



DCS

Direct Communication Solutions, Inc.

Consolidated Condensed Interim Financial Statements
(Expressed in US Dollars)

As at and for the three and nine months ended
September 30, 2022 and 2021

Direct Communication Solutions, Inc.

Consolidated condensed Interim Statements of Financial Position

(Expressed in US dollars)

As at September 30, 2022 and December 31, 2021

	September 30, 2022	December 31, 2021
	\$	\$
ASSETS		
Current		
Cash	3,932,477	2,506,635
Restricted cash (Note 4)	22,531	-
Accounts and other receivables (Note 16)	3,632,992	3,903,306
Inventory (Note 5)	489,825	2,072,409
Prepaid expenses	489,840	29,444
Current assets	8,567,665	8,511,794
Property and equipment (Note 6)	51,246	78,955
Contract assets	541	4,417
Security deposit	50,056	50,056
Intangible (Note 7)	630,166	630,166
Right-of-use assets (Note 11)	734,267	869,132
Total assets	10,033,941	10,144,520
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Accounts payable (Note 8, 18)	5,304,948	5,147,782
Accrued liabilities (Note 8, 18)	260,513	823,370
Credit facility (Note 4, 9)	-	1,670,833
Current debt (Note 10)	200,000	-
Customer deposits (Note 10)	42,879	617,935
Deferred revenue	82,271	68,504
Derivative instrument (Note 10)	489,364	-
Lease liabilities (Note 11)	327,564	216,000
Current liabilities	6,218,175	8,544,424
Lease liabilities (Note 11)	450,453	661,901
Long term debt (Note 10)	1,419,186	275,000
Long term accounts payable (Note 8)	890,551	890,551
Total liabilities	9,467,729	10,371,876
Shareholders' equity (deficiency)		
Common stock (Note 12)	61	61
Reserves	7,762,561	6,801,984
Accumulated deficit	(7,196,410)	(7,029,401)
Total shareholders' equity (deficiency)	566,212	(227,356)
Total liabilities and shareholders' equity (deficiency)	10,033,941	10,144,520

Nature of Operations and Going Concern (Note 1)

Commitments (Note 20)

Subsequent Events (Note 21)

Approved on November 30, 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 condensed interim financial statements.

Direct Communication Solutions, Inc.

Consolidated condensed Interim Statements of Operating Loss and Comprehensive Loss

(Expressed in US dollars)

Three and Nine Month Periods Ended September 30, 2022 and 2021

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Revenues:				
Products	4,112,623	2,303,477	16,523,645	9,371,462
Solutions and other services	578,113	524,181	1,764,606	1,474,925
Total Revenues (Note 13)	4,690,736	2,827,658	18,288,251	10,846,387
Cost of Revenues				
Products	3,326,383	1,816,330	12,103,466	7,364,000
Solutions and other services	162,976	169,094	510,350	456,706
Total cost of revenues	3,489,359	1,985,424	12,613,816	7,820,706
Gross Profit	1,201,377	842,234	5,674,435	3,025,681
OPERATING EXPENSES				
Research and development	320,563	299,556	1,022,214	971,211
General and administrative				
Compensation and benefits	710,212	644,334	2,028,058	2,260,127
Professional fees	413,026	266,664	1,225,213	928,700
Bank fees	91,286	72,990	422,869	241,183
Facilities	17,533	53,665	49,758	147,025
Information technology	42,835	-	133,828	-
Other (Note 18)	414,033	173,426	759,193	496,048
Total Operating Expenses	2,009,488	1,510,635	5,641,133	5,044,294
Net Operating Income (loss)	(808,111)	(668,401)	33,302	(2,018,613)
OTHER INCOME (EXPENSES)				
Accretion (Note 10)	(8,630)	-	(8,630)	-
Net changes in fair value (Note 10)	(240,587)	-	(240,587)	-
Bad debt expense	(90,126)	-	(90,126)	-
Gain on debt extinguishment (Note 10)	-	434,105	-	856,605
Other income - tax credit	286,995	24,247	286,995	24,247
Interest Expense	(53,918)	(30,613)	(147,963)	(70,951)
Net income (loss) for the period	(914,377)	(240,662)	(167,009)	(1,208,712)
Weighted Average number of common shares:				
Basic	16,135,640	15,634,727	16,090,185	15,493,321
Diluted	16,135,640	15,634,727	16,090,185	15,493,321
Income (loss) per share – basic and diluted				
Basic	(0.06)	(0.02)	(0.01)	(0.08)
Diluted	(0.06)	(0.02)	(0.01)	(0.08)

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 September 30, 2022 and 2021

	Number of Common Shares	Common Stock Amount	Reserves	Accumulated Deficit	Total Shareholders' Equity (Deficiency)
		\$	\$	\$	\$
Balance, December 31, 2020	15,098,500	56	5,742,430	(5,257,087)	485,399
Stock-based compensation expense	-	-	364,820	-	364,820
Exercise of warrants	533,140	5	426,507	-	426,512
Exercise of options	4,000	-	3,880	-	3,880
Net loss for the period	-	-	-	(1,208,712)	(1,208,712)
Balance, September 30, 2021	15,635,640	61	6,537,637	(6,465,799)	71,899
Balance, December 31, 2021	15,635,640	61	6,801,984	(7,029,401)	(227,356)
Stock-based compensation expense	-	-	526,752	-	526,752
Issuance of shares	500,000	-	218,158	-	218,158
Equity portion of convertible debt	-	-	215,667	-	215,667
Net loss for the period	-	-	-	(167,009)	(167,009)
Balance, September 30, 2022	16,135,640	61	7,762,561	(7,196,410)	566,212

Direct Communication Solutions, Inc.

Consolidated condensed Interim Statements of Cash Flows

(Expressed in US dollars)

Nine Month Periods Ended September 30, 2022 and 2021

	2022	2021
	\$	\$
Cash provided by / (used for):		
Operating Activities:		
Net loss for the period	(167,009)	(1,208,712)
Items not affecting cash:		
Accretion	249,217	-
Bad debt expense	90,126	-
Depreciation	166,614	174,049
Finance costs for right-of-use assets	61,216	10,858
Amortization of debt issuance costs of credit facility	-	10,146
Stock-based compensation	526,752	364,820
Non-arm's length professional fee paid in shares	218,158	-
Provision for bad debts	(15,844)	23,665
Gain on debt extinguishment	-	(856,605)
Provision for excess and obsolete inventory	(52,051)	59,126
Net change in non-cash working capital items:		
Accounts and other receivables	196,032	(198,856)
Inventory	1,634,635	(50,930)
Prepaid expenses	(379,721)	(317,781)
Contract assets	3,876	4,122
Security deposits	-	(50,056)
Other assets	-	(120,196)
Accounts payable	157,166	(646,054)
Accrued liabilities	(562,857)	(112,030)
Customer deposits	(575,056)	101,349
Deferred revenue	13,767	(230)
Net cash provided in operating activities	1,565,021	(2,813,315)
Investing Activities:		
Purchase of property and equipment	(4,040)	(19,787)
Net cash used in investing activities	(4,040)	(19,787)
Financing Activities:		
Lease payments	(161,100)	(165,524)
Deferred offering costs	(80,675)	-
Exercise of options	-	3,880
Exercise of warrants	-	426,512
Net (repayments) borrowings on credit facility	(1,670,833)	1,111,782
Proceeds from convertible debt	1,500,000	-
Proceeds from notes payable	300,000	434,105
Net cash (used in) provided by financing activities	(112,608)	1,810,755
Change in cash for the period	1,448,373	(1,022,347)
Cash, beginning of the period	2,506,635	1,473,749
Cash, end of the period	3,955,008	451,402
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense:	60,115	49,946
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 Nine Month Periods Ended September 30, 2022 and 2021

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 \$7,196,410 and working capital of \$1,860,126 as of September 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 Nine Month Periods Ended September 30, 2022 and 2021

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 Nine Month Periods Ended September 30, 2022 and 2021

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 Nine Month Periods Ended September 30, 2022 and 2021

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 nine months ended September 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 September 30, 2022, the Company has a restricted cash of \$22,531 (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:

	Sep 30, 2022	Dec 31, 2021
Components and raw materials	\$ 341,623	\$ 1,749,593
Assemblies	148,202	322,816
	<u>\$ 489,825</u>	<u>\$ 2,072,409</u>

Inventory has been reduced by \$260,276 and \$312,327 as a provision for excess and obsolete inventory at September 30, 2022 and December 31, 2021, respectively. Additionally, a total of \$12,103,466 inventory was expensed as cost of sales during the nine months ended September 30, 2022 (2021 - \$7,364,000).

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 Nine Month Periods Ended September 30, 2022 and 2021

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Sep 30, 2022	Dec 31, 2021
Computer equipment and purchased software	\$ 147,724	\$ 143,684
Furniture and fixtures	51,427	51,427
Tooling	59,300	59,300
	<u>258,451</u>	<u>254,411</u>
Less—accumulated depreciation	(207,205)	(175,456)
	<u>\$ 51,246</u>	<u>\$ 78,955</u>

Depreciation expense was \$31,749 and \$34,008 for the nine months ended September 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 September 30, 2022	<u>\$ 630,166</u>

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	Sep 30, 2022	December 31, 2021
Accrued sales tax	\$ 112,540	\$ 308,346
Payroll related expenses	48,127	401,194
Other	99,846	113,830
	<u>\$ 260,513</u>	<u>\$ 823,370</u>

Accounts payable consist of the following:

	Sep 30, 2022	December 31, 2021
Vendor payable due within 12 months	<u>\$ 5,304,948</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 Nine Month Periods Ended September 30, 2022 and 2021

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 September 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 September 30, 2022 and December 31, 2021, the carrying amount of the accounts transferred was \$1,384,683 and \$1,984,307, respectively.

At September 30, 2022 and December 31, 2021, the outstanding balance on the credit facility was \$Nil and \$1,670,833, respectively. Debt issuance costs of \$60,115 and \$10,146 associated with the TAB credit facility were amortized to interest expense for the nine months ended September 30, 2022 and 2021. The unamortized portion of the debt issuance costs at September 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 September 30, 2022, the Company recorded \$24,846 accrued interest associated with the Convertible Promissory Debentures (December 31, 2021 - \$3,350).

During the nine months ended September 30, 2022, the Company received convertible debenture financing for the aggregate amount of \$100,000. 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 Nine Month Periods Ended September 30, 2022 and 2021

10. DEBT (cont'd)

Convertible Promissory Debentures (continued)

In September 2022, the Company issued additional convertible promissory debentures totalling \$1,500,000, bearing interest at 10% per annum (accruing annually and payable at maturity), on September 9, 2022 and maturing on September 9, 2024, or a period of 24-months. The Debentures are convertible, at the option of the holder, to common shares of DCS at a price of \$1.19 USD 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% discount. Upon issuance of the debentures, the Company also issued 750,000 share purchase warrants. Each warrant entitles the holder to purchase one common share at a price of \$0.86 per share for a period of 24 months from the date of issuance of the debentures.

The Company records the fair value of the conversion features with variable exercise prices as an embedded derivative separate from the host contract. The fair value of the derivative liabilities is revalued on each balance sheet date with corresponding gains and losses recorded in the consolidated statements of operations. The Company uses a derivative valuation technique to fair value the components of the hybrid contract on initial recognition, including the debt component, the embedded derivative, and the warrants. The following significant inputs and assumptions were used in the model:

	September 30, 2022	December 31, 2021
Expected term (years)	2	N/A
Risk-free interest rate	3.56%	N/A
Expected volatility	50.0%	N/A
Dividend yield	0.00%	N/A
Estimated forfeitures	0.00%	N/A

The following table presents the Company's embedded conversion features of its convertible debt measured at fair value on a recurring basis as of September 30, 2022 and December 31, 2021, determined based on "Level 3" inputs.

	Derivative
	\$
December 31, 2021	-
Initial issuance at September 9, 2022	248,777
Net changes in fair value included in net loss	240,587
Balance at September 30, 2022	489,364

The debt component of the convertible debenture is subsequently measured at amortized costs. The following table presents the debt component of the convertible debt measured at its fair value on initial recognition of \$1,035,556 and subsequently carried at amortized cost using the interest rate of 10% per annum over the 24 months period. As of September 30, 2022, the total accrued interest was \$8,630.

Date	Beg. Balance	Additions	Interest/ Accretion	End. Balance
	\$	\$	\$	\$
Sep 9, 2022	-	1,035,556	-	1,035,556
Sep 30, 2022	1,035,556		8,630	1,044,186

The fair value of warrant component of the convertible debenture is measured at \$215,667 on initial recognition recorded to reserves in equity and not subsequently remeasured. Refer to Note 12 for warrant disclosures.

Direct Communication Solutions, Inc.

Notes to the Consolidated condensed Interim Financial Statements

(Expressed in US dollars)

For the Three and Nine Month Periods Ended September 30, 2022 and 2021

10. DEBT (cont'd)

Promissory note

During the nine months ended September 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 September 30, 2022, the Company held Customer Deposits of \$42,879 (December 31, 2021 - \$617,935).

Direct Communication Solutions, Inc.

Notes to the Consolidated condensed Interim Financial Statements

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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 nine 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 September 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	(134,865)
Balance at September 30, 2022	\$ 734,267

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	(161,100)
Non-cash changes:	
Interest expenses	61,216
Balance at September 30, 2022	\$ 778,017
Less Lease liabilities - current	(327,564)
Lease liabilities – non-current	\$ 450,453

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.

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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 September 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 nine months thereafter over a 36-month period. Total shares in escrow were 1,086,202 as at September 30, 2022 (December 31, 2021 - 3,258,607).

(b) Common share transactions

Transactions for the nine months ended September 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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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
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
Granted	1,200,000	0.71
Exercised	-	-
Expired	(116,667)	1.53
Forfeited	(1,415,000)	1.46
Outstanding, September 30, 2022	4,010,218	\$ 0.55

At September 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	2,686,767	\$ 0.47	5.01
May 20, 2030	15,000	8,750	\$ 0.79	7.64
June 1, 2031	96,000	60,000	\$ 0.42	8.92
February 4, 2032	175,000	51,563	\$ 0.41	9.35
February 24, 2032	100,000	29,167	\$ 0.41	9.41
March 14, 2032	435,000	139,401	\$ 0.59	9.46
May 9, 2027	100,000	100,000	\$ 0.79	4.36
May 9, 2027	390,000	390,000	\$ 1.02	4.36

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 nine months ended September 30, 2022 was \$454,703.00 (September 30, 2021 - \$364,820).

Direct Communication Solutions, Inc.

Notes to the Consolidated condensed Interim Financial Statements

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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 September 30, 2022 and year ended December 31, 2021:

	<u>September 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 warrants were expired on January 7, 2022.

Direct Communication Solutions, Inc.

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For the Three and Nine Month Periods Ended September 30, 2022 and 2021

12. SHARE CAPITAL (cont'd)**(e) Warrants (cont'd)**

In September 2022, the Company had issued convertible promissory debentures (Note 10) and upon issuance of the debentures, the company also issued 750,000 share purchase warrants. Each warrant entitles the holder to purchase one common share at a price of \$0.86 per share for a period of 24 months from the date of issuance of the debentures.

The Company determined the fair value of the warrants to be \$215,667 using the derivative valuation technique and the following assumptions and capitalized in the fair value of the convertible debentures (Note 10).

The following table summarizes the warrant activity for the nine months ended September 30, 2022 and the year ended December 31, 2021:

	Number of warrants	Weighted average exercise price
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
Granted	750,000	0.86
Expired	(106,280)	1.54
Outstanding, September 30, 2022	750,000	\$ 0.86

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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 September 30, 2022 and 2021 is as follows:

	Nine months ended September 30,			
	2022		2021	
	\$	%	\$	%
United States	17,626,435	96.4%	10,545,403	97.3%
Canada	649,206	3.5%	244,735	2.3%
Others combined	12,610	0.1%	56,249	0.4%
Total Revenue	18,288,251	100.0%	10,846,387	100.0%

Product Type (in '000)	September 30, 2022		September 30, 2021	
	\$	%	\$	%
Product	16,523.6	90.5%	9,371.5	86.4%
Software as a Service (SaaS)	994.1	5.4%	808.4	7.5%
Engineering/Support Service	407.5	2.2%	314.6	2.9%
Wireless Data	279.0	1.5%	237.5	2.2%
Commission Income	84.1	0.4%	114.4	1.0%
Total Revenue	18,288.3	100.0%	10,846.4	100.0%

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

14. CONCENTRATION RISK

The Company derived revenue from one customer totaling 38% and 31% of the Company's total revenue for nine months ended September 30, 2022 and 2021, respectively. At September 30, 2022 and December 31, 2021, one customer accounted for 38% and 67% of total accounts receivable, respectively.

The Company has concentrations in the purchases with its suppliers. For the nine months ended September 30, 2022 and 2021, two suppliers accounted for 87% and 81% of total purchases, respectively.

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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 September 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 nine months ended September 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.

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 September 30, 2022 and December 31, 2021:

	Level 1	Level 2	Level 3
September 30, 2022:			
Cash	\$ 3,932,477	\$ -	\$ -
Restricted cash	\$ 22,531	\$ -	\$ -
December 31, 2021:			
Cash	\$ 2,506,635	\$ -	\$ -

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

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16. FINANCIAL INSTRUMENTS (cont'd)*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 38% of the Company's revenue (2021 - 31%) 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.

Trade and other receivables consist of:

	September 30, 2022	December 31, 2021
Accounts receivables	\$ 3,708,558	\$ 4,024,625
Other receivables	120,035	
Allowance for doubtful accounts	(195,601)	(121,319)
Total	\$ 3,632,992	\$ 3,903,306

Aged trade receivable listing:

Days outstanding	September 30, 2022	December 31, 2021
Current	\$ 2,642,197	\$ 3,046,604
1 – 30	368,725	690,882
31 – 60	111,151	174,211
61 - 90	37,722	32,824
> 90	548,763	80,104
Total	\$ 3,708,558	\$ 4,024,625

Direct Communication Solutions, Inc.

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16. FINANCIAL INSTRUMENTS (cont'd)

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.

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.

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17. RELATED PARTY TRANSACTIONS

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

Key management personnel:

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

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

	Nine months Ended September 30, 2022	Nine months Ended September 30, 2021
	\$	\$
Salary ¹⁾	505,931	660,891
Consulting fees ¹⁾	618,151	354,100
Share-based compensation ¹⁾	279,918	237,230
Total	1,404,000	1,252,221

1) Including commission fee of \$12,913, consulting fee of \$83,850, and share-based compensation of \$28,880 paid to former officer of the Company during the nine months ended September 30, 2022.

During the nine months ended September 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 September 30, 2022, \$Nil (December 31, 2021 – \$46,503) was included in accounts payable and accrued liabilities for fees owed to related parties.

18. OTHER EXPENSES

During the nine months ended September 30, 2022, the Company had the following expenses in other expenses (2021: \$496,048)

	September 30, 2022	September 30, 2021
	\$	\$
Insurance	91,786	49,314
Licenses and fees	39,158	32,971
Marketing expense	222,720	51,647
Office expenses	72,291	179,591
Payroll and payroll processing fees	-	27,607
Automobile expense	388	-
Meals and entertainment	42,840	23,149
Travel expense	55,538	1,047
Utilities	54,051	59,865
Tax filing fees	13,783	10,669
Depreciation	166,614	34,008
Bad debt expense	-	26,180
Other	24	-
Total	759,193	496,048

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19. COMPARATIVE FIGURES

Certain comparative figures in profit and loss have been reclassified to conform with the basis of presentation applied for the nine months ended September 30, 2022, with no impact on overall net loss.

20. 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.

21. SUBSEQUENT EVENTS

Subsequent to nine months ended September 30, 2022, there were no significant subsequent events.