TOTAL TELCOM INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2022 AND JUNE 30, 2021

Fernandez Young LLP
Chartered Professional Accountants

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Total Telcom Inc.

Opinion

We have audited the consolidated financial statements of Total Telcom Inc. (the "Group"), which comprise the consolidated statements of financial position as at June 30, 2022 and 2021, and the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and 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 Group as at June 30, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years 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 *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group 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.

Key Audit Matters

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

We have determined that there are no key audit matters to communicate in our auditor's report.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis for the year ended June 30, 2022.

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

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Other Information (continued)

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 the Management's Discussion and Analysis for the year ended June 30, 2022 prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. 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 these 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group 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 Group 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.

Other Matter

The financial statements of the prior period were audited by another firm of Chartered Professional Accountants which expressed an unqualified opinion on October 22, 2021.

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

Fernandez Young LLP

Fernandez Young LLP
Chartered Professional Accountants
Vancouver, Canada
October 24, 2022

TOTAL TELCOM INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED JUNE 30, 2022 AND JUNE 30, 2021

	2022	2021
Sales (note 15)	$ 1,655,231	$ 1,736,500
Cost of sales (note 5)	709,923	780,681
Gross profit	945,308	955,819
General and administrative expenses (note 16)	466,251	380,030
Amortization of product development costs (note 8)	99,001	83,890
Depreciation of right of use assets and equipment (note 7)	68,845	71,401
Interest on lease liability (note 9)	12,369	15,311
Product development impairment loss (note 8)	-	254,064
Income before undernoted	298,842	151,123
Other items		
Foreign exchange gain (loss)	41,713	(94,929)
Finance income (note 14)	6,040	5,978
Government grant (note 10)	-	20,000
Gain on disposal of right of use assets and equipment	-	2,143
	47,753	(66,808)
Income before income taxes	346,595	84,315
Deferred income tax recovery (expense) (note 17)	(54,000)	524,000
Net income and comprehensive income	$ 292,595	$ 608,315
Basic and diluted earnings per share (note 13)	$ 0.011	$ 0.024
Weighted average number of common shares outstanding (note 13)		

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

TOTAL TELCOM INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND JUNE 30, 2021

ASSETS

	2022	2021
Current Assets		
Cash and cash equivalents (note 22)	$ 1,345,126	$ 1,188,873
Term deposits	604,532	602,758
Trade and other receivables (notes 15 and 22)	194,073	166,829
Inventories (note 5)	270,321	149,943
Prepaid expenses	12,435	6,213
Total current assets	2,426,487	2,114,616
Race Management Equipment (note 6)	20,497	77,833
Property And Equipment (note 7)	187,925	224,258
Product Development (note 8)	1,221,761	974,848
Deferred Income Tax Asset (note 17)	470,000	524,000
	$ 4,326,670	$ 3,915,555

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

TOTAL TELCOM INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND JUNE 30, 2021

LIABILITIES AND SHAREHOLDERS' EQUITY

	2022	2021
Current Liabilities		
Trade and other payables (notes 18 and 22)	$ 197,595	$ 131,550
Deferred revenue	42,595	63,095
Current portion of lease liabilities (note 9)	84,487	74,342
Total current liabilities	324,677	268,987
Lease liability (note 9)	128,262	177,932
Long term debt (note 10)	40,000	40,000
Total liabilities	492,939	486,919
Shareholders' Equity		
Share capital (note 11)	2,151,038	2,032,238
Contributed surplus (note 12)	127,950	165,030
Retained earnings	1,554,743	1,231,368
	3,833,731	3,428,636
	$ 4,326,670	$ 3,915,555

Approved By The Board

"Neil Magrath" Director

"Scott Allen" Director

TOTAL TELCOM INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED JUNE 30, 2022

	2022				
	Number of Shares	Share Capital	Contributed Surplus	Retained Earnings	Total Shareholders' Equity
Balance, beginning of the year	25,315,014	$ 2,032,238	$ 165,030	$ 1,231,368	$ 3,428,636
Net income	-	-	-	292,595	292,595
Share-based compensation related to stock options granted and vested (note 12)	-	-	45,000	-	45,000
Shares issue on exercise of stock options (note 11)	675,000	67,500	-	-	67,500
Transfer of contributed surplus to share capital on exercise of stock options (note 11)	-	51,300	(51,300)	-	-
Transfer of contributed surplus to retained earnings on stock options forfeited (note 11)	-	-	(30,780)	30,780	-
Balance, end of the year	25,990,014	$ 2,151,038	$ 127,950	$ 1,554,743	$ 3,833,731

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

TOTAL TELCOM INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED JUNE 30, 2021

	2021				
	Number of Shares	Share Capital	Contributed Surplus	Retained Earnings	Total Shareholders' Equity
Balance, beginning of the year	24,965,014	$ 1,984,288	$ 137,530	$ 623,053	$ 2,744,871
Net income	-	-	-	608,315	608,315
Share-based compensation related to share options granted and vested (note 12)	-	-	40,450	-	40,450
Shares issue on exercise of stock options (note 11)	350,000	35,000	-	-	35,000
Transfer of contributed surplus to share capital on exercise of stock options (note 11)	-	12,950	(12,950)	-	-
Balance, end of the year	25,315,014	$ 2,032,238	$ 165,030	$ 1,231,368	$ 3,428,636

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

TOTAL TELCOM INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND JUNE 30, 2021

	2022	2021
Operating activities		
Net income	$ 292,595	$ 608,315
Items not affecting cash		
Depreciation of race management equipment	60,020	65,392
Depreciation of right of use assets and equipment	68,845	71,401
Gain on disposal of right of use assets and equipment	-	(2,143)
Amortization of product development costs	99,001	83,890
Product development impairment loss	-	254,064
Loss (gain) on disposal of race management equipment	(6,169)	150
Share based compensation (note 12)	45,000	40,450
Interest on lease liability	12,369	15,311
Foreign exchange loss (gain)	(41,713)	94,929
Government grant	-	(20,000)
Deferred income tax expense (recovery)	54,000	(524,000)
	583,948	687,759
Net change in non-cash working capital (note 14)	(108,299)	66,785
Cash provided by operating activities	475,649	754,544
Financing activities		
Proceeds from exercise of stock options	67,500	35,000
Long term debt proceeds	-	20,000
Lease liability payments	(88,001)	(82,322)
Government rent subsidies received	8,239	18,593
Cash used in financing activities	(12,262)	(8,729)
Investing activities		
Product development costs	(380,804)	(369,013)
Wage subsidies applied against product development costs (note 19)	34,890	73,029
Purchase of race management equipment	(3,387)	(968)
Proceeds on disposal of race management equipment	6,872	891
Purchase of equipment	(4,644)	-
Proceeds on disposal of equipment	-	2,144
Purchase of term deposits	(1,774)	(95,781)
Cash used in investing activities	(348,847)	(389,698)

Consolidated Statements of Cash Flows continued on next page

TOTAL TELCOM INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND JUNE 30, 2021

	2022	2021
Net foreign exchange difference on cash	$ 41,713	$ (94,929)
Increase in cash and cash equivalents	156,253	261,188
Cash and cash equivalents, beginning of the year	1,188,873	927,685
Cash and cash equivalents, end of the year	$ 1,345,126	$ 1,188,873
Cash and cash equivalents is represented by:		
Cash	$ 1,293,238	$ 1,137,135
Money market funds	51,888	51,738
	$ 1,345,126	$ 1,188,873

See note 22 for additional information relating to cash and cash equivalents.

1. **Nature Of Operations**

Total Telcom Inc. (the "Company"), through its wholly owned subsidiary ROM Communications Inc.("ROM"), is a developer and provider of remote asset monitoring and tracking products and services primarily in North America.

The Company is incorporated under the Business Corporations Act of Alberta. The Company's head office is located at #540, 1632 Dickson Avenue, Kelowna, British Columbia V1Y 7T2. The Company's common shares are traded on the TSX Venture Exchange under the symbol TTZ.

2. **Basis of Presentation**

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

These consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value, when applicable, as described in note 22.

These consolidated financial statements are presented in Canadian Dollars.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on October 21, 2022.

3. **Significant Accounting Policies**

The Company's significant accounting policies are outlined below:

(a) Basis of consolidation

These consolidated financial statements include the accounts of Total Telcom Inc. and its wholly owned subsidiary ROM Communications Inc. All significant intercompany balances and transactions have been eliminated.

(b) Critical accounting estimates and management judgment

The preparation of the consolidated financial statements in conformity with IFRS requires the Company's management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes thereto. Actual amounts may ultimately differ from these estimates.

3. **Significant Accounting Policies** (continued)

(b) Critical accounting estimates and management judgment (continued)

Management estimates

Information about assumptions and estimation uncertainties that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is described below.

i) Accounts receivable valuation

The Company monitors receivables for indications of impairment on an ongoing basis. The Company recognizes loss allowances for expected credit losses (ECL) and measures the loss allowance at an amount equal to expected lifetime ECL's. Lifetime ECL's are the anticipated ECL's that result from a possible default event over the expected life of the accounts receivable. Significant assumptions relevant to these estimates relate to the financial condition of customers, estimated probability of default, the value of the underlying security, and forward looking information including economic trends impacting the product markets in which the Company operates.

ii) Inventory valuation

The Company is required to carry inventories at the lower of cost and net realizable value. The net realizable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and cost to sell. Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realize and the estimate of costs to complete. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. The key assumptions require the use of management judgment regarding reliability of evidence available and are reviewed on a monthly basis.

iii) Depreciation policies, useful lives and residual values

The Company amortizes product development costs, race management equipment, right of use assets and equipment over the estimated useful lives of the assets. In determining the estimated useful lives of these assets, significant management judgment is required, including consideration of industry trends and Company-specific factors. The Company assesses the estimated useful life of these assets along with the estimated residual value of long lived assets at the end of that useful life on an annual basis to ensure they match the anticipated life of the asset from a revenue producing perspective. If the Company determines that the useful life of an asset is different from the original assessment, changes to depreciation will be applied prospectively.

3. **Significant Accounting Policies** (continued)

(b) Critical accounting estimates and management judgment (continued)

iv) Share-based payments

The Company measures the cost of equity settled transactions with employees by using the fair value of the equity instrument granted method. Estimating fair value for share-based payment transactions requires the determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. The Company uses the Black-Scholes Option Pricing Model.

The fair value of the equity granted estimate also requires determining the most appropriate inputs to the valuation model including the estimated expected life of the share option volatility, and risk free interest rate. The expected volatility is based on the historical volatility of the Company's shares over a period commensurate with the expected term of the share option. The risk-free interest rate for the expected life of the option is based on the yield available on government bonds, with an approximate equivalent remaining term at the end of the grant. Historical data is used to estimate the expected life of the option.

v) Lease terms and incremental borrowing rate used under IFRS 16

The application of IFRS 16 requires the Company to make judgments and estimates that affect measurement of the right of use assets and lease liabilities. In determining the lease term, the Company considers all facts and circumstances that create an economic incentive to exercise renewal options. Assessing whether a contract includes a lease also requires judgment. Estimates are required to determine the appropriate discount rate used to measure the lease liabilities.

Management judgment

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

i) Deferred taxes

Determining deferred taxes involves a number of assumptions and variables that could reasonably change, including: the amount of discretionary tax deductions the Company will claim from its existing tax depreciation pools, recognition of deferred income tax assets resulting from available income tax losses carried forward and the acceptance of the Company's tax filing positions by the taxation authorities. Changes in these assumptions and variables, which are re-evaluated at each balance sheet date, could result in changes in the recorded amount of deferred taxes, and these changes could be material.

3. **Significant Accounting Policies** (continued)

(b) Critical accounting estimates and management judgment (continued)

ii) Product Development

Determination of whether product development activities meet the criteria for capitalization as outlined in note 3(j) requires management judgment as to the purpose of the development activity. In addition, management makes estimates of the amount of time and resources expended on the projects as product development activities occur.

Management continually evaluates product development activities and makes judgments regarding whether indicators of impairment exist for each development project based on knowledge of the intended customer demands and other external factors.

(c) Revenue recognition

The Company provides its customers with equipment sales, installation services, race management services and monthly network access services.

Revenue from provision of all of the above goods and services are measured by applying the five steps below:

1) Identifying the contract with a customer;
2) Identifying the performance obligation;
3) Determining the transaction price;
4) Allocating the transaction price to the performance obligation; and
5) Recognizing revenue when the Company satisfies the performance obligation.

Revenue is recognized from the sale of products that depicts the transfer of the goods to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring that good.

Revenue is recognized from the provision of race management, network access and installation services that depicts the transfer of the service to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those race management, network access and/or installation services. If equipment used to assist in providing race management services is not returned, any charges made to the customer are applied against the net book value of the equipment and is recognized as a gain or loss on disposal of the equipment.

When two or more revenue generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the stand-alone selling price of each unit. If the stand-alone selling price of the delivered item is not reliably measurable, then revenue is allocated using the residual approach based on the difference between the total the transaction price and the stand-alone selling price of other services promised in the contract.

3. **Significant Accounting Policies** (continued)

(c) Revenue recognition (continued)

The Company regularly invoices its customers for monthly access fees in blocks of time between three and twelve months in advance of providing the service. In addition, the Company obtains deposits in advance of the provision of race management services or the delivery of products. In these circumstances, the amounts received prior to delivery of the products or provision of the services is recorded as deferred revenue in the Company's books.

Interest income is recognized using the effective interest method over the term of the instrument.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash held with banks and short term investments, including guaranteed investment certificates, bankers acceptances and money market funds, that are cashable or have maturity dates of less than three months at the time of acquisition.

(e) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of raw materials includes actual cost of materials and shipping costs and is recorded on a first in first out basis. Cost of finished goods includes raw material costs plus labour costs to construct the product. Reserves are taken for obsolescence and slow moving items based on an analysis of both historic usage and future projected consumption and measured based on the estimated selling price less costs to complete.

(f) Prepaid expenses

Prepaid expenses are comprised of prepayments related to materials, insurance premiums and other deposits required in the normal course of business which are less than one year.

(g) Race management equipment

Race management equipment is recorded at cost less accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method over the race management equipment's estimated useful life of four years.

The race management equipments' residual values, useful lives and methods of depreciation are reviewed at the end of each reporting period.

3. **Significant Accounting Policies** (continued)

(h) Property and equipment

Property and equipment is recorded at cost less accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method over the asset's estimated useful life using the following annual rates:

Computer equipment	3 years
Equipment and furniture	5 years
Leasehold improvements	Term of lease
Right of use assets	Term of lease

The assets' residual values, useful lives and methods of depreciation are reviewed at the end of each reporting period.

(i) Leases and right of use assets

At inception of a contract, the Company assesses whether a contract is or contains a lease. Contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration are accounted for as leases giving rise to right of use assets.

At the commencement date, the right of use asset is initially measured at cost, consisting of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, and an estimate of costs to dismantle and remove the underlying asset or restore the site on which it is located, lease any lease incentives received. The Company subsequently measure a right of use asset at cost less any accumulated depreciation and any accumulated impairment losses. Right of use assets are depreciated over the shorter of the asset's useful life and the lease term.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. Lease payments included in the measurement of the lease liability include fixed payments, variable lease payments that depend on an index or rate, any residual value guarantees, and the exercise price of a purchase option when it is reasonably certain to be exercised.

3. **Significant Accounting Policies** (continued)

(j) Research and development costs

Expenditures on research activities are recognized as an expense as incurred, net of related tax credits. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, the company can demonstrate the existence of a market for the product, future economic benefits are probable and the Company intends to and has sufficient resources to complete the development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are recognized as an expense as incurred.

Capitalized development expenditures are measured as cost less accumulated amortization and accumulated impairment losses. Amortization is calculated using the straight-line method over the products estimated useful life of 10 years. Amortization of the capitalized product development costs commences when the product is available for use which is defined as when the product development is completed and commercial deployment of the new product begins.

The capitalized product development costs' residual values, useful lives and methods of amortization are reviewed at the end of each reporting period.

(k) Provisions

Provisions are recognized when the Company has a present legal obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is recorded in profit or loss.

(l) Government contributions

Amounts received or receivable resulting from government assistance programs are recorded as revenue or reductions of the cost of the assets or expenses to which they relate when the Company becomes eligible to receive them, provided there is reasonable assurance that the Company will comply with the conditions attached to the program and the assistance will be received.

Investment tax credits relating to qualifying scientific research and experimental development expenditures that are recoverable in the current period are accounted for as a reduction in research and development expenses or as a reduction in property and equipment depending on the nature of the expenditure. The Company depreciates the cost of the related equipment over its useful life according to the Company's accounting policy relating to equipment. Investment tax credits not receivable in the current period are accrued provided there is reasonable assurance that the credits will be realized.

3. **Significant Accounting Policies** (continued)

(m) Impairment of long-lived assets

The Company evaluates the carrying value of long-lived assets, including property and equipment, race management equipment and capitalized product development costs at the end of each reporting period to determine whether there is any indication of impairment. Factors that the Company considers important which could trigger an impairment include, but are not limited to, significant changes in the manner of use of the asset or the overall strategy of the business, significant negative industry or economic trends, a significant decline in the Company's share price for a sustained period and the Company's market capitalization relative to the net book value of its assets and liabilities.

An impairment loss is recorded when it is determined that the carrying amount is no longer recoverable and exceeds its fair value calculated using the discounted cash flows related to the asset or asset group. The recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized when the carrying amount of an asset, or its cash generating unit, exceeds its recoverable amount. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impairment losses are recognized in profit or loss in the period in which an impairment is identified. Impairment losses are reversed in subsequent periods if there is a change in the estimates used to determine the recovered amount since the impairment was recognized.

(n) Share-based payment plan

The Company has a stock option plan that is described in note 12. The Company accounts for share-based compensation using the fair value of the equity instrument granted method, in which the fair value of compensation is measured at the grant date using the Black-Scholes Option Pricing Model for employees and independent contractors. The fair value of any stock options granted under this plan is amortized over the vesting period and is recorded in general and administrative expenses with the offset recorded to contributed surplus. On the exercise of stock options the consideration paid and the related amount of contributed surplus are transferred to share capital.

3. **Significant Accounting Policies** (continued)

(o) Earnings per share

Basic earnings per share are computed by dividing net earnings by the weighted average number of common shares outstanding during the period.

Diluted earnings per share are computed similar to basic net earnings per share, except that the weighted average number of shares outstanding are increased to include additional shares for the assumed exercise of stock options at the beginning of the reporting period, if dilutive. The number of additional shares is calculated assuming that the outstanding stock options were exercised and the proceeds from such exercises were used to repurchase commons shares at the average market price during the reporting period. Stock options are dilutive when the market price of the common shares at the end of the period exceeds the exercise price of the options and when the Company generates net earnings. Anti-dilutive amounts are not considered in computing diluted earnings per share.

(p) Foreign Currency Translation

The Company’s consolidated financial statements are presented in Canadian dollars, which is also the Company’s and it's wholly owned subsidiary's functional currencies.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate at the balance sheet date (see note 22). Foreign currency revenue and expenses are translated into Canadian dollars at the exchange rate at the time of the transaction. Translation gains and losses are included in profit or loss.

(q) Impairment of financial assets

The Company's most substantial financial asset, other than cash, is trade receivables. The Company has opted to use the simplified approach to measuring the loss allowance for the trade receivables at an amount equal to lifetime ECL's (see note 3(b)(i)).

3. **Significant Accounting Policies** (continued)

(r) Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in income.

Current income tax expense is the expected tax payable on the 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.

Deferred taxes are recorded using the liability method. Under this method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability is settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority, and when the Company intends to settle its current tax assets and liabilities on a net basis.

(s) Financial instruments

Financial assets and liabilities (including assets designated at fair value through profit or loss) are recognized initially when the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

When applicable, financial assets and liabilities are offset and the net amount presented on the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. There were no legal right to offset presented in these consolidated financial statements.

3. **Significant Accounting Policies** (continued)

(s) Financial instruments (continued)

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

i) Amortized Cost Assets

A financial asset is classified as an amortized cost asset if the instrument gives rise solely to payments of principal and interest and for which the Company has a single business model to collect contractual cash flows from the instrument. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these assets are measured at amortized cost using the effective interest method less any impairment losses recognized in profit or loss.

Amortized cost assets are comprised of cash and cash equivalents and trade and other receivables.

ii) Financial assets at fair value through other comprehensive income (OCI)

A financial asset is classified fair value through OCI if it is a debt instrument that gives rise solely to payments of principal and interest and for which the Company has a dual business model to hold the instrument to collect contractual cash flows and to sell the financial asset. A financial asset is also classified fair value through OCI if it is an equity instrument that is not held for trading, for which the Company has made an irrevocable election at initial recognition to not include in the fair value through profit or loss category. Such assets are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Interest on debt instruments classified as fair value through OCI is recognized in profit or loss using the effective interest method. Fluctuations in fair value of these assets are recognized in equity, with the accumulated balance being reclassified to profit or loss on dereognition of debt instruments. Transaction costs and finance fees are expensed as incurred.

The Company does not have any financial assets that are classified as fair value through other comprehensive income.

iii) Financial assets at fair value through profit or loss

A financial asset is classified fair value through profit or loss if it is a debt instrument that does not solely give rise to principal and interest payments or it is an equity instrument that is held for trading or not held for trading if the Company has not made an election to classify it as an equity instrument asset at fair value through Other Comprehensive Income. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. Fluctuations in fair value of these assets are recognized in profit or loss. Transaction costs and finance fees are expensed as incurred.

The Company does not have any financial assets that are classified as fair value through profit or loss.

3. **Significant Accounting Policies** (continued)

(s) Financial instruments (continued)

iv) Financial liabilities at amortized cost

Financial liabilities at amortized cost are recognized initially at fair value, plus any directly attributable transaction costs. Subsequently, these liabilities are measured at amortized cost using the effective interest method.

Financial liabilities at amortized cost are comprised of trade and other payables, lease liability and long term debt.

4. **New Standards, Interpretations And Amendments**

New Standards, Interpretations and Amendments Adopted in 2022

The Company adopted the following new or revised International Financial Reporting Standards during the year.

(a) IAS 16 Property, Plant and Equipment
(b) IAS 37 Provisions, Contingent Liabilities and Contingent Assets
(c) Revised Conceptual Framework for Financial Reporting

The adoption of these new standards did not have a material impact on the Company's consolidated financial statements.

New Standards, Interpretations and Amendments Not Yet Effective

The are no standards, amendments to standard and interpretations which have been issued by the IASB that are effective in future accounting periods that will materially affect the Company.

5. **Inventories**

Inventory consists of:

	2022	2021
Raw materials	$ 244,462	$ 118,546
Finished goods	38,593	34,229
Allowance for obsolescence	(12,734)	(2,832)
	$ 270,321	$ 149,943

Cost of sales consists of:

	2022	2021
Communication fees paid	$ 326,985	$ 330,273
Inventories expensed	182,656	214,372
Commissions and fees	101,397	132,348
Depreciation and loss on disposals of race management equipment (note 6)	53,851	65,542
Freight and delivery	14,417	16,322
Provision for inventory write-downs	12,734	2,832
Travel	10,492	8,688
Installation and development labour	7,391	10,304
	$ 709,923	$ 780,681

6. Race Management Equipment

	Race Management Equipment
Cost	
Balance at June 30, 2020	$ 349,981
Additions	968
Disposals	(9,274)
Balance at June 30, 2021	341,675
Additions	3,387
Disposals	(23,671)
Balance at June 30, 2022	$ 321,391
Depreciation and impairment losses	
Balance at June 30, 2020	$ 206,683
Depreciation	65,392
Disposals	(8,233)
Balance at June 30, 2021	263,842
Depreciation	60,020
Disposals	(22,968)
Balance at June 30, 2022	$ 300,894
Carrying amounts	
At June 30, 2021	$ 77,833
At June 30, 2022	$ 20,497

Cost of sales includes $60,020 (2021 - $65,392) for depreciation of race management equipment and $6,169 for gains on disposal of race management equipment (2021 - $150 in losses on disposal of race management equipment) (note 5).

7. **Property And Equipment**

	Right of Use Assets	Computer Equipment	Equipment and Furniture	Mobile Equipment	Leasehold Improvements	Total
Cost						
Balance at June 30, 2020	$ 343,920	$ 64,299	$ 36,913	$ 15,896	$ 35,000	$ 496,028
Additions	37,326	-	-	-	-	37,326
Rent subsidies recovered (note 19)	(18,594)	-	-	-	-	(18,594)
Disposals	-	-	-	(15,896)	-	(15,896)
Balance at June 30, 2021	362,652	64,299	36,913	-	35,000	498,864
Additions	36,107	4,644	-	-	-	40,751
Rent subsidies recovered (note 19)	(8,239)	-	-	-	-	(8,239)
Disposals	-	-	-	-	-	-
Balance at June 30, 2022	390,520	68,943	36,913	-	35,000	531,376
Depreciation and impairment losses						
Balance at June 30, 2020	69,950	61,342	36,913	15,896	35,000	219,101
Depreciation	69,430	1,971	-	-	-	71,401
Disposals	-	-	-	(15,896)	-	(15,896)
Balance at June 30, 2021	139,380	63,313	36,913	-	35,000	274,606
Depreciation	67,085	1,760	-	-	-	68,845
Disposals	-	-	-	-	-	-
Balance at June 30, 2022	$ 206,465	$ 65,073	$ 36,913	$ -	$ 35,000	$ 343,451
Carrying amounts						
At June 30, 2021	$ 223,272	$ 986	$ -	$ -	$ -	$ 224,258
At June 30, 2022	$ 184,055	$ 3,870	$ -	$ -	$ -	$ 187,925

8. Product Development

	Product Development
Cost	
Balance at June 30, 2020	$ 1,119,753
Additions	295,984
Impairment write offs	(254,064)
Balance at June 30, 2021	1,161,673
Additions	345,914
Impairment write offs	-
Balance at June 30, 2022	$ 1,507,587
Amortization and impairment losses	
Balance at June 30, 2020	$ 102,935
Amortization	83,890
Impairment write offs	-
Balance at June 30, 2021	186,825
Amortization	99,001
Impairment write offs	-
Balance at June 30, 2022	$ 285,826
Carrying amounts	
At June 30, 2021	$ 974,848
At June 30, 2022	$ 1,221,761

During the year, the Company worked on a number of product development initiatives that met the criteria for capitalization of the costs incurred in accordance with the Company's accounting policies. The following costs were capitalized in relation to the product development projects undertaken during the year

	2022	2021
Wages and benefits	$ 377,538	$ 366,975
Wage subsidies recovered (note 19)	(34,890)	(73,029)
Materials and supplies	3,266	2,038
	$ 345,914	$ 295,984

Amortization of the product development costs is recorded on a project by project basis and commences when product development is completed and commercial deployment of the new product begins. At June 30, 2022 there were two projects with a cost totaling $404,027 that were not complete and available for use (June 30, 2021 - four projects with total cost of $322,771). Therefore, no amortization has been recorded on those project's costs.

9. Lease Liabilities

The lease liabilities include a lease for occupied premises requiring monthly payments totaling $6,747 including interest at the Company's incremental borrowing rate of 6% per annum until May 2024, a lease for a vehicle requiring monthly payments totaling $453 including interest at 2.9% per annum until March 2025 and a final payment of $18,825 in April 2025 and a lease for a vehicle requiring bi-weekly payments totaling $267 including interest at 4.49% per annum until March 2025 and a final payment of $19,000 in April 2025.

Balance at July 1, 2020	$ 281,959
Additions	37,326
Repayments	(82,322)
Interest	15,311
Balance at June 30, 2021	252,274
Additions	36,107
Repayments	(88,001)
Interest	12,369
Balance at June 30, 2022	212,749
Less current portion	(84,487)
Lease liability - long term portion	$ 128,262

The future minimum payments required under the leases are as follows:

	Principal	Interest	Total
2023	$ 84,487	$ 9,110	$ 93,597
2024	82,490	4,093	86,583
2025	45,772	1,228	47,000
	$ 212,749	$ 14,431	$ 227,180

10. Long Term Debt

		2022		2021
Canada Emergency Business Account (CEBA) loan. This loan bears no interest until December 31, 2023, and, provided $40,000 is repaid by that time, the remaining $20,000 will be forgiven. If not repaid by that time the full loan is payable in equal monthly instalments from January 1, 2024 to December 31, 2026 plus interest at 5% per annum.	$	60,000	$	60,000
Less fair value adjustment recognized as grant income in the fiscal year ended June 30, 2021		(20,000)		(20,000)
	$	40,000	$	40,000

11. Share Capital

Authorized
Unlimited number of common voting shares with no par value

During the year, the Company issued 675,000 (2021 - 350,000) new common shares on the exercise of stock options for $67,500 (2021 - $35,000) (see note 12). Contributed surplus totaling $51,300 (2021 - $12,950) relating to the stock option exercised was transferred to share capital.

In addition, contributed surplus totaling $30,780 (2021 - $nil) was transferred to retained earnings relating to stock options forfeited during the year.

12. Share Based Compensation Plan

Under the Total Telcom Inc. Employee Stock Option Plan, options to purchase common shares of the Company may be granted to key employees, independent contractors and directors of the Company that entitle the holder to purchase one common share at a subscription price of not less than 100% of the market value on the effective date of the grant. The holder has the right to exercise the options immediately after issue, but the resulting shares cannot be traded until four months after the date the options were granted. Options expire five years after being issued or 90 days after an employee ceases employment with the Company. The Board of Directors has the discretion to extend the expiration period on cessation of employment. The maximum number of common shares authorized for issuance by the Board of Directors under the plan is limited to 10% of the total issued and outstanding common shares of the Company.

12. **Share Based Compensation Plan** (continued)

The fair value of any stock options granted to directors, officers, employees and independent contractors is recorded in general and administrative expenses over the vesting period with the offset recorded to contributed surplus.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models may not necessarily provide a reliable measure of the fair value of the Company's share options.

The Company calculates share-based compensation from the vesting of stock options to employees using the Black Scholes Option Pricing Model with assumptions noted below and recorded related compensation expense as follows for the years ended June 30, 2022 and 2021:

	2022	2021
Total compensation (increase in contributed surplus and general and administrative expenses)	$ 45,000	$ 40,450

The assumptions used to estimate the fair value of options granted during the year ended June 30, 2022 and 2021 were as follows:

	2022	2021
Weighted average share price at grant dates	$ 0.130	$ 0.154
Exercise price	$ 0.15	$ 0.15
Risk free interest rate	1.00%	1.00%
Expected life (years)	5	5
Vesting period (years)	0	0
Weighted average expected volatility	94%	100%
Expected dividends	0.00%	0.00%
Forfeiture rate	0.00%	0.00%

Under the Employee Stock Option Plan, certain key employees and directors have the following options to purchase common shares:

(a) 250,000 common shares at $0.20 per share - options expire April 30, 2023;
(b) 250,000 common shares at $0.15 per share - options expire March 3, 2026;
(c) 100,000 common shares at $0.15 per share – options expire May 31, 2026; and
(d) 500,000 common shares at $0.15 per share - options expire December 30, 2026.

All stock options outstanding at June 30, 2022 and 2021 were fully vested and exercisable.

The average remaining contracted life of outstanding stock options is 3.42 years.

The exercise price of all share options granted is greater than the closing market price at the grant date.

12. **Share Based Compensation Plan** (continued)

The following stock options were outstanding as at June 30, 2022 and 2021

	2022	
	Number	Weighted Average Exercise Price
Balance, beginning of the year	1,430,000	$ 0.13
Increase (decrease) resulting from:		
Options granted	500,000	0.15
Options exercised	(675,000)	0.10
Options forfeited	(155,000)	0.10
Balance, end of year	1,100,000	$ 0.16

	2021	
	Number	Weighted Average Exercise Price
Balance, beginning of the year	1,430,000	$ 0.12
Increase (decrease) resulting from:		
Options granted	350,000	0.15
Options exercised	(350,000)	0.10
Balance, end of year	1,430,000	$ 0.13

13. Earnings Per Share

Net income of $292,595 (2021 - $608,315) is the numerator used in both the basic and diluted earnings per share calculations.

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the year which is calculated as follows:

	2022	2021
Shares outstanding, beginning of year	25,315,014	24,965,014
Weighted average shares issued during the year	393,750	91,667
Basic weighted average number of shares for the year	25,708,764	25,056,681
Dilutive effect of exercise of stock options	-	382,941
Diluted weighted average number of shares for the year	25,708,764	25,439,622

Diluted earnings per share is calculated using the weighted average number of common shares outstanding adjusted for the additional common shares that would be issued on the exercise of the Company's stock options described in note 12 net of the number of common shares that would be assumed to be repurchased at the June 30, 2022 market price from the proceeds received by the Company on the execution of the stock options.

For the year ended June 30, 2022, the inclusion of the Company's stock options in the computation of diluted earnings per share would have an antidilutive effect on earnings per share and they are therefore excluded from the computation.

14. Supplementary Cash Flow Information

	2022	2021
Net changes in non-cash working capital balances:		
Decrease (increase) in:		
Trade and other receivables	$ (27,244)	$ 33,329
Inventories	(120,378)	28,354
Prepaid expenses	(6,222)	(42)
Increase (decrease) in:		
Trade and other payables	66,045	(33,526)
Deferred revenue	(20,500)	38,670
	$ (108,299)	$ 66,785
Cash received during the year from:		
Interest	$ 6,040	$ 5,978

15. **Segmented Information**

The Company operates a single operating segment - the sale of remote asset monitoring and tracking products and services. Management assesses performance and makes resource decisions based on the consolidated results of operations in this operating segment.

The Company operates in the following geographical regions. Revenue is attributed to these regions based on the country to which the product sales or service are delivered.

	2022	**2021**
Revenue		
United States	$ 1,115,482	$ 1,240,813
Canada	539,749	495,687
	$ 1,655,231	$ 1,736,500

The Company's revenue is broken down into the following products and services:

	2022	**2021**
Revenue		
Race management services	$ 613,899	$ 647,173
Hardware sales, development and installation	533,053	564,288
Communications	508,279	525,039
	$ 1,655,231	$ 1,736,500

During the year ended June 30, 2022, the Company had one customer (2021 – two customers) that accounted for more than 10% of the Company's total revenue. The total revenue from this customers was $245,003 (2021 - $556,226). At June 30, 2022, accounts receivable included $34,643 (2021 - $74,717) from this customer.

Non-current assets consist of equipment and race management equipment. Equipment is located entirely in Canada. The home base of the race management equipment is in Canada, but the location of the race management equipment varies depending on where the units are being used. For fiscal 2022 and 2021 the race management equipment was used exclusively in the United States.

16. **General and Administrative Expenses:**

	2022	2021
Wages and benefits, net of recoveries (notes 18 and 19)	$ 248,899	$ 155,992
Professional fees	52,125	55,139
Share-based compensation (note 12)	45,000	40,450
Bank charges	26,570	29,651
Insurance, licenses and dues	16,760	15,339
Travel	15,661	19,749
Public company compliance	14,992	20,330
Telephone	13,966	20,061
Marketing	12,941	6,188
Office	11,801	7,029
Rent	7,536	7,536
Bad debts	-	2,566
	$ 466,251	$ 380,030

17. **Income Taxes**

Income tax expense

The income tax expense differs from the amount that would be obtained by applying the statutory income tax rate to the net income before tax as follows:

	2022	2021
Income before tax	$ 346,595	$ 84,315
Statutory tax rate	27.0 %	27.0 %
Expected income tax expense	93,581	22,765
Tax effects of:		
Change in unrecognized temporary differences	(53,000)	(557,000)
Items not deductible for income tax purposes	1,269	228
Share-based compensation	12,150	10,007
Deferred income tax expense (recovery) reported	$ 54,000	$ (524,000)

17. **Income taxes** (continued)

The Company and its subsidiary have approximately $5,863,041 of non-capital loss carryforwards available to reduce future years' income for income tax purposes. The amounts expire as follows:

2026	$ 159,741
2027	322,055
2028	3,036,008
2029	640,091
2030	326,432
2031	199,229
2032	256,830
2033	429,154
2034	387,849
2036	73,751
2039	31,901

During the year, the Company used $201,637 (2021 - $225,002) of the income tax losses carried forward to reduce its taxable income to $nil.

In addition, the Company recognized the future tax benefits of $1,715,011 (2021 - $1,724,707) of the income tax losses carried forward as a deferred tax asset based on management's estimate of the amount of income tax losses expected to be able to be used to reduce future taxable income before the losses expire.

In addition, the Company also has $319,860 (2021 - $319,860) in scientific research and experimental development expenditure pools carried forward. This expenditure pool never expires.

Deferred Tax

Temporary differences that give rise to deferred tax are as follows:

	2022	2021
Non-capital tax losses carry forward	$ 1,583,000	$ 1,638,000
Scientific research and experimental development pool	86,000	86,000
Book value of property, plant and equipment and product development costs in excess of tax value	(79,000)	(27,000)
	1,590,000	1,697,000
Assets not recognized	(1,120,000)	(1,173,000)
Deferred tax asset	$ 470,000	$ 524,000

18. Related Party Transactions

Transactions with related parties

General and administrative expenses include $30,000 (2021 - $30,000) in management fees to a company controlled by a director of the Company.

Trade and other payables includes $60,000 (2021 - $10,000) owing to directors of the Company or a company controlled by a director of the Company. These payables are non-interest bearing and payable in the course of normal operations within the next year.

Key management personnel compensation

Aggregate compensation to the directors and key management personnel of the Company during the period was as follows:

	2022	2021
Salaries and short-term employee benefits	$ 192,100	$ 130,200
Management fees	30,000	30,000
Share-based compensation	36,000	40,450
Director fees	5,000	10,000
	$ 263,100	$ 210,650

The above key management compensation is included in the statement of financial position and statement of income as follows:

	2022	2021
Product development costs capitalized	$ 123,390	$ 117,180
General and administrative expenses	139,710	93,470
	$ 263,100	$ 210,650

Salaries and short-term employee benefits consist of salaries, bonuses and all other short-term monetary and non-monetary benefits. Share-based payment benefits consist of the fair value of share-option awards expensed in the period. No long-term, post-employment or termination benefits were recognized during the years ended June 30, 2022 or 2021.

19. **Government Assistance**

The Company qualified for wage subsidies totaling $49,697 (2021 - $102,386) under the Canada Emergency Wage Subsidy (CEWS) and the Canada Recovery Hiring (CRHP) programs and rent subsidies totaling $8,239 (2021 - $18,594) under the Canada Emergency Rent Subsidy (CERS) program. Under the terms of these programs, companies that experienced declines in revenues meeting the eligibility criteria for each eligible period were entitled to receive subsidies based on the percentage of revenue decline up to maximum amounts specified for each period under the legislation. The Company has applied $34,890 (2021 - $73,029) of the wage subsidies against wages capitalized as product development costs and $14,807 (2021 - $29,357) against wage expense included in general and administrative expenses. The Company has applied the $8,239 (2021 - $18,593) rent subsidies received against the cost of the right of use asset relating to leased premises.

The Company qualified for a Canada Emergency Business Account (CEBA) loan to a maximum of $60,000. Under this program, $20,000 of the funds drawn on this account are forgivable if the remaining $40,000 is repaid by December 31, 2023 (see note 10). As management is reasonably assured that the Company will repay the $40,000 prior to December 31, 2023, the $20,000 loan forgiveness was recognized as grant income at June 30, 2021.

20. **Indemnifications**

Directors and officers

Under the terms of certain agreements and the Company's by-laws the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. Any claims covered by such indemnifications are subject to statutory and other legal limitation periods. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements. At June 30, 2022 no claims under the indemnification agreements had been made.

21. Capital Management

The capital of the Company consists of the items included in the shareholders' equity section of the consolidated statement of financial position. As at June 30, 2022 shareholders' equity was $3,833,731 (2021 – $3,580,992).

The Company's objectives when managing capital are:

a) To safeguard the Company's ability to continue as a going concern, so that it can complete product developments and establish commercial markets in which to distribute these products.

b) To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

c) To manage capital to ensure liquidity is maintained and to obtain a reasonable low risk return.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments based on stages of commercialization of the Company's product lines and changes in economic conditions. Due to the nature of the operations and the development stage of product commercialization, the Company carries minimal long term debt and internally finances operations from its existing cash reserves.

The Company monitors capital based on a comparison of liquid cash resources available to anticipated resources required to complete product developments and implementation of full commercial deployment of the Company's products. This strategy has remained unchanged from 2021.

22. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, term deposits, trade and other receivables, trade and other payables, lease liability and long term debt. Management has classified the Company's financial instruments as follows:

Financial Instrument	Classification
Cash and cash equivalents	Amortized cost
Term deposits	Amortized cost
Trade and other receivables	Amortized cost
Trade and other payables	Amortized cost
Long term debt	Fair value

22. **Financial Instruments** (continued)

The following table shows the carrying amounts and fair values of financial assets and financial liabilities:

	2022			
	Amortized Cost Assets	Financial Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
<u>Financial assets:</u>				
Cash and cash equivalents	$ 1,345,126	$ -	$ 1,345,126	$ 1,345,126
Term deposits	604,532	-	604,532	604,532
Trade and other receivables	270,321	-	270,321	270,321
<u>Financial liabilities:</u>				
Trade and other payables	-	197,595	197,595	197,595
Long term debt	-	60,000	40,000	40,000

	2021			
	Amortized Cost Assets	Financial Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
<u>Financial assets:</u>				
Cash and cash equivalents	$ 1,188,873	$ -	$ 1,188,873	$ 1,183,873
Term deposits	602,758	-	602,758	602,758
Trade and other receivables	166,829	-	166,829	166,829
<u>Financial liabilities</u>				
Trade and other payables	-	131,550	131,550	131,550
Long term debt	-	60,000	40,000	40,000

The fair value of cash and cash equivalents, term deposits and long term debt are determined on a recurring basis based on level 1 inputs.

The carrying value less expected credit losses on trade and other receivables and trade and other payables approximates fair value due to the short-term nature of the instruments.

22. **Financial Instruments** (continued)

Financial Instrument Risks

Except as noted below, it is management's opinion that the Company is not exposed to significant interest, currency, credit or liquidity risk arising from these financial instruments. The Company's risk profile has not changed significantly in the past year.

The ongoing COVID 19 global pandemic continues to disrupt economic activities and has resulted in increased levels of risk and uncertainty. This has impacted the Company's business operations through delays in the the full commercial deployment of certain new products along with delays and disruptions in the supply chain. Although temporary, the duration of the business disruption and its long term financial impacts cannot reasonably be estimated at this time. Management is monitoring the situation and making adjustments to the business operations as required. As of the date of these financial statements, the Company has been able to mitigate the impact of the pandemic and management is confident in the Company's ability to continue operations as a going concern. However, the disruption in normal business activities continues to expose the Company to increased liquidity and credit risks.

a) 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 has a planning and budgeting process in place which helps determine the funds required to ensure that the Company has the appropriate liquidity to meet its operating and growth objectives. The Company currently settles all of its financial obligations out of cash. The ability to do so relies on the Company collecting its trade receivables in a timely manner and by having sufficient cash reserves available to meet anticipated needs.

At June 30, 2022, the Company had cash and term term deposits totaling $1,949,658 (2021 - $1,791,631) and trade and other receivables of $194,073 (2021 - $166,829) which will cover the Company's short-term financial obligations from its trade and other payables of $197,595 (2021 - $131,550). The liquidity and timing of these assets are adequate for the settlement of the short-term financial obligations.

At June 30, 2022 the Company's only long term financial commitments relate to its lease liabilities as described in note 9 and long term debt described in note 10.

22. **Financial Instruments** (continued)

b) Credit Risk

Credit risk is the risk of a financial loss if a customer or counterparty to a financial instrument fails to meet its obligations under a contract.

Trade and other receivables consist of trade accounts receivable of $190,775 (2021 - $145,410) and government subsidies receivable (note 19) of $3,298 (2021 - $21,419).

The Company is exposed to credit risk on trade receivables. The Company has a number of customers dispersed across various geographic areas and industries. At June 30, 2022 85% of trade receivables were from six customers (June 30, 2021 – 88% from four customers).

The Company follows the expected credit loss model for trade receivables and records expected credit losses using the simplified method. As at June 30, 2022, the balance of the allowance account for credit losses was $nil (June 30, 2021 - $nil).

The following table shows the aging of the Company's trade and other receivables which provides an indication of possible credit risk.

	2022	2021
0-30 days	$ 182,320	$ 129,647
31-60 days	-	37,182
61-90 days	11,183	-
Greater than 90 days	570	
	$ 194,073	$ 166,829

The Company has concentration risk relating to cash and cash equivalents. Cash is held at a single Canadian chartered bank. At June 30, 2022, the Company had $604,532 in short term Guaranteed Investment Certificates (2021 - $602,758). The Company is exposed to risk to the extent that cash balances exceed the amounts guaranteed by the Canada Deposit Insurance Corporation.

The maximum exposure to credit risk of the cash, term deposits and trade and other receivables is their carrying value.

22. **Financial Instruments** (continued)

c) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

Cash in the amount of $1,232,310 (2021 - $1,069,234), accounts receivable in the amount of $87,394 (2021 - $109,693) and accounts payable in the amount of $60,021 (2021 - $26,604) are US dollar amounts converted at the exchange rate in effect at year end. The Company manages currency risk by holding cash in foreign currencies to support forecasted foreign currency denominated liabilities. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

A 1% appreciation (depreciation) in the Canadian dollar price of United States dollars would result in gain (loss) of approximately $17,000 (2021 - $15,000).

d) Interest 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 interest bearing liabilities include the lease liability and long term debt described in notes 9 and 10. Both of these obligations have fixed interest rates and subject the Company to fair value price risks.

The Company holds funds in excess of immediate operating requirements in short term Guaranteed Investment Certificates. Cash and cash equivalents at year end included $51,888 (2021 - $51,738) in money market funds bearing interest at 0.5% (2021 - 0.2%) per annum and $604,532 (2021 - $602,759) in short term guaranteed investment certificates bearing interest at rates between 1.18% and 1.2% per annum all maturing on November 9, 2022 (2021 - 0.25% to 0.83% per annum all maturing on November 4, 2021).

A 1% appreciation (depreciation) in interest rates would result in gain (loss) of approximately $17,000 (2021 - $14,000).

23. **Comparative Figures**

Certain of the 2021 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2022. In particular, the term deposits have been disclosed separately from cash and cash equivalents.