Direct Communication Solutions, Inc.

Condensed Consolidated Interim Financial Statements
(Expressed in US Dollars)
(Unaudited)
As at and for the three and nine months ended
September 30, 2023 and 2022

Direct Communication Solutions, Inc.
Condensed Consolidated Interim Statements of Financial Position
(Expressed in US dollars)
As at September 30, 2023 and December 31, 2022

	Notes	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
ASSETS		**$**	$
Current			
Cash		**268,740**	3,211,218
Restricted cash	4	**-**	356,056
Accounts and other receivables	16	**3,149,333**	3,373,738
Inventory	5	**1,076,075**	792,912
Prepaid expenses		**124,695**	820,225
Current assets		**4,618,843**	8,554,149
Equipment	6	**17,949**	40,897
Contract assets		**-**	541
Security deposit		**50,056**	50,056
Intangible asset	7	**262,570**	420,111
Right-of-use assets	11	**554,446**	689,311
Total assets		**5,503,864**	9,755,065
LIABILITIES AND SHAREHOLDERS' (DEFICIENCY)			
Current			
Accounts payable	8	**5,746,740**	5,972,612
Accrued liabilities	8	**710,531**	528,985
Credit facility	9	**1,052,787**	-
Current portion of long-term debt	10	**1,636,397**	275,000
Deferred revenue	10	**109,476**	121,895
Derivative instrument	10	**10,843**	360,154
Lease liabilities	11	**175,295**	157,846
Current liabilities		**9,442,069**	7,416,492
Lease liabilities	11	**450,453**	583,969
Long term debt	10	**-**	1,193,773
Long term accounts payable	8	**1,609,552**	3,124,243
Total liabilities		**11,502,074**	12,318,478
Shareholders' deficiency			
Common stock	12	**61**	61
Reserves	12	**7,340,448**	7,301,027
Accumulated deficit		**(13,338,719)**	(9,864,500)
Total shareholders' deficiency		**(5,998,210)**	(2,563,413)
Total liabilities and shareholders' deficiency		**5,503,864**	9,755,065

Nature of operations and going concern (Note 1)
Commitments (Note 20)

Approved on November 14, 2023 on behalf of the Board:

"Chris Bursey" — Chris Bursey – CEO & Director

"David Diamond" — David Diamond – Director

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

Direct Communication Solutions, Inc.

Condensed Consolidated Interim Statements of Operating Loss and Comprehensive Loss
(Expressed in US dollars)
(Unaudited)
Three Month and Nine Month Periods Ended September 30, 2023 and 2022

	Note	For the three months ended September 30, 2023	For the three months ended September 30, Restated 2022 (Note 21)	For the nine months ended September 30, 2023	For the nine months ended September 30, Restated 2022 (Note 21)
		$	$	**$**	$
Revenues:					
Products		**2,815,266**	4,112,623	**9,310,100**	16,523,645
Solutions and other services		**609,096**	578,113	**1,895,972**	1,764,606
Total Revenues	13	**3,424,362**	4,690,736	**11,206,072**	18,288,251
Cost of Revenues					
Products		**2,178,638**	3,407,008	**6,987,292**	12,427,400
Solutions and other services		**221,629**	162,976	**628,298**	510,350
Total cost of revenues		**2,400,267**	3,569,984	**7,615,590**	12,937,750
Gross Profit		**1,024,095**	1,120,752	**3,590,482**	5,350,501
OPERATING EXPENSES					
Research and development		**70,808**	130,300	**436,096**	403,024
General and administrative					
Compensation and benefits		**943,215**	918,131	**2,798,228**	2,369,012
Depreciation and amortization	6,7,11	**106,252**	108,165	**320,566**	324,153
Professional fees		**588,120**	413,026	**2,228,493**	1,225,213
Bank fees		**65,157**	91,286	**173,862**	422,869
Bad debt expense (recovery)	16	**31,828**	(85,907)	**131,051**	90,126
Facilities		**18,948**	17,533	**59,790**	49,758
Information technology		**44,126**	42,835	**144,773**	133,828
Advertising and marketing		**39,462**	162,743	**188,292**	222,721
Other	18	**123,016**	371,671	**574,173**	369,858
Total Operating Expenses		**2,030,932**	2,169,783	**7,055,324**	5,610,562
Net Operating Loss		**(1,006,837)**	(1,049,031)	**(3,464,842)**	(260,061)
OTHER INCOME (EXPENSES)					
Changes in fair value of derivative	10	**4,877**	(240,587)	**349,311**	(240,587)
Other income - tax credit		**-**	286,995	**-**	286,995
Interest expense and accretion	10	**(123,088)**	(62,548)	**(358,688)**	(156,593)
Net loss for the period		**(1,125,048)**	(1,065,171)	**(3,474,219)**	(370,246)
Weighted Average number of common shares:					
Basic		**2,305,079**	2,305,049	**2,305,079**	2,298,598
Diluted		**2,305,079**	2,305,049	**2,305,079**	2,298,598
Loss) per share – basic and diluted					
Basic		**$(0.49)**	$(0.46)	**$(1.51)**	$(0.16)
Diluted		**$(0.49)**	$(0.46)	**$(1.51)**	$(0.16)

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

Direct Communication Solutions, Inc.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in US dollars)
(Unaudited)
As at September 30, 2023 and 2022

	Note	Number of Common Shares (1)	Common Stock Amount	Reserves	Accumulated Deficit	Total Shareholders' Equity (Deficiency)
			$	$	$	$
Balance, December 31, 2021 as originally presented		**2,233,663**	**61**	**6,801,984**	**(7,029,401)**	**(227,356)**
Correction of error in prior year		**-**	**-**	**-**	(600,784)	(600,784)
Restated total equity at January 1, 2022		**2,233,663**	**61**	**6,801,984**	**(7,630,185)**	**(828,140)**
Restated Stock-based compensation expense	21	-	-	248,516	-	248,516
Issuance of shares		71,428	-	218,158	-	218,158
Restated net income for the period	21	-	-	-	(370,246)	(370,246)
Restated balance, September 30, 2022	**21**	**2,305,091**	**61**	**7,268,658**	**(8,000,431)**	**(731,712)**
Balance, January 1, 2023		**2,305,091**	**61**	**7,301,027**	**(9,864,500)**	**(2,563,412)**
Stock-based compensation expense		-	-	39,421	-	39,421
Share consolidation ratio adjustment		(12)	-	-	-	-
Net loss for the period		-	-	-	(3,474,219)	(3,474,219)
Balance, September 30, 2023		**2,305,079**	**61**	**7,340,448**	**(13,338,719)**	**(5,998,210)**

(1) As of February 9, 2023, the Company proceeded with a Share Consolidation of the Company's shares at a consolidation ratio of 7-for-1. As a result, the comparative periods have been retroactively restated to reflect the Share Consolidation for numbers of shares and warrants. See Note 12 – Share Capital for more information.

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

(Expressed in US dollars)

	2023	Restated 2022 (Note 21)
	$	$
Cash provided by / (used for):		
Operating Activities:		
Net loss for the period	**(3,474,219)**	(370,246)
Items not affecting cash:		
Accretion and interest on convertible debentures	**305,708**	249,217
Bad debt expense	**(54,085)**	74,282
Depreciation and amortization	**320,567**	324,153
Derivative adjustment to fair market value	**(349,311)**	-
Finance costs for right-of-use assets	**50,433**	61,216
Non-arm's length professional fees	**-**	218,158
Stock-based compensation	**39,421**	248,516
Provision for (Recovery of) excess and obsolete inventory	**(86,904)**	(52,051)
Net change in non-cash working capital items:		
Accounts and other receivables	**278,490**	196,032
Inventory	**(196,259)**	1,538,308
Prepaid expenses	**695,530**	(379,721)
Contract assets	**541**	3,876
Accounts payable	**(1,740,564)**	577,427
Accrued liabilities	**43,462**	(562,857)
Deferred revenue	**(12,419)**	(561,289)
Net cash provided (used) in operating activities	**(4,179,607)**	1,565,021
Investing Activities:		
Purchase of equipment	**(5,214)**	(4,040)
Net cash used in investing activities	**(5,214)**	**(4,040)**
Financing Activities:		
Lease payments	**(166,500)**	(161,100)
Deferred offering costs	**-**	(80,675)
Net (repayments) borrowings on credit facility	**1,052,787**	(1,670,833)
Proceeds from note payable	**-**	300,000
Proceeds from issuance of convertible debentures	**-**	1,500,000
Net cash provided (used) in financing activities	**886,287**	(112,608)
Change in cash and restricted for the period	**(3,298,534)**	1,448,373
Cash and restricted cash, beginning of the period	**3,567,274**	2,506,635
Cash and restricted cash, end of the period	**268,740**	3,955,008

	2023	2022
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense:	**-**	60,115
Income taxes	**-**	-

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

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.

The Company's shares trade on the Canadian security exchange ("CSE") under the symbol DCSI. The Company's shares also trade on the OTCQX market, a U.S. trading platform, under the symbol DCSX, and on the Frankfurt Stock Exchange market under the symbol 7QU0.

Going Concern

The accompanying condensed consolidated 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 an accumulated deficit of $13,338,719. As at September 30, 2023, the Company has working capital deficiency of $4,823,226 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 material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

In March 2020, the World Health Organization declared COVID-19 ("COVID-19" or the "pandemic") to be a public health pandemic of international concern, which has led to adverse impacts on the U.S. and global economies and continues to impact our supply chain and operations. More recently, we have experienced supply shortages as a result of global supply imbalances driven by component shortages, disruptions in accessible labor, other freight and logistical challenges and other related macro-economic factors. These supply imbalances negatively impacted all parts of our business during fiscal 2022 and have continued into fiscal 2023.

2. BASIS OF PREPARATION

The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2022. In the opinion of management, all adjustments considered necessary for fair presentation of the Company's financial position, results of operations and cash flows for the three and nine months ended and as at September 30, 2023 and 2022 have been included. Operating results for the three and nine-month period ended September 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023.

2. BASIS OF PREPARATION (cont'd)

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

In preparing the Company's unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2023, the Company applied the critical judgements and estimates disclosed in Note 2 of its consolidated financial statements for the year ended December 31, 2022, in addition to the accounting policies, critical judgements and estimates noted below.

Statement of compliance

These condensed consolidated 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 condensed consolidated interim financial statements have been prepared in conformity with IAS 34 Interim Financial Reporting and do not include all the information required for full annual consolidated financial statements in accordance with IFRS and should be read in conjunction with the audited consolidated financials for the year ended December 31, 2022.

Basis of consolidation

The condensed consolidated 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 condensed consolidated interim financial statements of the Company are presented in United States dollars, which is the functional currency of the Company and DCS Canada. 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 condensed consolidated 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 the 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.

2. BASIS OF PREPARATION (cont'd)

Use of estimates and judgements

The preparation of the condensed consolidated 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.

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 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 and derivative liability - 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' deficiency).

- Income taxes - Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and future periods. Deferred tax assets, if any, are recognized to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse.

- Estimated product returns - Revenue from product sales is recognized net of estimated sales discounts, credits, returns, rebates and allowances. The return allowance is determined based on an analysis of the historical rate of returns, industry return data, and current market conditions, which is applied directly against sales. The Company recognizes product returns when incurred due to the infrequent occurrence of returns.

- Employee retention tax credits – Under the provisions of the CARES Act, the Company is eligible for refundable employee retention credits subject to certain criteria. In connection with the CARES Act, the Company adopted a policy to recognize the employee retention credit when received given the uncertainty of when the credit will be received. The Company recorded $286,995 employee retention tax credit during the nine months ended September 30, 2022, which is included in other income in the condensed consolidated interim statements of operating loss.

2. BASIS OF PREPARATION (cont'd)

ii) Critical accounting judgements

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are, but are not limited to, the following:

Deferred income taxes – judgements are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

- Going concern – As disclosed in Note 1 to the condensed consolidated interim financial statements.

3. MATERIAL ACCOUNTING POLICIES

The accounting policies followed in these condensed interim consolidated financial statements are the same as those applied in the Company's most recent audited consolidated financial statements for the years ended December 31, 2022 and 2021, with the exception of the following:

New and amended IFRS standards that are effective for the current year:

In the current year, the Company has applied the below amendments to IFRS Standards and Interpretations issued by the IASB that were effective for annual periods that begin on or after January 1, 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments—Disclosure of Accounting Policies.

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term "significant accounting policies" with "material accounting policy information." Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The International Accounting Standards Board ("IASB") has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The amendments were applied effective January 1, 2023 and did not have a material impact on the Company's condensed consolidated interim financial statements.

(Expressed in US dollars)

4. RESTRICTED CASH

Restricted cash is cash the Company reserved to offset the TAB Bank credit facility (note 9). As of September 30, 2023, the Company has $Nil (December 31, 2022 - $356,056) in restricted cash.

5. INVENTORY

Inventory consists of the following:

	September 30, 2023	December 31, 2022
Components and raw materials	$ 1,339,279	$ 1,086,689
Allowance for components and raw materials	(310,385)	(363,776)
Assemblies	60,088	116,419
Allowance for assemblies	(12,907)	(46,420)
	$ 1,076,075	$ 792,912

During the nine months ended September 30, 2023, a total of $ 6,987,292 inventory was expensed as cost of sales (2022 - $12,427,400).

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

6. EQUIPMENT

Equipment consists of the following:

	September 30, 2023	December 31, 2022
Computer equipment and purchased software	$ 152,938	$ 147,724
Furniture and fixtures	51,427	51,427
Tooling	59,300	59,300
	263,665	258,451
Less—accumulated depreciation	(245,716)	(217,554)
	$ 17,949	$ 40,897

Depreciation expenses were $28,162 and $31,749 for the nine months ended September 30, 2023, and 2022, respectively.

(Expressed in US dollars)

7. INTANGIBLE ASSET

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

Balance at December 31, 2021	$ 630,166
Additions	-
Amortization	(210,055)
Balance at December 31, 2022	$ 420,111
Additions	-
Amortization	(157,541)
Balance at September 30, 2023	$ 262,570

The intangible asset was considered available for use starting fiscal year 2022, and is being amortized until December 31, 2024 for $210,055 each year.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	September 30, 2023	**December 31, 2022**
Payroll related expenses	$ 354,134	$ 311,857
Accrued sales tax	98,350	-
Interest accrued	225,047	84,442
Other	33,000	132,686
	$ 710,531	$ 528,985

Accounts payable consist of the following:

	September 30, 2023	**December 31, 2022**
Vendor payable due within 12 months	$ 5,746,740	$ 5,972,612
Vendor payable not due within 12 months (Note 16)	$ 1,609,552	$ 3,124,243

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 the 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 extended automatically on the anniversary date unless the Company provides a cancellation notice 90 days prior to the anniversary date. As of September 30, 2023, the expiry date is January 23, 2024.

(Expressed in US dollars)

9. CREDIT FACILITY (cont'd)

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 accounts receivable 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. The credit facility consists of the following balances as at September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Carrying amount of available credit limit in connection to the credit facility	$ 1,744,819	$ 947,022
Outstanding balance	1,052,787	-
Debt issuance cost amortized to interest expense during the period/year	-	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 are payable semi-annually unless the holder elects to defer payment. All unpaid principal and accrued interest is due two years from date of issuance in 2023. The holder of the debenture at any time can convert in whole or any part principal and interest into common shares of the Company at a conversion price of $7 per share. In the event of default, all principal and interest due shall become immediately due and payable. At September 30, 2023, the Company recorded $51,475 accrued interest associated with the Convertible Promissory Debentures (December 31, 2022 - $30,850).

During the year ended December 31, 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 units of the Company. The debentures are convertible into units at the higher of $8.33 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% discount.

The units comprise a share and one-half of one warrant, where a whole warrant shall be exercisable at $2.80 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 annum, payable semi-annually. At September 30, 2023, the Company recorded $14,822 accrued interest associated with the convertible debentures (December 31, 2022 - $7,342).

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), 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 $8.33 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 107,142 share purchase warrants. Each warrant entitles the holder to purchase one common share at a price of $6.02 per share for a period of 24 months from the date of issuance of the debentures.

(Expressed in US dollars)

10. DEBT (cont'd)

Convertible Promissory Debentures (continued)

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 Statement of Financial Position date with corresponding gains and losses recorded in profit or loss. 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, 2023	December 31, 2022
Expected term (years)	0.95	1.69
Risk-free interest rate	5.210%	4.203%
Expected volatility	70.0%	52.3%
Dividend yield	0.00%	0.00%
Estimated forfeitures	0.00%	0.00%

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, 2023 and December 31, 2022, determined based on "Level 3" inputs.

	Derivative
	$
Balance at December 31, 2021	-
Initial issuance at September 9, 2022	464,444
Net changes in fair value included in net loss	(104,290)
Balance at December 31, 2022	**360,154**
Net changes in fair value included in net loss	(349,311)
Balance at September 30, 2023	**10,843**

The debt component of the convertible debenture is subsequently measured at amortized cost. 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 32.06% per annum over the 24 months period. As of September 30, 2023, the total accrued interest was $158,750 (December 31, 2022 - $46,250).

Date	Beg. Balance	Additions	Interest Expense	Interest/ Accretion	Discount Amortization	End. Balance
	$	$	$	$	$	$
Sep 9, 2022	-	1,035,556	-	-	-	1,035,556
Dec 31, 2022	1,035,556	-	104,467	46,250	58,217	1,093,773
March 31, 2023	1,093,773	-	89,018	37,500	51,518	1,145,291
June 30, 2023	1,145,291	-	93,258	37,500	55,758	1,201,049
September 30, 2023	1,201,049		97,848	37,500	60,348	1,261,397

(Expressed in US dollars)

10. DEBT (cont'd)

Deferred Revenue

Deferred revenue consisted of payments made by certain clients at the end of the reporting period prepaying for the Company's subscriptions, services, or products. As of September 30, 2023, the Company held deferred revenue of $109,476 (December 31, 2022 - $121,895).

11. RIGHT-OF-USE ASSETS & LEASE LIABILITIES

Right of use asset

On May 27, 2021, the Company entered into a lease agreement whereby the Company will lease premises in San Diego, California effective November 1, 2021. The lease ("Lease") has an initial 60-month term. 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 market rates prevailing at that time. The right of use leased asset was measured at the amount of the lease liability of $899,102 using the Company's current incremental borrowing rate of 10%.

The following table present the right-of-use-assets as at September 30, 2023 and December 31, 2022:

Balance at December 31, 2021	$ 869,132
Depreciation	(179,821)
Balance at December 31, 2022	$ 689,311
Depreciation	(134,865)
Balance at September 30, 2023	$ 554,446

Lease liabilities

Balance at December 31, 2021	$ 877,901
Cash flows:	
Lease payments	(216,000)
Non-cash changes:	
Interest expenses	79,914
Balance at December 31, 2022	$ 741,815
Cash flows:	
Lease payments	(166,500)
Non-cash changes:	
Interest expenses	50,433
Balance at September 30, 2023	625,748
Less Lease liabilities - current	175,295
Lease liabilities – non-current	$ 450,453

(Expressed in US dollars)

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

The Company's lease consists of office space in San Diego, California under a non-cancelable operating lease that expires October 2026. Future minimum lease payments under the lease agreement as of September 30, 2023 are as follows:

Years ending December 31:	
2023	$ 56,610
2024	229,804
2025	236,702
2026	202,160
	$ 725,276

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

12. SHARE CAPITAL

Effective February 9, 2023, the Company consolidated 7 common shares for 1 common share (the "Stock Consolidation"). The Stock Consolidation was affected in the form of cancelling 6 common shares for each common share owned by shareholders of record at the close of business on February 9, 2023. All share data and stock-based compensation plans presented herein have been retroactively adjusted to give effect to the Stock Consolidation.

(a) Authorized and escrowed shares

5,714,286 common shares authorized with a par value of $0.00001.

In conjunction with the Company's initial public offering, 1,034,478 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. As at September 30, 2023, all the escrowed shares had been released (December 31, 2022 – 155,171 were still held in escrow).

(b) Common share transactions

Transactions for the nine months ended September 30, 2023

There were no transactions affecting share capital during the nine months ended September 30, 2023.

Transactions for the year ended December 31, 2022

In January 2022, 71,428 common shares of common stocks were issued at $3.05 in exchange for a non-arm's length consulting fee for corporate development.

(Expressed in US dollars)

12. SHARE CAPITAL (cont'd)

(c) Stock options

In October 2017, the Company's board of directors and stockholders approved the 2017 Stock Plan under which 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 are determined by the board of directors. Stock awards are generally not exercisable prior to the applicable vesting date, unless otherwise accelerated under the terms of the applicable stock plan agreement. Unvested shares of the Company's common stock issued in connection with an early exercise allowed by the Company may be repurchased by the Company upon termination of the optionee's service with the Company. The vesting terms of each option grant are at the discretion of the Board of Directors.

In June 2019, the Board of Directors and a majority of the stockholders approved the following amendments to the 2017 Stock Plan: (a) increase in the number of authorized shares for issuance to 585,714 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 646,862 effective January 2021.

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

	Number of Options	Weighted average exercise price
Outstanding, December 31, 2021	620,270	$ 5.84
Granted	171,429	5.35
Exercised	-	-
Expired	(47,270)	6.01
Forfeited	(202,143)	10.23
Outstanding, December 31, 2022	542,286	$ 4.03
Granted	-	-
Exercised	-	-
Expired	-	-
Forfeited	(1,429)	2.87
Outstanding, September 30, 2023	540,857	$ 4.03

(Expressed in US dollars)

12. SHARE CAPITAL (cont'd)

At September 30, 2023, 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	357,143	357,143	$ 3.29	4.02
June 1, 2031	13,714	13,714	$ 6.79	7.67
February 4, 2032	23,571	14,219	$ 2.87	8.35
February 24, 2032	14,286	10,119	$ 2.87	8.41
March 14, 2032	62,143	37,024	$ 4.13	8.46
May 9, 2027	14,286	14,286	$ 5.53	3.61
May 9, 2027	55,714	55,714	$ 8.40	3.61

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 condensed consolidated interim statements of profit or loss from vested options during the nine months ended September 30, 2023 was $39,421 (2022 - $248,516).

Forfeitures are estimated at the time of grant and adjusted, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

There were no stock options granted during the nine months ended September 30, 2023.

The following are the assumptions used in the Black-Scholes option valuation model for option granted during the nine months ended September 30, 2023 and the year ended December 31, 2022:

	September 30, 2023	December 31, 2022
Fair value of common stock	-	$2.87 - $4.13
Expected term (years)	-	4.15-6.08
Risk-free interest rate	-	1.84% - 3.56%
Expected volatility	-	80%
Dividend yield	-	0.00%
Estimated forfeitures	-	0.00%

(Expressed in US dollars)

12. SHARE CAPITAL (cont'd)

(c) Warrants

In September 2022, the Company had issued convertible promissory debentures (Note 10) and upon issuance of the debentures, the company also issued 107,143 share purchase warrants. Each warrant entitles the holder to purchase one common share at a price of $6.02 per share for a period of 24 months from the date of issuance of the debentures. The Company determined the warrants represent an embedded derivative and has accounted for the warrants in derivative liability.

The following table summarizes the warrant activity for the nine months ended September 30, 2023 and year ended December 31, 2022:

	Number of warrants	Weighted average exercise price
Outstanding, December 31, 2021	15,183	$ 10.77
Granted	107,143	6.02
Expired	(15,183)	10.77
Outstanding, December 31, 2022 and September 30, 2023	107,143	$ 6.02

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 nine months ended September 30, 2023 and 2022 is as follows:

	Nine months ended September 30			
	2023		2022	
	$	%	$	%
United States	10,728,422	95.7%	17,626,435	96.4%
Canada	379,637	3.4%	649,206	3.5%
Others combined	98,013	0.9%	12,610	0.1%
Total Revenue	11,206,072	100.0%	18,288,251	100.0%

13. SEGMENT INFORMATION (cont'd)

Revenue Type (in '000)	2023		2022	
	$	%	$	%
Product	9,310.0	83.1%	16,523.6	90.5%
Software as a Service (SaaS)	1,361.7	12.2%	994.4	5.4%
Engineering/Support Service	204.9	1.8%	407.5	2.2%
Wireless Data	312.6	2.8%	278.7	1.5%
Commission Income	16.8	0.1%	81.2	0.4%
Other	0.1	0.0%	2.9	0.0%
Total Revenue	11,206.1	100.0%	18,288.3	100.0%

All of the Company's significant identifiable assets were located in the United States as of September 30, 2023 and December 31, 2022.

14. CONCENTRATION RISK

The Company derived revenue from one customer totaling 39% and 38% of the Company's total revenue for the nine months ended September 30, 2023 and 2022, respectively. At September 30, 2023 and December 31, 2022, one customer accounted for a total of 48% and 20% of total accounts receivable, respectively.

To manage the concentration of customer risk, the Company continuously looks for opportunities to diverse revenue streams and expand client base via marketing. All contracts with customers are signed for a term, and the Company ensures the customer needs are being met by building customer service relationships.

The Company has concentrations in the purchases with its suppliers. For the nine months ended September 30, 2023 and 2022, the two largest suppliers accounted for a total of 87% and 87% 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 September 30, 2023 and December 31, 2022, 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, 2023.

(Expressed in US dollars)

15. CAPITAL MANAGEMENT (cont'd)

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, lease liabilities, credit facility and long term debt approximate carrying value, which is the amount recorded on the condensed consolidated interim 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, 2023 and December 31, 2022:

	Level 1	Level 2	Level 3
September 30, 2023:			
Cash	$ 268,740	$ -	$ -
Derivative instrument	$ -	$ -	$ 10,843
December 31, 2022:			
Cash	$ 3,211,218	$ -	$ -
Derivative instrument	$ -	$ -	$ 360,154

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

(Expressed in US dollars)

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. During the nine months ended September 30, 2023, approximately 39% of the Company's accounts receivables balance (December 31, 2022 - 38%) is attributable to 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, 2023	December 31, 2022
Accounts receivables	$ 3,356,921	$ 3,642,594
Other receivables	53,526	46,343
Allowance for doubtful accounts	(261,114)	(315,199)
Total	$ 3,149,333	$ 3,373,738

During the nine months ended September 30, 2023, $131,051 (2022 - $90,126) of bad debt expense had been recognized in the condensed consolidated interim statement of operating loss and comprehensive loss.

Aged trade receivable listing:

Days outstanding	**September 30, 2023**	**December 31, 2022**
Current	$ 2,208,191	$ 1,779,778
1 – 30	720,941	1,062,174
31 – 60	86,170	235,638
61 - 90	79,111	201,673
> 90	262,508	363,331
Total	$ 3,356,921	$ 3,642,594

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 due to low working capital as of September 30, 2023 (Note 1). Future liquidity may depend upon the Company's ability to arrange debt or additional equity financings. The company does not face a significant liquidity risk regarding its lease liability which is monitored within the Company treasury function.

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.

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.

(Expressed in US dollars)

17. RELATED PARTY TRANSACTIONS (cont'd)

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

	Nine months ended September 30,	
	2023	**2022 (restated)**
	$	$
Salary	792,405	505,931
Consulting fees	497,300	618,151
Share-based compensation	8,093	279,918
Total	1,297,798	1,404,000

During the nine months ended September 30, 2022, 71,428 common shares of common stocks were issued at $3.05 in exchange for non-arm's length consulting fee to current officer of the Company for corporate development.

As at September 30, 2023, $6,000 (2022 – $Nil) was included in accounts payable for fees and expenses owed to related parties.

18. OTHER EXPENSES

During the nine months ended September 30, 2023 and 2022, the Company had the following expenses in other expenses:

	Nine months ended September 30	
	2023	2022
	$	$
Insurance	269,936	91,785
Licenses and fees	52,167	39,158
Office expenses	72,013	115,129
Automobile expense	1,586	388
Meals and entertainment	72,406	-
Travel expense	103,475	55,538
Utilities	49,418	54,053
Tax filing fees	2,689	13,783
Software expense	12,189	-
Cost recovery - Tetlit	(75,000)	-
Other	13,294	24
Total	**574,173**	**369,858**

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, 2023, with no impact on overall net loss.

Effective February 9, 2023, the Company consolidated 7 common shares for 1 common share. These consolidated financial statements retrospectively reflect this consolidation of shares.

(Expressed in US dollars)

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. During the nine months ended September 30, 2023, the Company revised the agreement with the significant vendor by eliminating the minimum spend to "Forecast" and waiving the penalty fees.

21. CORRECTION OF ERROR IN PRIOR YEAR

During the year ended December 31, 2022, management identified that an error was made in the accounting of inventory and accounts payable as at December 31, 2021, which resulted in an understatement of $222,800 in cost of revenue, $152,047 inventory, and $752,831 in accounts payable in the financial report for the year ended December 31, 2021. The error also impacted the classification between current and long term payables as at December 31, 2021. The error has been corrected in the December 31, 2022 financial report by adjusting the balance of related accounts. The impact of the adjustment has also impacted September 30, 2023 statement of changes in shareholder's deficiency as per below:

Summary impact on the equity position as at September 30, 2022:

	Originally reported December 31, 2021	**Adjustment Increase (decrease)**	**Restated December 31, 2021**
Accumulated deficit	7,029,401	600,784	7,630,185
Total Equity (deficiency)	**(227,356)**	**(600,784)**	**(828,140)**

During the year ended December 31, 2022, management identified an error in connection with the restatement of the 2022 year end financials in the valuation of inventory and accounts payable as at September 30, 2022, which resulted in an understatement of $323,934 in cost of revenue and $96,327 in inventory, and $420,261 in accounts payable. Management also identified an error relating to the available for use date of the intangible, an error in calculating share-based compensation, and an error relating to the incorrect classification of compensation and benefits as research and development, which resulted in an understatement of $157,539 in depreciation and amortization, $340,954 in compensation and benefits, and an overstatement in research and development expense of $619,190 respectively.

(Expressed in US dollars)

21. CORRECTION OF ERROR IN PRIOR YEAR (cont'd)

Summary impact on statement of operating loss and comprehensive loss for the nine months ended September 30, 2022:

Profit and Loss	Originally reported September 30, 2022	Adjustment Increase (decrease)	Restated September 30, 2022
Cost of revenues – Products	12,103,466	323,934	12,427,400
Gross Profit	**5,674,435**	**(323,934)**	**5,350,501**
Research and development	1,022,214	(619,190)	403,024
Compensation and benefits	2,028,058	340,954	2,369,012
Depreciation and amortization	166,614	157,539	324,153
Bad debt expense – other expense	(90,126)	90,126	-
Bad debt expense – operating expense	-	90,126	90,126
Income (loss) from Operations	33,302	(293,363)	(260,061)
Net Loss	**(167,009)**	**(203,237)**	**(370,246)**

Summary impact on statement of Cash flow for the nine months ended September 30, 2022:

Cash Flow	Originally reported September 30, 2022	Adjustment Increase (decrease)	Restated September 30, 2022
Net Loss	**(167,009)**	**(203,237)**	**(370,246)**
Depreciation	166,614	157,539	324,153
Stock-based compensation	526,752	(278,236)	248,516
Inventory	1,634,635	(96,327)	1,538,308
Accounts Payable	157,166	420,261	577,427

Summary impact on the equity position for the nine months ended September 30, 2022:

	Originally reported September 30, 2022	Adjustment Increase (decrease)	Restated September 30, 2022
Stock-based compensation expense	526,752	(278,236)	248,516
Net loss for the period	(167,009)	(203,237)	(370,246)
Reserves	7,762,561	(493,903)	7,268,658
Equity portion of convertible debt	215,667	(215,667)	-
Accumulated deficit	(7,196,410)	(804,021)	(8,000,431)
Total Equity (deficiency)	**566,212**	**(1,297,924)**	**(731,712)**
Basic loss per share	**$(0.07)**	**$(0.09)**	**$(0.16)**
Diluted Loss per share	**$(0.07)**	**$(0.09)**	**$(0.16)**