



DCS

Direct Communication Solutions, Inc.

Consolidated Financial Statements
(Expressed in US Dollars)

As at and for the years ended December 31, 2021 and 2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Direct Communication Solutions, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Direct Communication Solutions, Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of operating loss and comprehensive loss, changes in shareholders' equity (deficiency), and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company has recently incurred operating losses and as of December 31, 2021, had an accumulated deficit of \$7,029,401. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 22, 2022

Direct Communication Solutions, Inc.
Consolidated Statements of Financial Position
(Expressed in US dollars)
As at December 31, 2021 and 2020

	December 31, 2021	December 31, 2020
ASSETS		
Current		
Cash	\$ 2,506,635	\$ 1,473,749
Trade Receivables (Note 16)	3,903,306	1,344,052
Inventory (Note 4)	2,072,409	701,547
Prepaid expenses	29,444	30,675
Current assets	8,511,794	3,550,023
Property and equipment (Note 5)	78,955	105,387
Contract assets	4,417	10,140
Security Deposit	50,056	18,714
Intangible (Note 6)	630,166	630,166
Right-of-use assets (Note 10)	869,132	171,163
Total assets	\$ 10,144,520	\$ 4,485,593
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Accounts Payable (Note 7)	\$ 5,147,782	\$ 2,376,558
Accrued liabilities (Note 7)	823,370	447,832
Credit facility (Note 8)	1,670,833	490,602
Customer deposits (Note 9)	617,935	16,557
Deferred revenue	68,504	64,022
Lease liabilities (Note 10)	216,000	182,123
Current liabilities	8,544,424	3,577,694
Lease liabilities (Note 10)	661,901	-
Long Term debt (Note 9)	275,000	422,500
Long Term Accounts Payable (Note 7)	890,551	-
Total liabilities	10,371,876	4,000,194
Shareholders' equity (deficiency)		
Common stock (Note 11)	61	56
Reserves	6,801,984	5,742,430
Accumulated deficit	(7,029,401)	(5,257,087)
Total shareholders' equity (deficiency)	(227,356)	485,399
Total liabilities and shareholders' equity (deficiency)	\$ 10,144,520	\$ 4,485,593

Nature of Operations and Going Concern (Note 1)
Commitments (Note 18)
Subsequent Events (Note 19)

Approved on April 21, 2022 on behalf of the Board:

"Chris Bursey"
Chris Bursey – CEO & Director

"Mike Zhou"
Mike Zhou – Director

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

Direct Communication Solutions, Inc.

Consolidated Statements of Operating Loss and Comprehensive Loss

(Expressed in US dollars)

As at December 31, 2021 and 2020

	2021	2020
Revenues		
Products	\$ 14,543,745	\$ 12,096,162
Solutions and other services	1,981,778	2,161,298
Total Revenues (Note 12)	16,525,523	14,257,460
Cost of Revenues		
Products	11,270,053	9,683,994
Solutions and other services	651,183	496,276
Total Cost of Revenues	11,921,236	10,180,270
Gross Profit	4,604,287	4,077,190
OPERATING EXPENSES		
Research and development	1,158,289	1,082,065
General and administrative		
Compensation and benefits	3,249,001	2,800,072
Professional fees	1,480,937	1,081,018
Bank fees	309,447	296,251
Facilities	232,376	176,258
Information technology	171,368	157,814
Other	548,261	314,561
Total Operating Expenses	7,149,679	5,908,039
Net Operating Loss	(2,545,392)	(1,830,849)
OTHER INCOME (EXPENSES)		
Gain on debt extinguishment (Note 9)	856,605	-
Employee retention tax credit	24,247	-
Interest Expense	(107,774)	(116,727)
Net Loss and Comprehensive Loss	\$ (1,772,314)	\$ (1,947,576)
Weighted Average number of common shares:		
Basic	15,529,193	13,512,473
Diluted	15,529,193	13,512,473
Basic loss per share	(\$0.11)	(\$0.14)
Diluted loss per share	(\$0.11)	(\$0.14)

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

Direct Communication Solutions, Inc.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in US dollars)

As at December 31, 2021 and 2020

	Number of Common Shares	Common Stock Amount	Reserves	Accumulated Deficit	Total Shareholders' Equity (Deficiency)
Balance, December 31, 2019	12,074,800	\$ 26	\$ 2,379,149	\$ (3,309,511)	\$ (930,336)
Stock-based compensation expense	-	-	350,467	-	350,467
Issuance of shares in an initial public offering, net of share issuance 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
Issuance of shares in an offering, net of share issuance costs	1,695,200	17	1,178,658	-	1,178,675
Issuance of warrants in an offering	-	-	30,555	-	30,555
Issuance of warrants to placement agents in conjunction with offering	-	-	30,551	-	30,551
Net loss for the year	-	-	-	(1,947,576)	(1,947,576)
Balance, December 31, 2020	15,098,500	56	5,742,430	(5,257,087)	485,399
Stock-based compensation expense	-	-	629,167	-	629,167
Exercise of warrants	533,140	5	426,507	-	426,512
Exercise of stock options	4,000	-	3,880	-	3,880
Net loss for the year	-	-	-	(1,772,314)	(1,772,314)
Balance, December 31, 2021	15,635,640	\$ 61	\$ 6,801,984	\$ (7,029,401)	\$ (227,356)

Direct Communication Solutions, Inc.
Consolidated Statements of Cash Flows
(Expressed in US dollars)
As at December 31, 2021 and 2020

	2021	2020
Cash provided by / (used for):		
Operating Activities:		
Net income (loss) for the year	\$ (1,772,314)	\$ (1,947,576)
Items not affecting cash:		
Depreciation	239,814	203,172
Finance costs for right-of-use assets	25,604	39,399
Amortization of loans payable discount	-	9,055
Amortization of debt issuance costs for credit facility	13,271	19,938
Stock-based compensation	629,167	350,467
Provision for bad debts	93,373	(90,833)
Gain on debt extinguishment	(856,605)	-
Deferred offering costs	-	114,623
Provision for excess and obsolete inventory	(159,932)	161,324
Net change in non-cash working capital items:		
Accounts receivable	(2,652,627)	1,158,054
Inventory	(1,210,930)	149,376
Prepaid expenses	1,231	(22,395)
Contract assets	5,723	(10,140)
Security deposit	(31,342)	-
Accounts payable	3,661,775	(2,143,505)
Accrued liabilities	375,538	34,002
Customer deposits	601,378	(31,273)
Deferred revenue	4,482	15,487
Net cash provided (used) in operating activities	(1,032,394)	(1,990,825)
Investing Activities:		
Additions of intangible assets	-	(43,780)
Purchase of property and equipment	(12,249)	(92,533)
Net cash used in investing activities	(12,249)	(136,313)
Financing Activities:		
Net proceeds from issuance of shares in an initial public offering (Note 11)	-	1,820,165
Repayments of debt	-	(30,000)
Lease payments	(228,928)	(220,592)
Deferred offering costs	-	-
Net borrowings (repayments) on credit facility	1,166,960	(39,754)
Net proceeds from issuance of shares in a private placement (Note 11)	-	1,209,226
Proceeds from issuance of warrants (Note 13)	-	30,555
Proceeds from notes payable	709,105	422,500
Exercise of warrants	426,512	-
Exercise of options	3,880	-
Net cash provided (used) by financing activities	2,077,529	3,192,100
Change in cash for the year	1,032,886	1,064,962
Cash, beginning of the year	1,473,749	408,787
Cash, end of the year	\$ 2,506,635	\$ 1,473,749

Direct Communication Solutions, Inc.
Consolidated Statements of Cash Flows (continued)
(Expressed in US dollars)
As at December 31, 2021 and 2020

	2021	2020
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense:	65,549	45,562
Income taxes	-	-
Supplemental disclosure of non-cash investing and financing activities		
Recognition of right of use asset and lease liability	899,102	
Reclassification of accounts payable to long term	890,551	
Deferred offering cost paid in current year	-	71,704
Allocation of deferred offering cost to share issuance costs	-	47,102
Issuance of warrants to placement agents	-	62,909

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

Direct Communication Solutions, Inc.

Notes to the Consolidated Financial Statements

(Expressed in US dollars)

As at December 31, 2021 and 2020

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 January 7, 2020, the Company completed an Initial Public Offering listing on the Canadian Securities Exchange.

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. On January 20, 2022, the Company became listed on the Frankfurt Stock Exchange.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company’s assets and the satisfaction of its liabilities in the normal course of business. The Company has recently incurred operating losses and as of December 31, 2021, had an accumulated deficit of \$7,029,401. As of December 31, 2021, the Company had available cash totaling \$2,506,635. 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 cast significant doubt on its ability to continue as a going concern. These additional reductions in expenditures, if required, could have an adverse impact on the Company’s ability to achieve certain of its business objectives during 2022.

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 Consolidated Financial Statements

(Expressed in US dollars)

As at December 31, 2021 and 2020

2. BASIS OF PREPARATION

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, except for cash flow information.

Statement of compliance

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

Basis of consolidation

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 (“DCS Canada”)	British Columbia, Canada	100%

DCS Canada has been inactive since being acquired in October 2017.

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.

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 loss.

Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgements 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 Consolidated Financial Statements

(Expressed in US dollars)

As at December 31, 2021 and 2020

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 analyzing known uncollectible accounts, aged receivables, economic conditions, historical losses, and changes in customer payment cycles and the customers' credit-worthiness.
- Provision for excess and obsolete inventory - Inventory is valued at the lower of cost and net realizable value. 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. All of these estimates involve uncertainty relating to future pricing, demand and market conditions. 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 judgements 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, returns, rebates and allowances. The return allowance is determined based on an analysis of the historical rate of returns, industry return data, and current market conditions, which is applied directly against sales. 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 (Note 9), 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. The Company recorded \$24,247 employee retention tax credit during the year ending December 31, 2021, which is included in other income in the consolidated statements of operating loss.

2. BASIS OF PREPARATION (cont'd)

ii) Critical accounting judgements

Information about critical judgements 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 – judgements are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.
- Going concern – As disclosed in Note 1 to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents. At December 31, 2021 and 2020, there were no cash equivalents.

(b) Inventories and Provision for Excess and Obsolete Inventory

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

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

(c) Property and Equipment

Property and equipment are initially stated at cost and depreciated using the straight-line method. Depreciation is determined on a straight-line basis over the estimated useful lives of the assets, which ranges from three to five years. Leasehold improvements are depreciated over the shorter of the related remaining lease period or useful life. Amortization is calculated on a straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. The amortization rates applicable to each category of equipment are as follows:

Class of equipment	Rate
Computer equipment	3 years
Furniture and fixtures	5 years
Office equipment	5 years
Testing equipment	5 years

Direct Communication Solutions, Inc.

Notes to the Consolidated Financial Statements

(Expressed in US dollars)

As at December 31, 2021 and 2020

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Impairment of long lived assets

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

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

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

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

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

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

(e) Long-term liabilities

Long-term liabilities consist of accounts payable that are due more than one year in the future.

Direct Communication Solutions, Inc.

Notes to the Consolidated Financial Statements

(Expressed in US dollars)

As at December 31, 2021 and 2020

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Financial Instruments

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive.

- The classification determines the method by which the financial assets are carried on the balance sheet subsequent to inception and how changes in value are recorded. The Company has classified its cash at FVTPL, and trade receivables at amortized cost.
- Changes to financial assets measured at fair value are recognized in profit and loss as they arise ("FVPL").
- Changes in financial assets recorded at amortized cost are recognized in profit and loss when the asset is derecognized or reclassified.

Financial liabilities

All financial liabilities (including liabilities designated at FVTPL) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

The subsequent measurement of financial liabilities is determined based on their classification as follows:

- (i) FVTPL – Derivative financial instruments entered into by the Company are classified as FVTPL.
- (ii) Amortized cost – All other financial liabilities are classified as amortized cost using the effective interest method.

The Company has classified its accounts payable, accrued liabilities, credit facility and long-term debt as other financial liabilities and carried on the balance sheet at amortized cost. There are no liabilities classified as FVTPL.

Direct Communication Solutions, Inc.

Notes to the Consolidated Financial Statements

(Expressed in US dollars)

As at December 31, 2021 and 2020

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of financial assets

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(g) Income Taxes

The Company's income tax filings are subject to audit by various taxing authorities. In evaluating the Company's tax provisions and accruals, future taxable income, and the reversal of temporary differences, interpretations, and tax planning strategies are considered. The Company believes their estimates are appropriate based on current facts and circumstances. Accordingly, as of December 31, 2021, the Company has no uncertain tax positions that qualify for recognition or disclosure in the accompanying consolidated financial statements.

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

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

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

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

Direct Communication Solutions, Inc.

Notes to the Consolidated Financial Statements

(Expressed in US dollars)

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Revenue and Cost of Revenue

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

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

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

The Company provides SaaS subscriptions for its fleet management and vehicle finance applications in which customers are provided with the ability to wirelessly communicate with monitoring devices installed in vehicles and other mobile assets via software applications hosted by either the Company or partner vendor. When the customer purchases the monitoring device, the Company recognizes the revenue at the time of purchase. The Company recognizes revenues from SaaS over the term of the contract. In certain customer arrangements, the Company provides integrated SaaS-based solutions. The transaction for the integrated solutions includes the price of the devices and application subscriptions in a monthly payment. We recognize revenue for the sales of the devices upon transfer of control to the customer and recognize revenue for the related subscription services over the service period. The allocation of the transaction price is based on relative estimated stand-alone selling prices for the devices and applications subscriptions. Timing of revenue recognition may differ from the

timing of our invoicing to customers. Contract assets are comprised of performance under the contract in advance of billings to our customers. The Company’s outstanding performance obligations in relation to customer contracts as at December 31, 2021 will be completed upon transfer of ownership (or deemed transfer) of goods and as services are rendered. The Company’s payment terms require payment to be made within 30 days after the customer accepts transfer of ownership or a notice of completion. The outstanding performance obligations at year end require the Company to provide (i) access to the MiFleet platform and, if purchased, (ii) wireless data. It is expected revenue totaling \$4,417 will be earned in 2022 from contracts and orders in place as at December 31, 2021.

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

Direct Communication Solutions, Inc.

Notes to the Consolidated Financial Statements

(Expressed in US dollars)

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) Currency and Foreign Exchange

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

(j) Stock-Based Compensation

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

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

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

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

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

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

Direct Communication Solutions, Inc.

Notes to the Consolidated Financial Statements

(Expressed in US dollars)

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(l) Intangible assets

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

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

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

The amount initially recognized for intangible assets is the sum of the expenses incurred from the date when the intangible assets first meet the recognition criteria listed above. If no future economic benefit is expected before the end of the life of assets, the residual book value is expensed. Subsequent to initial recognition, intangible assets are reported at cost less amortization. The amortization period begins when the asset is available for use, specifically when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. As of December 31, 2021 and 2020, the Company's intangible assets are not yet available for use and therefore not yet being amortized.

(m) Impairment of intangible assets

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

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

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

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

Where impairment losses subsequently reverse, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment losses been recognized for the asset (or CGU) in prior years. A reversal of impairment losses is recognized immediately in profit or loss. As of December 31, 2021 and 2020, the Company has determined that no impairment exists.

Direct Communication Solutions, Inc.

Notes to the Consolidated Financial Statements

(Expressed in US dollars)

As at December 31, 2021 and 2020

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Right-of-use assets and lease liabilities

At inception of a contract, the Company assesses whether a contract conveys the right to control the use of an identified asset for a period in exchange for consideration, in which case it is classified as a lease. The Company recognizes a right-of-use asset (lease asset) and a lease liability at the lease commencement date. The asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received. The lease asset is subsequently depreciated using the straight-line method from the commencement date to the end of the useful life of the right-of-use asset, considered to be indicated by the lease term. The lease asset is periodically adjusted for certain remeasurements of the lease liability and impairment losses (if any). The lease liability is initially measured at the present value of outstanding lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method and is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. A corresponding adjustment is made to the carrying amount of the right-of-use asset with any excess over the carrying amount of the asset being recognized in profit or loss. The Company has elected not to recognize lease assets and lease liabilities for short-term leases (leases with a term of 12 months or less) and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(o) Recently issued accounting pronouncements

The following is a brief summary of the new standards issued but not yet effective:

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued Classification of Liabilities as Current or Non-Current ("Amendments to IAS 1"). The Amendments to IAS 1 aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The Amendments to IAS 1 include clarifying the classification requirements for debt a company might settle by converting it into equity. The Amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Company does not anticipate a material impact on its consolidated financial statements from adopting this standard.

Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract

In May 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract ("Amendments to IAS 37") amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendment is effective for annual reporting periods beginning on or after January 1, 2022. The Company does not anticipate a material impact on its consolidated financial statements from adopting this standard.

Direct Communication Solutions, Inc.

Notes to the Consolidated Financial Statements

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As at December 31, 2021 and 2020

4. INVENTORY

Inventory consists of the following:

	December 31,	
	2021	2020
Components and raw materials	\$ 1,749,593	\$ 451,691
Assemblies	322,816	249,856
	<u>\$ 2,072,409</u>	<u>\$ 701,547</u>

Inventory has been reduced by \$312,327 and \$472,259 as a provision for excess and obsolete inventory at December 31, 2021 and 2020, respectively. Additionally, a total of \$11,270,053 (2020 - \$9,683,994) inventory was expensed as cost of sales during the year.

As discussed in Note 8, TAB has a lien on all the Company's assets which includes inventory.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31,	
	2021	2020
Computer equipment and purchased software	\$ 143,684	\$ 140,297
Furniture and fixtures	51,427	38,427
Tooling	59,300	55,900
Leasehold improvements	-	7,538
	<u>254,411</u>	<u>242,162</u>
Less—accumulated depreciation	<u>(175,456)</u>	<u>(136,775)</u>
	<u>\$ 78,955</u>	<u>\$ 105,387</u>

Depreciation expense was \$45,155 and \$26,914 for the years ended December 31, 2021 and 2020, respectively.

6. INTANGIBLE ASSET

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

Balance at December 31, 2019	\$ 586,386
Additions	43,780
Amortization	-
Balance at December 31, 2020	630,166
Additions	-
Amortization	-
Balance at December 31, 2021	<u>\$ 630,166</u>

Direct Communication Solutions, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US dollars)
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7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	December 31,	
	2021	2020
Accrued sales tax	308,346	133,924
Payroll related expenses	401,194	232,926
Other	113,830	80,982
	<u>\$ 823,370</u>	<u>\$ 447,832</u>

Accounts payable consist of the following:

	December 31,	
	2021	2020
Vendor payable due within 12 months	<u>5,147,782</u>	<u>2,376,558</u>
Vendor payable not due within 12 months	<u>\$ 890,551</u>	<u>\$ -</u>

8. CREDIT FACILITY

In January 2020, the Company 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 receivables 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. The Company granted a security interest in all its assets as collateral for its obligations under the facility as at December 31, 2021 and 2020, the carrying amount of the accounts transferred was \$1,984,307 and \$611,524, respectively.

At December 31, 2021 and 2020, the outstanding balance on the credit facility was \$1,670,833 and \$490,602, respectively. Debt issuance costs of \$13,271 and \$19,938 associated with the TAB credit facility were amortized to interest expense for the years ended December 31, 2021 and 2020. The unamortized portion of the debt issuance costs at December 31, 2021 was \$1,042 (2020 - \$1,812).

Direct Communication Solutions, Inc.

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9. DEBT

Convertible Promissory Debentures

In November and December 2021, the Company had issued convertible promissory debentures totalling \$275,000. 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 are due two years from date of issuance. 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. At December 31, 2021, the Company recorded \$3,350 accrued interest associated with the Convertible Promissory Debentures.

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 totalling \$30,000 in the year ended December 31, 2020. Interest expense recognized associated with the discount and the unamortized portion of the discount for the year ended December 31, 2020 \$9,055. The inventory financing was paid in full in May 2020.

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 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 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 consolidated statements of operating loss and comprehensive loss.

Customer Deposits

Customer Deposits consisted of payments made by certain clients at the end of the reporting period prepaying for Companies services. As of December 31, 2021, the Company held Customer Deposits of \$617,935 (2020 – \$16,557)

Direct Communication Solutions, Inc.

Notes to the Consolidated Financial Statements

(Expressed in US dollars)

As at December 31, 2021 and 2020

10. RIGHT-OF-USE ASSETS & LEASE LIABILITIES*Right of use asset*

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 was 29 months commencing July 1, 2019. The base rent was \$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 incremental borrowing rate at that time of 13%. This lease agreement ended on October 31, 2021 with no further extensions.

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. The right to use leased asset was measured at the amount of the lease liability of \$899,102 using the Company current incremental borrowing rate of 10%.

The following table present the right-of-use-assets as at December 31, 2021 and 2020:

Balance at January 1, 2020	\$ 347,421
Amortization	(176,258)
<u>Balance at December 31, 2020</u>	<u>\$ 171,163</u>
Initial recognition, November 1, 2021 for new office space	899,102
Amortization	(201,133)
<u>Balance at December 31, 2021</u>	<u>\$ 869,132</u>

Direct Communication Solutions, Inc.

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10. RIGHT-OF-USE ASSETS & LEASE LIABILITIES (cont'd)*Lease liabilities*

Balance at January 1, 2020	\$ 363,316
Cash flows:	
Lease payments	(220,592)
Non-cash changes:	
Interest expenses	39,399
<u>Balance at December 31, 2020</u>	<u>\$ 182,123</u>
Initial recognition, November 1, 2021 for new office space	899,102
Cash flows:	
Lease payments	(228,928)
Non-cash changes:	
Interest expenses	25,604
<u>Balance at December 31, 2021</u>	<u>\$ 877,901</u>
Less Lease liabilities - current	(216,000)
<u>Lease liabilities – non-current</u>	<u>\$ 661,901</u>

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 lease consists of office space in San Diego, California under non-cancelable operating lease that expires October 2026. Future minimum lease payments under the lease agreement as of December 31, 2021 are as follows:

Years ending December 31:	
2022	\$ 216,000
2023	223,110
2024	229,804
2025	236,702
2026	<u>202,160</u>
	<u>\$ 1,107,776</u>

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

Direct Communication Solutions, Inc.

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11. SHARE CAPITAL

(a) Authorized and escrowed shares

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

In conjunction with the Company's initial public offering, 7,241,350 shares held by principals were placed in escrow. The escrowed shares will be released 10% on the date of listing on the Canadian Securities Exchange ("CSE") and 15% every six months thereafter over a 36 month period. Total shares in escrow was 3,258,607 as at December 31, 2021 (2020 – 5,431,013).

(b) Common share transactions

Transactions for the year ended December 31, 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 year ended December 31, 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.

The Company sold 1,695,200 shares of common stock an offering that closed in two tranches in November and December 2020 ("Private Offering"). The shares were sold for CAD\$1.05 (\$0.80 equivalent) per share for net proceeds of \$1,209,226 after share issuance costs of \$123,061. In conjunction with the Private Offering, the Company issued warrants to placement agents to purchase 118,664 shares of common stock with an exercise price of \$0.80 per share and a term of six months. The Company estimated the fair value of the warrants at \$30,551 and recorded this value in reserves in shareholders' equity.

(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. The vesting terms of each option grant are at the discretion of the Board of Directors

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.

Direct Communication Solutions, Inc.

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11. SHARE CAPITAL (cont'd)

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

	Number of Options	Weighted average exercise price
Outstanding, December 31, 2019	2,750,000	\$ 0.47
Granted	1,045,000	1.33
Forfeited	(75,000)	1.28
Outstanding, December 31, 2020	3,720,000	0.70
Granted	800,000	1.49
Exercised	(4,000)	0.97
Forfeited	(174,115)	0.86
Outstanding, December 31, 2021	4,341,885	\$ 0.83

At December 31, 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	2,699,218	2,668,090	\$ 0.47	5.76
January 7, 2030	671,667	640,205	\$ 1.53	8.02
May 20, 2030	200,000	131,250	\$ 0.79	8.39
March 19, 2031	675,000	234,375	\$ 1.59	9.22
June 1, 2031	96,000	24,000	\$ 0.42	9.67

Refer to Note 19 disclosure for cancellation and reissuance of certain stock options subsequent to December 31, 2021.

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 total stock-based compensation recognized in consolidated statements of operating loss and comprehensive loss from vested options during the year ended December 31, 2021 was \$629,167 (2020 - \$350,467).

Direct Communication Solutions, Inc.

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11. SHARE CAPITAL (cont'd)

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 years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
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	80%	30.23% - 40.49%
Dividend yield	0.00%	0.00%
Estimated forfeitures	0.00%	0.00%

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, included within total stock-based compensation of \$629,167.

(d) Warrants

The Company sold 880,000 warrants in the Private Offering at CAD\$0.05 per warrant for net proceeds of \$30,555. The warrants had an exercise price of \$0.80 per warrant share and expired May 14, 2021. 533,140 of the warrants were exercised during the year ended December 31, 2021 prior to expiry, for proceeds of \$426,512.

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 expired on January 7, 2022. In conjunction with the Private Offering, placement agents received warrants to purchase 118,664 shares of common stock under the same terms as the warrants sold and expired June 15, 2021. The Company determined the fair value of the warrants to be \$32,358 and \$30,551 under the initial public offering and Private Offering, respectively using the Black-Scholes valuation model and the following assumptions:

	<u>Initial Public Offering</u>	<u>Private Offering</u>
Fair value of common stock	\$1.53	\$1.03
Exercise price	\$1.53	\$0.80
Expected term (years)	2.00	0.50
Risk-free interest rate	1.54%	0.10%
Expected volatility	33.33%	43.56%
Dividend yield	0.00%	0.00%

Direct Communication Solutions, Inc.

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11. SHARE CAPITAL (cont'd)

The following table summarizes the warrant activity for the years ended December 31, 2021 and 2020:

	Number of warrants	Weighted average exercise price
Outstanding, December 31, 2019	-	\$ -
Granted	1,104,944	0.87
Outstanding, December 31, 2020	1,104,944	0.87
Exercised	(533,140)	0.80
Expired	(465,524)	0.80
Outstanding, December 31, 2021	106,280	\$ 1.54

The outstanding warrants expired 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.

Although all operations are based in the U.S., the Company generated a portion of its revenue from customers outside of the U.S. Information about the Company's revenue from different geographic regions for the years ended December 31, 2021 and 2020 is as follows:

	2021		2020	
United States	\$ 16,102,236	97.4%	\$ 13,797,158	96.8%
Canada	323,696	2.0%	275,838	1.9%
Others combined	99,591	0.6%	184,464	1.3%
Total revenues	\$ 16,525,523	100.0%	\$ 14,257,460	100.0%

Product Type (in '000)	2021		2020	
Product	\$ 14,543.7	88.0%	\$ 12,096.2	84.8%
Software as a Service (SaaS)	\$ 1,119.8	6.8%	\$ 904.4	6.3%
Engineering/Support Service	\$ 407.3	2.5%	\$ 903.2	6.3%
Wireless Data	\$ 324.3	2.0%	\$ 250.6	1.8%
Commission Income	\$ 128.6	0.8%	\$ 103.1	0.7%
Other	\$ 1.8	0.0%	\$ -	0.0%
Total Revenue	\$ 16,525.5	100.0%	\$ 14,257.5	100.0%

All of the Company's significant identifiable assets were located in the United States as of December 31, 2021 and 2020.

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13. CONCENTRATION RISK

The Company derived revenue from one and two customers totaling 39% or \$6,444,954 and 32% or \$4,562,387 of the Company's total revenue in 2021 and 2020, respectively. At December 31, 2021 and 2020, one and two customers accounted for 67% and 47% of total accounts receivable, respectively.

The Company has concentrations in the purchases with its suppliers. In December 2021 and 2020, two and one supplier accounted for 81% and 90% of total purchases, respectively.

14. INCOME TAXES

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

	2021	2020
Net Income (Loss) before Tax	\$ (1,772,314)	\$ (1,947,576)
Expected income tax (recovery)	(371,963)	(408,991)
Change in statutory, foreign tax, foreign exchange rates and other	(900)	800
Permanent differences	(109,397)	69,139
Expiry of non-capital losses		-
Changes in unrecognized deductible temporary differences	482,260	339,852
Total income tax expense (recovery)	\$ --	\$ 800

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

	2021	2020
Deferred Tax Assets (Liabilities)		
Allowance for bad debts	\$ 32,748	\$ 8,042
Inventory reserves	84,307	135,910
Right-of-use assets	(234,605)	(49,258)
Lease liabilities	236,972	52,412
Accrued vacation	24,509	32,733
Sec. 263A Unicap	36,665	17,134
Fixed asset basis difference including depreciation	(2,669)	(1)
State income taxes -California mandatory lag method	243	230
Capitalized R&D	(170,101)	(181,353)
Non-qualified stock options	116,318	84,782
Non-capital losses available for future period	1,255,511	639,159
	1,379,898	739,790
Unrecognized deferred tax assets	(1,379,898)	(739,790)
Net Deferred Tax Assets (Liabilities)	\$ -	\$ -

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14. INCOME TAXES (cont'd)

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

	2021	Expiry Date Range	2020	Expiry Date Range
Temporary Differences				
Allowance for bad debts	\$ 121,319	No expiry date	\$ 27,946	No expiry date
Inventory reserves	312,327	No expiry date	472,259	No expiry date
Right-of-use assets	(869,132)	No expiry date	(171,163)	No expiry date
Lease liabilities	877,901	No expiry date	182,123	No expiry date
Accrued vacation	90,798	No expiry date	113,742	No expiry date
Sec. 263A Unicap	135,833	No expiry date	59,537	No expiry date
Fixed asset basis difference including depreciation	(9,909)	No expiry date	(21)	No expiry date
State income taxes -California mandatory lag method	900	No expiry date	800	No expiry date
Capitalized R&D	(630,166)	No expiry date	(630,166)	No expiry date
Non-qualified stock options	430,917	No expiry date	294,602	No expiry date
Non-capital losses available for future period	4,899,255	No expiry date	2,312,236	No expiry date

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 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.

At December 31, 2021 and 2020, the Company is not subject to any externally imposed capital requirements or debt covenants. There were no changes to the Company's approach to capital management for the year ended December 31, 2021.

The Company has in place a 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 8).

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 Consolidated Financial Statements

(Expressed in US dollars)

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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 December 31, 2021 and 2020:

	Level 1	Level 2	Level 3
December 31, 2021:			
Cash	\$ 2,506,635	\$ -	\$ -
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 39% of the Company's revenue (2020 - 32%) is attributable to sales transactions with one (2020 – two) customer(s).

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 Consolidated Financial Statements

(Expressed in US dollars)

As at December 31, 2021 and 2020

16. FINANCIAL INSTRUMENTS (cont'd)

Trade and other receivables consist of:

	December 31, 2021	December 31, 2020
Accounts Receivable	\$ 4,024,625	\$ 1,371,998
Allowance for doubtful accounts	(121,319)	(27,946)
Total	\$ 3,903,306	\$ 1,344,052

Aged trade receivable listing:

Days outstanding	December 31, 2021	December 31, 2020
Current	\$ 3,046,604	\$ 1,194,982
1 – 30	690,882	84,895
31 – 60	174,211	80,914
61 - 90	32,824	1,192
> 90	80,104	10,015
Total	\$ 4,024,625	\$ 1,371,998

Liquidity risk

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

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

The Company has a factoring agreement with external funding (Note 8). The Company's accounts payable and accrued liabilities have contractual terms of 30 to 90 days, with the exception of one vendor where payment terms of 36 months have been granted (Note 7) . The Company is exposed to liquidity risk (Note 1).

Direct Communication Solutions, Inc.

Notes to the Consolidated Financial Statements

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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 90 day LIBOR rate. A 1% increase in the 90 day LIBOR rate in 2020 would result in approximately \$11,000 additional interest expense for the year ended December 31, 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.

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:

	Twelve Months Ended December 31, 2021	Twelve Months Ended December 31, 2020
Salary	\$914,622	\$899,528
Consulting fees	448,746	329,130
Share-based compensation	401,253	275,674
Totals	\$1,764,621	\$1,504,332

As at December 31, 2021, \$46,503 (December 31, 2020 – \$74,496) was included in accounts payable and accrued liabilities for fees owed to related parties.

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Notes to the Consolidated Financial Statements

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18. COMMITMENTS

Effective October 1, 2021 the Company has agreed to an annual purchase commitment for a period of three years with a significant vendor. The Company's obligation to the vendor shall be satisfied by the submission of non-cancelable orders for each contract year with an aggregate value equal to or in excess of \$8 million

19. SUBSEQUENT EVENTS

The Company evaluated subsequent events through the date the consolidated financial statements are available for issuance.

Issuance of Common Shares

In December, 2021, Direct Communication entered into an agreement with Zeus Capital Ltd. to assist the company with corporate finance and strategic initiatives. Subsequent to the year end the Company issued 500,000 shares of common stock at a deemed price of 52 cents per common share. Further, in the future, Zeus shall be entitled to the issuance of 500,000 common shares upon the successful listing of the common stock on the Nasdaq.

Amendment of Credit Facility with TAB

The Company entered into an amendment with TAB to extend the credit facility until January 22, 2023 with automatic extensions of one year periods unless the Company provides notice of termination at least 60 days prior to the expiration date. All the terms remain the same except for the following:

Interest is payable monthly at a rate the greater of (a) 1 month Term SOFR rate plus 4.50% and (b) 5.44%. In addition, there is an administration fee equal to 0.007% per diem of the outstanding daily obligations. Under the Inventory Advance, Interest is payable monthly at a rate the greater of (a) 1 month Term SOFR rate plus 4.50% and (b) 5.63%. In addition, there is an administration fee equal to 0.009% per diem of the outstanding daily obligations.

Loan Payable

On February 22, 2022, the Company issued an unsecured promissory note for proceeds of \$250,000. The note is due December 31, 2022 and accrues interest at a rate of 5% per annum.

Restructure of Certain Accounts Payable

On February 17, 2022, the Company and one of its vendors agreed to convert devices previously purchased to a subscription-based service solution. The converted devices resulted in a reduction in accounts payable of \$1,259,610. In exchange, the Company will pay effective March 2022 a monthly device service fee of \$42,136 for 36 months.

Issuance of Stock Options

In February 2022, the Company granted 275,000 stock options with an exercise price of US\$0.41 equal to the Company's closing price on the CSE on that day converted to U.S. dollars. 150,000 of the options shall vest monthly over two years and 125,000 of the options shall vest over four years and be subject to a one-year cliff.

Cancellation and Reissuance of Stock Options

In February 2022, the Company cancelled 1,415,000 stock options of which 675,000 were exercisable at \$1.59; 555,000 were exercisable at \$1.53 and 185,000 were exercisable at \$0.79. In March 2022 the Company issued 435,000 stock options to the holders and exercisable at \$0.59.

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19. SUBSEQUENT EVENTS (cont'd)

Convertible Debenture Offering

In April 13, 2022, the Company closed convertible debenture financing for the aggregate amount of \$100,000 (U.S.). Subscribers may convert all or part of the principal amount outstanding under the debentures into shares of common stock of the company. The debentures are convertible into units at the higher of \$1.19 or a price equal to the price of the shares or units of the next financing carried out before the second anniversary of the closing date less a 30-per-cent discount.

The units comprise a share and one-half of one warrant, where a whole warrant shall be exercisable at \$0.40 per common share for a two-year term. The debentures have a maturity date of the second anniversary of the closing date and bear an interest rate of 10 per cent per annum, payable semi-annually.