# Direct Communication Solutions, Inc.

Consolidated Financial Statements
(Expressed in US Dollars)

As at and for the years ended
December 31, 2023 and 2022

DAVIDSON & COMPANY LLP Chartered Professional Accountants

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Direct Communication Solutions, Inc.

***Opinion***

We have audited the accompanying consolidated financial statements of Direct Communication Solutions, Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of operating loss and comprehensive loss, changes in shareholders' deficiency, and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

***Basis for Opinion***

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

***Material Uncertainty Related to Going Concern***

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company has a history of operating losses and as at December 31, 2023, has an accumulated deficit of $14,952,524 and working capital deficiency of $7,110,419. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be a key audit matter to be communicated in our auditor's report.



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*Revenue recognition*

The Company sells several telematics devices bundled with a multi-year software licenses under the same contractual arrangement, giving rise to considerations on whether there are distinct performance obligations requiring separate recognition and whether the Company is acting as principal or agent in the contract. Key considerations in determining whether the performance obligations are distinct, are whether the promise to deliver the hardware component of the contract is separately identifiable from other contractual promises as well as the level of interdependency between the components of the contract.

The key consideration in the agent vs principal discussion is whether the Company obtains control of the goods before they are sold to the end customer.

The Company has concluded the bundled contract represents one performance obligation and that the Company is acting as principal in the arrangement, resulting in the Company recognizing revenue and cost of sales on a gross basis on delivery of the telematics device. Refer to the Company's revenue recognition policy outlined in Note 3 of the consolidated financial statements. Significant judgment is involved in the assessments made by management.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included, among others:

- We reviewed the terms and conditions applicable to sales transactions with customers to determine the Company's obligations under each sale.
- We inquired of management as to the marketing of the telematics devices and performed sample testing on revenue transactions to assess whether the Company's invoiced communication with customers is consistent with the bundled sale representing one performance obligation. We also inquired and confirmed the Company has pricing discretion on its sales.
- We performed sample testing on revenue transactions to determine if there were instances of goods being delivered directly to the customer from the supplier.
- We inquired as to the purpose of the bundled software to determine whether customers can obtain the benefits of the telematics device without the additional software including an assessment of the interdependence of the related components.
- We reviewed the Company's contract with the supplier involved in the arrangement to determine whether the Company obtains title of the goods before they are sold to the end customer. We additionally performed sample testing on inventory purchase transactions to verify the Company took receipt of the purchased goods.

### *Other Information*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year ended and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

April 19, 2024

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

| | Note | **December 31, 2023** | December 31, 2022 |
|---|---|---|---|
| | | **$** | $ |
| **ASSETS** | | | |
| **Current** | | | |
| Cash | | **30,723** | 3,211,218 |
| Restricted cash | **4** | **-** | 356,056 |
| Accounts and other receivables | **17** | **1,393,093** | 3,373,738 |
| Inventory | **5** | **955,939** | 792,912 |
| Prepaid expenses | | **104,685** | 820,225 |
| **Current assets** | | **2,484,440** | 8,554,149 |
| | | | |
| Equipment | **6** | **15,018** | 40,897 |
| Contract assets | | **-** | 541 |
| Security deposit | | **50,056** | 50,056 |
| Intangible asset | **7** | **-** | 420,111 |
| Right-of-use assets | **11** | **509,491** | 689,311 |
| **Total assets** | | **3,059,005** | 9,755,065 |
| | | | |
| **LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | | | |
| **Current** | | | |
| Accounts payable | **8** | **6,665,085** | 5,972,612 |
| Accrued liabilities | **8** | **887,938** | 528,985 |
| Credit facility | **9** | **244,015** | - |
| Current debt | **10** | **1,525,914** | 275,000 |
| Deferred revenue | **10** | **89,374** | 121,895 |
| Derivative instrument | **10** | **1,092** | 360,154 |
| Lease liabilities | **11** | **181,441** | 157,846 |
| **Current liabilities** | | **9,594,859** | 7,416,492 |
| | | | |
| Lease liabilities | **11** | **402,528** | 583,969 |
| Long term debt | **10** | **44,161** | 1,193,773 |
| Long term accounts payable | **8** | **625,019** | 3,124,243 |
| **Total liabilities** | | **10,666,567** | 12,318,477 |
| | | | |
| **Shareholders' deficiency** | | | |
| Common stock | **12** | **61** | 61 |
| Reserves | **12** | **7,344,901** | 7,301,027 |
| Accumulated deficit | | **(14,952,524)** | (9,864,500) |
| **Total shareholders' deficiency** | | **(7,607,562)** | (2,563,412) |
| **Total liabilities and shareholders' deficiency** | | **3,059,005** | 9,755,065 |

Nature of operations and going concern (Note 1)
Commitments (Note 20)
Restatement of error (Note 21)

Approved on April 11, 2024 on behalf of the Board:

*"Chris Bursey"*
Chris Bursey – CEO & Director

*"Bill Epsley"*
Bill Epsley – Director

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

**Direct Communication Solutions, Inc.**

Consolidated Statements of Operating Loss and Comprehensive Loss
(Expressed in US dollars)
As at December 31, 2023 and 2022

| | Note | **2023** | 2022 |
|---|---|---|---|
| | | **$** | $ |
| **Revenues:** | | | |
| Products | | **10,500,565** | 20,300,579 |
| Solutions and other services | | **2,527,110** | 2,285,727 |
| Total revenues | 13 | **13,027,675** | 22,586,306 |
| **Cost of Revenues** | | | |
| Products | | **7,706,420** | 15,556,883 |
| Solutions and other services | | **892,449** | 661,364 |
| Total cost of revenues | | **8,598,869** | 16,218,247 |
| **Gross profit** | | **4,428,806** | 6,368,059 |
| **OPERATING EXPENSES** | | | |
| Research and development | | **515,691** | 553,465 |
| General and administrative | | | |
| Compensation and benefits | | **3,374,653** | 3,582,937 |
| Depreciation and amortization | 6, 7, 11 | **420,968** | 431,974 |
| Professional fees | | **3,072,330** | 2,187,406 |
| Bank fees | | **272,532** | 487,151 |
| Bad debt expense | 17 | **121,695** | 224,795 |
| Facilities | | **78,455** | 67,814 |
| Information technology | | **191,782** | 187,312 |
| Advertising and marketing | | **246,727** | 413,818 |
| Other | 19 | **877,926** | 571,680 |
| Total operating expenses | | **9,172,759** | 8,708,352 |
| **Net operating loss** | | **(4,743,953)** | (2,340,293) |
| **OTHER INCOME (EXPENSES)** | | | |
| Changes in fair value of derivative | 10 | **359,062** | 104,290 |
| Other income - tax credit | | **-** | 286,995 |
| Impairment of intangible | | **(210,056)** | - |
| Interest expense and accretion | 9, 10, 11 | **(493,077)** | (285,307) |
| **Net loss for the year** | | **(5,088,024)** | (2,234,315) |
| Weighted average number of common stocks: | | | |
| Basic | | **2,305,079** | 2,299,989 |
| Diluted | | **2,305,079** | 2,299,989 |
| Loss per share – basic and diluted | | | |
| Basic | | $ (2.21) | $ (0.97) |
| Diluted | | $ (2.21) | $ (0.97) |

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

**Direct Communication Solutions, Inc.**
Consolidated Statements of Changes in Shareholders Deficiency
(Expressed in US dollars)
As at December 31, 2023 and 2022

| | Note | Number of Common stocks (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)** |
| Stock-based compensation expense | | - | - | 280,885 | - | 280,885 |
| Issuance of shares | | 71,428 | - | 218,158 | - | 218,158 |
| Net loss for the year | | - | - | - | (2,234,315) | (2,234,315) |
| **Balance, December 31, 2022** | | **2,305,091** | **61** | **7,301,027** | **(9,864,500)** | **(2,563,412)** |
| | | | | | | |
| **Balance, January 1, 2023** | | **2,305,091** | **61** | **7,301,027** | **(9,864,500)** | **(2,563,412)** |
| Stock-based compensation expense | | - | - | 43,874 | - | 43,874 |
| Share consolidation ratio adjustment | | (12) | - | - | - | - |
| Net loss for the year | | - | - | - | (5,088,024) | (5,088,024) |
| **Balance, December 31, 2023** | | **2,305,079** | **61** | **7,344,901** | **(14,952,524)** | **(7,607,562)** |

*(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 consolidated financial statements.*

**Direct Communication Solutions, Inc.**
Consolidated Statements of Cash Flows
(Expressed in US dollars)
As at December 31, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| | $ | $ |
| Cash provided by / (used for): | | |
| Operating Activities: | | |
| **Net loss for the year** | **(5,088,024)** | (2,234,315) |
| Items not affecting cash: | **-** | |
| Accretion and interest on convertible debentures | **412,047** | 104,467 |
| Accrued interest for loan | **3,276** | - |
| Bad debt expense | **121,695** | 193,880 |
| Depreciation | **420,968** | 431,974 |
| Derivative adjustment to fair market value | **(359,062)** | (104,290) |
| Accretion of lease liability | **65,264** | 79,914 |
| Amortization of debt issuance costs of credit facility | **-** | 1,042 |
| Impairment of intangible | **210,056** | - |
| Stock-based compensation | **43,874** | 280,885 |
| Non-arm's length professional fee paid in shares | **-** | 218,158 |
| Provision for excess and obsolete inventory | **(101,550)** | 97,869 |
| Net change in non-cash working capital items: | | |
| Accounts and other receivables | **1,858,950** | 335,688 |
| Inventory | **(61,477)** | 1,333,675 |
| Prepaid expenses | **715,540** | (790,781) |
| Contract assets | **541** | 3,876 |
| Accounts payable | **(1,806,751)** | 2,305,691 |
| Accrued liabilities | **179,845** | (340,635) |
| Deferred revenue | **(32,521)** | (564,544) |
| **Net cash provided (used in) by operating activities** | **(3,417,329)** | 1,352,554 |
| **Investing Activities:** | | |
| Purchase of property and equipment | **(5,214)** | (4,040) |
| **Net cash used in investing activities** | **(5,214)** | (4,040) |
| **Financing Activities:** | | |
| Lease payments | **(223,110)** | (216,000) |
| Net (repayments) borrowings on credit facility | **244,015** | (1,671,875) |
| Proceeds from convertible debenture | **-** | 1,600,000 |
| Proceeds from loan | **140,087** | - |
| Payments on notes payable | **(275,000)** | - |
| **Net cash used in financing activities** | **(114,008)** | (287,875) |
| Change in cash for the year | **(3,536,551)** | 1,060,639 |
| Cash, beginning of the year | **3,567,274** | 2,506,635 |
| **Cash and restricted cash, end of the year** | **30,723** | 3,567,274 |

| | 2023 | 2022 |
|---|---|---|
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid during the year for: | | |
| Interest expense: | **24,150** | 60,948 |
| Income taxes | **-** | - |

*The accompanying notes are an integral part of these consolidated 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 consolidated financial statements have been prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of its liabilities in the normal course of business.

The Company has historically incurred losses and has an accumulated deficit of $14,952,524. As at December 31, 2023, the Company has working capital deficit of $7,110,419 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

These consolidated financial statements of the Company have been prepared on the historical cost basis, except for financial instruments classified at fair value through profit and loss, which are stated at their fair value. In addition, the consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

**Statement of compliance**

These consolidated financial statements, including comparatives, have been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

**Basis of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries:

| Name of Subsidiary | Place of Incorporation | Ownership |
|---|---|---|
| Direct Communication Solutions, Canada ("DCS Canada") | British Columbia, Canada | 100% |

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

These consolidated financial statements of the Company are presented in United States dollars. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements include the accounts of the Company and its direct wholly-owned subsidiaries. The functional currency of both entities are United States dollars. 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 is the U.S dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the entity's functional currency are translated at the exchange rates in effect on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect as at the statement of financial position date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities. Foreign currency differences arising on translation are recognized in the statement of operating loss.

**Use of estimates and judgements**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

## 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 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 $Nil (2022 - $286,995) employee retention tax credit during the year ending December 31, 2023.

### 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.

## 2. BASIS OF PREPARATION (cont'd)

**ii) Critical accounting judgements (cont'd)**

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

- Revenue Recognition - The Company sells several telematics devices bundled with a multi-year software licenses under the same contractual arrangement, giving rise to considerations on whether there are distinct performance obligations requiring separate recognition and whether the Company is acting as principal or agent in the contract. Key considerations in determining whether the performance obligations are distinct are whether the promise to deliver the hardware component of the contract is separately identifiable from other contractual promises as well as the level of interdependency between the components of the contract. The Company has concluded the bundled contract represents one performance obligation and that the Company is acting as principal in the arrangement, resulting in the Company recognizing revenue and cost of sales on a gross basis on delivery of the telematics device. Significant judgment is involved in the assessments made by management.

## 3. MATERIAL ACCOUNTING POLICY INFORMATION

**(a) Inventories and Provision for Excess and Obsolete Inventory**

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

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

**(b) Property and Equipment**

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

| Class of equipment | Rate |
|---|---|
| Computer equipment | 3 years |
| Furniture and fixtures | 5 years |
| Office equipment | 5 years |
| Tooling | 5 years |

## 3. MATERIAL ACCOUNTING POLICY INFORMATION (cont'd)

### (c) Impairment of Long Lived Assets

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

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

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

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

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

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

### (d) Financial Instruments

*Financial assets*

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

- The classification determines the method by which the financial assets are carried on the balance sheet subsequent to inception and how changes in value are recorded. The Company has classified its cash (including restricted cash) and trade receivables at amortized cost.

## 3. MATERIAL ACCOUNTING POLICY INFORMATION (cont'd)

### (d) Financial Instruments (cont'd)

*Financial assets*

- Changes to financial assets measured at fair value are recognized in profit and loss as they arise.
- Changes in financial assets recorded at amortized cost are recognized in profit and loss when the asset is derecognized or reclassified.

*Financial liabilities*

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

The subsequent measurement of financial liabilities is determined based on their classification as follows:
(i) FVTPL – Derivative financial instruments entered into by the Company are classified as FVTPL.
(ii) Amortized cost – All other financial liabilities are classified as amortized cost using the effective interest method.

The Company has classified its accounts payable, accrued liabilities, lease liability, credit facility and long-term debt as other financial liabilities and carried on the statement of financial position at amortized cost. The Company has classified derivative instrument as FVTPL.

*Impairment of financial assets*

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

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

### (e) Research and Development

Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are recognized in profit or loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. No development costs have been capitalized to date.

## 3. MATERIAL ACCOUNTING POLICY INFORMATION (cont'd)

### (e) Income Taxes

The Company's income tax filings are subject to audit by various taxing authorities. In evaluating the Company's tax provisions and accruals, future taxable income, and the reversal of temporary differences, interpretations, and tax planning strategies are considered. The Company believes their estimates are appropriate based on current facts and circumstances. Accordingly, as of December 31, 2023 the Company has no uncertain tax positions that qualify for recognition or disclosure in the accompanying consolidated financial statements.

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

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

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

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

### (f) Revenue and Cost of Revenue

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

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

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

## 3. MATERIAL ACCOUNTING POLICY INFORMATION (cont'd)

### (f) Revenue and Cost of Revenue (cont'd)

The Company provides SaaS subscriptions for its fleet management and vehicle finance applications in which customers are provided with the ability to wirelessly communicate with monitoring devices installed in vehicles and other mobile assets via software applications hosted by either the Company or partner vendor. When the customer purchases the monitoring device, the Company recognizes the revenue at the time of purchase. The Company recognizes revenues from SaaS over the term of the contract. In certain customer arrangements, the Company provides integrated SaaS-based solutions. The transaction for the integrated solutions includes the price of the devices and application subscriptions in a monthly payment. We recognize revenue for the sales of the devices upon transfer of control to the customer and recognize revenue for the related subscription services over the service period. The allocation of the transaction price is based on relative estimated stand-alone selling prices for the devices and applications subscriptions. Timing of revenue recognition may differ from the timing of our invoicing to customers. Contract assets are comprised of performance under the contract in advance of billings to our customers. The Company's outstanding performance obligations in relation to customer contracts as at December 31, 2023 will be completed upon transfer of ownership (or deemed transfer) of goods and as services are rendered. The Company's payment terms require payment to be made within 30 days after the customer accepts transfer of ownership or a notice of completion. The outstanding performance obligations at year end require the Company to provide (i) access to the MiFleet platform and, if purchased, (ii) wireless data.

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

### (g) Stock-Based Compensation

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

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

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

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

## 3. MATERIAL ACCOUNTING POLICY INFORMATION (cont'd)

### (h) Basic and Diluted Net Loss per Shares of Common stocks

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

### (i) Intangible Assets

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

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

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

The amount initially recognized for intangible assets is the sum of the expenses incurred from the date when the intangible assets first meet the recognition criteria listed above. If no future economic benefit is expected before the end of the life of assets, the residual book value is expensed. Subsequent to initial recognition, intangible assets are reported at cost less amortization. The amortization period begins when the asset is available for use, specifically when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. As of December 31, 2023, the Company's intangible assets are available for use and are being amortized over three years on a straight-line basis.

### (j) Impairment of intangible assets

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

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

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

## 3. MATERIAL ACCOUNTING POLICY INFORMATION (cont'd)

### (g) Impairment of intangible assets (cont'd)

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

Where impairment losses subsequently reverse, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment losses been recognized for the asset (or CGU) in prior years. A reversal of impairment losses is recognized immediately in profit or loss. As of December 31, 2023, the Company has determined that impairment existed and the remaining balance has been written off to impairment of intangible asset in the Company's consolidated statements of operating loss and comprehensive loss.

### (h) Right-of-use assets and lease liabilities

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

### (i) Recently issued accounting pronouncements

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.

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.

(Expressed in US dollars)

## 3. MATERIAL ACCOUNTING POLICY INFORMATION (cont'd)

### (i) Recently issued accounting pronouncements

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 consolidated financial statements.

## 4. RESTRICTED CASH

As of December 31, 2023, the Company has a restricted cash of $Nil (December 31, 2022 - $356,056), which will be subsequently used to offset the TAB Bank credit facility (Note 9).

## 5. INVENTORY

Inventory consists of the following:

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Components and raw materials | $ 1,224,163 | $ 1,086,689 |
| Allowance for components and raw materials | (291,774) | (363,776) |
| Assemblies | 40,422 | 116,419 |
| Allowance for assemblies | (16,872) | (46,420) |
| | $ 955,939 | $ 792,912 |

During the year ended December 31, 2023, a total of $7,706,420 inventory was expensed as cost of sales (2022 - $15,556,883).

As discussed in Note 9, TAB has a lien on all the Company's assets which includes inventory. During the year ended December 31, 2023, the Company had pledged $110,532 (2022- $Nil) of inventory as collateral for two loans (Note 10).

(Expressed in US dollars)

## 6. EQUIPMENT

Equipment consists of the following:

| | December 31, 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 | (248,647) | (217,554) |
| | $ 15,018 | $ 40,897 |

Depreciation expenses were $31,093 and $42,098 for the year ended December 31, 2023, and 2022, 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, 2021 | $ 630,166 |
| Additions | - |
| Amortization | (210,055) |
| Balance at December 31, 2022 | $ 420,111 |
| Additions | - |
| Amortization | (210,055) |
| Impairment | (210,056) |
| Balance at December 31, 2023 | $ - |

During the year ended December 31, 2023, management assessed there are observable indications that the intangible asset value declined and determined the carrying amount and recoverable amount were $Nil.

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accrued liabilities consist of the following:

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Payroll related expenses | $ 186,385 | $ 311,857 |
| Interest accrued (Note 10) | 213,592 | 84,442 |
| Other | 487,961 | 132,686 |
| | $ 887,938 | $ 528,985 |

(Expressed in US dollars)

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (Cont'd)

Accounts payable consist of the following:

| | December 31 | |
|---|---|---|
| | 2023 | 2022 |
| Vendor payable due within 12 months | $ 6,665,085 | $ 5,972,612 |
| Vendor payable not due within 12 months | $ 625,019 | $ 3,124,243 |

During the year ended December 31, 2023, a vendor (Note 17) changed its terms with the Company from billing devices and device management subscriptions from a payment term of 36 months down to 30 days reducing the frequency of occurrence for long term payables.

## 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 SOFR 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 December 31, 2023, the expiry date is January 23, 2024. The agreement was automatically renewed on January 23, 2024.

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 SOFR 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 December 31, 2023 and 2022:

| | December 31, | |
|---|---|---|
| | 2023 | 2022 |
| Carrying amount of available credit limit in connection to the credit facility | $ 406,808 | $ 947,022 |
| Outstanding balance | 244,015 | - |
| Debt issuance cost amortized to interest expense | - | 1,042 |
| Unamortized portion of the debt issuance cost | - | - |

(Expressed in US dollars)

## 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 in 2023. The holder of the debenture at any time could convert in whole or any part principal and interest into common stocks 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 December 31, 2023, the principal and interest had been paid off in full. During the year ended December 31, 2023, the Company accrued $24,150 (2022 - $27,500) of interest associated with the Convertible Promissory Debentures which had been paid off during the year ended December 31, 2023.

On April 7, 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 stock 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 December 31, 2023, the Company recorded $17,343 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 stocks 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 stock at a price of $6.02 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 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:

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Expected term (years) | 0.69 | 1.69 |
| Risk-free interest rate | 4.834% | 4.203% |
| Expected volatility | 100% | 52.3% |
| Dividend yield | 0.00% | 0.00% |
| Estimated forfeitures | 0.00% | 0.00% |

(Expressed in US dollars)

## 10. DEBT (cont'd)

*Convertible Promissory Debentures (continued)*

The following table presents the Company's embedded conversion features of its convertible debt measured at fair value on a recurring basis as of December 31, 2023 and 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 | (359,062) |
| **Balance at December 31, 2023** | **1,092** |

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 32.06% per annum over the 24 months period. As of December 31, 2023, the total accrued interest was $196,250 (December 31, 2022 - $46,250) recorded in accrued liabilities.

| Date | Beg. Balance | Additions | Accretion | End. Balance |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Sep 9, 2022 | - | 1,035,556 | - | 1,035,556 |
| Dec 31, 2022 | 1,035,556 | - | 58,217 | 1,093,773 |
| Dec 31, 2023 | 1,093,773 | - | 232,939 | 1,326,712 |

*Promissory note*

During the year ended December 31, 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 matured December 31, 2022, and had been paid back in full as at December 31, 2022.

*Deferred Revenue*

Deferred revenue consisted of payments made by certain clients at the end of the reporting period prepaying for Company's subscriptions, services, or products. As of December 31, 2023, the Company held deferred revenue of $89,374. (December 31, 2022 - $121,895).

(Expressed in US dollars)

## 10. DEBT (cont'd)

*Loans with collateral*

During the year ended December 31, 2023, the Company entered into two loan agreements and pledged $110,532 (2022- $Nil) of inventory as collateral. The loans have the following terms as of December 31, 2023.

| | **Loan 1** | **Loan 2** |
|---|---|---|
| Expected term (months) | 12 | 60 |
| Interest rate | 35.28% | 6.77% |
| Payable within 12 months | $86,554 | $12,647 |
| Payable not due in 12 months | - | $44,161 |

During the year ended December 31, 2023 the Company recorded $7,157 (2022- $Nil) of interest expense and finance charges in the consolidated statement of loss and comprehensive loss in connection to the two loan agreements. As of December 31, 2023, a carrying balance of $143,362 of the loans were outstanding.

## 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 December 31, 2023 and December 31, 2022:

| | | |
|---|---|---|
| Balance at December 31, 2021 | $ | 869,132 |
| Depreciation | | (179,821) |
| Balance at December 31, 2022 | $ | 689,311 |
| Depreciation | | (179,820) |
| Balance at December 31, 2023 | $ | 509,491 |

(Expressed in US dollars)

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

*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 | | (223,110) |
| Non-cash changes: | | |
| Interest expenses | | 65,264 |
| Balance at December 31, 2023 | $ | 583,969 |
| | | |
| Less Lease liabilities - current | | (181,441) |
| Lease liabilities – non-current | $ | 402,528 |

The Company lease consists of office space in San Diego, California under non-cancelable operating lease that expires October 2026. Future minimum lease payments under the lease agreement as of December 31, 2023 are as follows:

| | | |
|---|---|---|
| Years ending December 31: | | |
| 2024 | $ | 229,804 |
| 2025 | | 236,702 |
| 2026 | | 202,160 |
| | $ | 668,666 |

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

## 12. SHARE CAPITAL

Effective February 9, 2023, the Company consolidated 7 common stocks for 1 common stock (the "Stock Consolidation"). The Stock Consolidation was affected in the form of cancelling 6 common stocks for each common stock 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 stocks 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 December 31, 2023, all the escrowed shares had been released (December 31, 2022 – 155,171 were still held in escrow).

### (b) Common stocks transactions

*Transactions for the year ended December 31, 2023*

There were no transactions affecting share capital during the year ended December 31, 2023.

*Transactions for the year ended December 31, 2022*

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

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

In June 2019, the Board of Directors and a majority of the stockholders approved the following amendments to the 2017 Stock Plan: (a) increase in the number of authorized shares for issuance to 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 as of December 31, 2023 is 691,500.

(Expressed in US dollars)

## 12. SHARE CAPITAL (cont'd)

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

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 |
| Expired | (47,270) | 6.01 |
| Forfeited | (202,143) | 10.23 |
| **Outstanding, December 31, 2022** | 542,286 | $ 4.03 |
| Forfeited | (1,429) | 2.87 |
| **Outstanding, December 31, 2023** | 540,857 | $ 4.03 |

At December 31, 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 | 3.76 |
| June 1, 2031 | 13,714 | 13,714 | $ 6.79 | 7.42 |
| February 4, 2032 | 23,571 | 18,103 | $ 2.87 | 8.10 |
| February 24, 2032 | 14,286 | 13,690 | $ 2.87 | 8.16 |
| March 14, 2032 | 62,143 | 48,430 | $ 4.13 | 8.21 |
| May 9, 2027 | 14,286 | 14,286 | $ 5.53 | 3.36 |
| May 9, 2027 | 55,714 | 55,714 | $ 8.40 | 3.36 |

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 statements of profit or loss from vested options during the year ended December 31, 2023 was $43,874 (2022 - $280,885).

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

(Expressed in US dollars)

## 12. SHARE CAPITAL (cont'd)

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

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

| | December 31, | |
|---|---|---|
| | **2023** | **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% |

### (d) 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 stock 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 years ended December 31, 2023 and 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 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 years ended December 31, 2023 and 2022 is as follows:

| | Year ended December 31 | | | |
|---|---|---|---|---|
| | 2023 | | 2022 | |
| | $ | % | $ | % |
| United States | 12,398,162 | 95.2% | 21,430,443 | 94.9% |
| Canada | 434,066 | 3.3% | 1,042,868 | 4.6% |
| Others combined | 195,447 | 1.5% | 112,995 | 0.5% |
| Total Revenue | 13,027,675 | 100.0% | 22,586,306 | 100.0% |

| **Revenue Type (in '000)** | **2023** | | **2022** | |
|---|---|---|---|---|
| | $ | % | $ | % |
| Product | 10,500.4 | 80.6% | 20,300.6 | 89.9% |
| Software as a Service (SaaS) | 1,833.4 | 14.0% | 1,325.4 | 5.9% |
| Engineering/Support Service | 259.6 | 2.0% | 508.7 | 2.2% |
| Wireless Data | 412.4 | 3.2% | 381.1 | 1.7% |
| Commission Income | 21.8 | 0.2% | 67.5 | 0.3% |
| Other | 0.1 | 0.0% | 3 | 0.0% |
| Total Revenue | 13,027.7 | 100.0% | 22,586.3 | 100.0% |

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

## 14. CONCENTRATION RISK

The Company derived revenue from one customer totaling 33% and 32% of the Company's total revenue for years ended December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, one customer accounted for a total of 19% and two customers for a total of 35% of 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 exceptional customer service relationships.

The Company has concentrations in the purchases with its suppliers. For the year ended December 31, 2023 and 2022, the two largest suppliers accounted for a total of 81% and 87% of total purchases, respectively.

(Expressed in US dollars)

## 15. INCOME TAXES

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

| | 2023 | 2022 |
|---|---|---|
| Net loss before tax | $ (5,088,024) | $ (2,234,315) |
| Expected income tax (recovery) | (1,361,216) | (647,196) |
| Change in statutory, foreign tax, foreign exchange rates and other | - | - |
| Permanent differences | 2,420 | 94,502 |
| Expiry of non-capital losses | | |
| Changes in unrecognized deductible temporary differences | 1,358,796 | 552,694 |
| Total income tax expense (recovery) | - | $ - |

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

| | 2023 | 2022 |
|---|---|---|
| Deferred Tax Assets (Liabilities) | | |
| Allowance for bad debts | $ 46,722 | $ 85,543 |
| Inventory reserves | 63,186 | 111,325 |
| Right-of-use assets | (135,806) | (187,076) |
| Lease liabilities | 155,658 | 201,325 |
| Accrued vacation | 24,321 | 26,602 |
| Sec. 263A Unicap | 19,084 | 19,784 |
| Fixed asset basis difference including depreciation | 1,888 | 3,041 |
| State income taxes -California mandatory lag method | 243 | 243 |
| Capitalized R&D | 317,180 | 141,773 |
| Non-qualified stock options | 147,583 | 135,332 |
| Non-capital losses available for future period | 2,653,156 | 1,364,098 |
| | 3,293,215 | 1,901,990 |
| Unrecognized deferred tax assets | (3,293,215) | (1,901,990) |
| Net Deferred Tax Assets (Liabilities) | $ - | $ - |

(Expressed in US dollars)

## 15. INCOME TAXES (cont'd)

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

| | 2023 | Expiry Date Range | 2022 | Expiry Date Range |
|---|---|---|---|---|
| **Temporary Differences** | | | | |
| Allowance for bad debts | $175,283 | No expiry date | $ 315,199 | No expiry date |
| Inventory reserves | 237,051 | No expiry date | 410,196 | No expiry date |
| Right-of-use assets | (509,491) | No expiry date | (689,312) | No expiry date |
| Lease liabilities | 583,968 | No expiry date | 741,816 | No expiry date |
| Accrued vacation | 91,245 | No expiry date | 98,018 | No expiry date |
| Sec. 263A Unicap | 71,596 | No expiry date | 72,897 | No expiry date |
| Fixed asset basis difference including depreciation | 7,084 | No expiry date | 11,205 | No expiry date |
| State income taxes -California mandatory lag method | 900 | No expiry date | 900 | No expiry date |
| Capitalized R&D | 1,546,825 | No expiry date | 797,929 | No expiry date |
| Non-qualified stock options | 553,677 | No expiry date | 498,649 | No expiry date |
| Non-capital losses available for future period | 9,515,336 | No expiry date | 4,743,687 | No expiry date |

## 16. 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 deficiency. The Company's objectives when managing capital are to support the creation of shareholder value, as well as to ensure that the Company is able to meet its financial obligations as they become due.

The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital, but rather relies on the expertise of the Company's management to sustain the future development of the business.

At December 31, 2023 and 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 year ended December 31, 2023.

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.

(Expressed in US dollars)

## 17. 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, restricted cash, trade receivables, accounts payable, accrued liabilities, lease liabilities, and credit facility and long term debt approximate carrying value, which is the amount recorded on the consolidated statement of financial position.

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy. As at December 31, 2023 and 2022:

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| December 31, 2023: | | | |
| Derivative instrument | $ - | $ - | $ 1,092 |
| December 31, 2022: | | | |
| Derivative instrument | $ - | $ - | $ 360,154 |

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

*Credit risk*

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

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk.

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.

## 17. FINANCIAL INSTRUMENTS (cont'd)

Trade and other receivables consist of:

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Accounts receivables | $ 1,484,380 | $ 3,642,594 |
| Other receivables | 83,996 | 46,343 |
| Allowance for doubtful accounts | (175,283) | (315,199) |
| Total | $ 1,393,093 | $ 3,373,738 |

During the year ended December 31, 2023, $121,695 (2022 - $224,795) of bad debt expense had been recognized in the consolidated statement of operating loss and comprehensive loss.

Aged trade receivable listing:

| Days outstanding | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Current | $ 885,831 | $ 1,779,778 |
| 1 – 30 | 304,421 | 1,062,174 |
| 31 – 60 | 61,931 | 235,638 |
| 61 - 90 | 42,478 | 201,673 |
| > 90 | 189,719 | 363,331 |
| Total | $ 1,484,380 | $ 3,642,594 |

The company's maximum exposure to credit risk is the combined carrying amount of its financial assets as at December 31, 2023 is $1,423,816 (2022 - $6,941,021).

*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. During the year ended December 31, 2023, a vendor (Note 8) changed its terms with the Company from billing devices and device management subscriptions from a payment term of 36 months down to 30 days reducing the frequency of occurrence for long term payables.

*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 denominated in US dollars.

(Expressed in US dollars)

## 17. FINANCIAL INSTRUMENTS (cont'd)

*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 SOFR rate. A 1% increase in the 90 day SOFR 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.

## 18. 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:

| | **Years ended December 31,** | |
|---|---|---|
| | **2023** | **2022** |
| | $ | $ |
| Salary | 951,241 | 1,255,144 |
| Consulting fees | 695,250 | 766,348 |
| Marketing Service | 17,750 | - |
| Share-based compensation | 8,625 | 160,025 |
| Total | 1,672,866 | 2,181,517 |

During the year ended December 31, 2022, 71,428 common stocks 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 December 31, 2023, $32,000 (2022 – $Nil) was included in accounts payable and accrued liabilities for fees owed to related parties.

(Expressed in US dollars)

## 19. OTHER EXPENSES

During the year ended December 31, 2023 and 2022, the Company had the following expenses in other expenses:

| | Years ended December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | $ | $ |
| Insurance | 413,423 | 99,505 |
| Licenses and fees | 72,597 | 53,350 |
| Office expenses | 155,823 | 100,694 |
| Automobile expense | 2,632 | 1,136 |
| Meals and entertainment | 87,764 | 70,496 |
| Travel expense | 124,304 | 141,317 |
| Utilities | 64,575 | 75,838 |
| Tax filing fees | 4,127 | 19,315 |
| Software expense | 14,387 | 10,005 |
| Cost recovery – Tetlit | (75,000) | - |
| Other | 13,294 | 24 |
| **Total** | **877,926** | **571,680** |

## 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 year ended December 31, 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 this financial report by adjusting the balance of related accounts. The impact of the adjustment has also impacted December 31, 2023 statement of changes in shareholder's deficiency as per below:

Summary impact on the equity position as at December 31, 2021:

| | **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)** |