 warrants for proceeds of \$426,512. In July 2021, 4,000 common shares were issued due to the exercising of 4,000 options for proceeds of \$3,880.

#### *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 of which \$47,102 were paid during the year ended December 31, 2019. 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.

**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, 2021 and 2020

**(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. As a result of the evergreen provision, the number of authorized shares for issuance increased to 4,528,040 effective January 2021.

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

	Number of Options	Weighted average exercise price
<b>Outstanding, December 31, 2019</b>	2,750,000	\$ 0.47
Granted	1,045,000	1.33
Forfeited	(75,000)	1.28
<b>Outstanding, December 31, 2020</b>	3,720,000	0.70
Granted	800,000	1.49
Exercised	(4,000)	0.97
Forfeited	(98,333)	1.09
<b>Outstanding, September 30, 2021</b>	4,417,667	\$ 0.83

At September 30, 2021, 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	2,694,010	\$ 0.47	6.02
January 7, 2030	671,667	550,209	\$ 1.53	8.28
May 20, 2030	225,000	120,833	\$ 0.79	8.64
March 19, 2031	675,000	156,250	\$ 1.59	9.47
June 1, 2031	96,000	8,500	\$ 0.97	9.67

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.

## 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, 2021 and 2020

The following are the assumptions used in the Black-Scholes option valuation model for option granted during the nine months ended September 30, 2021 and 2020:

	2021	2020
Fair value of common stock	\$0.97 - \$1.59	\$0.79 - \$1.53
Expected term (years)	5.52 - 6.08	5.31 - 6.08
Risk-free interest rate	1.05% - 1.14%	0.44% - 1.68%
Expected volatility	40.75%-49.26%	30.23% - 40.49%
Dividend yield	0.00%	0.00%

During the nine month period ending September 30, 2021, the Company recognized \$364,820 (2020-\$302,180) in stock-based compensation relating to the vesting of options.

In June 2021, the Company modified an option for a former Board of Director to extend the period to exercise 66,667 vested options from 90 days to one year (the "Modification"). The Company recognized an additional \$1,694 in stock-based compensation associated with the Modification

#### (d) Warrants

The following table summarizes the warrant activity:

	Number of warrants	Weighted average exercise price
<b>As at January 1, 2020</b>	-	\$ -
Granted	1,104,944	0.87
As at December 31, 2020	1,104,944	0.87
Exercised	(533,140)	0.80
Forfeited	(465,524)	0.80
<b>As at September 30, 2021</b>	106,280	\$1.58

The outstanding warrants expire January 7, 2022.

## 12. 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. As at September 30, 2021 and December 31, 2020.

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 is as follows:

	Nine months ended September 30,			
	2021		2020	
United States	\$10,545,403	97.2%	\$9,496,113	96.5%
Canada	244,735	2.3%	176,035	1.8%
Others combined	56,249	0.5%	170,703	1.7%
Total revenues	\$10,846,387	100.0%	\$9,842,851	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, 2021 and 2020

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#### **13. CONCENTRATION RISK**

The Company derived revenue from one and three customer(s) totaling 31% and 37% of the Company's total revenue for the nine months ended September 30, 2021 and 2020, respectively. At September 30, 2021 and December 31, 2020, one and two customer(s) accounted for 51% and 47% of total accounts receivable, respectively.

The Company has concentrations in the purchases with its suppliers. For the nine months ended September 30, 2021 and 2020, one supplier accounted for 81% and 91% of total purchases, respectively.

#### **14. 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, and shareholder's equity (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, 2021 and 2020, 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, 2021 and 2020 relate to the issuance of shares in an initial public offering.

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 and inventory advances up to \$500,000 (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.

#### **15. 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, 2021 and December 31, 2020:

**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, 2021 and 2020

	Level 1	Level 2	Level 3
September 30, 2021:			
Cash	\$ 451,402	\$ -	\$ -
December 31, 2020:			
Cash	\$ 1,473,749	\$ -	\$ -

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 31% of the Company's revenue (2020 - 37%) is attributable to sales transactions with one customer (2020 - 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.

Trade and other receivables consist of:

	September 30, 2021	December 31, 2020
Accounts Receivable	\$ 1,570,854	\$ 1,371,998
Allowance for doubtful accounts	(51,611)	(27,946)
Total	\$ 1,519,243	\$ 1,344,052

Aged trade receivable listing:

Days outstanding	September 30, 2021	December 31, 2020
Current	\$ 1,214,166	\$ 1,194,982
1 – 30	295,952	84,895
31 – 60	19,723	80,914
61 - 90	25,864	1,192
> 90	15,049	10,015
Total	\$ 1,570,854	\$ 1,371,998



## 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, 2021 and 2020

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#### *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.

#### *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 2021 would result in approximately \$8,000 additional interest expense for the nine months ended September 30, 2021.

##### *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.

## 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, 2021 and 2020

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## 16. 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:

	<b>Nine Months Ended September 30, 2021</b>	<b>Nine Months Ended September 30, 2020</b>
Salary	\$660,891	\$616,765
Consulting fees	354,100	225,665
Share-based compensation	237,230	218,736
<b>Totals</b>	<b>\$1,252,221</b>	<b>\$1,061,166</b>

As at September 30, 2021, \$80,614 (December 31, 2020 – \$74,496) was included in accounts payable and accrued liabilities for fees owed to executives.

## 17. SUBSEQUENT EVENTS

The Company evaluated subsequent events through November 12, 2021, which is the date the condensed interim consolidated financial statements are available for issuance.

### *Convertible Promissory Debentures*

On November 1, 2021, the Company issued convertible promissory debentures totaling \$250,000. The term of the debentures is two years and accrues interest at a rate of 10% per annum, payable semi-annually unless the holder elects to defer payment. 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.