



# DCS

## **Direct Communication Solutions, Inc.**

Consolidated Condensed Interim Financial Statements  
(Expressed in US Dollars)

As at and for the three and six months ended  
June 30, 2022 and 2021

**Direct Communication Solutions, Inc.**

## Consolidated Condensed Interim Statements of Financial Position

(Expressed in US dollars)

As at June 30, 2022 and December 31, 2021

	June 30, 2022	December 31, 2021
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash	3,169,507	2,506,635
Restricted cash (Note 4)	402,631	-
Trade receivables (Note 16)	2,594,429	3,903,306
Inventory (Note 5)	511,550	2,072,409
Prepaid expenses	255,878	29,444
<b>Current assets</b>	<b>6,933,995</b>	<b>8,511,794</b>
Property and equipment (Note 6)	57,903	78,955
Contract assets	1,144	4,417
Security deposit	50,056	50,056
Intangible (Note 7)	630,166	630,166
Right-of-use assets (Note 11)	779,222	869,132
<b>Total assets</b>	<b>8,452,486</b>	<b>10,144,520</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current</b>		
Accounts payable (Note 8, 17)	4,329,859	5,147,782
Accrued liabilities (Note 8, 17)	437,907	823,370
Credit facility (Note 4, 9)	-	1,670,833
Current debt (Note 10)	200,000	-
Customer deposits (Note 10)	126,630	617,935
Deferred revenue	47,686	68,504
Lease liabilities (Note 11)	316,073	216,000
<b>Current liabilities</b>	<b>5,458,155</b>	<b>8,544,424</b>
Lease liabilities (Note 11)	496,071	661,901
Long term debt (Note 10)	375,000	275,000
Long term accounts payable (Note 8)	890,551	890,551
<b>Total liabilities</b>	<b>7,219,777</b>	<b>10,371,876</b>
<b>Shareholders' equity (deficiency)</b>		
Common stock (Note 12)	61	61
Reserves	7,514,681	6,801,984
Accumulated deficit	(6,282,033)	(7,029,401)
<b>Total shareholders' equity (deficiency)</b>	<b>1,232,709</b>	<b>(227,356)</b>
<b>Total liabilities and shareholders' equity (deficiency)</b>	<b>8,452,486</b>	<b>10,144,520</b>

Nature of Operations and Going Concern (Note 1)

Commitments (Note 18)

Subsequent Events (Note 19)

Approved on August 19, 2022 on behalf of the Board:

"Chris Bursey"

Chris Bursey – CEO &amp; Director

"Mike Zhou"

Mike Zhou – Director

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

**Direct Communication Solutions, Inc.**Consolidated Condensed Interim Statements of Operating Income (Loss) and Comprehensive Income (Loss)  
(Expressed in US dollars)

Three and Six Month Periods Ended June 30, 2022 and 2021

	For the three months ended June		For the six months ended	
	30, 2022	2021	June 30, 2022	2021
	\$	\$	\$	\$
<b>Revenues:</b>				
Products	5,212,313	3,232,185	12,411,022	7,067,985
Solutions and other services	585,289	474,947	1,186,493	950,744
Total Revenues (Note 13)	5,797,602	3,707,132	13,597,515	8,018,729
<b>Cost of Revenues</b>				
Products	3,560,794	2,555,466	8,777,083	5,547,670
Solutions and other services	170,765	141,355	347,374	287,612
Total cost of revenues	3,731,559	2,696,821	9,124,457	5,835,282
<b>Gross Profit</b>	2,066,043	1,010,311	4,473,058	2,183,447
<b>OPERATING EXPENSES</b>				
Research and development	510,502	328,086	701,651	671,655
General and administrative				
Compensation and benefits	504,174	823,378	1,317,846	1,615,793
Professional fees	373,674	341,316	812,187	662,036
Bank fees	187,534	78,322	331,583	168,193
Facilities	17,506	46,680	32,225	93,360
Information technology	43,624	-	90,993	-
Other	269,904	141,976	345,160	322,622
Total Operating Expenses	1,906,918	1,759,758	3,631,645	3,533,659
<b>Net Operating Income (loss)</b>	159,125	(749,447)	841,413	(1,350,212)
<b>OTHER INCOME (EXPENSES)</b>				
Gain on debt extinguishment (Note 10)	-	-	-	422,500
Interest Expense	(41,877)	(21,615)	(94,045)	(40,338)
<b>Net income (loss) for the period</b>	117,248	(771,062)	747,368	(968,050)
Weighted Average number of common shares:				
Basic	16,135,640	15,631,640	16,105,253	15,421,446
Diluted	17,305,253	15,631,640	16,625,640	15,421,446
Income (loss) per share – basic and diluted				
Basic	\$0.01	(\$0.05)	\$0.05	(\$0.06)
Diluted	\$0.01	(\$0.05)	\$0.04	(\$0.06)

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

**Direct Communication Solutions, Inc.**

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

(Expressed in US dollars)

As at June 30, 2022 and 2021

	Number of Common Shares	Common Stock Amount	Reserves	Accumulated Deficit	Total Shareholders' Equity (Deficiency)
		\$	\$	\$	\$
<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	-	-	257,771	-	257,771
Exercise of warrants	533,140	5	426,507	-	426,512
Net loss for the period	-	-	-	(968,050)	(968,050)
<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>
<b>Balance, December 31 ,2021</b>	<b>15,635,640</b>	<b>61</b>	<b>6,801,984</b>	<b>(7,029,401)</b>	<b>(227,356)</b>
Stock-based compensation expense	-	-	494,539	-	494,539
Issuance of shares	500,000	-	218,158	-	218,158
Net income for the period	-	-	-	747,368	747,368
<b>Balance, June 30 ,2022</b>	<b>16,135,640</b>	<b>61</b>	<b>7,514,681</b>	<b>(6,282,033)</b>	<b>1,232,709</b>

**Direct Communication Solutions, Inc.**

## Consolidated Condensed Interim Statements of Cash Flows

(Expressed in US dollars)

Six Month Periods Ended June 30, 2022 and 2021

	2022	2021
	\$	\$
Cash provided by / (used for):		
Operating Activities:		
<b>Net income for the period</b>	<b>747,368</b>	<b>(968,050)</b>
Items not affecting cash:		
Depreciation	110,962	115,317
Finance costs for right-of-use assets	41,643	9,116
Amortization of debt issuance costs of credit facility	-	7,021
Stock-based compensation	494,539	257,771
Non-arm's length professional fee	218,158	-
Provision for bad debts	177,186	(4,315)
Gain on debt extinguishment	-	(422,500)
Deferred offering costs	-	-
Provision for excess and obsolete inventory	(22,398)	2,527
Net change in non-cash working capital items:		
Accounts receivable	1,131,691	(309,642)
Inventory	1,583,257	151,530
Prepaid expenses	(145,759)	(347,250)
Contract assets	3,273	3,202
Security deposits	-	(50,056)
Other assets	-	(192,313)
Accounts payable	(817,923)	(400,375)
Accrued liabilities	(385,463)	(52,946)
Customer deposits	(491,305)	1,939
Deferred revenue	(20,818)	(24,816)
<b>Net cash provided in operating activities</b>	<b>2,624,411</b>	<b>(2,223,840)</b>
<b>Investing Activities:</b>		
Purchase of property and equipment	-	(3,400)
<b>Net cash used in investing activities</b>	<b>-</b>	<b>(3,400)</b>
<b>Financing Activities:</b>		
Lease payments	(107,400)	(111,933)
Deferred offering costs	(80,675)	-
Exercise of warrants	-	426,512
Net (repayments) borrowings on credit facility	(1,670,833)	969,163
Proceeds from notes payable	300,000	434,105
<b>Net cash used in financing activities</b>	<b>(1,558,908)</b>	<b>1,717,847</b>
Change in cash for the period	1,065,503	(509,393)
Cash, beginning of the period	2,506,635	1,473,749
<b>Cash, end of the period</b>	<b>3,572,138</b>	<b>964,356</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for:		
Interest expense:	33,941	24,200
Income taxes	-	-

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

## **Direct Communication Solutions, Inc.**

### Notes to the Interim Consolidated Condensed Financial Statements

(Expressed in US dollars)

For the Three and Six Month Periods Ended June 30, 2022 and 2021

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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 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 condensed interim 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 historically incurred losses and has a deficit of \$6,282,033 and working capital of \$1,475,840 as of June 30, 2022, which is not considered sufficient to fund operations at their current levels for the next twelve months. Therefore, the Company will be required to generate additional funding through operations or external financing, which cannot be assured. These conditions give rise to a significant doubt on the Company’s ability to continue as a going concern.

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 Condensed Interim Financial Statements

(Expressed in US dollars)

For the Three and Six Month Periods Ended June 30, 2022 and 2021

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## 2. BASIS OF PREPARATION

These consolidated condensed interim 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 condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

### Statement of compliance

These consolidated condensed interim financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). The consolidated condensed 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 condensed financial statements in accordance with IFRS and should be read in conjunction with the audited consolidated financials for the year ended December 31, 2021.

### Basis of consolidation

The consolidated condensed interim 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 condensed interim 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 condensed interim 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 condensed interim 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 Condensed Interim Financial Statements

(Expressed in US dollars)

For the Three and Six Month Periods Ended June 30, 2022 and 2021

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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 condensed 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' creditworthiness.
- 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.



## Direct Communication Solutions, Inc.

### Notes to the Consolidated Condensed Interim Financial Statements

(Expressed in US dollars)

For the Three and Six Month Periods Ended June 30, 2022 and 2021

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## 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 condensed interim 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 condensed interim financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

During the six months ended June 30, 2022, the Company has adopted the following accounting 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. There was no material impact on the Company’s consolidated condensed interim financial statements from adopting this standard.

## 4. RESTRICTED CASH

As of June 30, 2022, the Company has a restricted cash of \$402,631 (December 31, 2021 - \$Nil), which will be subsequently used to offset the TAB Bank credit facility (Note 9).

## 5. INVENTORY

Inventory consists of the following:

	June 30, 2022	December 31, 2021
Components and raw materials	\$ 339,640	\$ 1,749,593
Assemblies	171,910	322,816
	<u>\$ 511,550</u>	<u>\$ 2,072,409</u>

Inventory has been reduced by \$289,929 and \$312,327 as a provision for excess and obsolete inventory at June 30, 2022 and December 31, 2021, respectively. Additionally, a total of \$8,777,083 inventory was expensed as cost of sales during the six months ended June 30, 2022 (2021 - \$5,547,670).

As discussed in Note 9, TAB has a lien on all the Company’s assets which includes inventory.

## Direct Communication Solutions, Inc.

### Notes to the Consolidated Condensed Interim Financial Statements

(Expressed in US dollars)

For the Three and Six Month Periods Ended June 30, 2022 and 2021

## 6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	June 30, 2022	December 31, 2021
Computer equipment and purchased software	\$ 143,684	\$ 143,684
Furniture and fixtures	51,427	51,427
Tooling	59,300	59,300
Leasehold improvements	-	-
	<u>254,411</u>	<u>254,411</u>
Less—accumulated depreciation	(196,508)	(175,456)
	<u>\$ 57,903</u>	<u>\$ 78,955</u>

Depreciation expense was \$21,052 and \$21,956 for the six months ended June 30, 2022 and 2021, respectively.

## 7. 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, 2020	\$ 630,166
Additions	-
Amortization	-
Balance at December 31, 2021	<u>\$ 630,166</u>
Additions	-
Amortization	-
Balance at June 30, 2022	<u>\$ 630,166</u>

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	June 30, 2022	December 31, 2021
Accrued sales tax	\$ 240,611	\$ 308,346
Payroll related expenses	104,794	401,194
Other	92,502	113,830
	<u>\$ 437,907</u>	<u>\$ 823,370</u>

Accounts payable consist of the following:

	June 30, 2022	December 31, 2021
Vendor payable due within 12 months	<u>\$ 4,329,859</u>	<u>\$ 5,147,782</u>
Vendor payable not due within 12 months	<u>\$ 890,551</u>	<u>\$ 890,551</u>

## Direct Communication Solutions, Inc.

### Notes to the Consolidated Condensed Interim Financial Statements

(Expressed in US dollars)

For the Three and Six Month Periods Ended June 30, 2022 and 2021

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#### 9. 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 agreement is further extended automatically for successive one year term. As of June 30, 2022, the expiry date is January 23, 2023.

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 June 30, 2022 and December 31, 2021, the carrying amount of the accounts transferred was \$634,509 and \$1,984,307, respectively.

At June 30, 2022 and December 31, 2021, the outstanding balance on the credit facility was \$Nil and \$1,670,833, respectively. Debt issuance costs of \$33,941 and \$7,021 associated with the TAB credit facility were amortized to interest expense for the six months ended June 30, 2022 and 2021. The unamortized portion of the debt issuance costs at June 30, 2022 was \$Nil (December 31, 2021 - \$1,042).

#### 10. 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 June 30, 2022, the Company recorded \$17,502 accrued interest associated with the Convertible Promissory Debentures (December 31, 2021 - \$3,350).

During the six months ended June 30, 2022, the Company received 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.

## **Direct Communication Solutions, Inc.**

### Notes to the Consolidated Condensed Interim Financial Statements

(Expressed in US dollars)

For the Three and Six Month Periods Ended June 30, 2022 and 2021

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#### **10. DEBT (cont'd)**

##### *Promissory note*

During the six months ended June 30, 2022, the Company received unsecured promissory note in the principal amount of \$200,000. The note is interest bearing at 5.00% per annum and any payments made by the Company will first be applied to accrued interest and then to principal. The note matures December 31, 2022.

##### *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 condensed 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. During the year ended December 31, 2021, the Company recorded a gain of debt extinguishment of \$434,105 under Other Income in the consolidated condensed 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 June 30, 2022, the Company held Customer Deposits of \$126,630 (December 31, 2021 - \$617,935).

**Direct Communication Solutions, Inc.**

## Notes to the Consolidated Condensed Interim Financial Statements

(Expressed in US dollars)

For the Three and Six Month Periods Ended June 30, 2022 and 2021

**11. 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 June 30, 2022 and December 31, 2021:

Balance at December 31, 2020	\$ 171,163
Initial recognition, November 1, 2021 for new office space	899,102
Depreciation	(201,133)
Balance at December 31, 2021	\$ 869,132
Depreciation	(89,910)
Balance at June 30, 2022	\$ 779,222

*Lease liabilities*

Balance at December 31, 2020	\$ 182,123
Initial recognition, November 1, 2021 for new office space	899,102
Cash flows:	
Lease payments	(228,928)
Non-cash changes:	
Interest expenses	25,604
Balance at December 31, 2021	\$ 877,901
Cash flows:	
Lease payments	(107,400)
Non-cash changes:	
Interest expenses	41,643
Balance at June 30, 2022	\$ 812,144
Less Lease liabilities - current	(316,073)
Lease liabilities – non-current	\$ 496,071

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

## Direct Communication Solutions, Inc.

### Notes to the Consolidated Condensed Interim Financial Statements

(Expressed in US dollars)

For the Three and Six Month Periods Ended June 30, 2022 and 2021

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#### 11. RIGHT-OF-USE ASSETS & LEASE LIABILITIES (cont'd)

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 June 30, 2022 are as follows:

Years ending December 31:	
2022	\$ 162,300
2023	223,110
2024	229,804
2025	236,702
2026	<u>202,160</u>
	<u>\$ 1,054,076</u>

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

#### 12. 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 were 1,086,202 as at June 30, 2022 (December 31, 2021 - 3,258,607).

##### (b) Common share transactions

*Transactions for the six months ended June 30, 2022*

In January 2022, 500,000 common shares of common stocks were issued at CAD\$0.55 in exchange for non-arm's length consulting fee for corporate development.

*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.

##### (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

## Direct Communication Solutions, Inc.

### Notes to the Consolidated Condensed Interim Financial Statements

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For the Three and Six Month Periods Ended June 30, 2022 and 2021

## 12. SHARE CAPITAL (cont'd)

### (c) Stock options (cont'd)

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, 2020</b>	3,720,000	0.70
Granted	800,000	1.49
Exercised	(4,000)	0.97
Forfeited	(174,115)	0.86
<b>Outstanding, December 31, 2021</b>	4,341,885	\$ 0.83
Granted	1,200,000	0.71
Exercised	-	-
Forfeited	(1,415,000)	1.46
<b>Outstanding, June 30, 2022</b>	4,126,885	\$ 0.58

At June 30, 2022, 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	5.26
January 7, 2030	116,667	102,605	\$ 1.53	7.52
May 20, 2030	15,000	6,875	\$ 0.79	7.89
June 1, 2031	96,000	36,000	\$ 0.42	9.17
February 4, 2032	175,000	29,688	\$ 0.41	9.60
February 24, 2032	100,000	4,167	\$ 0.41	9.66
March 14, 2032	435,000	59,557	\$ 0.59	9.71
May 9, 2027	100,000	100,000	\$ 0.79	4.86
May 9, 2027	390,000	390,000	\$ 120	4.86

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 condensed statements of operating loss and comprehensive loss from vested options during the six months ended June 30, 2022 was \$422,490 (June 30, 2021 - \$256,077).

## Direct Communication Solutions, Inc.

### Notes to the Consolidated Condensed Interim Financial Statements

(Expressed in US dollars)

For the Three and Six Month Periods Ended June 30, 2022 and 2021

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## 12. SHARE CAPITAL (cont'd)

### (d) Stock options (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 nine months ended June 30, 2022 and year ended December 31, 2021:

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Fair value of common stock	\$0.40 - \$0.91	\$0.97 - \$1.59
Exercise prices	\$0.41 - \$1.20	\$0.97 - \$1.59
Expected term (years)	5-10	5.52 - 6.08
Risk-free interest rate	1.05% - 1.14%	1.05% - 1.14%
Expected volatility	80%	80%
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.

### (e) 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%

The outstanding warrants were expired January 7, 2022.



## Direct Communication Solutions, Inc.

### Notes to the Consolidated Condensed Interim Financial Statements

(Expressed in US dollars)

For the Three and Six Month Periods Ended June 30, 2022 and 2021

## 12. SHARE CAPITAL (cont'd)

### (e) Warrants (cont'd)

The following table summarizes the warrant activity for the six months ended June 30, 2022 and the years ended December 31, 2021:

	Number of warrants	Weighted average exercise price
<b>Outstanding, December 31, 2020</b>	1,104,944	0.87
Exercised	(533,140)	0.80
Expired	(465,524)	0.80
<b>Outstanding, December 31, 2021</b>	106,280	\$ 1.54
Expired	(106,280)	-
<b>Outstanding, June 30, 2022</b>	-	\$ -

## 13. SEGMENT INFORMATION

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

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 three months ended June 30, 2022 and 2021 is as follows:

	Six months ended June 30,			
	2022		2021	
	\$	%	\$	%
United States	12,656,997	93.1%	7,814,685	97.5%
Canada	824,127	6.0%	171,606	2.1%
Others combined	116,391	0.9%	32,438	0.4%
Total Revenue	13,597,515	100.0%	8,018,729	100.0%

Product Type (in '000)	June 30, 2022		June 30, 2021	
	\$	%	\$	%
Product	12,411.0	91.3%	7,068.0	88.1%
Software as a Service (SaaS)	645.7	4.7%	517.2	6.5%
Engineering/Support Service	320.9	2.4%	198.3	2.5%
Wireless Data	186.1	1.4%	153.2	1.9%
Commission Income	33.8	0.2%	82.0	1.0%
Total Revenue	13,597.5	100.0%	8,018.7	100.0%

All of the Company's significant identifiable assets were located in the United States as of June 30, 2022 and December 31, 2021.

## **Direct Communication Solutions, Inc.**

### Notes to the Consolidated Condensed Interim Financial Statements

(Expressed in US dollars)

For the Three and Six Month Periods Ended June 30, 2022 and 2021

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#### **14. CONCENTRATION RISK**

The Company derived revenue from one customer totaling 37% and 33% of the Company's total revenue for six months ended June 30, 2022 and 2021, respectively. At June 30, 2022 and December 31, 2021, one customer accounted for 35% and 67% of total accounts receivable, respectively.

The Company has concentrations in the purchases with its suppliers. For the six months ended June 30, 2022 and 2021, two suppliers accounted for 87% and 82% of total purchases, respectively.

#### **15. CAPITAL MANAGEMENT**

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

The Company defines capital as consisting of loans, credit facility 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 June 30, 2022 and December 31, 2021, 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 three and six months ended June 30, 2022.

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 9).

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

## Direct Communication Solutions, Inc.

### Notes to the Consolidated Condensed Interim Financial Statements

(Expressed in US dollars)

For the Three and Six Month Periods Ended June 30, 2022 and 2021

## 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 condensed statement of financial position.

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy As at June 30, 2022 and December 31, 2021:

	Level 1	Level 2	Level 3
June 30, 2022:			
Cash	\$ 3,169,507	\$ -	\$ -
Restricted cash	\$ 402,631	\$ -	\$ -
December 31, 2021:			
Cash	\$ 2,506,635	\$ -	\$ -

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

### *Credit risk*

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

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. Approximately 37% of the Company's revenue (2021 - 33%) is attributable to sales transactions with one customer.

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

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

**Direct Communication Solutions, Inc.**

Notes to the Consolidated Condensed Interim Financial Statements

(Expressed in US dollars)

For the Three and Six Month Periods Ended June 30, 2022 and 2021

**16. FINANCIAL INSTRUMENTS (cont'd)**

Trade and other receivables consist of:

	June 30, 2022	December 31, 2021
Accounts Receivable	\$ 2,892,934	\$ 4,024,625
Allowance for doubtful accounts	(298,505)	(121,319)
<b>Total</b>	<b>\$ 2,594,429</b>	<b>\$ 3,903,306</b>

Aged trade receivable listing:

Days outstanding	June 30, 2022	December 31, 2021
Current	\$ 1,360,375	\$ 3,046,604
1 – 30	895,216	690,882
31 – 60	119,949	174,211
61 - 90	190,456	32,824
> 90	326,938	80,104
<b>Total</b>	<b>\$ 2,892,934</b>	<b>\$ 4,024,625</b>

*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 9). 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 8). The Company is exposed to liquidity risk (Note 1).

*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 would not have a significant impact on profit and loss.

## Direct Communication Solutions, Inc.

### Notes to the Consolidated Condensed Interim Financial Statements

(Expressed in US dollars)

For the Three and Six Month Periods Ended June 30, 2022 and 2021

## 16. FINANCIAL INSTRUMENTS (cont'd)

### Market risk (cont'd)

#### 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:

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Salary <sup>1)</sup>	\$ 505,931	\$ 473,486
Consulting fees <sup>1)</sup>	376,789	234,200
Share-based compensation <sup>1)</sup>	272,156	159,311
Total	1,154,876	866,997

1) Including commission fee of \$12,913, consulting fee of \$83,850, and share-based compensation of \$22,668 paid to former officer of the Company during the three months ended June 30, 2022.

During the six months ended June 30, 2022, 500,000 common shares of common stocks were issued at CAD\$0.55 in exchange for non-arm's length consulting fee to current officer of the Company for corporate development.

As at June 30, 2022, \$Nil (December 31, 2021 – \$46,503) was included in accounts payable and accrued liabilities for fees owed to related parties.

## 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.

**Direct Communication Solutions, Inc.**

Notes to the Consolidated Condensed Interim Financial Statements

(Expressed in US dollars)

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**19. SUBSEQUENT EVENTS**

On August 10, 2022, the Company announced that it has arranged an offering of unsecured convertible debentures raising up to \$1.5 million. Pursuant to the terms of the debentures, the 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 shares of common stock of the company at the higher of \$1.19 or a price equal to the price of the shares of the next financing carried out before the second anniversary of the closing date less a 25-per-cent discount. 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.

Concurrent with the offering of the debentures, the company shall grant and issue up to 750,000 share purchase warrants on the basis of one-half of one share purchase warrant for each \$1.00 of debenture principal under subscription, where a whole warrant shall be exercisable at \$0.86 per share of common stock for a two-year exercise term.

This offering is subject to approval by the Canadian Securities Exchange.