

EYEfi Group Technologies Inc.

Consolidated Financial Statements

For the Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF EYEFI GROUP TECHNOLOGIES INC.

Opinion

We have audited the consolidated financial statements of EYEFI Group Technologies Inc. and its subsidiaries (the "Company"), which comprise:

- ♦ the consolidated statement of financial position as at December 31, 2022;
- ♦ the consolidated statement of loss and comprehensive loss for the year then ended;
- ♦ the consolidated statement of changes in equity (deficiency) for the year then ended;
- ♦ the consolidated statement of cash flows for the year then ended; and
- ♦ the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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 *Auditors' 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 is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$1,094,267 during the year ended December 31, 2022 and, as of that date, the Company's accumulated deficit is \$6,395,605. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, 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 judgement, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. 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.

Except for the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined there are no key audit matters to communicate in our auditors' report.

Other Matter

The consolidated financial statements of the Company as at and for the year ended December 31, 2021 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on April 28, 2022.

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Other Information

Management is responsible for the other information. The other information comprises of the information included in 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 identified above 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 auditors' 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, 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.

Auditors' 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 auditors' 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 judgement 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.

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- ♦ 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 auditors' 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 auditors' 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 period 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 auditors' report is Hervé Leong-Chung.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 4, 2023

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EYefi Group Technologies Inc.
Expressed in Canadian Dollars
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EYefi Group Technologies Inc.
Expressed in Canadian Dollars
Consolidated statements of financial position
As at December 31, 2022 and 2021

	Note	December 31, 2022 \$	December 31, 2021 \$
Assets			
Current assets			
Cash		146,979	354,947
Trade and other receivables		1,006	48,924
Research and development tax credits receivable	7	376,113	420,848
Prepayments		130	-
Total current assets		524,228	824,719
Non-current assets			
Equipment	8	5,523	33,557
Right-of-use assets	9	157,410	231,391
Intangibles	10	35,346	41,329
Lease bond		29,509	29,379
Total non-current assets		227,788	335,656
Total assets		752,016	1,160,375
Liabilities			
Current liabilities			
Trade and other payables	11,20	416,129	178,070
Facility loan payable	12	202,076	-
Lease liabilities	13	78,504	70,175
Short-term employee benefits		56,920	88,831
Contract liabilities	15	333,961	308,345
Related party loans	22	70,279	-
Total current liabilities		1,157,869	645,421
Non-current liabilities			
Lease liabilities	13	94,419	171,630
Long-term employee benefits		5,854	3,020
Total non-current liabilities		100,273	174,650
Total liabilities		1,258,142	820,071
Equity (deficiency)			
Issued capital	16	5,779,104	5,292,160
Contributed surplus	18	161,417	113,761
Equity component of convertible debt	12	18,176	-
Warrants	17	-	399,524
Cumulative translation adjustment		(69,218)	(60,015)
Accumulated deficit		(6,395,605)	(5,405,126)
Total equity (deficiency)		(506,126)	340,304
Total liabilities and shareholder's equity (deficiency)		752,016	1,160,375

Signed on behalf of the board:

"Simon Langdon"
Director

"Anoosh Manzoori"
Director

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

EYefi Group Technologies Inc.
Expressed in Canadian Dollars
Consolidated statements of loss and comprehensive loss
For the years ended December 31, 2022 and 2021

	Note	December 31, 2022 \$	December 31, 2021 \$
Revenue			
Revenue	6	458,621	501,775
Cost of Sales		<u>(419,544)</u>	<u>(523,299)</u>
Gross profit		<u>39,077</u>	<u>(21,524)</u>
Other income		5,012	5,768
Research and development tax credits	7	378,374	376,797
Gain on sale of equipment	8	26,714	-
Expenses			
Administration		(504,822)	(700,203)
Depreciation and amortization expense	8,9,10	(84,659)	(98,712)
Employee salaries and benefits expense	21,22	(670,259)	(695,856)
Finance costs		-	(44,279)
Interest expense	12,13	(42,945)	(59,847)
Marketing		(57,719)	(59,308)
Share-based payments	18	<u>(189,864)</u>	<u>(75,342)</u>
Loss before income tax recovery		(1,101,091)	(1,372,506)
Income tax recovery	14	<u>6,824</u>	<u>-</u>
Loss after income tax recovery for the year		(1,094,267)	(1,372,506)
Other comprehensive loss			
Foreign currency translation		<u>(9,203)</u>	<u>(51,141)</u>
Other comprehensive loss for the year, net of tax		<u>(9,203)</u>	<u>(51,141)</u>
Total comprehensive loss for the year		<u>(1,103,470)</u>	<u>(1,423,647)</u>
Basic and diluted loss per share	19	\$ (0.04)	\$ (0.05)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

EYefi Group Technologies Inc.
Expressed in Canadian Dollars
Consolidated statements of changes in equity (deficiency)
For the years ended December 31, 2022 and 2021

	Number of shares \$	Issued capital \$	Contributed surplus \$	Cumulative translation adjustment \$	Warrants \$	Accumulated deficit \$	Total equity \$
Balance at January 1, 2021	23,005,600	3,649,090	50,180	(8,874)	-	(4,032,620)	(342,224)
Loss for the year	-	-	-	-	-	(1,372,506)	(1,372,506)
Other comprehensive loss for the year	-	-	-	(51,141)	-	-	(51,141)
Exercised options	150,000	26,761	(11,761)	-	-	-	15,000
Private placement (note 16)	4,400,000	1,764,151	-	-	435,849	-	2,200,000
Capital raising costs (note 16)	-	(147,842)	-	-	(36,325)	-	(184,167)
Share-based payments	-	-	75,342	-	-	-	75,342
Balance at December 31, 2021	<u>27,555,600</u>	<u>5,292,160</u>	<u>113,761</u>	<u>(60,015)</u>	<u>399,524</u>	<u>(5,405,126)</u>	<u>340,304</u>

	Number of shares \$	Issued capital \$	Contributed surplus \$	Cumulative translation adjustment \$	Warrants \$	Equity component of convertible debt \$	Accumulated deficit \$	Total equity \$
Balance at January 1, 2022	27,555,600	5,292,160	113,761	(60,015)	399,524	-	(5,405,126)	340,304
Loss for the year	-	-	-	-	-	-	(1,094,267)	(1,094,267)
Other comprehensive loss for the year	-	-	-	(9,203)	-	-	-	(9,203)
Exercised options (note 18)	490,000	87,420	(38,420)	-	-	-	-	49,000
Warrants Expired (note 17)	-	399,524	-	-	(399,524)	-	-	-
Share-based payments (note 18)	-	-	189,864	-	-	-	-	189,864
Options Expired (note 18)	-	-	(103,788)	-	-	-	103,788	-
Convertible loan equity (note 12)	-	-	-	-	-	25,000	-	25,000
Recognition of deferred tax liability (note 14)	-	-	-	-	-	(6,824)	-	(6,824)
Balance at December 31, 2022	<u>28,045,600</u>	<u>5,779,104</u>	<u>161,417</u>	<u>(69,218)</u>	<u>-</u>	<u>18,176</u>	<u>(6,395,605)</u>	<u>(506,126)</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

EYefi Group Technologies Inc.
Expressed in Canadian Dollars
Consolidated statements of cash flows
For the years ended December 31, 2022 and 2021

	Note	December 31, 2022 \$	December 31, 2021 \$
Cash flows from operating activities			
Net loss for the year		(1,094,267)	(1,372,506)
<i>Adjustments for items not affecting cash</i>			
Depreciation and amortization	8,9,10	84,659	98,712
Accretion expense	12	2,076	-
Income tax recovery	14	(6,824)	-
Interest on lease obligations	13	13,086	15,494
Financing cost		-	44,279
Share-based payments	18	189,864	75,342
Gain on disposal of equipment	8	(26,714)	-
		(838,120)	(1,138,679)
<i>Net changes in non-cash working capital balances</i>			
Trade and other receivables		46,033	35,915
Prepayments		(130)	-
Research and development tax credits receivable		45,741	(200,834)
Income tax refund due		-	37,930
Trade and other payables		234,004	1,231
Contract liabilities		25,313	-
Employee benefit provisions		(29,687)	(32,275)
Net cash used in operating activities		(516,846)	(1,296,712)
Cash flows from investing activities			
Payments for equipment		-	(10,317)
Proceeds from disposal of equipment	8	49,276	-
Net cash provided by (used in) investing activities		49,276	(10,317)
Cash flows from financing activities			
Net proceeds from units issued in private placement		-	2,015,833
Proceeds from exercised stock options		49,000	15,000
Lease payments		(82,209)	(94,012)
Proceeds from (repayment of) facility loan	12	225,000	(828,696)
Net proceeds from related party loans		69,042	-
Net cash provided by financing activities		260,833	1,108,125
Net decrease in cash		(206,737)	(198,904)
Cash at the beginning of the financial year		354,947	654,666
Effects of exchange rate changes		(1,231)	(100,815)
Cash at the end of the financial year		<u>146,979</u>	<u>354,947</u>
		December 31, 2022 \$	December 31, 2021 \$
Supplemental disclosure of cash flow information			
Interest paid		29,859	-
Interest paid in prepayments		130	-
Income taxes paid		-	-

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

EYefi Group Technologies Inc.
Expressed in Canadian Dollars
Notes to the consolidated financial statements
For the years ended December 31, 2022 and 2021

Note 1. Nature of operations and going concern

EYefi Group Technologies Inc. (the "Company") was incorporated under the laws of the Province of British Columbia, Canada on October 4, 2018. The Company's registered office and principal place of business are: Registered Office #800-1281 W. Georgia Street, Vancouver BC, V6E 3J7 Canada and 17/71 Victoria Crescent, Abbotsford, Victoria 3067 Australia. The Company became a Reporting Issuer on November 10, 2020. On December 4, 2020, the Company commenced trading on the Canadian Stock Exchange under the symbol "EGTI".

The Company's principal business activity is a software and engineering entity that has developed, patented and commercialized innovative spatial, predictive, approximation and radial convolution technology called SPARC and an associated product suite that turns any sensor, camera or smartphone device (fixed, mobile, airborne, portable or handheld) into a target co-ordinate acquisition system.

The Company's consolidated financial statements have been prepared on a going concern basis. The going concern basis of the presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize the carrying value of its assets and discharge its liabilities in the normal course of operations. The Company incurred a net loss of \$1,094,267 (2021 - \$1,372,506) and had an accumulated deficit of \$6,395,605 (2021 - \$5,405,126) as at December 31, 2022. To date, the Company has funded operations through external financing and revenue from operations. The Company's ability to continue as a going concern is dependent upon its ability to achieve profitable operations in the future. These conditions indicate the existence of a material uncertainty that may cast significant doubt regarding the company's ability to continue as a going concern. The consolidated financial statements do not reflect adjustments that would be necessary if the going assumption was not appropriate. These adjustments could be material.

On March 12, 2020, the World Health Organization declared the global outbreak of the COVID-19 virus as a pandemic. The outbreak has spread throughout Europe, the Middle East, Canada, United States and Australia, causing companies and various international jurisdictions to impose restrictions, such as quarantines, closures, cancellations and travel restrictions. Although effective vaccines are currently being distributed worldwide, the emergence of new and more infectious variants of the virus could slow the relaxing of restrictions and the recovery of the global economy. While these effects are expected to be temporary, significant uncertainty remains as to the potential impact on the Company's ability to access capital and on its results of operations and financial condition. To date, the Company's operations have remained stable as the pandemic continues to progress and evolve.

The Board of Directors approved the financials on April 4, 2023.

Note 2. Basis of preparation

Statement of compliance

These audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International financial Reporting Interpretations Committee ("IFRIC").

Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments carried at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Critical accounting estimates

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

Basis of consolidation

The consolidated financial statements include the consolidated results of all entities considered to be part of the consolidated entity due to their underlying common shareholding interest. These entities include EYefi Group Technologies Inc. ("EYEFI") which operates in Canada, and its wholly owned subsidiaries, EYefi Pty Ltd ("EYefi") and Conxsme Pty Ltd. ("Conxsme"), which operate in Australia. Subsidiaries are consolidated from the date upon which control is acquired by the Company. All intercompany transactions and balances have been eliminated on consolidation.

EYefi Group Technologies Inc.
Expressed in Canadian Dollars
Notes to the consolidated financial statements
For the years ended December 31, 2022 and 2021

Note 2. Basis of preparation (continued)

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. The functional currency of the Company's subsidiaries is the Australian dollar.

IAS 21 prescribes how an entity should: account for foreign currency transactions; translate financial statements of a foreign operation into the entity's functional currency; and translate the entity's financial statements into a presentation currency, if different from the entity's functional currency. The financial statements as of December 31, 2022 and 2021 and for the years ended December 31, 2022 and 2021, have been translated into Canadian dollars in accordance with International Accounting Standard ("IAS") 21, "The Effects of Changes in Foreign Exchange Rates", as follows:

- Assets and liabilities presented and previously reported in Australian dollars and have been translated into Canadian dollars using the period-end-exchange rate;
- Statements of profit or loss and other comprehensive income or loss have been translated using average exchange rates prevailing during the reporting period;
- Shareholders' equity (deficiency) balances have been translated using historical exchange rates in effect on the date that transactions occurred; and
- Resulting exchange differences have been recorded to the cumulative translation adjustment account on translation.

Foreign currency transactions

Foreign currency transactions are translated into the consolidated entity's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. For the purpose of the consolidated financial statements, assets and liabilities of the entities that have functional currencies other than the Canadian dollar are translated to Canadian dollars at the reporting date using the closing exchange rate. Revenue and expenses are translated at yearly average exchange rates that approximate those in effect at the transaction dates. Differences arising from these foreign currency translations are recognized in Cumulative Translation Adjustment ("CTA") and presented within equity.

Note 3. Summary of significant accounting policies

The following accounting policies are the most relevant to the Company:

Revenue from Contracts with Customers

Revenue is recognized at an amount that reflects the consideration to which the Company is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Company: identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognizes revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised, and collection is reasonably assured. Cash received in advance for customer contracts for which services are yet to be performed is recorded as contract liabilities.

The Company has two primary revenue streams:

- Software and hardware solution services; and
- Consulting fees.

Hardware sales are recognized upon delivery to the customer, and software solution and professional services are recognized as the services are provided.

Note 3. Summary of significant accounting policies (continued)

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract contains a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Company, as lessee, recognizes a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments, at the commencement date of a lease.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the company expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

Right-of-use assets that meet the definition of investment property are measured at fair value where the company has adopted a fair value measurement basis for investment property assets.

The lease liability is initially measured at the present value of the future 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.

Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

The lease liability is subsequently increased by the interest cost and decreased by lease payments made. The Company remeasures the lease liability when there is a change in future lease payments arising from a change in an index or a rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase, extension, or termination option is reasonably certain to be (or not to be) exercised.

The Company has elected not to recognize a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Income tax

Income tax expense, consisting of current and deferred tax, is recognized in the consolidated statements of loss and comprehensive loss. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjustment for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the asset and liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

Note 3. Summary of significant accounting policies (continued)

Government grants

Government grants are recognized in the profit or loss on a systematic basis over the periods in which the consolidated entity recognizes, as expenses, the related costs for which the grants are intended to compensate. The consolidated entity uses the income approach and presents research and development grant income separately as part of the profit or loss as "research and development tax credits". The consolidated entity has been lodging research and development applications with the Australian governing bodies since 2014 and has reasonable assurance that all of the expenditures qualify for the grants and that all conditions have been met, and that there is reasonable assurance the amount will be collectible when they are recorded. There are no unfulfilled conditions or other contingencies attached to these grants.

The research and development expenditures are permitted as established by AusIndustry, the Australian government body that reviews and approves research and development claims. In considering this, management considered the methodology used in assessing such expenditures as qualifying expenditures to be consistent with the methodology applied to like-for-like claims it has lodged in previous years since 2014. Management also considered the expertise and experience of the research and development consultant contracted to assist in the formulation and lodgment of those claims.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Company has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation.

Equipment

Equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Depreciation is calculated on a declining balance basis to write off the net cost of each item of equipment as follows:

Equipment	40%
Motor vehicle	25%

Financial Instruments

IFRS 9 contains three principle classifications for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"), and fair value through profit or loss ("FVTPL"). Classification of financial assets under IFRS 9 is generally based on a business model and its contractual cash flow characteristics.

The following table shows the classification categories under IFRS 9 for each class of the Company's financial assets and financial liabilities:

Asset/Liability	Measurement Category	Subsequent Measurement
Cash	FVTPL	FVTPL
Trade and other receivables	Amortized cost	Amortized cost
Lease bond	Amortized cost	Amortized cost
Trade and other payables	Amortized cost	Amortized cost
Employee benefits	Amortized cost	Amortized cost
Facility loan payable	Amortized cost	Amortized cost
Lease liabilities	Amortized cost	Amortized cost
Related party loans	Amortized cost	Amortized cost

Note 3. Summary of significant accounting policies (continued)

Financial assets

Recognition and initial measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at FVTPL, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at FVTPL are expensed in profit or loss when incurred.

Classification and subsequent measurement

Financial assets are subsequently measured based on their classification as measured at amortized cost, FVTPL, or FVOCI. The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost, using the effective interest method, and net of any impairment allowances. Gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of trade and other receivables and lease bond.
- Fair value through other comprehensive income - For financial assets that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments at fair value through other comprehensive income ("FVOCI"), with all subsequent changes in fair value being recognized in other comprehensive income. This election is available for each separate investment. Under this category, fair value changes are recognized in OCI while dividends are recognized in profit or loss. The Company does not have any financial assets designated as FVOCI.
- Fair value through profit or loss - Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded in profit or loss.

Business model assessment

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

Financial liabilities

Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value less transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Classification and subsequent measurement

Subsequent to initial recognition, all of the Company's financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains, and losses relating to a financial liability are recognized in profit or loss.

Note 3. Summary of significant accounting policies (continued)

Derecognition of financial liabilities

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled, or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Compound financial instruments

The Company evaluates the terms of convertible financial instruments to determine whether it meets the definition of a compound financial instrument, such that it contains both a financial liability and an equity component, when the number of shares to be issued is fixed and does not vary with changes in fair value. Where an instrument contains both a financial liability and equity component, these components are recognized separately based on the substance of the instrument.

The initial carrying amount of a convertible financial instrument is first allocated to the liability component, and the residual amounts are then assigned to the equity component. The liability component is measured initially at fair value, calculated at the present value of future cash flows discounted at the market rate for similar debentures with no conversion feature, and is subsequently measured at amortized cost using the effective interest rate method. The equity component is recognized in equity and is not subsequently revalued. The fair value assigned to the equity component is transferred to issued capital or deficit upon conversion or repayment.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognized at cost. Indefinite life intangible assets are not amortized and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortization and any impairment. The gains or losses recognized in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The amortization method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortization method or period.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortized over their remaining useful lives, based on their expiry.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortized cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date, are measured at the amounts expected to be paid when the liabilities are settled.

Note 3. Summary of significant accounting policies (continued)

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

The Company grants equity-settled share-based awards to directors, officers, employees, and consultants. Share-based payments to employees are measured at the fair value of the equity instrument on grant date. The fair value of stock options is measured using the Black-Scholes option pricing model, and share-based payments expense is recognized over the vesting period using the graded vesting method.

Fair value of share-based payments to non-employees is recognized and measured at the date the goods or services are received based on the fair value of the goods or services received. If the fair value of goods and services received cannot be reliably measured, the share-based payment are measured at the fair value of the equity instrument issued.

For both employees and non-employees, the fair value of share-based payments is recognized in profit or loss, with a corresponding increase to contributed surplus. The amount recognized as expense is adjusted to reflect the number of stock options expected to vest. Consideration received on the exercise of stock options is recorded in issued capital and the related share-based payments in contributed surplus is transferred to issued capital. Upon forfeiture or expiry of stock options, any previously recorded share-based payments included in contributed surplus is transferred to deficit.

Issued capital

Common shares are classified as equity.

Proceeds received from the exercise of stock options and warrants are recorded as issued capital, and the related fair value included in contributed surplus or warrants reserve is transferred to issued capital. Shares issued for non-monetary consideration is value at the closing market price at the date of issuance. Proceeds received from the issuance of new shares are recorded as issued capital. When units are issued comprising common shares and warrants, the Company uses the appropriate option pricing model to apportion the fair value of consideration received between share capital and warrants. Upon expiry, any previously recorded amounts in warrant reserve are transferred to issued capital.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Goods and Services Tax ("GST") and other similar taxes

Revenues, expenses, and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Basic and diluted earnings (loss) per share

Basic earnings (loss) per share

Basic earnings per share is calculated by dividing the profit/loss attributable to owners of the Company by the weighted average number of common shares outstanding during the financial period.

Note 3. Summary of significant accounting policies (continued)

Diluted earnings (loss) per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share take into account:

- The after-income tax effect of interest and other financing costs associated with dilutive potential common shares; and
- The weighted average number of additional common shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Research and development

The Company incurs cost on activities that relate to research and development of new and existing products. Research and development costs are expensed, except in cases where development costs meet certain identifiable criteria for deferral. Development costs are capitalized only if the expenditures 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. As at December 31, 2022 and 2021, the Company has not capitalized any research and development costs.

Note 4. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amounts of assets and liabilities within the next financial year. Critical accounting estimates include, but are not limited to, the following:

- **Equipment and intangible assets – useful lives**

The Company estimates the useful lives and selects methods used to allocate amortization amounts of equipment on a systematic basis. Technical obsolescence of the tangible assets could significantly impact estimated residual useful lives and in turn, carrying values being over or understated.

The Company carries the value of intangible assets at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded on a straight-line basis based upon management's estimate of the useful life and residual value. The estimates are reviewed annually and are updated if expectations change as a result of the technical obsolescence or legal and other limits to use. A change in the useful life or residual value will impact the reported carrying value of the intangible assets resulting in a change in related amortization expense.

- **Share-based payments**

The fair value of stock options granted, and compensatory warrants are measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility, expected life of the options, expected dividends and the risk-free rate. The Company estimates volatility based on its historical share price or historical share price of comparable companies, excluding specific time frames in which volatility was affected by specific transactions that are not considered to be indicative of the entities' expected share price volatility. The expected life of the options is based on historical experience and general option holder behaviour. Dividends were not taken into consideration as the Company does not expect to pay dividends.

Note 4. Critical accounting judgements, estimates and assumptions (continued)

- **Facility loan payable**

The facility loan payable included an option which can be settled in the entity's common shares. Therefore, the value of the facility loan was separated into its liability and equity components on the consolidated statements of financial position. The liability component is initially recognized at fair value, calculated at the net present value of the liability based upon non-convertible debt issued by comparable issuers and accounted for at amortized cost using the effective interest rate method. The effective interest rate used is the estimated rate for non-convertible debt with similar terms at the time of issue.

- **Right-of-use asset and lease liability**

The right-of-use asset and lease liability is measured by discounting the future lease payments at incremental borrowing rate. The incremental borrowing rate is an estimated rate the Company would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

- **Income tax**

Income tax expense is comprised of current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

- **Employee benefits provision**

As discussed in note 3, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognized and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Critical accounting judgements

- **Intangible assets**

The application of the Company's accounting policy for intangible asset expenditures requires judgement in determining whether it is likely that the future economic benefits will flow to the Company, which is based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off to profit or loss in the period the new information becomes available.

The Company assesses at each reporting date if the intangible assets have indicators of impairment. In determining whether the intangible assets are impaired, the Company assesses certain criteria, including observable decreases in value, significant changes with an adverse effect on the entity, a change in market interest rates, evidence of technological obsolescence and plans.

Note 4. Critical accounting judgements, estimates and assumptions (continued)

- **Recognition of research and development tax credits**

Recognition of government grant income in relation to research and development expenditure credits is made when the Company has reasonable assurance that all unfulfilled conditions and contingencies attached to those grants will be complied with. In making this assessment, management has considered the following matters:

- The research and development expenditure is permitted research and development expenditure as established by AusIndustry, the Australian government body that reviews and approves research and development claims. In considering this, management considered the methodology used in assessing such expenditures as qualifying expenditures, as to be consistent with the methodology applied to like-for-like claims it has lodged in previous years dating back to 2014. Management also considered the expertise and experience of the research and development consultant it contracted to assist in the formulation and lodgment of those claims; and

- The expenditure is claimable through the Australian Taxation Office ("ATO"), which requires the submission of annual taxation returns. The Company has consistently met lodgment deadlines for submitting those tax returns in previous financial years and has no reason to expect this condition will not continue to be met in future reporting periods.

- **Going concern assumption**

The assessment of whether the going concern assumption is appropriate requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

- **Functional currency determination**

The functional currency of the Company and its subsidiary is the currency of the primary economic environment, and the Company reconsiders the functional currency if there is a change in events and conditions which determined the primary economic environment.

- **Right-of-use assets and lease liability**

For right-of-use assets and lease liability, the Company applies judgement in determining whether the contract contains an identified asset, whether they have the right to control the asset, and the lease term. The lease term is based on considering facts and circumstances, both qualitative and quantitative, that can create an economic incentive to exercise renewal options. Management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

Note 5. Operating segments

The Company has one operating segment: software and electronics engineering services. In identifying the operating segment, management generally follows the Company's service line representing Spatial Video Platform and IIoT Sensor Cloud services. The Company aims to solve critical problems for government and industry customers operating in infrastructure and asset management, emergency management and incident response markets. The Company operates in the Oceania region, which is situated in the Asia-Pacific region.

The operations of the segment are monitored by the Company's Chief Operating Decision Maker and strategic decisions are made based on reporting results. During the year ended December 31, 2022, there have been no changes from prior periods to measurement methods used to determine the segment's profit or loss.

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Note 6. Revenue

	December 31, 2022 \$	December 31, 2021 \$
IloT Sensor Cloud	-	60,664
Spatial Video Platform	455,834	398,734
Consulting fees income	2,787	42,377
	<u>458,621</u>	<u>501,775</u>

IloT Sensor Cloud, Spatial Video Platform and other consulting revenue have all been recognised over the time the services have been rendered.

Major customer revenue contribution

	December 31, 2022 \$	December 31, 2021 \$
<i>The following customers contributed more than 10% of total revenue:</i>		
Telstra	301,625	264,354
Melbourne Water	154,209	131,574
A1 Roadlines	-	57,350
	<u>455,834</u>	<u>453,278</u>

Major customers

Telstra is an Australian telecommunications company that builds and operates telecommunications networks and markets voice, mobile, internet access, pay television, and other products and services.

Melbourne Water is a statutory authority owned by the State of Victoria in Australia. It manages and protects Melbourne's major water resources, including the water storage reservoirs and how drinking water is supplied.

Note 7. Research and development tax credits receivable

	Total \$
Balance at December 31, 2020	220,014
Amounts received	(150,344)
Amounts accrued	376,797
Exchange difference	(25,619)
Balance at December 31, 2021	<u>420,848</u>
Amounts received	(424,115)
Amounts accrued	378,374
Exchange difference	1,006
Balance at December 31, 2022	<u>376,113</u>

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Note 8. Equipment

Reconciliations

Reconciliations of the values at the beginning and end of the current and previous financial year are set out below:

	Equipment	Vehicles	Total
	\$	\$	\$
Balance at December 31, 2020	1,891	33,917	35,808
Additions	10,317	-	10,317
Exchange differences	(48)	(2,136)	(2,184)
Depreciation expense	(2,995)	(7,389)	(10,384)
Balance at December 31, 2021	9,165	24,392	33,557
Disposals	-	(49,276)	(49,276)
Gain on disposal	-	26,714	26,714
Exchange differences	(25)	(326)	(351)
Depreciation expense	(3,617)	(1,504)	(5,121)
Balance at December 31, 2022	<u>5,523</u>	<u>-</u>	<u>5,523</u>

During the year ended December 31, 2022, the Company sold a vehicle for proceeds of \$49,276 and recorded a gain on sale of \$26,714.

Note 9. Right-of-use assets

On December 21, 2020, the Company signed a new lease at 17/71 Victoria Crescent, Abbotsford VIC 3067, Australia with a commencement date of February 1, 2021 and a term of four years.

The right-of-use asset is depreciated over four years and a lease liability is measured at the present value of the lease payments unpaid at commencement date, discounted using the consolidated entity's incremental borrowing rate of 6%.

The Company has one further option to extend the lease (for a further four years) with the last day to exercise the option being November 1, 2024. Given the uncertainty as to whether the option will be exercised at the end of the lease term, this has not been factored into the lease liability calculation.

	Total \$
Balance at December 31, 2020	12,743
Additions	300,181
Exchange differences	1,418
Depreciation expense	<u>(82,951)</u>
Balance at December 31, 2021	231,391
Exchange differences	107
Depreciation expense	<u>(74,088)</u>
Balance at December 31, 2022	<u>157,410</u>

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Note 10. Intangibles

	Patents \$	Trademarks \$	Total \$
Balance at December 31, 2020	44,614	5,980	50,594
Exchange differences	(3,488)	(400)	(3,888)
Amortization expense	(4,304)	(1,073)	(5,377)
Balance at December 31, 2021	36,822	4,507	41,329
Exchange differences	(497)	(36)	(533)
Amortization expense	(4,549)	(901)	(5,450)
Balance at December 31, 2022	<u>31,776</u>	<u>3,570</u>	<u>35,346</u>

Note 11. Trade and other payables

	December 31, 2022 \$	December 31, 2021 \$
Trade payables	366,692	12,876
Post-employment benefits payables	16,620	24,567
Employee withholding taxes payables	15,988	73,938
Other payables	<u>16,829</u>	<u>66,689</u>
	<u>416,129</u>	<u>178,070</u>

Refer to note 20 for further information on financial instruments and risk management.

Note 12. Facility loan payable

On July 16, 2020, EYefi received the following funds, totaling AUD\$880,000 (CAD\$853,672) as “escrow agent” for EYefi Group Technologies Inc relating to loan facility agreements, with an interest rate of 10% and a term of two years:

Loan with Shape Capital Pty Ltd, in the amount of AUD\$80,000
Loan with Chajasa Pty Ltd (as trustee for Lorback Family Trust 2), in the amount of AUD\$200,000
Loan with Gilkat Pty Ltd, in the amount of AUD\$100,000
Loan with 958 Consulting Pty Ltd, in the amount of AUD\$100,000
Loan with Simon Langdon, in the amount of AUD\$100,000
Loan Cheryl Hargrave-Hill, in the amount of AUD\$300,000

On April 12, 2021, the company fully repaid the facility loan.

On 29 November 2022, the Company entered into an unsecured loan facility agreement with its shareholder Atom Jack Pty Ltd (the “Lender”) and was advanced \$225,000. The loan bears interest of 10% per annum, due upon receipt of principal. Included in interest expense is \$22,500 paid to the Lender. The maturity date on the loan facility is November 29, 2023.

The principal amount of \$225,000, is convertible into 592,105 common shares of the Company at a price of \$0.38 per share. If the conversion option is not exercised by the Lender, the principal is repayable on the first anniversary of the loan facility agreement.

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Note 12. Facility loan payable (continued)

The terms of the loan facility agreement also include the issuance of 592,105 bonus warrants to the Lender. Each bonus warrant grants the Lender the option to purchase one common share of the Company at an exercise price of \$0.40, expiring on November 25, 2024.

The facility loan contains both a financial liability component and an equity component given the conversion feature and the bonus warrants grant the Lender the option to acquire an equity interest in the Company and meet the fixed-for-fixed criteria. The Company bifurcated the loan facility using a discounted cash flow model and recognized a financial liability of \$200,000, representing the fair value of the liability component discounted at a rate of 12.5%. The equity component consists of the conversion feature and the bonus warrants and was assigned a fair value of \$25,000.

	Total \$
Balance at December 31, 2020	853,672
Repayment	(853,672)
Balance at December 31, 2021	-
Issuance of convertible debt	225,000
Equity portion of convertible debt	(25,000)
Accretion interest	2,076
Balance at December 31, 2022	202,076

Note 13. Lease liabilities

Balance at January 1, 2021	18,968
Additions	308,730
Payments towards lease	(94,012)
Accretion	15,494
Exchange differences	(7,375)
Balance at December 31, 2021	241,805
Payments towards lease	(82,209)
Accretion	13,086
Exchange differences	241
Balance at December 31, 2022	172,923

	December 31, 2022 \$	December 31, 2021 \$
Current lease liabilities	78,504	70,175
Non-current lease liabilities	94,419	171,630
	172,923	241,805

The undiscounted lease payments remaining are as follows:

No later than 1 year	86,752
Later than 1 year, but no later than 5 years	97,765
	184,517

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Note 14. Income tax

For the years ended December 31, 2022 and 2021, the reconciliation of the expected income tax at the Canadian statutory income tax rate of 27% (2021 - 27%) to the actual income tax is as follows:

	December 31, 2022 \$	December 31, 2021 \$
Net loss before tax	<u>(1,094,267)</u>	<u>(1,372,506)</u>
	December 31, 2022 \$	December 31, 2021 \$
Statutory tax rate	27%	27%
Expected income tax recovery	(295,452)	(370,576)
Differences between Canadian and foreign tax rates	26,483	(20,699)
Items not deductible for tax purposes	230,655	193,843
Effect of change in tax rates	74,949	-
Impact of foreign exchange on tax assets and liabilities	4,879	-
Under provided in prior years	42,078	-
Unused tax losses and tax offsets not recognized	(52,698)	250,477
Origination and reversal of temporary differences	<u>(24,070)</u>	<u>(53,045)</u>
Income tax recovery	<u>6,824</u>	<u>-</u>

The Company recognizes tax benefits on losses or other deductible amounts where it is probable future taxable income for the recognition of deferred tax assets has been met. The Company carries convertible debt with an equity portion for accounting purposes which gives rise to temporary differences that result in deferred tax liabilities for which deferred tax assets can be recognized, consisting of the following:

	December 31, 2022 \$	December 31, 2021 \$
Deferred tax liability on equity component of debt	(6,823)	-
Deferred tax asset recognized to offset liability	<u>6,823</u>	<u>-</u>
	<u>-</u>	<u>-</u>

Additionally, the Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	December 31, 2022 \$	December 31, 2021 \$
Non-capital losses carried forward	655,196	537,883
Share issuance costs	96,210	122,801
Accruals and provisions	<u>49,952</u>	<u>56,900</u>
	<u>801,358</u>	<u>717,584</u>

As at December 31, 2022, the Company has Canadian non-capital losses of \$41,130, and Australian non-capital losses of \$2,576,364 that may be applied to reduce future taxable income. If these losses are not used to offset future income, the Canadian tax losses will expire starting December 31, 2040 through the year ended December 31, 2042 and the Australian non-capital losses can be held indefinitely.

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Note 15. Contract liabilities

Contract liabilities presented in the consolidated statements of financial position represents deferred revenue relating to server licenses of EYefi's Spatial Video/SPARC platform deployed in Telstra data center, which have not yet been activated or configured for customer use. There is further configuration required once Telstra starts connecting cameras and customers (subscriptions) to those servers. This activity, when it occurs, will take less than a week and will be a one-off exercise. The Company has the resources to finish this configuration work and does not expect there to be significant costs associated with completing this work. Furthermore, contract liabilities also includes unearned revenue in relation to work to be completed for Melbourne Water. The Company will complete the work during the 2023 financial year.

	December 31, 2022 \$	December 31, 2021 \$
Contract liabilities	<u>333,961</u>	<u>308,345</u>

Note 16. Issued capital

Ordinary shares

Ordinary shares entitle the holder voting rights and to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Private placement

On March 31, 2021, EYEFI closed a private placement offering of \$2,200,000 with an offering of up to 4,400,000 units of the Company (the "Offering") at \$0.50 per unit ("Unit"). Each Unit consists of one common share ("Share") and one Share purchase warrant to purchase one additional Share at a price of \$0.75 per additional share for a one-year term from the date of closing ("Closing") of the Offering (a "Warrant"). The Warrants are subject to an acceleration clause: if the volume weighted average closing price of the Shares on the CSE equals or exceeds \$1.00 or more for a minimum of ten consecutive trading days at any time after Closing, then the Company may, by providing written notice (the "Acceleration Notice"), accelerate the Expiry Date of the Warrants to that date which is 30 days from the date of providing the Acceleration Notice. Total commissions paid were \$184,167. The fair value of the warrants issued during the year ended December 31, 2021, allocated to warrants as part of the Offering, was \$435,849. The warrants were valued using the Barrier option pricing model; refer to note 17 for further details.

Exercised options

During the year ended December 31, 2022, 490,000 options were exercised at \$0.10 per share.

Refer to note 18 for further details.

Note 17. Warrants

On November 29, 2022, the Company issued 592,105 bonus warrants in connection with the loan facility agreement described in note 12. The bonus warrants were assigned a fair value of \$nil.

On March 31, 2021, the Company issued 4,400,000 warrants in connection with the private placement transaction described in note 16. The fair value of the warrants was estimated using the Barrier option pricing model with the following estimated assumptions:

Stock price	0.85
Strike price	0.75
Term	1
Risk-free interest rate	0.23%
Dividend yield	0%
Volatility	181.64%
Barrier	1
Rebate	0.25

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Note 17. Warrants (continued)

As the Company does not have sufficient history of past share prices, the expected volatility was calculated by taking the volatility of a comparable company.

On March 11, 2022, the Company amended the warrants to extend the exercise term from March 31, 2022 to September 30, 2022. The warrants are otherwise unaltered. On September 30, 2022, the 4,400,000 warrants were expired without exercise and a value of \$399,524 was transferred from warrant reserves to issued capital as a result.

Warrants outstanding as at December 31, 2022 are summarized below:

Details

Balance at December 31, 2020		-
Issue of warrants	March 31, 2021	4,400,000
Balance at December 31, 2021		<u>4,400,000</u>
Expired warrants	September 30, 2022	(4,400,000)
Issue of warrants	November 29, 2022	<u>592,105</u>
Balance at December 31, 2022		<u><u>592,105</u></u>

The balance of the warrants outstanding and exercisable as at December 31, 2022 is as follows:

Expiry date	Exercise price	Remaining life (Years)	Warrants outstanding
November 25, 2024	\$0.40	1.90	592,105

The balance of the warrants outstanding and exercisable as at December 31, 2021 is as follows:

Expiry date	Exercise price	Remaining life (Years)	Warrants outstanding
March 31, 2022	\$0.75	0.25	4,400,000

Note 18. Stock options

On January 12, and April 1, 2021, Accelerative Investments Pty Ltd and Sigaras Family Investments Pty Ltd exercised 50,000 and 100,000 options, respectively, at \$0.10 share price. In connection with the exercises, the Company issued 150,000 shares and received gross proceeds of \$15,000. The aggregate fair value of \$11,761 was transferred from contributed surplus to issued capital.

On May 5, 2021, EYEFI announced the appointment of Jeff Sharp to the Company's Australian based advisory board to assist with expansion activities. Jeff Sharp's remuneration included 20,000 options with an exercise price of \$1.18, vested immediately with a 12-month expiry, with a fair value of \$12,298. An additional 100,000 options were granted with an exercise price of \$1.30, with vesting conditions (remain as consultant for a minimum of one year and provide a minimum of three strategic referrals) and an 18-month expiry. The options expired during the year ended December 31, 2022, and the fair value of \$12,298 was transferred from contributed surplus to deficit.

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Note 18. Stock options (continued)

On June 23, 2021, EYEFI announced the appointment of Dr Ian Meredith to the Company's US based advisory board to assist with expansion activities. Dr Ian Meredith's remuneration included 20,000 options with an exercise price of \$0.82, with no vesting conditions with a 12-month expiry. An additional 100,000 options were granted with an exercise price of \$1.30, with vesting conditions (remain as consultant and provide a minimum of three strategic referrals) with an 18-month expiry. The fair value of the options granted was \$9,278 and \$42,665 (\$22,326 recorded in 2021 and \$20,339 recorded in 2022) respectively. On June 23, 2022, the 20,000 options issued to Ian Meredith with an exercise price of \$0.82 expired. On December 23, 2022, the 100,000 options issued to Ian Meredith with an exercise price of \$1.30 expired. Upon expiry, the aggregate fair value of \$51,943 was transferred from contributed surplus to deficit.

On July 15, 2021, EYEFI retained Gale Capital Corporation ("Gale") to assist with investor relations activities, including communicating and marketing to potential investors, brokers, shareholders, and media contacts. Under the terms signed, Gale was granted 100,000 options with an exercise price of \$0.71 per share, with a 12-month expiry. The options vest evenly on a monthly basis over the 12-month term of the Investor Relations Agreement with no more than 25% of the options vesting in any three-month period and expire on termination of the Agreement. The options have a fair value of \$39,547 (\$31,440 recorded in 2021 and \$8,107 recorded in 2022). On July 15, 2022, the 100,000 options issued to Gale expired, and the fair value of \$39,547 was transferred from contributed surplus to deficit.

On June 17, 2022, Polygon Fund Pty Ltd ATF Polygon Fund Unit Trust exercised 90,000 options at \$0.10 share price. The Company issued 90,000 shares and received gross proceeds on exercise of \$9,000. The fair value of \$7,057 was transferred from contributed surplus to issued capital.

On July 8, 2022, Cheryl Hargrave-Hill exercised 150,000 options at \$0.10 share price. The Company issued 150,000 shares and received gross proceeds on exercise of \$15,000. The fair value of \$11,761 was transferred from contributed surplus to issued capital.

On October 13, 2022, EYEFI issued 500,000 options each (1,000,000 options in total) to Polygon Fund Pty Ltd ATF Polygon Unit Trust, owned by Anoosh Manzoori, and Accelerative Investments Pty Ltd, owned by Justin Hanka, in connection with their appointment as non-executive directors of the Company, announced on December 15, 2022. The options have an exercise price of \$0.50 per share and expiry date of December 31, 2024. The shares issuable upon exercise of the options will have a four-month holding period and one day. The options have a fair value of \$161,419.

The stock options granted during the years ended December 31, 2022 and 2021 were determined using Black-Scholes pricing model at the weighted average assumptions as follows:

	2022	2021
Share price	\$0.40	\$0.70 - \$1.17
Expected volatility	83.59%	130% -160%
Expected life	2.22 years	1 - 1.5 years
Expected dividends	-%	-%
Risk-free interest rate	4.11%	0.30% - 0.42%

On November 30, 2022, Chajasa Pty Ltd exercised 100,000 options at \$0.10 share price. The Company issued 100,000 shares and received gross proceeds on exercise of \$10,000. The fair value of \$7,842 was transferred to issued capital.

On December 4, 2022, Simon Langdon exercised 50,000 options at \$0.10 share price. The Company issued 50,000 shares and received gross proceeds on exercise of \$5,000. The fair value of \$3,920 was transferred to issued capital.

On December 8, 2022, Gilkat Pty Ltd exercised 50,000 options at \$0.10 share price. The Company issued 50,000 shares and received gross proceeds on exercise of \$5,000. The fair value of \$3,920 was transferred to issued capital.

On December 14, 2022, Wasals Investments Pty Ltd exercised 50,000 options at \$0.10 share price. The Company issued 50,000 shares and received gross proceeds on exercise of \$5,000. The fair value of \$3,920 was transferred to issued capital.

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Note 18. Stock options (continued)

	Weighted average exercise price	Number of stock options outstanding
Balance at December 31, 2020	\$0.10	640,000
Exercised	\$0.10	(150,000)
Granted	\$1.09	340,000
Forfeited	\$1.28	(120,000)
Balance at December 31, 2021	\$0.38	710,000
Granted	\$0.50	1,000,000
Exercised	\$0.10	(490,000)
Expired	\$0.99	(220,000)
Balance at December 31, 2022	\$0.50	1,000,000

As at December 31, 2022, the Company had the following stock options outstanding and exercisable:

Expiry date	Weighted average exercise price \$	Weighted average remaining life (Years)	Options outstanding and exercisable
December 31, 2024	\$0.50	2.00	1,000,000

As at December 31, 2021, the Company had the following stock options outstanding and exercisable:

Expiry date	Weighted average exercise price \$	Weighted average remaining life (Years)	Options outstanding
December 4, 2022	\$0.10	0.93	490,000
June 23, 2022	\$0.82	0.48	20,000
July 15, 2022	\$0.71	0.54	100,000
December 23, 2022	\$1.30	0.98	100,000

	Weighted average exercise price \$	Number of options
Balance outstanding, December 31, 2021	\$0.38	710,000
Balance exercisable, December 31, 2021	\$0.46	510,000

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Note 19. Loss per share

	December 31, 2022 \$	December 31, 2021 \$
Loss after income tax	<u>(1,094,267)</u>	<u>(1,372,506)</u>
	Number	Number
Weighted average number of common shares used in calculating basic earnings per share	<u>27,695,518</u>	<u>26,444,093</u>
Weighted average number of common shares used in calculating diluted earnings per share	<u>27,695,518</u>	<u>26,444,093</u>
Basic and diluted loss per share	<u>(0.04)</u>	<u>(0.05)</u>

Note 20. Financial instruments and risk management

Capital Management

The Company's objective when managing capital is to maintain its ability to continue as a going concern, in order to provide returns for the shareholders and benefits for other stakeholders. The Company includes equity, comprised of share capital and deficit, in the definition of capital.

The Company's primary objective, with respect to its capital management, is to ensure that it has sufficient cash resources to fund the operations. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

There were no changes to the Company's approach to capital management during the year ended December 31, 2022.

Offsetting financial assets and financial liabilities

Fair value

Fair value represents the price at which an asset and liability could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of assets and liabilities according to the following hierarchy based on the number of observable inputs used to value the instrument.

Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.

Level 2: Fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (derived from prices).

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 market data.

The Company's financial instruments consist of cash, trade and other receivables, and trade and other payables as their carrying values approximate the fair values because of the short-term nature of these instruments. The employee benefits are carried at amortized cost and carried at the Company's estimated settlement value.

The Company's financial instruments classified as level 1 in the fair value hierarchy is cash. Trade and other receivables, trade and other payables, and related party loans are short term which approximate their fair value. Lease liabilities, employee benefits and facility loan payable use a market rate to approximate their fair value.

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The cash at bank is subject to credit risk where the bank cannot repay the principal and interest to the Company. The Company mitigates this risk by using the major banks in Australia and Canada. The Company believes it has no significant credit risk.

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Note 20. Financial instruments and risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company will achieve this by maintaining sufficient cash and seeking equity financing when needed.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of undiscounted financial assets and liabilities. Liabilities are payable as follows:

	0-30 Days \$	30-60 Days \$	30-90 Days \$	90-365 Days \$	1-5 Years \$	Total \$
2022						
Trade and other payables	416,129	-	-	-	-	416,129
Facility loan payable	-	-	-	225,000	-	225,000
Lease liabilities	-	-	-	86,752	97,765	184,517
Related party loans payable	-	-	-	70,279	-	70,279

	0-30 Days \$	30-60 Days \$	60-90 Days \$	90-365 Days \$	1-5 Years \$	Total \$
2021						
Trade and other payables	178,070	-	-	-	-	178,070
Lease liabilities	-	-	-	70,175	171,630	241,805

Currency risk

The Company's main operating business is in Australia. As such, the Company is exposed to some foreign currency risk. Fluctuations in the exchange rate between the Canadian dollar and Australian dollar may have an adverse effect on the Company's business. The Company may mitigate its foreign currency risk by substituting Canadian vendors for certain services. Foreign currency risk is considered low relative to the overall financial operating plan.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's facility loan payable (note 12) currently provides for interest at 10% per annum.

Note 21. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the company is set out below:

	December 31, 2022 \$	December 31, 2021 \$
Salaries	382,231	549,536
Short-term benefits	37,332	(55,352)
Other long-term benefits	4,528	4,160
Post-employment benefits	39,128	44,532
	<u>463,219</u>	<u>542,876</u>

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Note 22. Related party transactions

Key management personnel

Disclosures relating to key management personnel are set out in note 21.

Transactions with related parties

During the year ended December 31, 2022, the Company paid accountancy and advisory fees of \$188,307 (2021 - \$240,717) to DLK Advisory ("DLK"). DLK acts as the Company's CFO team and Tax advisory team. Ben Melin, who acts as the secretary/public officer of EYefi and its wholly owned subsidiaries, is also a director at DLK.

During the year ended December 31, 2022, the Company paid James Hope director fees totaling \$60,251 (2021 - \$49,439). The Company also paid legal fees of \$27,244 (2021 - \$23,109) to Hope Earle Lawyers and Advisors ("Hope Earle"), a legal practice related to James Hope. James Hope is a Partner at Hope Earle. James Hope resigned effective December 13, 2022.

During the year ended December 31, 2022, the Company paid Harold Forzley director fees totaling \$51,644 (2021 - \$42,376). Harold Forzley resigned effective December 13, 2022.

During the year ended December 31, 2022, the Company paid for administration services of \$8,362 (2021 - \$17,141) provided by Rosalie Langdon. Rosalie Langdon is the mother of Simon Langdon, CEO and a Director of the Company. As of July 1, 2022, Rosalie will no longer be providing administrative services.

On October 13, 2022, the Company issued an aggregate 1,000,000 options (see note 18) to Polygon Fund Pty Ltd ATF Polygon Unit Trust, owned by Anoosh Manzoori, and Accelerative Investments Pty Ltd, owned by Justin Hanka, in connection with their appointment as directors of the company on December 15, 2022. The fair value of the options of \$161,419 is included in share-based payments in profit or loss.

Loans to/from related parties

On May 1, 2022, the Company entered into a loan facility agreement with Brendan Dunne, the Chief Operating Officer of the company, to borrow an amount up to \$46,025 (AUD \$50,000). As at December 31, 2022, the outstanding balance of the loan is \$45,980 (AUD \$50,000).

On October 1, 2022, the company entered into a loan facility agreement with Simon Langdon, the Chief Executive Officer of the company, to borrow an amount up to \$181,400 (AUD \$200,000). As at December 31, 2022, the outstanding balance of the loan is \$24,299 (AUD \$26,423).

Both facility loans are unsecured, non-interest bearing, and have a maximum term of 12 months from loan commencement date.

There were no other transactions with related parties during the year ended December 31, 2022.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 23. Events after the reporting period

Subsequent to the year ended December 31, 2022, the Company entered into a consulting agreement with a third-party consultant for strategic advisory services. In connection with the agreement, the Company granted 200,000 stock options with an exercise price of \$0.50 per share. The options vest immediately and expire on February 2, 2026.