

Condensed Interim Consolidated Financial statements of

Uniserve Communications Corporation

Six months ended November 30, 2022 and 2021

(Expressed in Canadian dollars)

Uniserve Communications Corporation

For the six months ended November 30, 2022 and 2021

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NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The Company's external auditors, Dale Matheson Carr-Hilton Labonte LLP, have not performed a review of these financial statements.

Signed by

"Walter Schultz"

Walter Schultz
Chairman of the Board

Signed by

"Kelly Walker"

Kelly Walker
Chief Executive Officer

January 27, 2023

Uniserve Communications Corporation

Condensed interim consolidated statements of financial position

(Expressed in Canadian dollars)

	Note	November 30, 2022	May 31, 2022
Assets			
Current assets			
Cash		\$ 1,718,637	\$ 1,957,346
Trade and other receivables	13a	729,800	519,495
Inventories		26,112	17,566
Contract costs - current portion	4b	57,717	69,045
Lease receivables - current portion	11b	34,025	36,833
Prepaid expenses		96,860	83,048
		2,663,151	2,683,333
Property and equipment	5a	211,476	224,405
Intangible assets and goodwill	5b	48,086	72,050
Contract costs	4b	67,969	73,032
Lease receivables	11b	27,302	33,832
Receivables - long term	5c	51,446	51,446
		\$ 3,069,430	\$ 3,138,098
Liabilities and Shareholders' Equity			
Current Liabilities			
Trade payables and accrued liabilities		\$ 1,372,428	\$ 1,409,005
Accrued dividends payable on preferred shares	9	22,847	21,927
Convertible preferred shares	9	23,000	23,000
Convertible debenture - current portion	8	195,859	-
Contract liabilities - current portion	4c	126,610	121,125
Lease liabilities - current portion	11a	-	27,114
Lease Inducement - current portion	6a	-	2,000
Loans payable	7	500,000	500,000
		2,240,744	2,104,171
Non-current Liabilities			
Contract liabilities	4c	-	8,230
Convertible debenture	8	-	192,309
		2,240,744	2,304,710
Shareholders' Equity			
Issued capital	10a&b	33,053,201	33,053,201
Equity reserves	10e	4,400,903	4,400,903
Deficit		(36,625,418)	(36,620,716)
		828,686	833,388
		\$ 3,069,430	\$ 3,138,098

Nature of operations and going concern (Note 1 and 2)

Commitments and Contingencies (Note 14)

Approved on behalf of the Board:

"Walter Schultz"

Walter Schultz

Chairman of the Board

"Kelly Walker"

Kelly Walker

Chief Executive Officer

See accompanying notes

Uniserve Communications Corporation

Condensed interim consolidated statements of comprehensive Income (loss)

(Expressed in Canadian dollars)

	Note	Three months ended November 30,		Six months ended November 30,	
		2022	2021	2022	2021
Revenue	4a	\$ 1,805,698	1,834,806	\$ 3,539,399	\$ 3,635,418
Cost of revenues		989,795	989,313	1,924,756	1,991,909
		815,903	845,493	1,614,643	1,643,509
Expenses					
Operations and service delivery expenses		616,181	460,430	1,231,482	900,213
Sales and marketing		125,515	140,260	251,262	240,180
Amortization of property and equipment	5a	35,453	88,949	94,961	172,404
Amortization of intangible assets	5b	11,718	14,304	23,964	29,488
		788,867	703,943	1,601,669	1,342,285
		27,036	141,550	12,974	301,224
Other Expenses (Income)					
Finance charges	7,8,9	18,240	38,066	37,793	82,919
Loss (Gain) on foreign exchange		3,874	1,127	6,733	(1,231)
Gain on settlements and reversals of debts	9	-	(30,309)	-	(38,629)
Finance Income		(15,706)	(3,770)	(26,850)	(7,081)
		6,408	5,114	17,676	35,978
Net and Comprehensive Income (loss) for the period		\$ 20,628	\$ 136,436	(\$ 4,702)	\$ 265,246
Basic and Diluted Income (loss) per share		\$ 0.00	\$ 0.00	(\$ 0.00)	\$ 0.00
Weighted average common shares outstanding - Basic		80,523,971	66,148,536	80,523,971	63,700,616
Weighted average common shares outstanding - Diluted		80,523,971	74,167,950	80,523,971	67,688,413

See accompanying notes

Uniserve Communications Corporation

Condensed interim consolidated statements of cash flows

(Expressed in Canadian dollars)

		Three months ended November 30,		Six months ended November 30,	
	Note	2022	2021	2022	2021
Operating Activities					
Net income (loss) for the period		\$ 20,628	\$ 136,436	(\$ 4,702)	\$ 265,246
Items not involving Cash					
Amortization of intangible assets		11,718	14,304	23,964	29,488
Amortization of lease inducement		-	(2,000)	(2,000)	(4,000)
Amortization of property and equipment		35,453	88,949	94,961	172,404
Accretion of convertible debenture		1,775	5,166	3,550	9,050
Finance income		(15,706)	(3,770)	(26,850)	(7,081)
Gain on settlement of debt		-	-	-	(8,320)
Gain on Disposal of property and equipment		-	(3,000)	-	(3,000)
Gain on finance lease		(3,004)	(27,117)	(3,004)	(27,117)
Changes in working capital and other items	16	(203,607)	(40,038)	(215,483)	98,594
Net cash gained (used) in operating activities		(152,744)	168,930	(129,564)	356,334
Investing Activities					
Purchase of property and equipment		(45,793)	(40,612)	(82,031)	(52,572)
Proceeds on disposal of property and equipment		-	3,000	-	3,000
Net cash used in investing activities		(45,793)	(37,612)	(82,031)	(49,572)
Financing Activities					
Net cash proceeds from issuance of common shares		-	470,750	-	695,750
Cash proceeds for warrants exercised		-	15,000	-	15,000
Repayment of convertible debenture		-	(70,000)	-	(70,000)
Repayment of debt and notes		-	(340,000)	-	(343,000)
Repayment of lease obligations		-	(34,603)	(27,114)	(68,557)
Net cash (used) provided by financing activities		-	41,147	(27,114)	229,193
Change in cash		(198,537)	172,465	(238,709)	704,885
Cash at beginning of the period		1,917,174	943,993	1,957,346	411,573
Cash at end of the period		\$ 1,718,637	\$ 1,116,458	\$ 1,718,637	\$ 1,116,458

Supplemental information for statement of cash flows - Note 16

See accompanying notes

Uniserve Communications Corporation

Consolidated statements of changes in shareholders' equity (deficit)

(Expressed in Canadian dollars)

	Issued capital		Equity		Total
	Shares	Amount	reserves	Deficit	Shareholders' equity (deficit)
Balance, May 31, 2021	61,279,305	\$ 29,982,461	\$ 4,917,881	(\$ 37,014,190)	(\$ 2,113,848)
Issuance of share capital for cash	7,000,000	695,750	-	-	695,750
Issuance of share capital for debts	100,000	15,000	-	-	15,000
Issuance of share purchase warrants	-	(265,407)	265,407	-	-
Transfer on exercise of share purchase warrants	-	5,712	(5,712)	-	-
Modification of convertible debenture	-	-	39,677	-	39,677
Net income and comprehensive income	-	-	-	265,246	265,246
Balance, November 30, 2021	68,379,305	\$ 30,433,516	\$ 5,217,253	(\$ 36,748,944)	(\$ 1,098,175)
Balance, May 31, 2022	80,523,971	\$ 33,053,201	\$ 4,400,903	(\$ 36,620,716)	833,388
Net loss and comprehensive loss	-	-	-	(4,702)	(4,702)
Balance, November 30, 2022	80,523,971	\$ 33,053,201	\$ 4,400,903	(\$ 36,625,418)	\$ 828,686

See accompanying notes

Uniserve Communications Corporation

Notes to the condensed interim consolidated financial statements
Six months ended November 30, 2022 and 2021 (Canadian Dollars)

1. Nature of Operations

Uniserve Communications Corporation ("the Company") was incorporated on January 19, 1988 under the Company Act of British Columbia. The Company's principal business activities is the provision of Internet access and telecommunications services and commercial IT consulting services primarily in B.C. and Alberta.

The Company is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia. The Company's shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol USS. The Company's head office is located at Suite 209 – 333 Terminal Avenue, Vancouver, British Columbia, Canada, V6A 4C1.

2. Going Concern

The Company's condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. For the six months ended November 30, 2022, the Company had net and comprehensive loss of \$4,702. As at November 30, 2022, the Company had working capital of \$422,407.

The Company's ability to continue as a going concern is dependent in part upon the Company's ability to generate sufficient cash flow from operations and to obtain additional equity or debt financing in the near term to continue to meet its obligations as they come due.

The Company has taken steps to assist it in meeting its financial obligations, including raising capital through private placements, evaluating the Company's workforce, and restructuring its debts. The Company continues to pursue new financing activities that will allow it to focus on new business initiatives.

The Company's ability to meet its financial obligations depends on a number of factors, some of which are beyond its control. These include general global economic, credit and capital market conditions, and the demand for and selling price of its products. There is no assurance that the expected cash flows from operations and the other steps being taken will allow the Company to meet its obligations as they become due.

Rapidly changing global economic conditions make access to the credit and capital markets difficult for the Company, which may compromise its ability to obtain suitable financing. The Company may not generate sufficient funds from operations to meet all of its financial obligations and may need to generate funds from other sources to do so.

The Company's existing financial obligations will constrain its capital spending and that may have an adverse effect on its operations. The Company's debt levels will also limit its ability to expand its operations or make other investments that would enhance its competitiveness.

Accordingly, there is risk that the steps described above will not be successful in allowing the Company to meet its obligations, which may require the Company to sell core assets or raise debt or equity capital. Management believes this would enable it to satisfy its obligations as they become due. However, these actions may have a material adverse effect on the Company's business and on the market prices of its equity securities.

If the Company is unable to generate positive cash flows or obtain adequate financing, the Company would need to further slow operations. This would indicate the existence of a material uncertainty that would cast significant doubt about the Company's ability to continue as a going concern. Failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis which could differ significantly from the going concern basis.

Impact of COVID-19

The Company is experiencing some impacts from Covid-19. The primary impacts noted to date include an initial increase in demand for the Company's Voice and Internet products and services, which has since stabilized, along with a decrease in demand for enterprise level hardware and software and IT projects. The decrease in the number of one-time sales has been and is expected to continue to impact cash flows.

Uniserve Communications Corporation

Notes to Condensed Interim Consolidated Financial Statements
Six months ended November 30, 2022 and 2021 (Canadian Dollars)

Ukraine Conflict

The Company's business financial condition and results of operations may be further negatively affected by economic and other consequences from Russia's military action against Ukraine and the sanctions imposed in response to that action in late February 2022. While the Company expects any direct impacts of the war in the Ukraine to the business to be limited, the indirect impacts on the economy and industries in general could negatively affect the business and may make it more difficult for it to raise equity or debt financing. There can be no assurance that the Company will not be impacted by adverse consequences that may be brought about on its business, results of operations, financial position and cash flows in the future.

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3. Basis of Preparation and Presentation

These unaudited interim condensed consolidated financial statements ("interim financial statements") were prepared using the same accounting policies and methods as those used in the Company's consolidated financial statements for the year ended May 31, 2022 (the "2022 Consolidated Financial Statements"). These interim financial statements are in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in Note 4 of the Company's 2022 Consolidated Financial Statements. These interim financial statements should be read in conjunction with the Company's 2022 Consolidated Financial Statements.

The continuing uncertainty around the outbreak of the novel coronavirus ("COVID-19") pandemic required the use of judgments and estimates in preparation of the interim condensed financial statements for the period ended November 30, 2022. The future impact of COVID-19 uncertainties could generate, in future reporting periods, a significant risk of material adjustment to the reported amounts of assets, liabilities, revenue and expenses in the consolidated financial statements. Examples of accounting estimates and judgments that may be impacted by the pandemic include revenue recognition, impairment of goodwill and intangible assets, allowance for expected credit losses, and provisions.

The Company's operating results are subject to seasonal fluctuations that may materially impact quarter-to-quarter operating results and, thus, one quarter's operating results are not necessarily indicative of a subsequent quarter's operating results.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as at November 30, 2022. The Board of Directors authorized the interim financial statements for issue on January 27, 2023.

The notes presented in these interim financial statements include only significant changes and transactions that have occurred since the last fiscal year end.

Certain amounts for the prior year may have been reclassified to conform to the presentation in the current year.

4. Revenue

The Company's operations, main sources of revenue, and methods for recognition are those described in Note 4 (j) of the company's 2022 Consolidated Financial Statements. The Company's revenue is primarily derived from contracts with customers.

a) Disaggregation of revenue

In the following table and in accordance with IFRS 15, the Company disaggregates revenue into three primary categories that depict the nature of its revenue streams. All revenue is recognized at the point in time performance obligations are deemed to be satisfied.

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Uniserve Communications Corporation

Notes to Condensed Interim Consolidated Financial Statements
Six months ended November 30, 2022 and 2021 (Canadian Dollars)

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
Connectivity services revenue	\$ 835,185	\$ 974,339	\$ 1,721,478	\$ 1,937,100
IT professional services revenue	537,879	433,069	985,086	808,194
Equipment & software revenue	432,634	427,399	832,834	890,124
	<u>\$ 1,805,698</u>	<u>\$ 1,834,806</u>	<u>\$ 3,539,399</u>	<u>\$ 3,635,418</u>

b) Contract Costs

The following is a table that summarizes the change in contract costs during the six months ended November 30, 2022.

Balance, May 31, 2022	\$ 142,077
Incremental commissions capitalized	32,823
Contract cost amortization	<u>(49,214)</u>
Balance, November 30, 2022	125,686
Less: current portion	<u>(57,717)</u>
Non-current portion	<u>\$ 67,969</u>

c) Contract Liabilities

The following is a table that summarizes the change in contract liabilities during the six months ended November 30, 2022:

Balance, May 31, 2022	\$ 129,355
Additions from provisioning	523,706
Revenue recognized for services provided	<u>(526,451)</u>
Balance, November 30, 2022	126,610
Less: current portion	<u>(126,610)</u>
Non-current portion	<u>\$ -</u>

d) Unsatisfied Performance Obligations

The aggregate amount of transaction price allocated to performance obligations that are unsatisfied as of November 30, 2022 was \$1,768,785 (May 31, 2022 - \$2,190,284). This represents contractual service obligations that the Company has yet to fulfill under its contracts or commitment with customers. The Company expects to recognize this revenue over the next 1.33 years which represents the average remaining contractual and committed terms prior to renewals.

e) Major Customers

For the period ended November 30, 2022, the Company did not have any single major customer that accounted for more than 10% of the total revenue.

Uniserve Communications Corporation

Notes to Condensed Interim Consolidated Financial Statements
Six months ended November 30, 2022 and 2021 (Canadian Dollars)

5. Non-current assets

a. Property and equipment

	Property and Equipment	Right-of-use Assets	Total
Cost			
Balance, May 31, 2021	\$ 8,546,553	\$ 559,399	\$ 9,105,952
Additions	122,042	-	122,042
Disposals	-	(23,911)	(23,911)
Balance, May 31, 2022	8,668,595	535,488	9,204,083
Additions	82,031	-	82,031
Balance, November 30, 2022	\$ 8,750,626	\$ 535,488	\$ 9,286,114
Accumulated Amortization			
Balance, May 31, 2021	\$ 8,240,318	\$ 402,225	\$ 8,642,543
Amortization charge	230,466	106,668	337,134
Balance, May 31, 2022	\$ 8,470,784	\$ 508,893	\$ 8,979,677
Amortization charge	68,366	26,595	94,961
Balance, November 30, 2022	\$ 8,539,150	\$ 535,488	\$ 9,074,638
Net Book Value, May 31, 2022	\$ 197,811	\$ 26,595	\$ 224,405
Net Book Value, November 30, 2022	\$ 211,476	\$ -	\$ 211,476

b. Intangible assets

	Customer List	Customer Relationships	Total
Cost			
Balance May 31, 2021	\$ 324,218	\$ 346,343	\$ 670,561
Additions	-	-	-
Balance, May 31, 2022	324,218	346,343	670,561
Additions	-	-	-
Balance November 30, 2022	\$ 324,218	\$ 346,343	\$ 670,561
Accumulated Amortization and Impairment			
Balance May 31, 2021	\$ 262,921	\$ 279,727	\$ 542,648
Amortization Charge	24,515	31,348	55,863
Balance, May 31, 2022	287,436	311,075	598,511
Amortization Charge	8,289	15,674	23,964
Balance November 30, 2022	\$ 295,725	\$ 326,750	\$ 622,475
Net Book Value, May 31, 2022	\$ 36,782	\$ 35,268	\$ 72,050
Net Book Value, November 30, 2022	\$ 28,493	\$ 19,593	\$ 48,086

Uniserve Communications Corporation

Notes to Condensed Interim Consolidated Financial Statements
Six months ended November 30, 2022 and 2021 (Canadian Dollars)

Customer list and Customer relationships

The customer list is amortized on a reducing balance method 50% per annum on monthly basis over the estimated useful lives for five years.

The customer relationships are amortized on a straight-line basis monthly over 5 years.

Impairment of Customer List and Customer Relationships

The asset is impaired when the recoverable amount is less than the net book value. The recoverable amount is the higher of i) an asset's fair value less costs to sell and ii) its value-in-use. No material events had occurred that would cause the Company to reassess the impairment of the customer list and customer relationships during the six months ended November 30, 2022. Accordingly, no impairment is required for the customer list or customer relationships.

c. Receivable – long term

Receivable – long term consists of an ex-employee loan bearing interest of 1% per annum.

6. Related Party Transactions

Key management compensation:

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company and consist of the Company's Board of Directors and the Company's executive team. Key management personnel compensation for the six months ended November 30, 2022 including short-term benefits totaled \$176,154 (2021 - \$142,177).

Transactions with related parties:

(a) Operating Cost

The Company rents office and car parking space on a month-to-month basis from Companies controlled by a significant shareholder for a monthly rent of \$1,500. During the six months ended November 30, 2022, the Company recognized gross rent expenses of \$9,000 (2021 - \$Nil) and \$1,786 (2021 - \$2,209) to rent expense for parking fees.

The Company also recognized marketing expenses of \$6,000 (2021 - \$6,000) for signage and recognized \$1,200 (2021 - \$1,400) to rent expense for rooftop space for communications equipment.

The Company also recognized \$6,000 (2021 - \$6,000) for dark fiber cost in the cost of goods sold, Company secretarial office support work of \$15,045 (2021 - \$9,000) in operating expenses and marketing expenses of \$1,071 (2021 - \$6,328).

The Company has a lease agreement with a company controlled by a significant shareholder of the Company for its data centre space since November 1, 2014 with the renewal term expiring on August 31, 2022, now on the month to month basis. During the six months ended November 30, 2022, the Company made payments of \$78,484 (2021 - \$74,952) in connection with certain of the Company's leases which included electricity cost of \$22,217 (2021 - \$19,592). The electricity cost was included in cost of revenue.

As part of the lease agreement, the Company received a lease inducement of \$40,000. During the six months ended November 30, 2022, the Company recognized \$2,000 (2021 - \$4,000) of lease inducement as a reduction to rent expense. As of November 30, 2022, the unrecognized lease inducement was \$Nil (May 31, 2022 - \$2,000).

Uniserve Communications Corporation

Notes to Condensed Interim Consolidated Financial Statements
Six months ended November 30, 2022 and 2021 (Canadian Dollars)

(b) Loans Payable

The Company has loans payable to related parties. Amounts outstanding in connection with these loans are as follows:

	November 30, 2022	May 31, 2022
Loan amounts owed to a company controlled by a significant shareholder	\$ 500,000	\$ 500,000
	<u>\$ 500,000</u>	<u>\$ 500,000</u>

Further details on these loans are disclosed in Note 7.

For the six months period ended November 30, 2022, the interest expense that was paid or accrued to related parties in connection with the loans is as follows:

	Six months ended	
	November 30, 2022	November 30, 2021
Interest paid or accrued to a company controlled by a significant shareholder	\$ 25,069	\$ 46,895
	<u>\$ 25,069</u>	<u>\$ 46,895</u>

(c) Revenues

Included in revenue for the six months ended November 30, 2022 are sales totaling \$157,948 (2021 - \$161,147) in hardware and other services sold to companies controlled by a significant shareholder of the Company.

7. Loans Payable

Loans payable are comprised of the following:

	Note	November 30, 2022	May 31, 2022
Demand loan with related party	a	500,000	500,000
Total Loans		<u>\$ 500,000</u>	<u>\$ 500,000</u>

Related party transactions: \$500,000 (May 31, 2022 - \$500,000) of total loans are due to related parties (see Note 6 (b)).

- (a) On July 4, 2017, the Company borrowed \$500,000 from a related company controlled by a significant shareholder. The loan bears interest at 10% per annum and is repayable on demand.

During the six months ended November 30, 2022, the Company paid \$25,069 (2021 - \$25,068) in interest.

Uniserve Communications Corporation

Notes to Condensed Interim Consolidated Financial Statements
Six months ended November 30, 2022 and 2021 (Canadian Dollars)

8. Convertible Debenture

Convertible Debenture is comprised as follows:

	November 30, 2022	May 31, 2022
Convertible debenture	\$200,000	\$200,000
Unamortized discount from amendment of conversion terms	(4,142)	(7,691)
	\$195,859	\$192,309

On July 31, 2019 the Company issued a secured Convertible Debenture which is secured by general security agreement with a principal of \$570,000 and maturity date of July 31, 2020. An amount of \$400,000 of the principal sum advanced to the Company on October 24, 2017 and earned interest at a rate of 6% for the period of October 24, 2017 to August 15, 2019, and thereafter earns interest at a rate of 9% per annum. From and after the date of July 31, 2019, the sum of \$170,000 being the principal less the advance shall bear interest at 9% per annum.

As first amended January 16, 2020 the holder shall be entitled on or before the maturity date, to convert all or any portion of the principal, excluding accrued but unpaid interest then outstanding, in whole or in part, into shares of the Company at the Conversion Price being equal to \$0.17 per Conversion Share if converted within 12 months from the date of issuance of the debenture, and \$0.20 if converted on or after 12 months from the date of issuance of the Debenture.

The convertible debenture agreement was further amended on May 14, 2020 to supersede and replace the first amendment and with effective date June 1, 2020 extends the Maturity date to June 30, 2021 from July 30, 2020 and amends the conversion price to \$0.12 per share during year one to June 30, 2020, and \$0.15 per share to the date of expiration of June 30, 2021.

The convertible debenture was partially paid down \$100,000 with common shares by issuing units at \$0.08 each on July 2, 2020.

The convertible debenture agreement was amended on June 1, 2021 to supersede and replace the original agreement dated July 18, 2018, first amendment on January 16, 2019 and revised on May 14, 2019. The amendment reduces the debenture from \$470,000 to \$400,000, of which the amount of \$70,000 was paid by cash on September 29, 2021, extended the maturity date to June 30, 2023, amended the conversion price to \$0.15 per share until the date of expiration of June 30, 2023 from \$0.12 for year one to June 30, 2020, and \$0.15 per share to the former date of expiration of June 30, 2021, and amended the interest rate from 9% to 6% per annum. The convertible debenture was partially paid down in an amount of \$200,000 by cash on December 24, 2021.

During the six months ended November 30, 2022, the convertible debenture was classified as a current liability and the Company paid interest of \$6,000 (2021 - \$14,575).

9. Convertible Preferred Shares and Promissory Notes

During the year ended May 31, 2022, Convertible Preferred Shares with a carrying value of \$6,000 plus related dividend payable of \$5,320 was settled by a cash payment of \$3,000. The Company recognized \$8,320 as a gain on settlement.

During the six months ended November 30, 2022, there were no changes of Convertible Preferred Shares and Promissory Notes.

As of November 30, 2022, the Company has the following liabilities related to the Preferred Shares:

- Preferred Shares: \$23,000 (May 31, 2022: \$23,000)
- Dividends on Preferred Shares in arrears: \$22,847 (May 31, 2022: \$21,927)

Uniserve Communications Corporation

Notes to Condensed Interim Consolidated Financial Statements
Six months ended November 30, 2022 and 2021 (Canadian Dollars)

10. Share Capital

(a) Authorized and issued share capital

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of Series A Convertible Preferred Shares.

As at November 30, 2022, there were 80,523,971 common shares outstanding (May 31, 2022 – 80,523,971) and 2,300 preferred shares outstanding (May 31, 2022 – 2,300).

(b) Common share issuances

Year ended May 31, 2022

On September 29, 2021, the Company closed a private placement and issued 7,000,000 units at \$0.10 per unit for total consideration of \$700,000 with an issuance cost of (\$4,250). Each unit consists of one share and one transferrable share purchase warrant with each warrant exercisable into one additional common share at \$0.12 per share during year one and \$0.15 per share during year two. All the 7,000,000 units were issued for cash. Fair value of \$302,858 was calculated for the 7,000,000 share purchase warrants using the Black Scholes Option Pricing Model with the following assumptions: risk free interest rate – 0.52%; annual dividends – nil; expected life – 24 months; expected stock price volatility – 130%.

During the year ended May 31, 2022, the Company issued 12,244,666 common shares pursuant to the exercise of 12,244,666 warrants with an exercise price of \$0.15, for proceeds of \$1,836,700.

Six months ended November 30, 2022:

During the six months ended November 30, 2022, there were no share issuances.

(c) Share purchase warrants

The changes in warrants outstanding after consolidation during the six months ended November 30, 2022 and 2021 are as follows:

	Number of warrants	Weighted average exercise price	Expiry date
Outstanding balance as at May 31, 2021	14,729,890	\$0.15	January 22, 2022
Issuance share warrants in September 2021	7,000,000	0.12	September 29, 2023
Exercised during the period ended November 30, 2021	(100,000)	0.15	
Outstanding balance as at November 30, 2021	21,629,890	\$0.15	
Outstanding balance as at May 31, 2022	7,000,000	\$0.15	September 29, 2023
No movement during quarter ended August 31, 2022	-	-	
Outstanding balance as at November 30, 2022	7,000,000	\$0.15	

As of November 30, 2022, 7,000,000 warrants issued in September 2021 exercisable at \$0.15 expiring on September 29, 2023 remained outstanding and unexercised.

(d) Share purchase options

As of November 30, 2022, the Company has no outstanding share purchase options.

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(e) Equity reserves

Conversion rights on Preferred Shares

This reserve records the equity component of the convertible preferred shares which has both liability and equity components. On conversion, the amount recorded is transferred to share capital. On redemption or settlement, the amount is transferred to the deficit.

Conversion rights on Promissory Notes and Debentures

This reserve records the equity component of the Promissory Notes and Debentures which has both liability and equity components. On conversion, the amount recorded is transferred to share capital. On redemption or settlement, the amount is transferred to the deficit.

Share-based compensation and warrants

The reserve records items recognized as stock-based compensation expense, other share-based payments and amounts allocated to warrants on unit private placements until such time that the stock options or warrants are exercised or expire, at which time the corresponding amount will be transferred to issued capital. During the six months ended November 30, 2022, the Company reallocated \$Nil (2021 - \$299,372).

11. Lease and Commitments

a) Lease Liabilities

The Company leases office space and equipment under non-cancelable operating leases expiring in various years through 2023 and leases computer hardware and software under non-cancelable finance leases. The following table sets forth the movement of the finance lease liabilities.

Lease liabilities	November 30, 2022	May 31, 2022
Balance, beginning of year	\$ 27,114	\$ 199,371
Interest on lease liabilities	353	8,667
Early termination adjustment	-	(51,028)
Lease payments	(27,467)	(129,896)
	-	27,114
Current portion	-	(27,114)
Non-current portion	\$ -	\$ -

The following table sets forth the lease obligation to be paid after November 30, 2022.

	November 30, 2022	May 31, 2022
Less than one year	\$ -	\$ 27,114
Lease interest	-	353
Total lease obligations	\$ -	\$ 27,467

b) Finance lease receivables

During the six months ended November 30, 2022, the Company sold various products by way of finance leases which generated selling profits of \$3,004 (2021 - \$9,797) and recognized finance income of \$6,265 (2021 - \$7,081). The following table sets forth the movement of the finance lease receivables.

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	November 30, 2022	May 31, 2022
Lease receivable		
Balance, beginning of year	\$ 70,665	\$ 58,243
Additions for the period	13,182	46,589
Interest for the period	6,265	14,384
Repayment for the period	(28,786)	(48,551)
	61,327	70,665
Less: Current portion	34,025	36,833
Non-current portion	\$ 27,302	\$ 33,832

The following table sets forth the undiscounted lease payments to be received after November 30, 2022.

	After November 30, 2022	May 31, 2022
Less than one year	\$ 34,025	\$ 36,833
One to two years	17,677	21,985
Two to three years	9,625	11,847
Net investment in the lease	61,327	70,665
Unearned finance income	9,548	12,333
Total undiscounted finance lease receivables	\$ 70,875	\$ 82,998

12. Capital Disclosures

The Company defines its capital as shareholders' equity (deficit), convertible preferred shares, convertible promissory notes, loans, and convertible debentures. The Company's financial strategy is designed and formulated to maintain a flexible capital structure to allow the Company the ability to respond to changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue additional debt or issue debt to replace existing debt with similar or different characteristics.

The Company's financing and refinancing decisions are made on a specific transaction basis and depend on such things as the Company's needs, and market and economic conditions at the time of the transaction. There were no changes in the Company's approach to capital management during the year and the Company is not exposed to any externally imposed capital requirements.

13. Financial Instruments

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed are provided as follows:

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its trade receivables. The Company performs ongoing credit evaluations of its customers' financial condition to determine the need for an allowance for doubtful accounts. The maximum amount of credit risk exposure is limited to the carrying amounts of these balances in the consolidated financial statements.

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The following table sets forth details of the aged receivables as well as the loss allowance:

	November 30, 2022	May 31, 2022
Current	\$ 557,830	\$ 473,332
31-60 days past billing date	57,509	25,869
61-90 days past billing date	81,654	36,052
Greater than 90 days past billing date	695,823	585,010
Total Receivables	1,392,816	1,120,263
Less: loss allowance	(663,016)	(600,768)
	\$ 729,800	\$ 519,495

During the six months ended November 30, 2022, the movement of the credit loss allowance in respect of receivables was as follows:

	November 30, 2022
Balance, beginning of the period	\$ 600,768
Amount written off	(5,365)
Remeasurement of loss allowance	67,613
Balance, end of the period	\$ 663,016

The Company's secondary exposure to credit risk is on its cash. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions.

(b) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows will change. As at November 30, 2022 the Company was exposed to interest rate risk as significant interest-bearing debt matures within 12 months or less.

	November 30, 2022
Convertible debenture	\$ 195,859
Convertible preferred shares	23,000
Loans payable	500,000
	\$ 718,859

A 1% change in interest rates would impact the Company's net income by \$7,189 over the next twelve months. The Company has mitigated this risk by entering into fixed rate agreements.

(c) Currency risk

Currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is exposed to currency risk as certain suppliers' invoices are denominated in United States dollars. The Company currently does not use financial instruments to hedge this risk.

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As at November 30, 2022, the Canadian dollar equivalent value of the Company's United States dollar denominated financial instruments is as follows:

	November 30, 2022
Cash	\$ 5,019
Trade receivables	607
Trade payables	(66,151)
	(\$ 60,524)

A 10% movement in US currency versus the Canadian dollar would affect the Company's net income by approximately \$6,052.

(d) Liquidity risk exposure

Liquidity risk arises from the Company's general and capital funding needs. Substantially all of the Company's financial liabilities are either due on demand or are due within the next 12 months. Further discussion on liquidity risk is included in note 2.

(e) Fair values

The fair value of the Company's financial assets and liabilities approximate their fair values due to the short-term nature of these instruments.

14. Commitments and Contingencies

- (a)* The Company's outstanding loans, debentures and promissory notes are disclosed in notes 7, 8 and 9 respectively.
- (b)* The Company, in the normal course of business, is a party to various claims and lawsuits. The Company's accounting policy is to include the estimated net cost of disposition of known claims and lawsuits in its financial statements where it is possible to make such estimates
- (c)* A claim for damages was lodged against the Company in October 2020 in relation to an alleged breach of contract concerning commission payments and loss of income. The Company has disclaimed liability and is defending the action. The Company considers it to be probable that the judgement will be in its favour and has therefore not recognized a provision in relation to this claim. Information with respect to the claim as to the estimate of potential financial effect, uncertainties relating to amount, timing of possible outflow and possibility of any reimbursement cannot be disclosed because it is not practicable to do so. The merits of the claim are contested in whole.
- (d)* In the opinion of management, all other claims and suits are adequately covered by insurance, or are provided for in the financial statements, or, if not so covered or provided for, the results are not expected in the foreseeable future to materially affect the Company's financial position or financial performance.

15. Employee Wages and Benefits Expense

Employee wages and benefits expense of \$1,647,870 (2021 - \$1,291,288) consisted of \$1,099,649 (2021 - \$832,435) in operations and service delivery expenses, \$218,593 (2021 - \$182,599) in sales and marketing expense and \$329,628 (2021 - \$276,254) in cost of revenues for the period ended November 30, 2022.

During the period ended November 30, 2022, the Company received emergency wage subsidy from the Government of Canada in the amount of \$Nil (2021 - \$148,181) to offset wage expenses during the COVID 19 pandemic. The subsidy amount was recorded against employee wages and benefits expense which totaled \$1,647,870 (2021 - \$1,439,469) before the application of the subsidy.

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16. Statements of Cash Flows

Changes in working capital and other items:

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
Trade and other receivables	(\$ 106,034)	\$ 150,076	\$ (171,113)	\$ 2,144,686
Inventories	33,600	33,282	(8,546)	8,009
Prepaid expenses	(219)	30,837	(13,813)	(22,184)
Contract costs	13,080	4,561	16,391	(10,607)
Trade payables and accrued liabilities	(102,135)	(207,812)	(36,577)	(2,039,028)
Contract liabilities	(42,359)	(56,762)	(2,745)	16,718
Accrued dividends payable	460	5,780	920	1,000
	\$ (203,607)	(\$ 40,038)	\$ (215,483)	\$ 98,594

Supplemental information:

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
Non-cash financing and investing activities:				
Modification of convertible debenture	\$ -	(\$ 6,941)	\$ -	\$ 39,677
Fair value reversed for warrants exercised	-	265,407	-	265,407
Fair value reversed for expired warrants	-	(5,712)	-	(5,712)
	\$ -	\$ 252,754	\$ -	\$ 299,372