



CONSOLIDATED FINANCIAL STATEMENTS

**For
ACKROO INC.**

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

Notice of no auditor review of condensed interim consolidated financial statements

Under Part 4, subsection 4.3(3)(a) of National Instrument 51-102 – Continuous Disclosure Obligations, if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of Ackroo Inc. have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

ACKROO INC.
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
as at September 30, 2022 and December 31, 2021
(expressed in Canadian dollars except for share and per share amounts)

	Sept 30, 2022	Dec 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	325,072	772,304
Accounts receivable (Note 4)	527,592	469,542
Inventory	21,171	21,101
Prepaid expenses and other assets	49,252	65,407
Total current assets	923,087	1,328,354
Non-current assets:		
Due from related party (Note 14)	300,000	300,000
Property and equipment (Note 9)	1,518,791	1,728,899
Intangible assets (Notes 6 & 7)	1,728,209	2,847,757
Goodwill (Note 7)	2,640,084	2,640,084
Prepaid expenses and other assets	-	107,793
	6,187,085	7,624,533
	7,110,172	8,952,887
LIABILITIES		
Current Liabilities:		
Trade and other payables	525,456	598,260
Consulting settlement payable (Note 8)	792,774	-
Current portion of lease liability (Note 11)	208,990	233,839
Current portion of deferred revenue	69,871	96,431
Current portion of long term debt (Note 10)	127,735	78,287
Total current liabilities	1,724,826	1,006,817
Deferred revenue	-	27,403
Lease liability (Note 11)	1,382,720	1,502,203
Long term debt (Note 10)	2,844,172	3,336,006
	5,951,718	5,872,429
SHAREHOLDERS' EQUITY		
Capital stock (Note 13 (a),(b))	19,518,697	19,518,697
Warrants (Note 13(c))	840,512	840,512
Contributed surplus (Note 13(d))	1,722,235	1,840,079
Deficit	(20,922,992)	(19,118,830)
	1,158,454	3,080,458
Total liabilities and shareholders' equity	7,110,172	8,952,887

Approved by the Board:

Steve Lively Director

Jeremy Jagt Director

(The accompanying notes are an integral part of these consolidated financial statements)

ACKROO INC.
CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the three and nine-months ended September 30, 2022 and 2021
(Expressed in Canadian Dollars except for share and per share amounts)

	Three-months ended Sept		Nine Months ended Sept	
	2022	2021	2022	2021
SALES				
Subscription	1,333,237	1,323,794	4,034,077	3,628,562
Product	195,173	243,327	634,325	692,207
	1,528,411	1,567,121	4,668,402	4,320,769
COST OF SALES				
Subscription	78,612	104,147	216,410	316,841
Product	46,181	81,750	158,022	203,639
Total cost of sales	124,793	185,897	374,432	520,480
Gross profit	1,403,618	1,381,224	4,293,970	3,800,289
EXPENSES				
Administration	562,927	628,331	1,882,218	1,661,113
Research	306,419	366,451	915,190	1,090,990
Sales and marketing	200,227	203,508	629,223	811,747
Consulting settlement (Note 8)	1,164,978	-	1,164,978	-
Share-based compensation expense (Note 13(d))	53,613	92,269	231,285	233,714
Amortization of intangible assets (Note 6)	243,464	473,405	1,131,674	1,295,216
Amortization of property and equipment (Note 9)	74,180	80,165	221,671	256,476
Foreign exchange loss (gain)	(3,146)	2,998	(7,123)	3,066
	2,602,663	1,847,127	6,169,117	5,352,322
LOSS BEFORE THE FOLLOWING ITEMS	(1,199,045)	(465,903)	(1,875,147)	(1,552,033)
FINANCE COSTS				
Interest expense	(92,370)	(105,464)	(287,713)	(391,950)
Gain on retirement of debt	-	-	17,597	-
Amortization of deferred financing charges	(4,013)	(4,013)	(8,027)	(12,039)
	(96,383)	(109,477)	(278,142)	(403,989)
LOSS BEFORE INCOME TAXES	(1,295,428)	(575,380)	(2,153,289)	(1,956,022)
INCOME TAX	-	-	-	-
NET LOSS AND COMPREHENSIVE LOSS	(1,295,428)	(575,380)	(2,153,289)	(1,956,022)
BASIC AND DILUTED LOSS PER SHARE	(0.011)	(0.005)	(0.019)	(0.018)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	115,748,633	115,546,459	115,711,647	110,488,904

(The accompanying notes are an integral part of these consolidated financial statements)

ACKROO INC.

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the nine months ended September 30, 2022 and 2021

(Expressed in Canadian Dollars except for share and per share amounts)

	Common Shares		Agent		Contributed	Accumulated	
	Number	Amount	Options	Warrants	Surplus	Deficit	Total
Balance at December 31, 2020	102,588,269	17,330,926	-	1,378,985	1,798,150	(16,690,314)	3,817,747
Shares subscribed from options and warrants	13,010,364	2,162,608	-	(538,473)	(218,599)	-	1,405,536
Expiration of options / warrants	-	-	-	-	(76,960)	76,960	-
Share-based compensation	-	-	-	-	233,714	-	233,714
Comprehensive loss	-	-	-	-	-	(1,956,022)	(1,956,022)
Balance at September 30, 2021	115,598,633	19,493,534	-	840,512	1,736,305	(18,569,376)	3,500,975
Balance at December 31, 2021	115,748,633	19,518,697	-	840,512	1,840,079	(19,118,830)	3,080,458
Shares subscribed from options and warrants	-	-	-	-	-	-	-
Expiration of options / warrants	-	-	-	-	(349,129)	349,129	-
Share-based compensation	-	-	-	-	231,285	-	231,285
Comprehensive loss	-	-	-	-	-	(2,153,289)	(2,153,289)
Balance at September 30, 2022	115,748,633	19,518,697	-	840,512	1,722,235	(20,922,990)	1,158,454

ACKROO INC.**CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

For the nine months ended September 30, 2022 and 2021

(Expressed in Canadian Dollars except for share and per share amounts)

	2022	2021
OPERATING ACTIVITIES		
Net loss	(2,153,289)	(1,956,022)
<u>Items not affecting cash:</u>		
Amortization of deferred financing charges	12,040	12,040
Amortization of property and equipment (Note 9)	221,671	256,476
Amortization of intangible assets (Note 6)	1,131,674	1,295,216
Share-based compensation (Note 13(d))	231,285	233,714
Gain on debt retirement	(17,597)	-
Non-cash interest	62,849	70,080
	(511,366)	(88,497)
<u>Changes in non-cash working capital items</u>		
Accounts receivable (Note 4)	(58,050)	(96,695)
Inventory	(70)	11,114
Prepaid expenses and other assets	123,948	(3,104)
Accounts payable and accrued liabilities	(72,488)	(26,998)
Consulting agreement payable	792,459	-
Deferred revenue	(53,963)	(38,874)
	220,470	(243,054)
INVESTING ACTIVITIES		
Purchase of property and equipment (Note 9)	(11,564)	(30,215)
Purchase of intangible assets (Note 6)	(12,126)	(925,000)
	(23,690)	(955,215)
FINANCING ACTIVITIES		
Repayment of long-term debt (Note 10)	(436,828)	(1,623,002)
Advances of long-term debt (Note 10)	-	300,000
Cash payments of lease liabilities	(207,184)	(220,556)
Issuance of capital stock	-	1,405,536
	(644,012)	(138,021)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(447,232)	(1,336,289)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	772,304	1,932,408
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	325,072	596,119

(The accompanying notes are an integral part of these consolidated financial statements)

ACKROO INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the three and nine months ended September 30, 2022 AND 2021
(Expressed in Canadian Dollars except for share and per share amounts)

1. NATURE OF OPERATIONS

Ackroo Inc. (“Ackroo” or the “Company” or “We” or “Our”) is a public company and its shares are listed on the TSX Venture Exchange (TSX-V:AKR) and OTC Markets (OTC: AKRFF). The Company exists under the *Canada Business Corporations Act* and is located at 1250 South Service Rd, Unit A31 (3rd Floor) Hamilton, ON, L8E 5R9. The Company develops and sells an online loyalty and rewards platform that enables businesses to design and execute customer transaction, engagement and retention strategies.

Going Concern

At September 30, 2022, the Company had cash of \$325,072, net loss from operations for the three and nine months of \$1,295,428 and \$2,153,289 respectively, including a one-time consulting agreement settlement (Note 8) of \$1,164,798, and an accumulated deficit of \$20,922,992. The Company has entered into certain loan arrangements to assist in financing continued operations and certain acquisitions (Note 10).

In view of these conditions, the ability of the Company to continue as a going concern is dependent upon achieving a profitable level of operations or obtaining the necessary financing to fund ongoing operations. Historically, the Company has relied upon funds from the operations, bank financing, sale of shares of stock, issuance of promissory notes and loans from its shareholders and private investors to finance its operations and growth. Management may raise additional funds for working capital through loans and/or additional sales of its common stock, as required, however, there is no assurance that the Company will be successful in raising additional capital or that such additional funds will be available on acceptable terms, if at all. Should the Company be unable to raise this amount of capital, its operating plans will be limited to the amount of capital that it can access. These material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not give effect to any adjustments which will be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements.

Continued Impact of COVID-19 Global Pandemic

Throughout the COVID-19 pandemic, the Company has been closely monitoring all related developments and managing any potential impact on the business. Due to the uncertainty surrounding the duration and potential outcomes of the COVID-19 pandemic, and the unpredictable and continuously changing nature of the pandemic and related government responses, there is uncertainty associated with the related assumptions, expectations, and estimates.

At this time, the long-term impact of the COVID 19 outbreak on the Company is unknown. Despite the global economy beginning to reopen, the extent of the impact will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the spread of the disease from current, new, and emerging variants of the virus which may have an impact on the overall global economy. Management continues to monitor the impact of the virus on the Company and our customer base. The COVID-19 virus continues to be a source of uncertainty with respect to managements significant judgments and estimates.

ACKROO INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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2. BASIS OF PREPARATION

Basis of preparation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS34"), as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements for the three and nine months ended September 30, 2022 were approved and authorized for issuance in accordance with a resolution of the Board of Directors of the Company on November 8, 2022. These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2021.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these unaudited condensed interim consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2021, no new standards were adopted.

Future Accounting Pronouncements

Classification of Liabilities as Current or Non-Current and Deferral of Effective Date (Amendments to IAS 1)

In January 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements, to provide a more general approach to the presentation of liabilities as current or non-current based on contractual arrangements in place at the reporting date. These amendments:

- specify that the rights and conditions existing at the end of the reporting period are relevant in determining whether the Company has a right to defer settlement of a liability by at least twelve months; and
- provide that management's expectations are not a relevant consideration as to whether the Company will exercise its rights to defer settlement of a liability; and clarify when a liability is considered settled.

On July 15, 2020, the IASB issued a deferral of the effective date for the new guidance by one year to annual reporting periods beginning on or after January 1, 2023 and is to be applied retrospectively. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

Cost of Fulfilling a contract (Amendments to IAS 37)

In May 2020, the IASB issued amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, to specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract, and can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The new guidance will be effective for annual periods beginning on or after January 1, 2022 and is to be applied to contracts that have unfulfilled obligations as at the beginning of that period. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

4. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, due from related party, accounts payable and accrued liabilities, and long-term debt. The Company believes that the recorded values of all these financial instruments, with the exception of long-term debt, approximate their current fair values because of their short-term nature. The fair value of long-term debt approximates its carrying value due to its market rate of interest.

Risk management

The Company's activities expose it to a variety of financial risks including market risk (i.e. currency risk, interest rate risk), credit and liquidity risks.

(a) Market risk

Market risk is the risk that the fair value or expected future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Company is mainly exposed to interest rate risk and currency risk.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company transacts primarily in Canadian dollars and is not exposed to significant currency risk.

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. The Company's long-term debt bears interest at a fixed rate. Bank indebtedness is based on market rates plus a fixed percentage and represents some risk. As a whole, the Company's exposure to interest rate risk is minimal.

(b) 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 credit risks relate to its cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are deposited with a Canadian chartered bank and as a result management believes the risk of loss on this item to be remote. Management believes that the credit risk on its accounts receivable is limited as the amounts are expected to be collected in the Company's next operating cycle.

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The aging of accounts receivable balances at September 30, 2022 are as follows:

	\$
Not past due	96,264
16 - 30 days	126,509
31 - 60 days	49,996
61 - 90 days	17,617
Greater than 90 days	65,273
	<u>355,658</u>
	\$
Trade accounts receivable before allowances	355,658
Less allowances for doubtful accounts	-
Other Receivables	171,934
Total Accounts Receivables	<u>527,592</u>

The Company has limited credit risk since the Company does not typically extend credit to its customers and customers are required to provide a pre-authorized method of payment upon entering into a service contract. The Company carries out, on a continuing basis, credit checks on its clients, a review of outstanding amounts and maintains provisions for estimated uncollectible accounts. Provisions for doubtful accounts, not due to credit loss, are made on an account-by-account basis. At September 30, 2022, the allowance for doubtful accounts amounted to \$Nil (2021 - \$Nil). At September 30, 2022, there were no customers that represented greater than 10% of the current total accounts receivable.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's management believes its existing working capital cash generated from its operations and additional financing activities will enable the Company to meet its financial obligations.

5. ACQUISITIONS

BNA Smart Payments

On April 2, 2020, the Company completed an asset acquisition with BNA and acquired certain assets of BNA Smart Payments with consideration consisting of \$200,000 cash on closing and additional consideration being paid over the next 24 months based on 100% of the actual residual payment revenues in year one (1) and 50% of the actual residual payment revenues in year two (2) from the BNA customers. The loan is non-interest bearing and unsecured. The balance of the future cash consideration was recorded and discounted at an effective interest rate of 10%.

Fair value of net assets acquired is as follows:

Customer contracts	<u>822,000</u>
	<u>822,000</u>

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3916715 Canada Inc. operating as GGGolf

On October 30, 2020, the Company acquired 100% of the shares of 3916715 Canada Inc. (operating as GGGolf) with consideration of \$1,800,000 in cash (\$1,200,000 on closing and \$600,000 after 90 days) as well as a provision for potential additional consideration of up to a maximum of \$200,000 based on \$2 per every \$1 over \$900,000 in annual gross revenue. The amount owing is non-interest bearing and the acquisition was recorded and discounted at an effective rate of 10%. In year one, no additional consideration was achieved. In addition, the cash payments of \$1,200,000 and \$600,000 were reduced by \$76,915 and \$45,000 respectively based on the post-acquisition analysis of the working capital deficit in the entity. The acquired tangible assets included \$79,537 in cash and \$68,835 in accounts receivable, all of which have been successfully collected since acquisition.

Fair value of net assets acquired is as follows:

Customer contracts	977,000
Goodwill arising on acquisition	365,000
Brand	59,000
IP	<u>301,000</u>
	<u><u>1,702,000</u></u>

Interactive DMS

On May 31, 2021, the Company acquired certain assets from Valsoft Corporation relating to the InterActive DMS ("IDMS"). IDMS cloud-based and on-premises dealer management software and web solutions to independent car, motorcycle and boat dealers across the United States. Under the terms of the acquisition, Ackroo acquired all customer contracts and related IP adding over 150 clients. In consideration for the acquisition, the Company has paid \$600,000 on closing and made a final \$300,000 payment less pre-paid adjustments on September 2, 2021.

Fair value of net assets acquired is as follows:

Customer contracts	336,000
Goodwill arising on acquisition	391,000
Brand	12,000
IP	<u>161,000</u>
	<u><u>900,000</u></u>

ACKROO INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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6. INTANGIBLE ASSETS

The Company's amortized intangible assets consist of the following:

Cost	Intellectual Property	Brand	Customer Contracts	Total
As at December 31, 2020	1,400,975	59,000	8,080,033	9,540,008
Additions	186,000	12,000	336,000	534,000
As at December 31, 2021	1,586,975	71,000	8,416,033	10,074,008
Additions	12,126	-	-	12,126
As at September 30, 2022	1,599,101	71,000	8,416,033	10,086,134
Accumulated Amortization				
As at December 31, 2020	223,843	-	5,250,784	5,474,627
Amortization	280,203	-	1,471,421	1,751,624
As at December 31, 2021	504,046	-	6,722,205	7,226,251
Amortization	214,358	-	917,316	1,131,674
As at September 30, 2022	718,404	-	7,639,521	8,357,925
Net book value				
As at December 31, 2020	1,177,132	59,000	2,829,249	4,065,381
As at December 31, 2021	1,082,929	71,000	1,693,828	2,847,757
As at September 30, 2022	880,697	71,000	776,512	1,728,209

The intangible assets acquired in 2021 were recorded as a result of the business combinations and asset acquisition as disclosed in Note 5. The intangible assets acquired in 2022 were additional investments into a customer self serve portal.

7. GOODWILL

Goodwill in the amount of \$391,000 arose on the acquisition of the assets of InterActive DMS ("IDMS") on May 31, 2021. This value, in part, consists of an increase of revenues, costs efficiencies, wider customer base, and synergies between existing products and services offered by Ackroo and those of the IDMS technology and services.

Ackroo (Single CGU)	Goodwill
Balance, December 31, 2020	2,249,084
Additions - IDMS	391,000
Balance, December 31, 2021	2,640,084
Additions -	-
Balance, September 30, 2022	2,640,084

8. CONSULTING SETTLEMENT PAYABLE

Accounts payable in the amount of \$1,164,978 arose from a consulting agreement settlement related to the KESM acquisition in 2017. The outstanding balances due under the agreements totaling \$682,332 and US\$336,000 (\$432,970) were settled at \$648,000 and US\$315,000 (\$405,909), respectively, for savings of \$34,332 and \$27,061, respectively. In addition, the prepayment of

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\$107,793 pertaining to the final four payments otherwise due was also settled. Repayment is in twelve equal monthly instalments beginning on July 15, 2022.

9. PROPERTY AND EQUIPMENT

Cost	Computer equipment	Right of use leased asset - office space	Furniture and fixtures	Total
As at December 31, 2020	195,613	2,199,400	84,003	2,479,016
Additions	22,792	-	18,797	41,590
Disposition	-	-	-	-
As at December 31, 2021	218,405	2,199,400	102,801	2,520,605
Additions	11,564	-	-	11,564
Disposition	-	-	-	-
As at September 30, 2022	229,969	2,199,400	102,801	2,532,169

Accumulated amortization	Computer equipment	Right of use leased asset - office space	Furniture and fixtures	Total
As at December 31, 2020	132,078	322,585	33,221	487,884
Additions	33,719	258,068	12,036	303,823
Disposition	-	-	-	-
As at December 31, 2021	165,797	580,653	45,257	791,707
Additions	19,489	193,551	8,631	221,671
Disposition	-	-	-	-
As at September 30, 2022	185,285	774,204	53,888	1,013,378

Net book value	Computer equipment	Right of use leased asset - office space	Furniture and fixtures	Total
As at December 31, 2020	63,535	1,876,815	50,782	1,991,132
As at December 31, 2021	52,608	1,618,747	57,544	1,728,899
As at September 30, 2022	44,684	1,425,196	48,912	1,518,791

ACKROO INC.
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10. LONG-TERM DEBT

The Company has the following debt balances outstanding:

	<u>2022</u>	<u>2021</u>
On July 2, 2019, the Company secured financing from BDC Capital Inc. in the amount of \$3,000,000. On April 3, 2020 the Company received an additional \$1,000,000 disbursement from BDC connected to the original financing. The BDC Capital Inc. financing has a 5-year term, bears an initial interest rate of 9.75% and incurred a 1.5% (\$45,000) upfront fee for the first disbursement and (\$15,000) for the second disbursement. The loan has annual principal repayments commencing April 2021 based on 50% of free available cash flow from the prior fiscal year with a maximum annual principal repayment of \$600,000. The closing costs related to the loan were capitalized and will be recognized over the 5-year term of the loan. The loan is secured by a floating security charge over all assets of the Company. Current Interest rate is 7.5%. \$600,000 was repaid during the quarter ending September 30, 2021. The company has made a discretionary payment of \$400,000 September 15th 2022	3,000,000	3,400,000
On April 2, 2020, the Company acquired some assets of BNA Smart Payments with consideration consisting of \$200,000 cash on closing and additional consideration being paid over the next 18 months based on the actual residual payment revenues from the BNA customers. The balance of the future estimated cash consideration was recorded and discounted at an effective interest rate of 10%. The loan is non-interest bearing and unsecured. Balance was paid in full by March 31st 2022, resulting in a \$17,596 gain on repayment.	-	54,426
	3,000,000	3,454,426
Unamortized financing costs	28,093	40,133
Current portion	127,735	78,287
Long-term portion	2,844,172	3,336,006

The estimated principal repayments over the next five years are:

2022	\$ -
2023	127,735
2024	2,872,265
2025	-
2026	-
	\$ 3,000,000

The interest incurred on the long-term debt in the nine months ended September 30, 2022 and 2021, was \$287,965 and \$391,950 respectively.

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11. LEASE LIABILITIES

Lease liabilities are comprised of the two leases, one for office space premises located in Stoney Creek, Ontario and the other for office furniture for the Stoney Creek office with monthly lease payments in the amounts of \$20,190 and \$2,830 respectively. The lease liability was calculated at a 5% incremental borrowing rate. Lease interest expense and amortization expense for the three months ended September 30, 2022 were \$20,322 and \$64,517 respectively (September 30, 2021: \$22,785 and \$64,517 respectively.) Lease liabilities as of September 30, 2022 were \$173,720 (short-term) and \$1,417,990 (long-term).

12. CREDIT FACILITIES

The Company has a revolving demand facility with a maximum borrowing of \$1,600,000 of which \$Nil was utilized at September 30, 2022 (2021 - \$NIL). The facility is repayable on demand, bears a total interest rate at bank prime (5.45% at September 30, 2022) + 2% and is secured by a general security agreement over all personal property of the Company. The borrowings under this facility must not exceed the aggregate of 4 x MRR (4 times the total Monthly Recurring Revenue) to a maximum borrowing of \$1,600,000.

Under the terms of the BDC Agreement, so long as any amount is owing, the Company must meet certain financial ratios concerning Working Capital, Term Debt to Tangible Equity and Annual Recurring Rate Churn Rate.

13. CAPITAL STOCK

(a) Authorized share capital

The Company is authorized to issue an unlimited number of the following shares:

Preferred shares – issuable in series with the terms and conditions to be set on issuance
Common shares – voting, without par value

(b) Issued and outstanding

	<u>2022</u>	<u>2021</u>
Common - 115,748,633 shares (December 2021 - 115,748,633 shares)	\$ 19,518,697	\$ 19,518,697

(c) Outstanding warrants

At the three and nine months ended September 30, 2022, a summary of the Company's warrant activity is as follows:

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	Number of warrants	Weighted Average Exercise Price
Balance at December 31, 2019	10,375,364	\$0.100
Warrants expired	-	\$0.000
Warrants exercised	(40,000)	\$0.100
Warrants issued	25,000,000	\$0.180
Balance at December 31, 2020	35,335,364	\$0.157
Warrants expired	-	\$0.000
Warrants exercised	(10,335,364)	\$0.100
Warrants issued	-	\$0.000
Balance at December 31, 2021	25,000,000	\$0.180
Warrants expired	-	\$0.000
Warrants exercised	-	\$0.000
Warrants issued	-	\$0.000
Balance at September 30, 2022	25,000,000	\$0.180

For the year ended December 31, 2020, 25,000,000 warrants were issued in connection with the private placement for Units at a price of \$0.12 per Unit for gross proceeds of \$3,000,000 and 40,000 warrants were exercised by a warrant holder for total proceeds of \$4,000. Each "Unit" consists of one common share of the Company and one share purchase warrant (each a "Warrant") entitling the holder to purchase an additional common share of the Company at a price of \$0.18 per share until November 12, 2023. The Warrants are subject to accelerated expiry in the event the closing price of the Company's shares on or after 18 months from the date of closing is \$0.28 or more for twenty consecutive trading days.

For the year ended December 31, 2021, 10,335,364 warrants were exercised by warrant holders for total proceeds of \$1,033,536.

There was no warrant activity for the nine months ending September 30, 2022.

(d) Stock options

Under the terms of the Company's approved Stock Option Plan (ESOP) the Board of Directors of the Company may, from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants of the Company options to purchase common shares, provided that the number of common shares reserved for issuance, together with those to be issued pursuant to options previously granted, does not exceed 10% of the issued and outstanding common shares at the time of the grant. In addition, the number of shares which may be reserved for issuance to any one individual may not exceed 5% of the issued shares on a yearly basis, or 2% if the optionee is engaged in investor relations activities or is a consultant. Under Exchange policy, all such rolling stock option plans which set the number of common shares issuable under the plan at a maximum of 10% of the issued and outstanding common shares must be approved and ratified by shareholders on an annual basis. There are currently 115,748,633 (September 30, 2021 – 115,598,633) common shares outstanding, with 5,849,863 (2021 – 1,995,732) of the Company's common shares available for issuance.

Options are exercisable over periods of up to three years as determined by the Board of Directors and are required to have an exercise price no less than the closing market price of the common shares prevailing on the day that the option is granted less a discount of up to 25%, with the amount of the discount varying with market price in accordance with the policies of the Exchange. Options held by an officer, director or service provider (not conducting investor relations) expire 30 days after

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the option holder has left office or the service provider ceases providing services, and for options held by service providers conducting investor relations, 30 days after the Company terminates that relationship. In the case of the death of an employee, officer, director or other service provider, the option may be exercised by a personal representative or heir until the earlier of the option's expiry or one year after the option holder died.

Pursuant to the Stock Option Plan, the Board of Directors may from time to time authorize the grant of options to directors, officers, employees and consultants of the Company or employees of companies providing management or consulting services to the Company. Other than options granted to consultants performing investor relations activities which must vest in stages over 12 months with no more than one-quarter of the options vesting in any three-month period, the Stock Option Plan contains no vesting requirements, but permits the Board of Directors to specify a vesting schedule in its discretion.

At September 30, 2022, a summary of the Company's stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2019	6,462,174	\$0.133
ESOP Options Granted	2,875,000	\$0.145
ESOP Expired/Cancelled	(1,960,000)	\$0.144
Exercised	(988,043)	\$0.115
Balance, December 31, 2020	6,389,131	\$0.138
ESOP Options Granted	6,975,000	\$0.212
ESOP Expired/Cancelled	(2,450,000)	\$0.173
Exercised	(2,825,000)	\$0.137
Balance, December 31, 2021	8,089,131	\$0.191
ESOP Options Granted	1,900,000	\$0.102
ESOP Expired/Cancelled	(4,264,131)	\$0.168
Exercised	-	\$0.000
Balance, September 30, 2022	5,725,000	\$0.180

During the year ended December 31, 2021, 2,825,000 options were exercised by employees and executives of the Company for total proceeds of \$387,000. No options were exercised for the three and nine months ended September 30, 2022.

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At September 30, 2022 and 2021, a summary of stock options outstanding and exercisable are as follows:

Grant Date	# of Options Outstanding	# of Options Exercisable	Exercise Price	Expiry Date	Remaining
					Contractual Life (years)
January 24, 2020	550,000	550,000	\$0.160	January 24, 2023	0.32
May 12, 2020	175,000	175,000	\$0.120	May 12, 2023	0.61
October 8, 2020	100,000	100,000	\$0.110	October 8, 2023	1.02
January 20, 2021	3,000,000	1,500,000	\$0.225	January 20, 2024	1.31
August 26, 2021	700,000	350,000	\$0.170	August 26, 2024	1.91
January 18, 2022	300,000	0	\$0.125	January 18, 2025	2.30
June 8, 2022	900,000	0	\$0.085	June 8, 2025	2.69
September 30, 2022	5,725,000	2,675,000	\$0.180		

Grant Date	# of Options Outstanding	# of Options Exercisable	Exercise Price	Expiry Date	Remaining
					Contractual Life (years)
December 14, 2018	200,000	200,000	\$0.100	December 14, 2021	0.21
April 11, 2019	39,131	39,131	\$0.115	April 11, 2022	0.53
August 6, 2019	600,000	600,000	\$0.120	August 6, 2022	0.85
January 24, 2020	1,175,000	1,175,000	\$0.160	January 24, 2023	1.32
May 12, 2020	375,000	375,000	\$0.120	May 12, 2023	1.61
October 8, 2020	200,000	200,000	\$0.110	October 8, 2023	2.02
January 20, 2021	5,275,000	0	\$0.225	January 20, 2024	2.31
August 26, 2021	1,700,000	0	\$0.170	August 26, 2024	2.91
September 30, 2021	9,564,131	2,589,131	\$0.191		

14. Related party transactions

(a) Compensation of key management personnel

The remuneration of key management personnel of the Company during the nine months ended September 30, 2022 and 2021 were as follows:

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Salaries, incentives / short-term benefits	303,066	342,033
Share based compensation	84,320	109,555
	<u>387,386</u>	<u>451,589</u>

(b) Other Related party transactions

On September 1, 2018, the Company entered into an agreement with a member of the management team for a total of \$300,000. The terms of the agreement were modified to have the maturity date, and payment due on or before, June 1, 2022 and later extended to June 1, 2025. Simple interest will accrue on the indebtedness at a rate of 2% per annum and shall be payable annually. As of September 30, 2022, the balance was \$300,000.

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The Company entered into consulting agreements with directors and officers resulting in expense in the three months ending September 30, 2022 and 2021 of \$9,080 and \$23,881. As at September 30, 2022 \$Nil was unpaid and included in accounts payable and accrued liabilities (September 30, 2021 - \$6,563).

15. Segmented information

The Company has not established discrete operating or geographic segments. Financial information is only available at the total company level, is not segmented and the chief operating decision maker, being the Chief Executive Officer, makes decisions at a total company level. An immaterial amount of reported revenue is derived outside of Canada and geographic areas outside of Canada are not managed separately.