**VSBLTY Groupe Technologies Corp.**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended June 30, 2022 and 2021

(Expressed in United States dollars)
(Unaudited)

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated interim financial statements for VSBLTY Groupe Technologies Corp. (the "Company") have been prepared by management in accordance with International Financing Reporting Standards ("IFRS"). These condensed consolidated interim financial statements, which are the responsibility of management, are unaudited and have not been reviewed by the Company's auditors. The Company's Audit Committee and Board of Directors have reviewed and approved these condensed consolidated interim financial statements. In accordance with the disclosure requirements of National Instrument 51-102 released by the Canadian Securities Administrators, the Company's independent auditors have not performed a review of these condensed consolidated interim financial statements.

**VSBLTY Groupe Technologies Corp.**
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Expressed in United States dollars)

| **As at** | **Notes** | | **June 30, 2022** | | **December 31, 2021** |
|---|---|---|---|---|---|
| | | | (Unaudited) | | |
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash | | $ | 771,323 | $ | 4,932,824 |
| Trade and other receivables | 17, 19 | | 2,950,769 | | 1,315,934 |
| Lease receivable | 14 | | 35,384 | | - |
| Prepaid expenses | 6 | | 239,227 | | 329,727 |
| Inventory | 7 | | - | | 177,216 |
| | | | 3,996,703 | | 6,755,701 |
| Equipment, net | 5 | | 103,170 | | 70,101 |
| Right-of-use assets | 14 | | 218,661 | | 128,534 |
| Lease receivable | 14 | | 87,335 | | - |
| Investment | 8 | | 1,000,000 | | 1,000,000 |
| Prepaid expenses - noncurrent | 6 | | 19,979 | | 10,916 |
| **Total assets** | | $ | 5,425,848 | $ | 7,965,252 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable and accrued liabilities | 10, 17 | $ | 2,072,198 | $ | 2,467,110 |
| Deferred revenue | 11 | | 152,297 | | 11,028 |
| Current portion of lease liability | 14 | | 129,537 | | 55,150 |
| Convertible debentures | 12 | | - | | 360,085 |
| Loans payable | 13 | | 679,690 | | 339,759 |
| | | | 3,033,722 | | 3,233,132 |
| Lease liability | 14 | | 244,381 | | 100,149 |
| **Total liabilities** | | | 3,278,103 | | 3,333,281 |
| **SHAREHOLDERS' EQUITY** | | | | | |
| Share capital | 15 | | 35,611,961 | | 33,347,460 |
| Reserves | 15 | | 9,405,237 | | 8,297,272 |
| Obligation to issue shares | 15 | | 4,201 | | 355,203 |
| Obligation to issue warrants | 15 | | 19,127 | | 19,127 |
| Accumulated deficit | | | (42,463,124) | | (36,942,932) |
| Accumulated other comprehensive income | | | (429,657) | | (444,159) |
| **Total shareholders' equity** | | | 2,147,745 | | 4,631,971 |
| **Total liabilities and shareholders' equity** | | $ | 5,425,848 | $ | 7,965,252 |

| | |
|---|---|
| Nature of operations and going concern | 1 |
| Contingency | 21 |
| Subsequent events | 22 |

APPROVED BY THE BOARD OF DIRECTORS:

*"Jay Hutton"* Director *"Thomas Hays"* Director

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

**VSBLTY Groupe Technologies Corp.**
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in United States dollars)
(Unaudited)

| | Notes | Three months ended June 30, 2022 | Three months ended June 30, 2021 | Six months ended June 30, 2022 | Six months ended June 30, 2021 |
|---|---|---|---|---|---|
| Revenue | | | | | |
| License fees | | $ 78,191 | $ 32,247 | $ 154,550 | $ 72,086 |
| Professional services | | 659,546 | 18,435 | 806,409 | 36,744 |
| Hardware and other | | 2,505,139 | 241,950 | 3,524,379 | 313,936 |
| | | 3,242,876 | 292,632 | 4,485,338 | 422,766 |
| Cost of sales | | (3,010,984) | (201,128) | (4,526,364) | (279,931) |
| Gross profit | | 231,892 | 91,504 | (41,026) | 142,835 |
| Sales and marketing expenses | 16, 17 | (545,834) | (344,753) | (1,413,964) | (901,139) |
| General and administrative expenses | 16, 17 | (761,548) | (813,464) | (1,477,714) | (1,644,085) |
| Research and development expenses | 16, 17 | (523,152) | (372,346) | (1,025,139) | (801,080) |
| Share-based payments | 15(b)(c)(d) | (186,851) | (2,231,564) | (1,319,292) | (3,726,274) |
| Recovery on inventory impairment | 7 | 353,909 | - | 353,909 | - |
| **Operating loss** | | (1,431,583) | (3,670,624) | (4,923,226) | (6,929,743) |
| Finance costs | 12, 14 | (27,759) | (142,458) | (55,348) | (300,147) |
| Loss on loan impairment | 9 | (420,263) | - | (573,877) | - |
| Loss on settlement of payables | | (22,526) | - | (22,526) | - |
| Interest income | | 31,815 | - | 50,364 | - |
| Foreign exchange loss | | 682 | (4,385) | 4,421 | (1,431) |
| **Net loss for the period** | | (1,869,634) | (3,817,468) | (5,520,192) | (7,231,322) |
| Foreign currency translation | | (27,341) | (58,976) | 14,502 | (85,340) |
| **Comprehensive loss for the period** | | $ (1,896,975) | $ (3,876,444) | $ (5,505,690) | $ (7,316,662) |
| Loss per share – Basic and diluted | | $ (0.01) | $ (0.02) | $ (0.03) | $ (0.05) |
| Weighted average shares outstanding – Basic and diluted | | 207,530,202 | 161,610,308 | 204,937,694 | 158,205,194 |

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

**VSBLTY Groupe Technologies Corp.**
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
(Expressed in United States dollars)
(Unaudited)

| | Notes | Number of common shares | Share capital | Reserves | Obligation to issue warrants | Obligation to issue shares | Accumulated deficit | Accumulated other comprehensive income (loss) | Total shareholders' (deficiency) equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2020** | | 143,180,368 | $ 15,703,032 | $ 2,843,867 | $ 19,127 | $ - | $ (20,705,606) | $ (210,304) | $ (2,349,884) |
| Shares issued for public offering | 15(b) | 18,400,000 | 6,506,140 | 347,560 | - | - | - | - | 6,853,700 |
| Shares issued for private placement | 15(c) | 1,162,384 | 414,015 | - | - | - | - | - | 414,015 |
| Shares issued for warrant exercises | 15 | 13,439,586 | 2,906,035 | (218,129) | - | - | - | - | 2,687,906 |
| Shares issued for option exercises | 15 | 325,000 | 152,383 | (87,661) | - | - | - | - | 64,722 |
| Convertible debt conversion | 12 | 5,905,147 | 1,834,218 | (158,692) | - | - | - | - | 1,675,526 |
| Share-based payments | 15 | - | - | 3,726,274 | - | - | - | - | 3,726,274 |
| Foreign currency translation | | - | - | - | - | - | - | (85,340) | (85,340) |
| Loss for the period | | - | - | - | - | - | (7,231,322) | - | (7,231,322) |
| **Balance, June 30, 2021** | | 182,412,485 | $ 27,515,823 | $ 6,453,219 | $ 19,127 | $ - | $ (27,936,928) | $ (295,644) | $ 5,755,597 |
| | | | | | | | | | |
| **Balance, December 31, 2021** | | 198,537,247 | $ 33,347,460 | $ 8,297,272 | $ 19,127 | $ 355,203 | $ (36,942,932) | $ (444,159) | $ 4,631,971 |
| Shares issued for warrant exercises | 15(b) | 10,185,468 | 1,786,457 | (37,792) | - | (355,203) | - | - | 1,393,462 |
| Shares issued for option exercises | 15(c) | 970,000 | 341,088 | (149,916) | - | - | - | - | 191,172 |
| Shares issued for RSUs vested | 15(d) | 41,750 | 23,619 | (23,619) | - | - | - | - | - |
| Shares issued for services | 15 | 144,534 | 113,337 | - | - | - | - | - | 113,337 |
| Shares returned to treasury | 15 | (125,000) | - | - | | | - | - | - |
| Subscriptions received | | - | - | - | - | 4,201 | - | - | 4,201 |
| Share-based payments | 15 | - | - | 1,319,292 | - | - | - | - | 1,319,292 |
| Foreign currency translation | | - | - | - | - | - | - | 14,502 | 14,502 |
| Loss for the period | | - | - | - | - | - | (5,520,192) | - | (5,520,192) |
| **Balance, June 30, 2022** | | 209,753,999 | $ 35,611,961 | $ 9,405,237 | $ 19,127 | $ 4,201 | $ (42,463,124) | $ (429,657) | $ 2,147,745 |

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

**VSBLTY Groupe Technologies Corp.**
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Expressed in United States dollars)
(Unaudited)

| | Six months ended June 30 2022 | | Six months ended June 30 2021 | |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Loss for the period | $ | (5,520,192) | $ | (7,231,322) |
| Adjustments for non-cash items: | | | | |
| Depreciation | | 60,272 | | 34,577 |
| Accretion expense | | 4,346 | | 163,895 |
| Interest expense | | 28,720 | | - |
| Share-based payments | | 1,319,292 | | 3,726,274 |
| Foreign exchange loss (gain) | | (20,718) | | (31,929) |
| Bad debt expense | | 72,556 | | - |
| AP settled in shares | | 113,337 | | - |
| Recovery of inventory | | (353,909) | | - |
| Changes in non-cash working capital items: | | | | |
| Trade and other receivables | | (1,707,391) | | (266,192) |
| Inventory | | (2,015,225) | | - |
| Prepaid expenses and deposits | | 81,437 | | 193,911 |
| Accounts payable and accrued liabilities | | 2,151,436 | | 137,857 |
| Deferred revenue | | 141,269 | | (898) |
| **Net cash used in operating activities** | | (5,644,770) | | (3,273,827) |
| **Cash flows from investing activities** | | | | |
| Acquisition of equipment | | (54,641) | | (7,240) |
| Payment of loan proceeds | | - | | (473,742) |
| **Net cash used in investing activities** | | (54,641) | | (480,982) |
| **Cash flows from financing activities** | | | | |
| Principal portion of lease payments | | (39,031) | | (23,551) |
| Lease receivable repayment | | 6,106 | | - |
| Repayment of loans payable | | (18,000) | | - |
| Subscriptions received | | 4,201 | | - |
| Proceeds from equity financing, net of share issuance costs | | - | | 7,267,715 |
| Proceeds from exercise of options | | 191,172 | | 64,722 |
| Proceeds from exercise of warrants | | 1,393,462 | | 2,687,906 |
| **Net cash provided by financing activities** | | 1,537,910 | | 9,996,792 |
| **Net increase (decrease) in cash** | | (4,161,501) | | 6,241,983 |
| Cash and cash equivalents, beginning of period | | 4,932,824 | | 1,917,763 |
| **Cash and cash equivalents, end of period** | $ | 771,323 | $ | 8,159,746 |
| **Supplemental cash flow disclosures:** | | | | |
| Interest paid | $ | 58,212 | $ | 277,783 |
| Income taxes paid | | - | | - |
| Convertible debt converted into shares | $ | - | $ | 1,710,561 |

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

## 1. NATURE OF OPERATIONS AND GOING CONCERN

VSBLTY Groupe Technologies Corp. (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on August 1, 2018. The Company’s head office is located at Suite 206, 595 Howe Street, Vancouver, British Columbia, V6C 2T5 and its registered office is located at The Corporation Trust Center, 1201 Orange Street, City of Wilmington, New Castle County, DE 19801. The Company is a retail technology and marketing company with a variety of applications to drive brand engagement and puts insights in motion to drive sales, as well as a provider of technology for security services. The Company’s shares trade on the Canadian Securities Exchange under the symbol “VSBY”, the OTCQB Venture Market under the symbol “VSGBF” and the Frankfurt stock exchange under the symbol “5VS”.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and discharge of liabilities in the normal course of business. As at June 30, 2022, the Company had not yet achieved profitable operations and has an accumulated deficit of $42,463,124 since its inception. The continuing operations of the Company are dependent upon its ability to develop a viable business and to attain profitable operations and generate funds there from. This indicates the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. Management intends to finance operating costs with capital market equity financings. If the Company is unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its statement of financial position.

The outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures may have an adverse impact on global economic conditions as well as on the Company’s business activities. The extent to which the coronavirus may impact the Company’s business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease.

## 2. BASIS OF PRESENTATION

### a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including International Accounting Standards (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 25, 2022.

## 2. BASIS OF PRESENTATION (continued)

### b) Basis of measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis, modified where applicable. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information. The condensed consolidated interim financial statements are presented in United States dollars, unless otherwise noted.

The preparation of these condensed consolidated interim financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amount of expenses during the period. Actual results could differ from these estimates.

These condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. The impact of such estimates is pervasive throughout these condensed consolidated interim financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### c) Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries, VSBLTY, Inc and VSBLTY Mexico, S. DE R.L. DE C.V.. All inter-company balances, transactions, income and expenses have been eliminated upon consolidation.

Subsidiaries are entities controlled by the Company. Control exists when the Company has power over an entity, when the Company is exposed, or has rights, to variable returns from the entity and when the Company has the ability to affect those returns through its power over the entity. Subsidiaries are included in the condensed consolidated interim financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control. Where necessary, adjustments are made to the condensed consolidated interim financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with the accounting policies disclosed in Note 3 of the audited financial statements for the year ended December 31, 2021. These condensed consolidated interim statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2021.

(Expressed in United States dollars)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### a) Accounting standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any new standards and determined that there are no standards that are relevant to the Company.

## 4. USE OF JUDGMENTS AND ESTIMATES

In preparing these condensed consolidated interim financial statements, management has made judgments, estimates and assumptions that affect the applicable of the Company's accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

In preparing these condensed consolidated interim financial statements, the significant estimates and critical judgments were the same as those applied to the financial statements as at and for the year ended December 31, 2021.

## 5. EQUIPMENT

| | Computer equipment | Equipment | Furniture | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance, December 31, 2020 | $ 24,617 | $ 32,725 | $ - | $ 57,342 |
| Additions | 53,271 | 10,642 | - | 63,913 |
| Balance, December 31, 2021 | $ 77,888 | $ 43,367 | - | $ 121,255 |
| Additions | 24,716 | 20,906 | 9,009 | 54,631 |
| Balance, June 30, 2022 | $ 102,604 | $ 64,273 | $ 9,009 | $ 175,886 |

| | Computer equipment | Equipment | Furniture | Total |
|---|---|---|---|---|
| **Accumulated depreciation** | | | | |
| Balance, December 31, 2020 | $ 6,469 | $ 18,727 | $ - | $ 25,196 |
| Additions | 14,808 | 11,150 | - | 25,958 |
| Balance, December 31, 2021 | $ 21,277 | $ 29,877 | - | $ 51,154 |
| Additions | 13,967 | 7,156 | 439 | 21,562 |
| Balance, June 30, 2022 | $ 35,244 | $ 37,033 | $ 439 | $ 72,716 |

| | Computer equipment | Equipment | Furniture | Total |
|---|---|---|---|---|
| **Net book value** | | | | |
| Balance, December 31, 2021 | $ 56,611 | $ 13,490 | $ - | $ 70,101 |
| Balance, June 30, 2022 | $ 67,360 | $ 27,240 | $ 8,570 | $ 103,170 |

(Expressed in United States dollars)

## 6. PREPAID EXPENSES

| | | June 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| **Current** | | | | |
| Prepaid services and subscriptions | $ | 118,455 | $ | 293,136 |
| Prepaid insurance and rent | | 57,667 | | 36,591 |
| Other prepaid deposits | | 63,105 | | - |
| **Total Current** | $ | 239,227 | $ | 329,727 |
| | | | | |
| **Non-Current** | | | | |
| Lease deposit | $ | 19,979 | $ | 10,916 |
| **Total Prepaid Expenses** | $ | 259,206 | $ | 340,643 |

## 7. INVENTORY

Inventory consists of installation hardware components that have not yet been installed into stores for Winkel and includes computers hardware, cameras and monitors. As at June 30, 2022, the Company had $Nil (December 31, 2021 - $177,216) in inventory. On May 21, 2022, the Company entered into an agreement with Austin GIS Inc., whereby Austin GIS Inc. purchased all of the Company's remaining inventory of $2,545,583 in exchange for the payment of the Company's accounts payable balance. For the six months ended June 30, 2022, a recovery on inventory of $353,909 was recognized.

## 8. INVESTMENT IN AUSTIN GIS

On August 30, 2021, the Company acquired 12.33% or 1,000,000 Preferred shares of Austin GIS Inc. ("Austin"), a privately held American corporation, at $1.00 per share through a series A funding. The Class A Preferred Shares may be converted at anytime into common shares of Austin at the option of the holder at a conversion price pursuant to the subscription agreement. Each Class A Preferred Share will automatically be converted into common shares:

(i) immediately prior to the closing of an initial public offering, provided that the offering price per share is not less than $3.00 and the aggregate gross proceeds are not less than $20,000,000;

(ii) immediately prior to the closing of a business combination, merger, consolidation or share exchange transaction with the special purpose acquisition company in which the common shares of the surviving entity is listed on the New York Stock Exchange, Nasdaq, or another exchange approved by the Board of Directors. The Company must also not be valued at a price per share less than $3.00 and the aggregate gross proceeds to the Company are not less than $20,000,000;

(Expressed in United States dollars)

## 8. INVESTMENT IN AUSTIN GIS (Continued)

(iii) any other public company transaction similar to point (ii); and
(iv) upon receipt by the Company of a written request for such conversion from the holders of a majority of the Preferred Shares outstanding;

Management has determined that the Company does not have significant influence over the investment in Austin GIS, and the investment has been accounted for as a financial instrument.

The investment in Austin GIS represents an investment in a private company for which there is no active market and for which there are no publicly available quoted market prices. As such, the Company has classified its investment in Austin GIS as Level 2 in the fair value hierarchy.

In respect of the investment in Austin GIS, management considered the fair value of $1,000,000 to be indicative of the fair value of the investment in Austin GIS as there have been no changes in the circumstances that would change management's assessment of fair value. The fair value of the investment is consistent with the implied value based on the price of the most recent equity transaction.

## 9. INVESTMENT IN JOINT VENTURE

*Investment in Winkel*

As at June 30, 2022 and December 31, 2021, the Company has a 33.33% equity interest in Winkel. Management has determined that the Company has significant influence over the joint venture and accordingly is using the equity method to account for this investment.

*Summarized statement of financial position of Winkel as at June 30, 2022*

| | | |
|---|---|---|
| Current | | |
| Cash | $ | 18,958 |
| Other assets | | 51,450 |
| | | 70,407 |
| Non-Current | | |
| Equipment | | 2,143,785 |
| Total Assets | $ | 2,214,193 |
| | | |
| Current | | |
| Accounts payable and accrued liabilities | $ | 2,430,470 |
| Deferred revenue | | 2,009 |
| | | 2,432,479 |
| | | |
| Non-Current | | |
| Bridge Loan | | 1,204,618 |
| Total Liabilities | | 3,637,097 |
| | | |
| Equity | | (1,500,079) |
| Total Liabilities and Equity | $ | 2,214,193 |

(Expressed in United States dollars)

## 9. INVESTMENT IN JOINT VENTURE (Continued)

*Summarized statement of loss of Winkel for the six months ended June 30, 2022*

| | | |
|---|---|---|
| Revenue | $ | 3,444 |
| Depreciation | | (281,973) |
| General and administrative expenses | | (704,849) |
| Net loss for the period | $ | (983,378) |
| Company’s 33.33% share of net loss | $ | (327,790) |

As the Company’s carrying value of the investment was $Nil as at January 1, 2022 and because no additional contributions were made to increase the carrying value during the six month period ended June 30, 2022, no share of loss is recognized during the six months ended June 30, 2022.

*Bridge Loan to Winkel*

As at June 30, 2022, the Company had a bridge loan receivable from Winkel of $1,204,618, of which $630,741 was impaired as of December 31, 2021. The Company determined that the remaining loan of $573,877 may not be collectible and impaired the value of the loan to $Nil.

## 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | | June 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Accounts payable | $ | 1,657,829 | $ | 1,787,281 |
| Accrued liabilities | | 343,513 | | 595,741 |
| Accrued interest | | 70,856 | | 84,088 |
| | $ | 2,072,198 | $ | 2,467,110 |

## 11. DEFERRED REVENUE

The Company’s deferred revenue consists of the following:

| | | June 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Customer deposits on contracts | $ | 68,324 | $ | 11,028 |
| Unearned revenue on license fees | | 83,973 | | - |
| | $ | 152,297 | $ | 11,028 |

(Expressed in United States dollars)

## 12. CONVERTIBLE DEBENTURES

A continuity of the Company's convertible debt is as follows:

| | | 2020 Debentures | | 2019 Debentures | | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2020 | $ | 1,062,193 | $ | 2,439,536 | $ | 3,501,729 |
| Accretion | | 31,367 | | 191,556 | | 222,923 |
| Foreign exchange loss | | 12,505 | | 40,354 | | 52,859 |
| Converted to common shares | | (745,980) | | (2,215,942) | | (2,961,922) |
| Matured | | - | | (455,504) | | (455,504) |
| Balance, December 31, 2021 | $ | 360,085 | $ | - | $ | 360,085 |
| Accretion | | 4,372 | | - | | 4,372 |
| Foreign exchange loss | | 893 | | - | | 893 |
| Matured | | (365,350) | | - | | (365,350) |
| **Balance, June 30, 2022** | **$** | **-** | **$** | **-** | **$** | **-** |

During the six months ended June 30, 2022, the Company recorded $4,372 (2021 - $85,329) in accretion expense and $7,228 (2021 - $67,452) in interest expense included in finance costs.

During the six months ended June 30, 2022, $365,350 in convertible debentures matured unconverted. As at June 30, 2022, there was accrued interest of $Nil (December 31, 2021 - $66,960) included in accounts payable and accrued liabilities.

## 13. LOANS PAYABLE

| **Loans payable** | | |
|---|---|---|
| Balance, December 31, 2020 | $ | - |
| Additions | | 346,058 |
| Repayments | | (6,299) |
| Balance, December 31, 2021 | $ | 339,759 |
| Additions | | 365,350 |
| Repayments | | (18,000) |
| Foreign exchange | | (7,419) |
| Balance, June 30, 2022 | $ | 679,690 |

During the six months ended June 30, 2022, $365,350 in convertible debt matured unconverted. Amounts are unsecured, bear interest at 10%, and are due on demand. During the six months ended June 30, 2022, the Company recorded $28,720 (2021 - $Nil) in interest expense included in finance cost. As at June 30, 2022, there was accrued interest of $70,856 (December 31, 2021 - $17,128) included in accounts payable and accrued liabilities.

(Expressed in United States dollars)

## 14. LEASES

The Company leases certain assets under lease agreements. The lease liability consists of two leases for office space. The leases have an imputed interest rate of 10% per annum and expire between 2024 and 2025.

| **Right-of-use assets** | | |
|---|---|---|
| Balance, December 31, 2020 | $ | 178,809 |
| Depreciation expense | | (50,275) |
| Balance, December 31, 2021 | | 128,534 |
| Additions | | 128,827 |
| Depreciation expense | | (38,700) |
| Balance, June 30, 2022 | $ | 218,661 |

The Company's lease liability related to office leases is as follows:

| **Lease liability** | | **June 30, 2022** | | **December 31, 2021** |
|---|---|---|---|---|
| Current portion | $ | 129,537 | $ | 55,150 |
| Long-term portion | | 244,381 | | 100,149 |
| Total lease liability | $ | 373,918 | $ | 155,299 |

At June 30, 2022, the Company is committed to minimum lease payments as follows:

| **Maturity analysis** | | **June 30, 2022** | | **December 31, 2021** |
|---|---|---|---|---|
| Less than one year | $ | 160,970 | $ | 68,203 |
| One to five years | | 266,168 | | 108,928 |
| Total undiscounted lease liabilities | $ | 427,138 | $ | 177,131 |

| **Amounts recognized in profit or loss** | | **June 30, 2022** | | **June 30, 2021** |
|---|---|---|---|---|
| Interest on lease liabilities | $ | 11,473 | $ | 9,701 |
| Interest income on sublease | | 4,261 | | - |

| **Amounts recognized in the statement of cash flows** | | **June 30, 2022** | | **June 30, 2021** |
|---|---|---|---|---|
| Interest paid | $ | 11,473 | $ | 9,701 |
| Principal payments on lease liabilities | | 39,031 | | 23,551 |
| Total cash outflows for leases | $ | 50,504 | $ | 33,252 |

On March 15, 2022, the Company entered into a sublease agreement related to office space. At June 30, 2022 and December 31, 2021, the Company's lease receivable related to office leases is as follows:

| **Lease receivable** | | **June 30, 2022** | | **December 31, 2021** |
|---|---|---|---|---|
| Current portion | $ | 35,384 | $ | - |
| Long-term portion | | 87,335 | | - |
| Total lease receivable | $ | 122,719 | $ | - |

(Expressed in United States dollars)

## 14. LEASES (Continued)

| Maturity analysis | | June 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Less than one year | $ | 45,990 | $ | - |
| One to five years | | 96,029 | | - |
| More than five years | | - | | - |
| Total undiscounted lease receivable | $ | 142,019 | $ | - |

## 15. SHAREHOLDERS' EQUITY

### a) Share capital

Authorized share capital of the Company consists of an unlimited number of common shares with no par value.

During the six months ended June 30, 2022, the Company issued an aggregate of:

- 10,185,468 common shares for the exercise of warrants for proceeds of $1,393,462 (CAD$1,772,174) of which $355,203 was reclassed from obligation to issue shares, and as a result, $37,792 has been reclassed from reserves;
- 970,000 common shares for the exercise of options for proceeds of $191,173 (CAD$242,250), and as a result $149,916 has been reclassed from reserves;
- 41,750 common shares were issued related to the vesting of RSUs, and as a result $23,619 has been reclassed from reserves;
- 144,534 common shares were issued for consulting services with a fair value of $113,337; and
- 125,000 common shares issued in error were returned to treasury.

During the six months ended June 30, 2021, the Company issued an aggregate of:

- 18,400,000 units at $0.50 CAD per unit for gross proceeds of $7,436,250 (CAD$9,200,000) pursuant to a public offering. Each unit consists of one Common Share and one-half of one share purchase warrant. Each warrant entitles the holder to purchase one Common Share at a price of $0.65 CAD for a period of 60 months from the closing date. Cash finder's fee of $720,720 CAD was paid and 1,288,000 agent warrants were issued. Each agent warrant entitles the holder to purchase one Common Share at a price of $0.50 CAD for a period of 60 months from the closing date.
- 1,162,384 units at $0.50 per unit for gross proceeds of $475,466 (CAD$581,192) pursuant to a concurrent private placement to the public offering. Each unit consists of one Common Share and one-half of one share purchase warrant. Each warrant entitles the holder to purchase one Common Share at a price of $0.65 CAD for a period of 60 months from the closing date.
- 5,905,147 common shares on conversion of the convertible debentures;
- 13,439,586 common shares for the exercise of warrants for proceeds of $2,869,537 (CAD $3,627,899), as a result $218,129 has been reclassed from reserves; and
- 325,000 common shares for the exercise of options for proceeds of $152,383 (CAD$191,297), as a result $87,661 has been reclassed from reserves.

(Expressed in United States dollars)

## 15. SHAREHOLDERS' EQUITY (Continued)

### b) Warrants

On July 9, 2021, the Company formed a joint venture, Winkel (Note 9). In connection with the agreement, the Company issued 15,500,000 warrants to Grupo Modelo. Each warrant is exercisable for one common share at $0.63 (CAD $0.84) per share for a period of five years subject to the following vesting conditions:

- 15% vested immediately upon execution (vested);
- 15% vest upon the execution of a definitive agreement for the formation of a joint venture (vested);
- 20% vest upon the joint venture installed and operating in at least 1,500 locations (vested);
- 20% vest upon the joint venture installed and operating in at least 5,000 locations;
- 15% will vest upon the joint venture installed and operating in at least 20,000 locations; and
- 15% will vest upon the joint venture installed and operating in at least 30,000 locations.

The vesting conditions are not related to the market price of the equity instruments of the Company and, as a result, they are non-market performance conditions. At June 30, 2022, management expects that all of the above vesting conditions will vest and estimated when certain conditions will be met. These warrants had a total fair value of $8,845,763, or $0.57 per warrant, using the Black Scholes model with the following inputs: i) exercise price: $0.84; ii) share price: $0.78; iii) term: 5.00 years; iv) volatility: 100%; v) discount rate: 0.74%.

As a result, $547,355 (CAD$691,930) has been recorded to share-based payments expense during the six months ended June 30, 2022.

Continuity of the Company's warrants is as follows:

| | Number of warrants | Weighted average exercise price ($CAD) | Weighted average exercise price ($USD) |
|---|---|---|---|
| Outstanding, December 31, 2020 | 52,020,940 | 0.20 | 0.15 |
| Granted | 32,791,673 | 0.72 | 0.57 |
| Exercised | (25,529,228) | 0.31 | 0.24 |
| Expired | (1,384,336) | 0.59 | 0.47 |
| Outstanding, December 31, 2021 | 57,899,049 | 0.44 | 0.34 |
| Exercised | (10,185,468) | 0.22 | 0.17 |
| Expired | (457,466) | 0.60 | 0.47 |
| **Outstanding, June 30, 2022** | **47,256,115** | **$ 0.49** | **$ 0.38** |

(Expressed in United States dollars)

**15. SHAREHOLDERS' EQUITY (Continued)**

As at June 30, 2022, the following warrants were outstanding and exercisable:

| Number of warrants outstanding | | Exercise price ($CAD) | Exercise price ($USD) | Expiry date | Number of warrants exercisable |
|---|---|---|---|---|---|
| 838,258 | | 0.12 | 0.09 | August 28, 2023 | 838,258 |
| 16,280,920 | | 0.17 | 0.13 | August 28, 2023 | 16,280,920 |
| 5,559,045 | | 0.17 | 0.13 | September 22, 2023 | 5,559,045 |
| 8,889,892 | | 0.65 | 0.50 | June 29, 2024 | 8,889,892 |
| 188,000 | | 0.50 | 0.39 | June 29, 2024 | 188,000 |
| 15,500,000 | | 0.84 | 0.65 | March 18, 2026 | 7,750,000 |
| **47,256,115** | **$** | **0.49** | **0.39** | | **39,506,115** |

As at June 30, 2022, the weighted average remaining contractual life of outstanding warrants is 2.17 years.

## c) Options

Continuity of the Company's stock options is as follows:

| | Number of options | | Weighted average exercise price ($CAD) | | Weighted average exercise price ($USD) |
|---|---|---|---|---|---|
| Outstanding, December 31, 2020 | 9,180,000 | $ | 0.25 | $ | 0.20 |
| Granted | 4,350,000 | | 0.60 | | 0.47 |
| Exercised* | (1,499,167) | | 0.22 | | 0.18 |
| Expired | (50,000) | | 0.30 | | 0.24 |
| Forfeited | (450,000) | | 0.30 | | 0.24 |
| Outstanding, December 31, 2021 | 11,530,833 | $ | 0.38 | $ | 0.30 |
| Granted | 3,675,000 | | 0.80 | | 0.62 |
| Exercised | (970,000) | | 0.25 | | 0.19 |
| Expired | (220,000) | | 0.30 | | 0.23 |
| Forfeited | (450,000) | | 0.25 | | 0.19 |
| Returned | 125,000* | | 0.17 | | 0.13 |
| **Outstanding, June 30, 2022** | **13,690,833** | **$** | **0.51** | **$** | **0.41** |
| **Exercisable, June 30, 2022** | **9,738,750** | **$** | **0.38** | **$** | **0.30** |

*On October 21, 2021, the Company issued 125,000 shares for the exercise of 125,000 options. These options were exercised in error and the value associated with the shares was recorded as $nil. On February 18, 2022, the issued shares were returned to Treasury.

(Expressed in United States dollars)

## 15. SHAREHOLDERS' EQUITY (Continued)

As at June 30, 2022, the following stock options were outstanding and exercisable:

| Number of options outstanding | | Exercise price ($CAD) | | Exercise price ($USD) | Expiry date | Number of options exercisable |
|---|---|---|---|---|---|---|
| 2,820,000 | $ | 0.30 | $ | 0.23 | February 15, 2023 | 2,820,000 |
| 75,000 | | 0.41 | | 0.32 | August 8, 2022 | 75,000 |
| 50,000 | | 0.30 | | 0.23 | December 15, 2024 | 50,000 |
| 250,000 | | 0.30 | | 0.23 | January 12, 2025 | 250,000 |
| 2,050,000 | | 0.17 | | 0.13 | October 6, 2025 | 2,050,000 |
| 150,000 | | 0.17 | | 0.13 | October 9, 2025 | 150,000 |
| 300,000 | | 0.25 | | 0.19 | November 24, 2025 | 300,000 |
| 150,000 | | 0.73 | | 0.57 | March 8, 2026 | 150,000 |
| 3,162,500 | | 0.51 | | 0.40 | August 10, 2026 | 2,993,750 |
| 183,333 | | 0.60 | | 0.47 | August 20, 2026 | 50,000 |
| 250,000 | | 0.57 | | 0.44 | August 23, 2026 | 250,000 |
| 275,000 | | 0.75 | | 0.58 | September 20, 2026 | 275,000 |
| 30,000 | | 0.97 | | 0.75 | October 1, 2026 | 15,000 |
| 120,000 | | 1.62 | | 1.26 | November 18, 2026 | 60,000 |
| 150,000 | | 1.25 | | 0.97 | December 15, 2026 | - |
| 3,255,000 | | 0.81 | | 0.63 | January 27, 2027 | 250,000 |
| 195,000 | | 0.81 | | 0.63 | January 31, 2027 | - |
| 125,000 | | 0.81 | | 0.63 | February 7, 2027 | - |
| 100,000 | | 0.54 | | 0.42 | April 27, 2027 | - |
| **13,690,833** | **$** | **0.51** | **$** | **0.41** | | **9,738,750** |

As at June 30, 2022, the weighted average remaining contractual life of outstanding options is 3.32 years. Subsequent to June 30, 2022, 75,000 options expired unexercised.

During the six months ended June 30, 2021, the Company granted 3,675,000 options with a fair value of $1,690,487. Share-based payments relating to options vesting during the year using the Black- Scholes option pricing model was $705,352.

Employee options were measured at fair value on the grant date and recognized over the vesting period from the date of grant. Nonemployee options were measured indirectly with reference to the fair value of the equity instruments granted as the fair value of goods and services received cannot be measured reliably. Nonemployee options are measured at the end of each reporting period over the term that goods and services are received.

(Expressed in United States dollars)

## 15. SHAREHOLDERS' EQUITY (Continued)

The fair value of stock options granted during the six months ended June 30, 2022 and the year ended December 31, 2021 was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

| Assumptions | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Risk-free interest rate | 1.64 – 2.63% | 0.74% |
| Expected volatility | 100% | 100% |
| Dividend yield | 0% | 0% |
| Expected life | 5.00 years | 5.00 years |

### d) Restricted Share Units ("RSU")

During the year ended December 31, 2021, the Company granted 383,500 RSUs with a fair value of $261,508. Share-based payments relating to RSUs vesting during the six months ended June 30, 2022 using the Black- Scholes option pricing model was $66,585 (2021 - $68,762). The RSUs issued during the year ended December 31, 2021 vest as follows:

- 133,500 RSUs
  - 50% vest on December 31, 2021
  - 50% vest on December 31, 2022
- 100,000 RSUs
  - 33% vest on August 23, 2022
  - 33% vest on August 23, 2023
  - 34% vest on August 23, 2024
- 150,000 RSUs
  - 33% vest on December 15, 2022
  - 33% vest on December 15, 2023
  - 33% vest on December 15, 2024

As at June 30, 2022, there were 341,750 RSUs outstanding, 25,000 RSUs and 316,750 unvested.

(Expressed in United States dollars)

## 16. EXPENSES BY NATURE

| | Three months ended June 30, 2022 | Three months ended June 30, 2021 | Six months ended June 30, 2022 | Six months ended June 30, 2021 |
|---|---|---|---|---|
| Marketing expenses | $ 216,863 | $ 287,680 | $ 747,086 | $ 793,397 |
| Meals and entertainment | 12,105 | 1,240 | 22,307 | 2,326 |
| Tradeshow expenses | 10,920 | 833 | 33,295 | 833 |
| Salaries and wages | 305,946 | 55,000 | 611,276 | 104,583 |
| Total sales and marketing expense | $ 545,834 | $ 344,753 | $ 1,413,964 | $ 901,139 |
| | | | | |
| General and administrative expenses | $ 150,550 | $ 90,903 | $ 354,792 | $ 284,131 |
| Professional fees | 152,495 | 66,327 | 275,291 | 161,713 |
| Consulting fees | 128,531 | 233,492 | 240,489 | 406,288 |
| Management fees | 62,500 | 199,729 | 114,072 | 347,104 |
| Rent | 3,425 | 3,036 | 6,520 | 6,172 |
| Salaries and wages | 83,584 | 164,293 | 178,656 | 315,935 |
| Travel | 75,764 | 7,624 | 122,157 | 14,608 |
| Depreciation (note 5) | 11,810 | 4,864 | 21,572 | 9,439 |
| Lease-related depreciation (note 10) | 22,741 | 12,569 | 38,700 | 25,138 |
| Utilities | 13,949 | 2,763 | 22,783 | 20,287 |
| Bad debt expenses | 33,528 | - | 72,556 | 3,437 |
| Penalties and fees | - | 965 | - | 965 |
| Transfer agent and filing fees | 22,671 | 26,899 | 30,126 | 48,868 |
| Total general and administrative expense | $ 761,548 | $ 813,464 | $ 1,477,714 | $ 1,644,085 |
| | | | | |
| Contract development and materials expense | $ 37,038 | $ 198,363 | $ 63,538 | $ 474,332 |
| Consulting fees | 303,887 | 88,275 | 571,956 | 168,540 |
| Salaries and wages | 182,227 | 85,708 | 389,645 | 158,208 |
| Total research and development expenses | $ 523,152 | $ 372,346 | $ 1,025,139 | $ 801,080 |

## 17. RELATED PARTY TRANSACTIONS

*Key management compensation*

During the six months ended June 30, 2022, remuneration of the Company’s key management personnel consisted of management fees of $601,800 (2021 - $346,000) and share-based payments of $394,651 (2021 - $75,318). Management fees are included in general and administrative expenses and sales and marketing expense.

(Expressed in United States dollars)

## 17. RELATED PARTY TRANSACTIONS (Continued)

*Other related party transactions*

During the six months ended June 30, 2022 and 2021, other related party transactions consisted of the following:

| | | Six months ended June 30, 2022 | | Six months ended June 30, 2021 |
|---|---|---|---|---|
| Revenue earned on the sale of hardware, included in hardware revenue | $ | 261,122 | $ | - |
| Revenue earned on the provision of installation services to Winkel, included in professional services revenue | $ | 217,926 | $ | - |
| Revenue earned on the sale of software, included in license fee revenue | $ | 111,255 | $ | - |
| Revenue earned on the provision of consulting services, included in professional services revenue | $ | 180,000 | $ | - |
| Rental income on sublease | $ | 11,068 | $ | - |
| Director fees, included in general and administrative expenses | $ | 8,000 | $ | - |
| Creative services paid to a related entity controlled by an officer, included in cost of sales | $ | - | $ | 12,675 |
| Marketing expenses paid to a related entity, included in sales and marketing expenses | $ | 239,997 | $ | 194,683 |
| Accounting and administrative fees paid to related entities, included in general and administrative expenses | $ | 39,805 | $ | 1,425 |
| Contract project development labour paid to a related entity, included in research and development expenses | $ | - | $ | 185,000 |
| Interest expense for notes payable to related parties, excluding discount accretion | $ | - | $ | 12,711 |

*Related party balances*

At June 30, 2022, $53,402 (December 31, 2021 - $912,810) was due to related parties and is included in accounts payable and accrued liabilities. The amounts were non-interest bearing and due on demand.

At June 30, 2022, $1,815,228 (December 31, 2021 - $1,220,860) was due from Winkel and is included in trade and other receivables. The amount is interest bearing at 5.0% per annum and repayments are due to begin starting September 1, 2022.

At June 30, 2022, $153,825 (December 31, 2021 - $Nil) was due from a related party and is included in trade and other receivables. The amount is non-interest bearing and due on demand.

## 18. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue its operations and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. The Company considers its capital for this purpose to be its equity, promissory notes and convertible debt.

The Company's primary source of capital is through the issuance of common shares. The Company manages and adjusts its capital structure when changes in economic conditions occur. To maintain or adjust the capital structure, the Company may seek additional funding. The Company may require additional capital resources to meet its administrative overhead expenses in the long term. The Company believes it will be able to raise capital as required in the long term but recognizes there will be risks involved that may be beyond its control. There are no external restrictions on the management of capital.

## 19. FINANCIAL RISK MANAGEMENT

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

*Foreign exchange risk*
Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Foreign exchange risks are closely monitored, and attempts are made to match foreign cash inflows and outflows. As at June 30, 2022, the Company is primarily exposed to foreign exchange risk through its cash and cash equivalents denominated in Canadian dollars. The Company mitigates foreign exchange risk by monitoring foreign exchange rate trends and evaluating reinvestment opportunities when possible. The Company does not currently hedge its foreign exchange risk. Based on current exposures as at June 30, 2022 and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the United States dollar would result in a gain or loss of approximately $41,000 in the Company's condensed consolidated statements of loss and comprehensive loss.

*Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and trade and other receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness. The Company mitigates credit risk by evaluating the creditworthiness of customers prior to conducting business with them and monitoring its exposure for credit losses with existing customers. During the six months ended June 30, 2022, the Company incurred $72,556 in bad debt expense (2021 - $3,437).

(Expressed in United States dollars)

## 19. FINANCIAL RISK MANAGEMENT (Continued)

Trade and other receivables also include refundable goods and services tax which bears minimal credit risk as it is receivable from the Canadian government. For trade receivables, the Company applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected loss rates are based on the payment profiles of sales over a period of 12 months before June 30, 2022 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect the current forward-looking information on economic factors affecting the ability of customers to settle receivables. Accounts receivable are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, business failure, the failure of a debtor to engage in a repayment plan, and a failure to make contractual payments over the negotiated contract period.

The Company's aging of trade receivables was as follows:

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Current | $ 872,095 | $ 1,274,469 |
| 31- 60 days | 76,108 | - |
| 61 - 90 days | 182,592 | - |
| 91+ days | 1,819,974 | 41,465 |
| Total | $ 2,950,769 | $ 1,315,934 |

*Interest rate risk*
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at June 30, 2022, the Company is not exposed to significant interest rate risk.

*Liquidity risk*
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. The Company addresses its liquidity through equity financing obtained through the issuance of equity and common shares. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

## 20. BASIS OF FAIR VALUE

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

**20. BASIS OF FAIR VALUE (Continued)**

Level 2 - fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable marker data (unobservable inputs).

The Company's financial instruments consist of cash, trade and other receivables, accounts payable, lease liabilities, convertible debentures, embedded derivatives and notes payable. With the exception of convertible debentures, embedded derivatives and notes payable, the carrying value of the Company's financial instruments approximate their fair values due to their short-term maturities. The fair value of convertible debentures and notes payable approximate their carrying value, excluding discounts, due to minimal changes in interest rates and the Company's credit risk since issuance of the instruments.

**21. CONTINGENCY**

In the ordinary course of business, the Company and its subsidiary may become involved in various legal and regulatory actions. The Company establishes legal provisions when it becomes probable that the Company will incur a loss and the amount can be reliably estimated.

During the year ended December 31, 2020, a demand letter was received by the Company from Interknowlogy, LLC ("Interknowlogy"), a related company, pertaining to outstanding payment and corresponding late charges. The Company had contested the work performed by Interknowlogy and is in the midst of negotiating with Interknowlogy on the payable. As at June 30, 2022, included in accounts payable is a liability of $587,759 (including $77,760 late payment interest charges), based on the statement of work (December 31, 2021 - $587,759).

**22. SUBSEQUENT EVENTS**

a) Subsequent to June 30, 2022, issued 19,166,705 Units of the Company at $0.30 CAD (USD $0.23) for gross proceeds of $5,750,012 CAD (USD $4,479,947) pursuant to the closing of a prospectus offering. Each Unit comprises one common share and one common share purchase warrant of the Company. Each warrant can be exercised at $0.50 CAD for a period of 36 months from closing.

   The Company incurred cash agent's fees of $460,001 CAD and legal expenses of $78,691 CAD pursuant to the prospectus. The Company also issued 1,533,336 broker warrants and 383,334 common shares as a corporate finance fee. Each broker warrant entitles the holder to one Unit at an exercise price of $0.30 CAD until July 28, 2025.

   Concurrent with the prospectus, the Company issued 2,983,230 Units at a price of $0.30 CAD for gross proceeds of $894,969 CAD pursuant to a non-brokered private placement. The issued units have the same terms as the units issued in the prospectus.

b) Subsequent to June 30, 2022, the Company issued 573,894 common shares related to the exercise of warrants for proceeds of $74,829 (CAD $97,562).

c) Subsequent to June 30, 2022, 75,000 options expired unexercised.

## 22. SUBSEQUENT EVENTS (Continued)

d) On August 18, 2022, the Company issued 100,000 RSUs to an employee and vest as follows: 33% on August 18, 2023, 33% on August 18, 2024 and 34% on August 18, 2025.