KONTROL TECHNOLOGIES CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2022

UNAUDITED
(Prepared in Canadian dollars)

KONTROL TECHNOLOGIES CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)
AS AT
(in Canadian dollars)

	Notes	**March 31 2022**	**December 31 2021**
Assets			
Cash		**$2,021,600**	$3,262,880
Accounts receivable	4	**28,363,344**	22,991,534
Unbilled revenue		**8,452,789**	7,053,201
Finished inventory		**897,124**	755,252
Prepaid expenses		**289,216**	169,371
Income taxes receivable		**595,876**	399,143
Current assets		**40,619,949**	34,631,381
Long-term accounts receivable	4	**2,616,401**	3,966,308
Property and equipment	5	**646,136**	666,136
Right-of-use assets	6	**768,999**	877,387
Goodwill	7	**8,158,397**	8,158,397
Intangible assets	7	**12,125,347**	12,398,387
Non-current assets		**24,315,280**	26,066,615
Total assets		**$64,935,229**	$60,697,996
Liabilities			
Operating line	8	**1,500,000**	-
Accounts payable and accrued liabilities		**21,099,428**	18,119,692
Deferred revenue		**4,406,195**	6,454,689
Holdback payable	9	**582,500**	582,500
Debentures	10	**5,434,277**	5,335,818
Current portion of term loan	11	**26,167**	25,918
Current portion of lease liabilities	6	**421,678**	429,922
Current liabilities		**33,470,245**	30,948,539
Vendor take back and earn-out	9	**4,798,526**	4,725,784
Convertible debentures	12	**366,575**	489,907
Term loan	11	**120,308**	126,952
Lease liabilities	6	**398,930**	499,081
Deferred income taxes		**4,380,023**	4,380,023
Non-current liabilities		**10,064,362**	10,221,747
Total liabilities		**43,534,607**	41,170,286
Equity			
Common shares	13	**24,563,574**	24,306,961
Equity portion of convertible debentures	12	**4,351**	6,817
Contributed surplus		**928,966**	947,832
Warrant reserve	15	**2,130,752**	2,134,794
Deficit		**(6,227,021)**	(7,868,694)
Total equity		**21,400,622**	19,527,710
Total liabilities and equity		**$64,935,229**	$60,697,996

KONTROL TECHNOLOGIES CORP.
CONDENSED INTERIM
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)
(in Canadian dollars)

	Notes	Three months ended March 31 2022	Three months ended March 31 2021
Revenue		**$26,621,533**	$3,319,194
Cost of sales		**19,879,398**	1,547,634
Gross profit		**6,742,135**	1,771,560
Advertising and promotion		**18,699**	42,853
Business fees and licenses		**145,751**	75,774
Consulting		**107,310**	300,660
Employee salaries and benefits		**3,266,060**	1,425,898
Insurance		**125,861**	34,786
Maintenance and repairs		**47,199**	49,577
Office and general		**63,318**	34,200
Other income	17	**(3,102)**	(1,447,344)
Professional fees		**170,028**	31,778
Rent and utilities		**155,327**	41,967
Supplies		**77,185**	23,133
Telecommunication		**25,582**	23,322
Travel		**41,618**	11,616
Amortization - intangibles	7	**297,102**	146,097
Depreciation - property & equip. and right-of-use	5 & 6	**147,624**	97,471
Share-based compensation		**37,574**	1,216,503
		4,723,136	2,108,291
Income from operations		**2,018,999**	(336,731)
Amortization - financing fees		**98,459**	149,892
Finance expense		**278,867**	267,110
Listing expense		**-**	70,000
		377,326	487,002
Net income (loss) and comprehensive income (loss) for the period		**$1,641,673**	$(823,733)
Earnings (loss) per common share			
Basic		**$0.03**	**$(0.02)**
Diluted		**$0.03**	**$(0.02)**
Weighted average number of common shares outstanding			
Basic		**48,002,078**	**40,528,714**
Diluted		**54,715,158**	**40,528,714**

KONTROL TECHNOLOGIES CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)
AS AT
(In Canadian dollars)

	Number of Shares	Common Shares	Equity portion Convertible Debentures	Contributed Surplus	Warrant Reserve	Deficit	Total Equity
As at December 31, 2020	39,334,627	$ 14,831,677	120,132	$ 768,374	$ 449,566	$ (8,894,215)	$ 7,275,534
Stock options grant (Note 14)	-	-	-	98,503	-	-	98,503
Stock options exercise (Note 14)	60,119	100,388	-	(26,781)	-	-	73,607
Convertible debentures conversion (Note 12)	1,089,500	566,321	(65,481)	-	-	-	500,840
Warrants grant (Note 15)	-	-	-	-	1,118,000	-	1,118,000
Warrants exercise (Note 15)	1,211,792	888,191	-	-	(251,191)	-	637,000
Shares for debt and service	136,193	448,076	-	-	-	-	448,076
Net loss	-	-	-	-	-	(823,733)	(823,733)
As at March 31, 2021	41,832,231	$ 16,834,653	$ 54,651	$ 840,096	$ 1,316,375	$ (9,717,948)	$ 9,327,827

	Number of Shares	Common Shares	Equity portion Convertible Debentures	Contributed Surplus	Warrant Reserve	Deficit	Total Equity
As at December 31, 2021	47,883,117	$ 24,306,961	$ 6,817	$ 947,832	$ 2,134,794	$ (7,868,694)	$ 19,527,710
Shares to debenture holders (Note 10)	2,000	-	-	-	-	-	-
Stock options grant (Note 14)	-	-	-	37,574	-	-	37,574
Stock options exercise (Note 14)	117,500	145,940	-	(56,440)	-	-	89,500
Convertible debentures conversion (Note 12)	325,000	136,475	(2,466)	-	-	-	134,009
Warrants exercise (Note 15)	7,350	9,922	-	-	(4,042)	-	5,880
Share issuance costs	-	(35,724)	-	-		-	(35,724)
Net income	-	-	-	-	-	1,641,673	1,641,673
As at March 31, 2022	**48,334,967**	**$ 24,563,574**	**$ 4,351**	**$ 928,966**	**$ 2,130,752**	**$ (6,227,021)**	**$ 21,400,622**

KONTROL TECHNOLOGIES CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in Canadian dollars)

	Three months ended March 31 2022	Three months ended March 31 2021
Operating activities		
Net income (loss)	**$1,641,673**	$(823,733)
Non-cash items		
Amortization and depreciation	**543,185**	393,460
Share-based compensation	**37,574**	1,216,503
Finance expense	**278,867**	267,110
Non-cash working capital items		
Accounts receivable	**(4,021,903)**	710,588
Unbilled revenue	**(1,399,588)**	101,295
Finished inventory	**(141,872)**	(373,801)
Prepaid expenses	**(119,845)**	60,354
Accounts payable and accrued liabilities	**2,948,738**	(754,806)
Income tax payable	**(196,733)**	-
Deferred revenue	**(2,048,494)**	(7,107)
Cash flows (used in) from operating activities	**(2,478,398)**	789,863
Investing activities		
Additions to equipment	**(19,238)**	(148,821)
Additions to product development, IP and patents	**(24,062)**	(1,532,885)
Cash flows used in investing activities	**(43,300)**	(1,681,706)
Financing activities		
Proceeds from operating line	**1,500,000**	-
(Payment) Proceeds of term loan	**(6,395)**	49,247
Proceeds from debenture, net	**-**	398,350
Payment of lease principal	**(108,395)**	(76,223)
Proceeds from options exercise	**89,500**	73,607
Proceeds from warrants exercise	**5,880**	637,000
Payment of share issue costs	**(35,724)**	-
Payment of interest	**(164,448)**	(197,710)
Cash flows from financing activities	**1,280,418**	884,271
Net decrease in cash	**(1,241,280)**	(7,572)
Cash at beginning of period	**3,262,880**	2,534,330
Cash at end of period	**$2,021,600**	$2,526,758
Additional information		
Income tax paid	$205,398	-

1. NATURE OF OPERATIONS

Kontrol Technologies Corp. ("Kontrol" or the "Company") was incorporated under the laws of the Province of British Columbia and authorized continuance of the Company from the Business Corporations Act (British Columbia) to the Business Corporations Act (Ontario) ("OBCA"), and amendment of the Company's current articles of incorporation and bylaws to conform to the OBCA. The Company's common shares are listed in the NEO Exchange (NEO:KNR). The Company is a provider of energy efficiency solutions to commercial energy consumers. Through a disciplined mergers and acquisition strategy, combined with a growing technology platform, Kontrol's market-based energy solutions are designed to reduce its customers overall cost of energy while providing a corresponding reduction in Green House Gas (GHG) emissions. Management of the Company considers there to be one operating segment being the provision of energy compliance and consulting services. All of the Company's operations are in Canada. The address of the Company's head office is 180 Jardin Drive, Unit 9, Vaughan, ON, L4K 1X8.

2. BASIS OF PREPARATION

Statement of Compliance

The Company's condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

These condensed interim consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2021. The accounting policies and methods of computation followed in the preparation of these condensed interim consolidated financial statements are consistent with those used in the preparation of the most recent annual audited consolidated financial statements.

The condensed interim consolidated financial statements are presented in Canadian dollars which is the currency of the primary economic environment in which the Company operates. The condensed interim consolidated financial statements have been prepared on a historical cost basis, except where financial instruments have been designated as fair value through profit and loss.

Basis of Presentation

The condensed interim consolidated financial statements are presented in Canadian dollars which is the currency of the primary economic environment in which the Company operates in.

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Details of the Company's subsidiaries are as follows:

On June 30, 2016 the Company acquired 100% of Kontrol Technologies Inc., a company incorporated in Ontario. This entity and its parent company's activities are designed for commercial building applications and include deep energy retrofits, distributed power generation, conservation solutions, and energy audits.

On February 10, 2017 the Company acquired 100% of ORTECH Consulting Inc. ("ORTECH"), a company incorporated in Ontario. ORTECH is an engineering consulting firm specializing in Green House Gas reporting, air quality testing, emission testing and renewable energy/power consulting.

On August 4, 2017 the Company acquired 100% of Efficiency Engineering Inc. ("EE Inc."), a company incorporated in Ontario. EE Inc. provides engineering services to industrial, municipal and commercial building owners across Canada.

On April 30, 2018, the Company acquired assets from MCW Dimax Ltd. The purchased assets are used to manage HVAC systems in real time through ongoing monitoring and analysis. The acquisition of MCW Dimax Ltd was determined to be an acquisition of a business under IFRS 3 Business combinations.

On September 20, 2018, the Company acquired 100% of CEM Specialties Inc. ("CEMSI"), a company incorporated in Ontario. CEMSI provides the Canadian and US market with value added solutions for continuous emissions and process monitoring applications.

On August 1, 2020, the Company acquired 100% of New Found Air HVAC Services Inc. ("NFA"), a company incorporated in Ontario. NFA provides building energy services that ensures the effective operation and service of essential heating, cooling, ventilation, and utility systems.

On July 30, 2021, Kontrol Technologies Corp. completed the acquisition of Global HVAC & Automation Inc. ("Global"). Global provides integrated installations of complex heating, cooling, ventilation, plumbing and building automation systems to its customers.

All of the Company's subsidiaries have the same year end as the Company and share similar business products and services, customers, and markets in which they operate.

Basis of Consolidation

The condensed interim consolidated financial statements incorporate the financial statements of the Company and its subsidiaries after intercompany balances and transactions have been eliminated. Subsidiaries are consolidated from the date that control is obtained and deconsolidated on the date control ceases. The acquisition method is used to account for the acquisition of a subsidiary from an unrelated party at the date that control is obtained, with the difference between the consideration transferred and the fair value of the subsidiary's net identifiable assets acquired recorded as goodwill. Business acquisition related costs are recognized in profit and loss as incurred.

Government Grants and Assistance

The benefits of tax incentives for scientific research and experimental development expenditures, funding for industrial research assistance program, subsidy assistance through the Canada Emergency Wage Subsidy, and grants from the Ontario Together Fund are recognized in the period the qualifying claim is made providing there is reasonable assurance of recoverability. The grants and assistance are recorded based on management's estimates of amounts expected to be recovered and are subject to audit by taxation authorities.

Government grants and assistance are recognized where there is a reasonable assurance that the grants and assistance will be received, and conditions will be complied with. Government grants and assistance are recognized in other income over the periods in which the Company recognizes expenses which the grants and assistance are intended to compensate.

Significant accounting judgments and estimates

The preparation of these condensed interim consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the condensed interim consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as at the date of the condensed interim consolidated financial statements. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues, and expenses. Management uses various factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes differ from these estimates under different assumptions and conditions.

COVID-19

The global pandemic outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, store closures, self-imposed quarantine periods and social distancing, may cause material disruption to businesses globally resulting in an economic slowdown. COVID-19 continued to impact operations during the three months ended March 31, 2022 by making it difficult to access customer sites. However, in many cases customers have resumed or budgeted projects for completion. The full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the Company is uncertain and remains a developing situation. Accordingly, there is a higher level of uncertainty with respect to management's judgments and estimates.

Change in accounting standards

Amendment to IAS 1, Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued amendments to paragraphs 69-76 of IAS 1 to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions which exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2022, with early adoption permitted. The amendments are to be applied retrospectively. Management is currently assessing the impact of this amendment.

3. ACQUISITION OF GLOBAL HVAC & AUTOMATION INC.

On July 30, 2021, Kontrol Technologies Corp. completed the acquisition of 100% of the shares of Global HVAC & Automation Inc. ("Global"). Global provides integrated installations of complex heating, cooling, ventilation, plumbing and building automation systems to its customers. The acquisition was accounted for using the acquisition method for business combinations. The net assets are included at their fair value.

Net assets acquired*	
Cash	$1,212,346
Accounts receivable	27,745,106
Prepaid expenses	2,560
Unbilled revenue	1,129,784
Property and equipment	115,362
Customer relationships	3,633,000
Goodwill*	2,308,708
Accounts payable	(12,582,960)
Income taxes payable	(196,733)
Deferred revenue	(7,972,002)
Note payable	(1,800,000)
Term loan	(125,801)
Deferred income taxes	(1,684,658)
	$11,784,712
Consideration**	
Cash	$6,500,000
Vendor take back***	2,777,827
Earn-out***	1,229,293
Working capital adjustment payable	1,277,592
	$11,784,712

*The excess of consideration over the identifiable net assets is allocated to Goodwill.

**Purchase price allocation is preliminary. Final adjustment to working capital will settled in future periods and the purchase price adjusted accordingly. Management will finalize the intangible assets and related tax effects upon settlement of the working capital.

***Vendor take back fair value determined by taking face value amount of $3.5 million and discounting over 3 year term at market rate of 8%. Vendor earn-out equal to 45% of adjusted 3 years cumulative earnings after-tax in excess of $4.5 million was assigned a fair value of $1,229,293.

4. ACCOUNTS RECEIVABLE

All amounts included in accounts receivable are collectible within a short-term period with the exception of long-term accounts receivable. Accounts receivable net carrying value reasonably approximates the fair value of the receivables. Long-term accounts receivable represents holdbacks.

Allowance for expected credit losses as at March 31, 2022 is $230,877 (December 31, 2021 - $230,877).

5. PROPERTY AND EQUIPMENT

Cost	Office Equipment	Lab & Other Equipment	Computer Equipment	Vehicles	Computer Software	Leasehold Improvements	Total
Balance at January 1, 2022	547,167	1,389,769	1,004,464	923,679	316,158	508,246	4,689,483
Acquisitions	-	-	-	-	-	-	-
Additions	-	20,517	1,725	-	1,964	-	24,206
Disposals	-	-	-	(65,235)	0	-	(65,235)
Balance at March 31, 2022	547,167	1,410,286	1,006,189	858,444	318,122	508,246	4,648,453
Accumulated depreciation							
Balance at January 1, 2022	506,404	1,203,610	875,755	653,270	298,133	486,175	4,023,348
Acquisitions	-	-	-	-	-	-	-
Disposals	-	-	-	(60,267)	-	-	(60,267)
Depreciation	2,104	9,440	10,421	13,362	2,719	1,190	39,236
Balance at March 31, 2022	508,509	1,213,050	886,177	606,365	300,853	487,364	4,002,317
Carrying value							
At March 31, 2022	$38,659	$197,236	$120,012	$252,079	$17,269	$20,881	$646,136
At December 31, 2021	$40,763	$186,159	$128,709	$270,409	$18,025	$22,071	$666,136

6. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Right-of-Use Assets				
Cost	**Property**	**Vehicles**	**Equipment**	**Total**
Balance at January 1, 2022	1,473,338	163,013	37,617	1,673,967
Additions/Acquistions	-	-	-	-
Disposals	-	-	-	-
Balance at March 31, 2022	1,473,338	163,013	37,617	1,673,967
Accumulated depreciation				
Balance at January 1, 2022	734,255	56,056	6,269	796,581
Disposals	-	-	-	-
Depreciation	97,203	8,050	3,135	108,388
Balance at March 31, 2022	831,458	64,106	9,404	904,969
Carrying value				
At March 31, 2022	$641,880	$98,907	$28,213	$768,999
At December 31, 2021	$739,082	$106,957	$31,347	$877,387

Lease Liabilities	
Opening balance at January 1, 2022	929,003
Additions/Acquisitions	-
Disposals	-
Principal repayment	(108,395)
Closing balance at March 31, 2022	$820,608
Current	$421,678
Long-term	$398,930

Lease payments for the period ended March 31, 2022	
Principal payments	108,395
Interest expense	15,969
Lease payments	$124,364

Contractual lease payments by fiscal year	
2022	$503,101
2023	$348,865
2024	$142,348

7. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Product	Brand	Customer	Intellectual	Patents	Total
Cost		Development	Names	Relationships	Property		Intangible Assets
Balance at January 1, 2022	8,158,397	2,537,722	645,400	10,230,766	1,421,138	195,056	15,030,082
Acquisitions	-	-	-	-	-	-	-
Additions	-	24,062	-	-	-	-	24,062
Balance at March 31, 2022	8,158,397	2,561,784	645,400	10,230,766	1,421,138	195,056	15,054,144
Accumulated amortization							
Balance at January 1, 2022	-	96,200	207,693	1,784,608	379,184	164,010	2,631,695
Amortization	-	96,802	14,782	160,957	23,686	876	297,102
Balance at March 31, 2022	-	193,002	222,475	1,945,565	402,870	164,886	2,928,797
Carrying value							
At March 31, 2022	$8,158,397	$2,368,782	$422,925	$8,285,201	$1,018,268	$30,170	$12,125,347
At December 31, 2021	$8,158,397	$2,441,522	$437,707	$8,446,158	$1,041,954	$31,046	$12,398,387

Product development costs relate to the development of Kontrol BioCloud and the Company's next generation Energy Management System - SmartSuite.

8. OPERATING LINE

	March 31, 2022	December 31, 2021
Operating Line	$1,500,000	$-

Bank Prime rate plus 1.53% per annum. Drawdowns as required; repayment on demand. Secured by general security agreement and Company guarantee.

9. HOLDBACK PAYABLE

	March 31, 2022	December 31, 2021
Holdback payable relating to CEMSI acquisition	$582,500	$582,500

Holdback payable are to secure any indemnifications of Vendors in connection with acquisitions. The holdback relating to the CEMSI acquisition was due December 20, 2019, however, the amount has not been repaid as at March 31, 2022.

VENDOR TAKE BACK ("VTB")

	March 31, 2022	December 31, 2021
VTB relating to NFA acquisition	664,752	626,984
VTB relating to Global acquisition	2,924,481	2,869,507
Earn-out relating to Global acquisition	1,229,293	1,229,293
	$4,798,526	$4,725,784

The NFA VTB shall mature on the third anniversary of the closing date and shall accrue interest at 3.50% compounded annually. The VTB is subject to a performance claw back based on NFA achieving an average annual EBITDA of $850,000 per annum over a 3-year period. This indebtedness is in the form of a promissory note with subordinated security. The vendor take back is measured at fair value by taking a probability-weighted average of possible outcomes, as estimated by management, and discounting the payment to a present value.

The Global VTB shall mature on the third anniversary of the closing date and shall accrue interest at 3.0% compounded annually. The fair value determined by taking face value amount of $3.5 million and discounting over 3-year term at market rate.

In connection with Global acquisition, Vendor earn-out equal to 45% of adjusted 3 years cumulative earnings after-tax in excess of $4.5 million was assigned a value of $1,229,293. The earn-out is measured at fair value by calculating projected cash flow which represents an estimate by management and discounting to a present value after taking into account tax and the performance threshold of $4.5 million.

10. DEBENTURES

	March 31, 2022	December 31, 2021
Opening balance	5,679,000	5,077,750
Proceeds during the period	-	662,500
Redemptions during the period	-	(61,250)
Debentures, at face value	5,679,000	5,679,000
Deferred financing cost and unamortized discount	(244,723)	(343,182)
	5,434,277	5,335,818
Less: Current portion	(5,434,277)	(5,335,818)
	$-	$-

2022 Debenture offering

Non-brokered private placement for gross proceeds of up to $5,800,000. The 2022 Debentures are comprised of one $1,000 8% unsecured non-convertible debenture of the Company maturing on October 31, 2022 and 10 common shares. The 2022 Debenture includes a bonus payment at the rate of 1% per annum and payable annually in arrears on the anniversary date.

Securities offering

Proceeds of $1,229,000 were raised and the offering was closed in the first quarter of 2019. Each unit is at a price of $1,000 consisting of a $750 Debenture, $250 of common shares, and 150 common share purchase warrants ("Units"). The Debentures bear interest at a rate of 7% per annum, payable monthly and were intended to mature on April 25, 2021. The Debentures were non-convertible and non-redeemable.

In 2021 the Company received approval from existing holders to exchange for 2022 Debentures maturing on October 31, 2022. Therefore, the balance that was maturing on April 25, 2021 has been extended to October 31, 2022.

Commissions paid to registered securities dealers to effect sales of the offerings and professional fees relating to preparation of the offerings is recorded as a reduction of the Debenture amount and amortized over the term of the Debenture. The common shares included in the offerings are fair valued at the time of each Debenture closing and recorded as a reduction of the Debenture amount and amortized over the term of the Debenture.

11. TERM LOAN

	March 31, 2022	December 31, 2021
Term loan	146,475	152.870
Less: Current portion	(26,167)	(25,918)
	$120,308	$126,952

(i) A vehicle fixed rate loan was entered into during the first quarter of 2021. Interest is payable at fixed rate of 5.89%. The term of the loan is 60 months and comprised of equal instalments of blended principal and interest. Maturity date is January 1, 2026. The loan is secured by the vehicle.

(ii) A vehicle fixed rate loan was entered in April 2021. Interest is payable at fixed rate of 2.70%. The term of the loan is 84 months and comprised of equal instalments of blended principal and interest. Maturity date is March 7, 2028. The loan is secured by the vehicle.

12. CONVERTIBLE DEBENTURES

	March 31, 2022	December 31, 2021
Opening balance	489,907	948,056
Proceeds from issuance, net of costs	-	-
Value of conversion feature and warrants at initial recognition	-	-
Interest accreted during the period	10,677	51,444
Value of debt converted to equity during the period	(134,009)	(509,593)
	$366,575	$489,907

2024 offering

	March 31, 2022	December 31, 2021
Opening balance	35,011	230,246
Proceeds from issuance, net of costs	-	-
Value of conversion feature at initial recognition	-	-
Interest accreted during the period	389	8,434
Value of debt converted to equity during the period	(14,414)	(203,669)
	$20,986	$35,011

During the third quarter of 2019, the Company completed a private placement offering unsecured Convertible Debentures of the Company, at a price of $1,000 per $1,000 principal amount Convertible Debenture. The Convertible Debentures are convertible into common shares of the Company at a conversion price of $0.80 per share. Gross proceeds of $1,114,000 and $175,000 were received in 2019 and 2020 respectively. Conversions to common shares totaled $20,000 in the first quarter of 2022 and $240,000 in the fiscal year 2021.

The Convertible Debentures bear interest at a rate of 8.0% per annum from and including their date of issue until the earlier of their date of conversion and the maturity date, payable semi-annually in arrears in cash on December 31 and June 30 of each year.

The Convertible Debentures may be converted in full or in part, at the holders' option into Common Shares, at any time prior to the maturity date. Holders converting their Convertible Debentures will receive a cash payment equal to accrued and unpaid interest thereon for the period from and including the date of the latest interest payment date to, and including, the date of conversion.

At any time after the date that is eighteen months following the Closing Date, the Company may force the conversion of the principal amount of the then outstanding Convertible Debentures at the Conversion Price on not less than 30 days' notice if the volume weighted average trading price of the Common Shares for any 20 consecutive trading day period is greater than $1.25.

Any Convertible Debentures that have not been converted will mature on August 31, 2024.

The Company paid a cash commission to finders and brokers equal to 7.0% of the gross proceeds from the sale of the Convertible Debentures attributable to such finders or brokers. In addition, the Company agreed to grant to finders and brokers common share purchase warrants equal to the quotient obtained by dividing 6.0% of the gross proceeds attributable to such finders or brokers by $0.80. Each Compensation Warrant is exercisable to purchase one Common Share of the Company at a price of $0.80 for a period of 24 months from the Closing Date.

The Convertible Debentures are unsecured obligations of the Company and shall rank pari passu in right of payment of principal and interest with all other Convertible Debentures issued under the private placement and all previously existing and future unsecured indebtedness of the Company.

The liability portion of the Convertible Debentures was assigned a value based on the present value of the contractually determined stream of future cash flows discounted at 12%. The rate is estimated to be equivalent market interest rate that would apply to a similar liability which does not contain an equity conversion option. The difference between the principal amount of the Convertible Debentures and the discounted cash flows represents the fair value of the conversion feature and was recognized in Equity. The transaction costs directly attributable to the offering were allocated to the liability and equity portions of the Convertible Debentures.

Accretion of the liability portion and interest payable on the Convertible Debentures are included in finance expense in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

2023 offering

	March 31, 2022	December 31, 2021
Opening balance	454,896	717,810
Proceeds from issuance, net of costs	-	-
Value of conversion and feature and warrants at initial recognition	-	-
Interest accreted during the period	10,288	43,010
Value of debt converted to equity during the period	(119,595)	(305,924)
	$345,589	$454,896

During the year ended December 31, 2020, the Company received gross proceeds of $1,999,000 in connection with a private placement offering of convertible debenture units, each unit comprised of one $1,000 8% unsecured debenture of the Company, convertible into Common Shares at the conversion price; and 1,000 warrants, with each warrant exercisable at the holders' option to purchase one Common Share until June 30, 2023, at a price of $0.60 cents on or prior to June 30, 2022 and at a price of $0.70 cents after June 30, 2022 until or on June 30, 2023. Conversions to common shares totaled $150,000 in the first quarter of 2022 and $401,000 in fiscal year 2021.

The convertible debentures bear interest at a rate of 8.0% per annum from and including their date of issue until the earlier of their date of conversion and June 30, 2023, payable semi-annually in arrears in cash on December 31 and June 30 of each year.

The convertible debentures may be converted in full or in part, at the holders' option into Common Shares, at any time prior to the maturity date, at a conversion price of $0.50 on or prior to June 30, 2022 and at a price of $0.60 after June 30, 2022 until or on June 30, 2023. Holders converting their convertible debentures will receive a cash payment equal to accrued and unpaid interest thereon for the period from and including the date of the latest interest payment date to, and including, the date of conversion.

At any time after August 31, 2021, the Company may force the conversion of the principal amount of the then outstanding debentures at the then applicable conversion price on not less than 30 days' notice if the volume weighted average trading price of the Common Shares for any 20 consecutive trading day period is greater than $0.70.

At any time after August 31, 2021, the Company may accelerate the expiry date of the then outstanding Warrants on not less than 30 days' notice if the volume weighted average trading price of the Common Shares for any 20 consecutive trading day period is greater than $0.85.

Any Convertible Debentures that have not been converted will mature on June 30, 2023.

The Company paid cash commissions to finders and brokers equal to 7.0% of the gross proceeds from the sale of the Units attributable to such finders or brokers. In addition, the Company granted to finders and brokers common share purchase warrants equal to the quotient obtained by dividing 7.0% of the gross proceeds attributable to such finders or brokers by $0.60. Each Compensation Warrant is exercisable to purchase one Common Share of the Company at a price of $0.60 cents on or prior to June 30, 2022, and at a price of $0.70 cents after June 30, 2022 until or on June 30, 2023.

The Convertible Debentures are unsecured obligations of the Company and shall rank pari passu in right of payment of principal and interest with all other Convertible Debentures issued under the private placement and all previously existing and future unsecured indebtedness of the Company.

Deferred financing cost relate to transaction fees directly related to the issuance of the debentures, which are recorded as a reduction of the debt and will be amortized over the term of the financing.

13. COMMON STOCK

The Company is authorized to issue an unlimited number of common shares.

During the three months ended March 31, 2022, 2,000 shares were issued to Debenture Unit holders.

During the three months ended March 31, 2022, 117,500 shares were issued in connection with stock options exercise.

During the three months ended March 31, 2022, 325,000 shares were issued in connection with convertible debentures conversion.

During the three months ended March 31, 2022, 7,350 shares were issued in connection with warrants exercise.

14. STOCK OPTIONS

The Company has established a stock option plan for directors, employees, and consultants. The aggregate number of common shares issuable pursuant to options granted under the plan is 10% of the Company's issued common shares. The board of directors has the exclusive power over the granting of options.

The following is a summary of the changes in the Company's stock option plan for the three months ended March 31, 2022 and 2021:

Options Outstanding	**March 31, 2022**		**March 31, 2021**	
	Number	**Weighted average exercise price**	**Number**	**Weighted average exercise price**
Opening	1,973,236	$1.30	1,724,855	$0.96
Granted	18,500	$1.96	50,000	$3.00
Exercised	(117,500)	$0.76	(60,119)	$0.81
Expired	(20,000)	$0.80	(5,000)	$0.60
Forfeited	(280,000)	$2.50	(12,500)	$0.70
Closing	1,574,236	$1.14	1,697,236	$1.03

The fair value of stock options is determined using the Black-Scholes Model. Volatility is calculated by using the historical volatility. The expected life in years represents the time that the options granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options. The following outlines the range of assumptions used for the options issued during the three months ended March 31, 2022 and 2021:

Black-Scholes assumptions	**March 31, 2022**	**March 31, 2021**
Exercise price	$1.96	$3.00
Risk-free interest rate	1.5%	1.5%
Expected life	3 years	5 years
Expected volatility	70%	70%
Expected dividend yield	0%	0%
Weighted average grant date fair value per option	$0.92	$1.75

15. WARRANTS

As at March 31, 2022, the outstanding warrants may be exercised for 3,868,847 common shares (December 31, 2021 – 3,881,972).

During the three months ended March 31, 2022, 7,350 warrants were exercised.

During the three months ended March 31, 2022, 5,775 warrants were expired.

Warrants issued are recorded at their fair value which is determined using the Black-Scholes Model. Key inputs to the model include exercise price, grant-date fair value of the Company's shares, the risk-free rate of return and volatility (70%). The inputs are adjusted on each issuance based on the prevailing rates and prices on the grant date.

16. RELATED PARTY TRANSACTIONS

Key Management Compensation

The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team and management directors. The following is a summary of the related party transactions, including key management compensation for the three months ended March 31, 2022 and 2021.

	March 31, 2022	March 31, 2021
Salaries, benefits and consulting	85,177	106,241
Share-based compensation	-	88,934
	$85,177	$195,175

17. OTHER INCOME

During the three months ended March 31, 2022, the Company recognized $3,102 in other income. During the three months ended March 31, 2021, the Company recognized $1,925,035 in funding from the Industrial Research Assistance Program and Ontario Together Fund. During the three months March 31, 2021, the Company recognized $251,869 in Canada emergency wage subsidies

18. CONTINGENT LIABILITIES

The Company's subsidiary, Global, is subject to several claims totalling approximately $1,061,000. Global has counterclaimed under the Construction Lien Act of Ontario and management believes the likelihood of economic loss is small.

19. FINANCIAL INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, and market risk.

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to the liquidity of its cash and accounts receivable. The Company limits exposure to credit risk by maintaining its cash with large Canadian financial institutions. To mitigate credit risk with respect to accounts receivable the Company subjects all major customer accounts to its credit evaluation process. The Company's maximum exposure to credit risk as at March 31, 2022 is the carrying value of cash held with financial institutions and accounts receivable.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital to meet short-term business requirements after taking into account cash flows from operations, the Company's holdings of cash, available credit facilities, and by initiating new debt or equity financings. The Company manages liquidity risk through the management of its capital structure. In addition to working capital related liabilities, the Debentures are due within the current operating period.

(c) Interest rate risk

As at March 31, 2022, the Company's Operating Line is subject to varying rates with the financial institution's prime rate and are subject to cash flow risks. The Company monitors its exposure to interest rates and has not entered into any derivative contracts to mitigate this risk. Based on the outstanding credit facilities, a 1% increase in interest rates for the Company would decrease year to date 2022 net income before tax by approximately $1,875 (March 31, 2021 - $7,397).

(d) Fair Value

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities:
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at March 31, 2022 and December 31, 2021, the earn-out relating to the acquisition of Global was classified as level 3.

As at March 31, 2022 and December 31, 2021, the vendor take back relating to the acquisition of NFA was classified as level 3.

As at March 31, 2022 and December 31, 2021, both the carrying and fair value amounts of all the Company's financial instruments was approximately equivalent.

(e) Foreign currency risk

Foreign currency risk arises because of fluctuations in exchange rates. CEMSI conducts a portion of its business activities in U.S. dollars. Management of foreign exchange currency exposure is governed by the Company's foreign exchange policy. The objective of the policy is to minimize the earnings impact of foreign currency gains and losses associated with foreign exchange rate fluctuations.

The financial assets and liabilities that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and the U.S. dollar. This primarily includes cash, accounts receivable, and accounts payables and accrued liabilities which are denominated in foreign currencies.

20. MANAGEMENT OF CAPITAL RISK

The Company considers items included in shareholders' equity as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustment to it considering changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

To facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

To maximize the ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition selected with regard to the expected timing of expenditures from continuing operations. The Company's approach to managing capital remains unchanged from the year ended December 31, 2021.

21. COMPARATIVE FIGURES

Some figures disclosed in the comparative condensed interim consolidated statements of cash flows for the three months ended March 31, 2021, have been reclassified to conform to the presentation adopted in the year ended December 31, 2021.

For the three months ended March 31, 2021, finance expense of $267,110 was added to cash flows from operating activities and accretion of interest of $69,400 was removed from cash flows from operating activities. The difference between these amounts of $197,710 represents interest paid and is disclosed in cash flows from financing activities.

22. SUBSEQUENT EVENTS

On May 5, 2022 Kontrol announced it has established an at-the-market equity program (the "ATM Program") that allows the Company to issue and sell up to $10,000,000 of common shares in the capital of the Company from treasury to the public, from time to time, at the Company's discretion. All common shares sold under the ATM Program will be made through sales that are deemed to be "at-the-market distributions" as defined in National Instrument 44-102 Shelf Distributions through the NEO Exchange or any other "marketplace" in Canada as defined under applicable securities laws. The distribution of common shares under the ATM Program will be qualified by a prospectus supplement dated May 5, 2022 to the Company's short form base shelf prospectus dated April 22, 2022, each filed with the securities commissions in each of the provinces and territories of Canada.