(Formerly Aphelion Capital Corp.)

Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022 and 2021
Expressed in United States Dollars

Table of Contents

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

Edge Total Intelligence Inc.

Condensed Consolidated Interim Statements of Financial Position

As at

(Expressed in United States dollars)

		September 30, 2022		December 31, 2021
ASSETS		**Unaudited**		Audited
Current Assets				
Cash	**$**	**432,409**	$	3,792,446
Accounts receivable		**972,404**		138,599
Prepaid expenses		**223,525**		105,254
Total current assets		**1,628,338**		4,036,299
Property and equipment		**28,164**		16,470
Right of use assets (Note 4)		**65,019**		120,840
Intangible assets and goodwill (Note 5)		**5,326,889**		5,812,170
TOTAL ASSETS	**$**	**7,048,410**	$	9,985,779
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities (Note 6)	**$**	**752,011**	$	1,222,020
Deferred revenue, current		**1,663,560**		1,331,751
Lease liabilities, current (Note 8)		**55,344**		80,851
Promissory note payable, current (Note 9)		**5,934,556**		1,249,050
Warrant liability (Note 11)		**300,000**		-
Related party payables (Note 3)		**1,305,390**		1,756,340
Deferred tax liability		**-**		-
Total current liabilities		**10,010,861**		5,640,012
Related party line of credit facility (Note 3)		**900,000**		-
Promissory note payable (Note 9)		**-**		5,872,146
Warrant liability (Note 11)		**-**		1,561,874
Lease liabilities (Note 8)		**30,576**		64,446
Deferred revenue, long term		**51,964**		-
TOTAL LIABILITIES	**$**	**10,993,401**	$	13,138,478
EQUITY				
Share capital (Note 12)		**10,198,618**	$	9,404,488
Contributed surplus		**10,728,459**		10,565,310
Accumulated deficit		**(24,886,701)**		(23,185,409)
Other Comprehensive Income		**14,633**		62,912
		(3,944,991)		(3,152,699)
TOTAL LIABILITIES AND EQUITY		**7,048,410**		9,985,779

Going Concern (Note 1)

Subsequent Events (Note 18)

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

Approved by the Board of Directors	"Signed"	"Signed"
	Steve Owings - Director	Jim Barrett - CEO

Edge Total Intelligence Inc.

Condensed Consolidated Interim Statements of (Loss) Income and Comprehensive (Loss) Income for the three and nine months ended,

(Expressed in United States dollars except per share amounts, Unaudited)

	Three months ended		Nine months ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Revenue (Note 7)	**$ 908,064**	$ 1,013,403	**$ 2,815,804**	$ 3,197,578
Cost of revenue (Note 14)	**334,436**	362,915	**820,284**	1,036,047
Gross profit	**573,628**	650,488	**1,995,520**	2,161,531
Selling and marketing expenses	**322,685**	334,088	**1,103,249**	1,107,016
Administrative expenses	**204,245**	480,242	**1,547,952**	1,619,874
Research and development expenses	**558,384**	269,208	**1,337,499**	847,905
Other expenses (Note 15)	**105,789**	148,958	**324,600**	48,587
	1,191,103	1,232,496	**4,313,300**	3,623,382
Operating loss	**(617,475)**	(582,008)	**(2,317,780)**	(1,461,851)
Interest	**235,697**	266,339	**699,432**	759,556
Gain in the change in fair value of warrant liability (Note 11)	**(1,142,604)**	-	**(1,261,874)**	-
Foreign exchange gain	**(3,474)**	(3,937)	**(54,046)**	-
Income (loss) before income taxes	**292,906**	(844,410)	**(1,701,292)**	(2,221,407)
Income tax expense	**-**	-	**-**	-
Net (loss) income	**292,906**	(844,410)	**(1,701,292)**	(2,221,407)
Other comprehensive income (loss)				
Foreign currency translation gain (loss)	**523**	-	**(48,279)**	-
Net (loss) income and comprehsensive (loss) income	**$ 293,429**	$ (844,410)	**$ (1,749,571)**	$ (2,221,407)
Net income (loss) per share (Note 13)				
Basic	$ 0.02	$ (0.11)	$ (0.09)	$ (0.28)
Diluted	$ 0.01	$ (0.11)	$ (0.09)	$ (0.28)
Weighted average number of common shares outstanding				
Basic	18,993,459	8,004,000	18,275,639	8,004,000
Diluted	18,993,459	8,004,000	18,275,639	8,004,000

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

Edge Total Intelligence Inc.

Condensed Consolidated Interim Statements of Changes in Deficit

For the nine months ended, September 30,

(Expressed in United States dollars, except number of shares, Unaudited

	Number of SVS Shares	Number of MVS Shares	Amount	Contributed surplus	Accumulated Deficit	Accumulated Other Comprehesive Income	Total Equity
Balance December 31, 2020	8,004,000	26,600	$ 5,692,903	$ 10,481,235	$ (12,516,002)	$ 62,912	$ (6,948,358)
Net loss and comprehensive loss	-	-	-	-	(2,221,407)	-	-
Balance September 30, 2021	8,004,000	26,600	$ 5,692,903	$ 10,481,235	$ (14,737,409)	$ 62,912	$ (6,948,358)
Balance December 31, 2021	16,919,644	26,600	9,404,488	10,565,310	(23,185,409)	62,912	(3,152,699)
Net loss and comprehensive loss	-	-	-	-	(1,701,292)	(48,279)	(1,749,571)
Stock Option Issuance	-	-	-	163,149	-	-	163,149
Exercise of stock options and warrants	496,000	-	19,527	-	-	-	19,527
Issuance of shares on conversion of debenture	1,577,815	-	774,603	-	-	-	774,603
Balance September 30, 2022	18,993,459	26,600	10,198,618	10,728,459	(24,886,701)	14,633	(3,944,991)

Edge Total Intelligence Inc.
Condensed Consolidated Interim Statements of Cash Flows
For the nine months ended,
(Expressed in United States dollars, Unaudited)

	September 30, 2022	September 30, 2021
Cash flows from operating activities		
Net (loss) gain for the period	**(1,701,292)**	(2,221,407)
Items not involving cash		
Amortization of deferred finance costs	**61,747**	61,747
Amortization of property and equipment	**4,453**	2,261
Amortization of intangible assets	**724,645**	1,001,934
Amortization of right of use assets	**55,820**	55,821
Paycheck protection loan forgiveness	**-**	(538,100)
Change in fair value of warrant liability	**(1,261,874)**	-
Share-based compensation	**163,127**	-
Interest on converted note and other	**74,603**	56,035
Unrealized Gain/Loss of Currency Translation	**(33,640)**	-
Change in non-cash working capital	**(1,037,650)**	1,694,091
Cash flows from (used in) operating activities	**(2,950,061)**	**112,382**
Cash flows from financing activities		
Repayments of promissory note payable	**(500,000)**	(400,000)
Related party line of credit advances (Note 3)	**900,000**	-
Short term loan agreement advance	**-**	431,852
Short term loan agreement repayment	**-**	(431,852)
Related party loan advances (Note 3)	**-**	1,615,730
Related party loan repayment (Note 3)	**(500,000)**	(161,500)
Proceeds from paycheck protection program	**-**	538,100
Lease payments on right to use assets	**(59,377)**	(69,801)
Exercise of stock options	**19,527**	-
Cash flows from financing activities	**(139,850)**	**1,522,529**
Cash flows used in investing activities		
Property and equipment	**(16,146)**	(15,000)
Software development costs (Note 5)	**(239,363)**	(691,082)
Cash used in investing activities	**(255,509)**	**(706,082)**
Effect of exchange rate changes on cash	**(14,617)**	-
(Decrease) increase in cash	**(3,360,037)**	**928,829**
Cash, beginning of period	**3,792,446**	110,034
Cash, end of period	**432,409**	1,038,863

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

1. Reporting Entity and Going Concern

Edge Total Intelligence Inc. ("EdgeTI" or "Company") is incorporated pursuant to the Business Corporation Act (British Columbia) and the registered address of the Company is Suite 2500, 666 Burrard Street, Vancouver British Columbia Canada V6C 2X8. The Company was incorporated on January 10, 2019 under the name Aphelion Capital Corp ("Aphelion") and completed its Qualifying Transaction ("QT") as defined by Policy 2.4 of the TSX Venture Exchange ("TSXV") Corporate Finance Manual with Edge Technologies Inc. ("Edge") which is incorporated in the state of Virginia and the address of the registered office is 1501 Lee Hwy Suite 301, Arlington, VA. On December 14, 2021, Aphelion acquired all of the outstanding shares of Edge by way of a three-cornered amalgamation with Aphelion changing its name to Edge Technologies Inc. (the "Company"). As a result of the QT, Edge shareholders controlled the Company, resulting in a reverse take-over. The resulting financial statements are presented as a continuance of Edge (accounting acquirer), and comparative figures presented in the consolidated financial statements are those of Edge. Please refer to note 1 and note 4 of the annual consolidated financial statements for the year ended December 31, 2021.

The Company's principal business activity is the development, marketing and sales of network management software and provides maintenance and support services for the customers of its software. The Company markets its solutions primarily through value added re-sellers and directly to its customers, who include corporations, governmental and inter-governmental entities. While the majority of the Company's sales are generated in North America, the Company's products and services are available internationally. The Company also offers a wide variety of systems engineering and business consulting services to accommodate unique information management requirements for commercial and government customers. The Company is listed on the TSX Venture Exchange under the symbol "CTRL". Certain prior period balances have been reclassified to conform to current period presentation.

Going Concern

These condensed consolidated interim financial statements have been prepared based on accounting policies applicable to a going concern, which assumes that the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. During the Nine-month period ended September 30, 2022, the Company incurred negative cash flows from operating activities of $2,950,061. As at September 30, 2022, the Company has an accumulated deficit of $24,886,701 (December 31, 2021 –$23,185,409) and an excess of current liabilities over current assets of $8,382,523 (December 31, 2021 – $1,603,713). Additionally, subsequent to the period ended September 30, 2022, the Company has drawn $900,000 of its available $1 million line of credit that was provided by Lotus Domaine III, L.P and subsequent to September 30, 2022 the line of credit facility was increased to $1,350,000 of which the Company was fully drawn. To continue as a going concern, the Company must generate sufficient income and cash flows to repay its obligations, finance working capital and fund capital investments. The future of the Company is dependent on: (i) its customers renewing annual software subscriptions; (ii) fulfilling its scheduled commitments for interest and debt repayments to its lender; (iii) obtaining waivers from the lender for any breach of covenants; and (iv) its ability to: (A) reduce costs; (B) generate sufficient funds from operations; (C) continue receiving financial support from its shareholders; and (D) obtain new financing. There is no certainty that the Company will be able to reduce costs, raise necessary funds from financing or operations, or obtain sufficient working capital from its shareholders or from external financing to settle the Company's liabilities and commitments as they become due. There is also a risk that funding will not be available on a timely basis or on terms acceptable to the Company. As a result of these factors, there is a material uncertainty that may result in a significant doubt regarding the Company's ability to meet its obligations as they come due and continue as a going concern. These condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. Consequently, adjustments would then be necessary to the carrying value of assets and liabilities, the expenses and the statement of financial position classifications used. Such adjustments could be material.

2. Basis of preparation

Statement of compliance
These unaudited interim condensed consolidated interim financial statements (''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 December 31, 2021. These interim condensed consolidated interim financial statements have been prepared in compliance with IAS 34 — Interim Financial Reporting. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (''IFRS'') have been omitted or condensed. These condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2021.

Authorization
These unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 22, 2022.

Basis of measurement
These condensed consolidated interim financial statements are prepared on the historical cost basis except for the following:

- Warrant liability, which is measured at fair value.
- Equity classified share-based payments are measured at fair value at grant date.
- Lease liabilities are measured at the present value of minimum lease payments at the lease inception.
- Foreign currency derivatives embedded in convertible debentures are measured at fair value.

Use of estimates and judgements – The preparation of condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Uncertainty about these estimates could result in outcomes that require a material adjustment to the carrying amounts of assets or liabilities affected in future periods.

Management estimates and judgements which would have the most significant impact on the amounts recognized in the condensed consolidated interim financial statements include the following:

Warrant liability
Determining the fair value of the warrant liability requires management to make significant assumptions that are highly uncertain about the Company's fair market value of its equity. Management uses the closing market price of the Company's publicly traded SVS shares. The Company's SVS shares at times may not be easily sold or exchanged for cash without significant price change resulting in potentially a material impact on the fair value of the warrant

liability.

Useful lives of intangible assets

The useful lives of intangible assets including software development costs is a management estimate that impacts the amount of amortization expense recognized. Significant judgement is used to determine the useful lives of intangible assets. Increasing the expected life would result in reduced amortization charge in the condensed consolidated interim statements of income and comprehensive income. The useful lives of intangible assets were determined based on expected life when the product is put in use. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life such as changes in technology.

Deferred income taxes

Deferred income tax assets and liabilities result from timing differences between the financial reporting and tax bases of assets and liabilities. The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards. Changes in these assumptions could materially affect the recorded amounts and therefore do not necessarily provide certainty as to their recorded values.

Lease liability

In determining the interest rate used, management estimated the Company’s incremental borrowing rate at the time of recognition of the lease liability. The estimate was based on management judgment of comparable companies.

Share-based payments

Equity-settled share-based payments to employees, agents, consultants and others are measured at the fair value of the equity instruments at the grant date. Determining the fair value of such share-based awards granted as warrants and stock options requires estimate as to the appropriate valuation model (Black-Scholes pricing model) and the inputs for the model require assumptions including the rate of forfeiture of warrants or options granted, the expected life of the warrant or option, the Company’s share price and its expected volatility, the risk-free interest rate and expected dividends.

Going concern

The going concern assessment requires management’s judgment on the ability of the Company to achieve positive cash flow from operations and/or obtain necessary equity or other financing to increase the number of subscription customers and sale of professional services and continue with expansion in the digital transformation market.

Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiaries. Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one-half of the voting rights. The Company has one principal operating subsidiary Edge Technologies Inc. for which it owns 100% of outstanding shares. Edge Technologies Inc. owns 100% of the shares of Edge Technologies DOO Beograd (Serbia). Both subsidiary financial statements are prepared for the same reporting period as the parent company, the same accounting policies and all intra-company balances and transactions are eliminated on consolidation.

(Expressed in United States dollars, Unaudited)

3. Related-Party Transactions

The Company has identified its directors and senior officers as its key management personnel. No post-employment benefits or other long-term benefit payments were made during the three and nine month period ended September 30, 2022 or 2021. Termination payment of $52,000 was made during the nine-month period ended September 30, 2022 (nil- September 30, 2021).

During the nine-month period ended September 30, 2021, the Company paid $14,100 (September 30, 2021- $14,100) for the rent of office space with a company controlled by an executive of the Company.

During the three-month period ended September 30, 2021, a company controlled by an executive employee of the Company provided the Company with two short term credit agreements totalling $161,500 net of a 2% fee. The credit agreement is collateralized by certain receivables of the Company and bears simple interest of 25% paid monthly. Subsequent to September 30, 2021, the amounts loaned to the Company were repaid.

The Company's related party payables consists of the following:

		September 30, 2022		December 31, 2021
ConnertonA LLC (i)	$	**555,390**	$	555,390
Credit and convertible note agreement with Lotus Domaine III, L.P. (ii)		**-**		1,200,000
Credit and convertible note agreements (iii)		**750,000**		750,000
	$	**1,305,390**	$	2,505,390
Line of credit facility (iv)	$	**900,000**		-

(i) As at September 30, 2022 Edge Technologies Inc. has a related party payable to ConnertonA LLC of $555,390 (December 31, 2021 - $555,390)

(ii) During the nine months ended September 30, 2022, the Company repaid the credit and note agreement with Lotus Domaine III, L.P. of $500,000 and accrued interest of $10,500. On April 25, 2022, pursuant to the terms of the Credit and Convertible Note Amendment Agreement with Lotus, the Company converted the entire amount of the loan which included $700,000 of principal and accrued interest of $74,603 into 1,577,815 subordinate voting shares at a deemed price of CAD $0.62.

(iii) On August 9, 2021, the Company entered into secured convertible promissory note agreements ("Agreements") totaling $750,000 with certain management and directors. The term of the agreements is 90 days and bears interest at 10%, that is adjustable retroactively to 15% if the loan is extended beyond the 90-day duration. The loan is secured by the receivables of the Company and is subordinate to the promissory note payable. If at any time after the completion of the RTO between Edge and Aphelion, any principal amount of the agreement remains outstanding, the holders, have the right to convert the principal and any unpaid interest into common stock of the "resulting issuer" in the RTO at a price per share of $0.48 ($0.62 CAD). Subsequent to December 31, 2021, the convertible note agreements with management and directors was extended to December 31, 2022.

(iv) On June 1, 2022, the Company entered into a line of credit facility with Lotus Domaine III LP that has a principal amount of up to $1 million USD. The credit facility bears interest at 5% per annum and is repayable on May 31, 2025. Subsequent to the period ended September 30, 2022, the credit facility was increased to $1,350,000.

(Expressed in United States dollars, Unaudited)

4. Right of Use Assets

The Company has leases for office space with remaining lease terms three years. The following table provides a reconciliation of right of use assets cost and accumulated amortization for the nine months ended September 30, 2022.

	September 30, 2022
Opening balance January 1, 2021	$ 120,840
Additions	-
Amortization	(55,821)
	$ 65,019

5. Intangible Assets and Goodwill

Intangible asset cost subject to amortization

	Cutomer relationships	Trade name	Software development costs	Total intangible assets	Goodwill	Total intangible assets and Goodwill
December 31, 2019	$ 3,500,000	$ 790,000	$ 3,193,473	$ 7,483,473	$ 4,045,226	$ 11,528,699
Additions			1,197,349			
December 31, 2020	3,500,000	790,000	4,390,822	8,680,822	4,045,226	12,726,048
Additions	-	-	861,240	861,240	-	861,240
Impairment		-	-	-	(2,349,000)	(2,349,000)
December 31, 2021	$ 3,500,000	$ 790,000	$ 5,252,062	$ 9,542,062	$ 1,696,226	$ 11,238,288
Additions	-	-	239,363	239,363	-	239,363
September 30, 2022	$ 3,500,000	$ 790,000	$ 5,491,424	$ 9,781,424	$ 1,696,226	$ 11,477,650

Intangible assets accumulated amortization

	Cutomer relationships	Trade name	Software development costs	Total intangible assets	Goodwill	Total intangible assets and Goodwill
December 31, 2019	$ 1,071,096	$ 483,523	$ 1,252,718	$ 2,807,337	$ -	$ 2,807,337
Amortization	350,000	158,000	733,303	1,241,303	-	1,241,303
Dec 31, 2020	1,421,096	641,523	1,986,021	4,048,640	-	4,048,640
Amortization	350,000	148,477	879,000	1,377,477	-	1,377,477
December 31, 2021	1,771,096	790,000	2,865,021	5,426,117	-	5,426,117
Amortization	262,499	-	462,145	724,644	-	724,644
June 30, 2022	$ 2,033,595	$ 790,000	$ 3,327,166	$ 6,150,761	$ -	$ 6,150,761
Net book value December 31, 2021	**$ 1,728,904**	**$ -**	**$ 2,387,040**	**$ 4,115,944**	**$ 1,696,226**	**$ 5,812,170**
Net book value September 30, 2022	**$ 1,466,405**	**$ -**	**$ 2,164,258**	**$ 3,630,663**	**$ 1,696,226**	**$ 5,326,889**

The Company performs a goodwill impairment test annually on December 31 and whenever there is an indication of impairment. For the purposes of impairment testing, goodwill is allocated to the Company's only one CGU and the carrying amount of the CGU is compared to its recoverable amount. At September 30, 2022 there were no indicators of impairment.

(Expressed in United States dollars, Unaudited)

6. Accounts Payable and Accrued Liabilities

		September 30, 2022		December 31, 2021
Accounts payable and accrued expenses	$	519,528	$	854,355
Accrued interest		137,235		167,799
Accrued employee costs		67,147		174,120
Sales tax payable		28,101		25,746
	$	752,011	$	1,222,020

7. Revenue

The Company's disaggregated revenues for the three and nine months ended September 30, 2022 and 2021 are as follows:

	For Three Months Ended				For Nine Months Ended			
		September 30, 2022		September 30, 2021		September 30, 2022		September 30, 2021
Subscriptions [1] [2]	$	795,698	$	793,859	$	2,486,344	$	2,674,817
Professional consulting services [2]		112,366		219,544		329,460		522,761
	$	908,064	$	1,013,403	$	2,815,804	$	3,197,578

The Company's revenue by geographic segments for the Three and Nine Months Ended September 30, 2022 and 2021 are as follows:

	For Three Months Ended				For Nine Months Ended			
		September 30, 2022		September 30, 2021		September 30, 2022		September 30, 2021
United States [1] [3]	$	842,400	$	865,821	$	2,578,717	$	2,010,929
International		65,664		147,582		237,087		1,186,649
	$	908,064	$	1,013,403	$	2,815,804	$	3,197,578

(1) Included in subscriptions revenue and United States revenue geographic segment revenue for the nine month period ended September 30, 2021 is a one-time subscription reseller startup fee of $280,000.

(2) Included in subscription revenue for the three and nine months ended September 30, 2022 is approximately $56,000 and included in professional consulting services revenue for the three and nine months ended September 30, 2022 is approximately $26,000 and $79,000 respectively, relating to a government customer that needs to obtain certain governmental approvals in order to renew its subscription to Edge software. The government customer intends to obtain the government approval in Q1 2024 however there is no guarantee that the approval will be provided nor on the same basis as currently recognized.

(3) Included in the United States geographic segment for the three months ended September 30, 2022 and for the nine months ended September 30, 2022 is approximately $82,000 and $135,000 respectively relating to a

(Expressed in United States dollars, Unaudited)

government customer that needs to obtain certain governmental approvals in order to renew its subscription to Edge software. The government customer intends to obtain the government approval in Q1 2024 however there is no guarantee that the approval will be provided nor on the same basis as currently recognized.

8. Lease Liabilities

The following table provides a reconciliation of lease liabilities for the three months ended September 30, 2022.

		September 30, 2022
Opening balance January 1, 2022	$	145,297
Additions to lease liabilities		-
Lease payments net of accretion		(59,377)
Present value of lease liability at September 30, 2022		85,920
Less current portion		55,344
	$	30,576

The Company's maturities of lease liabilities for the years ended September 30, 2022 are as follows:

		September 30, 2022
Less than 1 year	$	68,064
1-3 years		25,827
Total lease payments	$	117,424

As at September 30, 2022, the average lease term is 2 years, and the average interest discount rate is 20% per annum.

9. Promissory Note Payable

The Company has a $7 million Promissory Note loan facility with Salem Investment Partners IV, Limited Partnership ("Lender"). The Promissory Note interest is payable monthly at a fixed rate of 12% per annum, with principal payable upon maturity on September 27, 2023. Pursuant to the terms in the Promissory Note payable the interest rate shall adjust to 10% provided the Debt to EBITDA ratio for two consecutive quarters is less than 2.0 to 1. The Promissory Note is senior to all other indebtedness, secured by all of the assets of Edge Technologies, Inc., and guaranteed by Lotus Innovations Fund II. Interest is calculated and paid in arrears on a monthly basis. The Promissory Note may be paid in full or in part at any time provided that interest is calculated and paid up to the time of the payment.

Covenants

On October 16, 2020, the Company and the Lender, amended the loan agreement which waived specific defaults and suspended the leverage ratio and the fixed charge coverage ratio requirement until September 30, 2022. The minimum EBITDA test was also suspended until September 30, 2021 and the covenant is to not cause or permit its EBITDA to be less than: 1) negative $150,000 for the nine months ended September 30, 2021, 2) $1 million for the year ended December 31, 2021, or 3) $1,500,000 for the year ended December 31, 2022 and on December 31 of each calendar year thereafter. In addition, Salem replaced traditional covenants with minimum liquidity test of

(Expressed in United States dollars, Unaudited)

$500,000 per month at any time during the period September 30, 2020 through September 30, 2021 or as of December 31,2021.

At September 30, 2022, the Company was not in compliance with the minimum liquidity covenant or the EBITDA requirement for the nine months ended September 30, 2022 and year ended December 31, 2021.

Principal repayments of $250,000 occur semi-annually at February 1 and August 1.

The following table reconciles the Promissory Note:

		September 30, 2022
Principal balance at the beginning of the period	$	6,488,492
Less deferred financing costs		(116,346)
Principal balance net of deferred financing costs beginning of the period		6,372,146
Repayments on the promissory not payable		(250,000)
Accrued interest		-
Amortization of financing costs		187,590
		5,934,556
Less current portion		(5,934,556)
	$	-

Maturities of the Promissory Note are as follows:

Principal repayment dates		**Principal Repayments**
February 1, 2023		250,000
September 24, 2023		5,739,442
	$	5,989,442

10. Short term loan agreement advances and repayments

During the year ended December 31, 2020, the Company entered into a short-term loan agreement with an arm's length technology hardware distributor for $431,852 less a 3% fee for the duration of 75 days. The loan bore simple interest of 10% and was guaranteed by an officer of Lotus Innovations Fund II and is collateralized by a customer purchase order. The loan was repaid on April 15, 2021.

11. Warrant Liability

In conjunction with the promissory note payable described in Note 8, a warrant was granted to the lender. The warrant requires the Company to issue to the Lender a number of shares equal to 7% of all issued and outstanding equity of the Company on a fully diluted basis and can be settled in cash. The warrant liability is payable upon a number of events including, notice by the Company, an event of default under the terms of the loan agreement, the maturity date of the loan agreement, an asset sale, a sale of 100% of the equity of the Company, a merger whereby Lotus is divested of its direct or indirect ownership interest.

At each reporting period the Company fair values the warrant liability based on the estimated market capitalization of the Company and recognizes any change in fair value through the condensed consolidated interim statement of income (loss) and comprehensive income (loss). Subsequent to September 30, 2022, the Company received a draft loan amendment proposal document which included a fair value of the warrant liability of $300,000.

12. Share Capital

(a) Authorized

The Company is authorized to issue an unlimited number of no-par value Class A Subordinate Voting Shares and to issue unlimited Multiple Voting Shares with the following attributes:

Subordinate Voting shares ("SVS"):

- Entitled to one vote per share
- Entitled to dividends at the discretion of the board of directors
- In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of SVS will, subject to the prior rights of the holders of any shares of the Company in priority to the SVS, be entitled to participate rateably along with all other holders of SVS.

Multiple Voting Shares ("MVS"):

- Entitled to one thousand votes for each one share
- Entitled to dividends at the discretion of the board of directors
- Convertible at i) the option of the holder and the Company into SVS shares at a ratio of 1,000 SVS shares per 1 MVS share; ii) the option of the Company in the event the volume weighted average price of the Common Shares on the TSXV is equal to or greater than $1.95 ($2.50 CAD) over a ten consecutive trading day period; iii) automatically in the event the holders of MVS pass the applicable required resolution of the holders of MVS converting the MVS into Common Shares
- In the event of the liquidation, dissolution or winding-up of the Company whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of MVS will, subject to the prior rights of the holders of any shares of the Resulting Issuer ranking in priority to the MVS, be entitled to certain distributions in an amount equal to $1,951 ($2,500 CAD) per MVS in priority to holders of SVS and any other shares of the Resulting Issuer ranking subordinate to the MVS.

In connection with the Merger, the following share transactions were undertaken by the Company:

- Immediately prior to the closing of the merger the Company completed i) a stock split whereby each aphelion common share was split by a ratio of 1:2; ii) the Company amended its articles to reclassify its Common Shares as SVS and iii) create a new class of MVS.
- The holders of Edge Technologies Inc.'s existing shareholders received one MVS share for each 2,500 shares of Edge common shares.
- Investors in the subscription receipts financing exchanged subscription receipts for common shares and warrants of Fundco, received one SVS of the Company, resulting in 1,612,903 SVS shares being issued
- Investors in the private placement following the exchange of the subscription receipts for common shares of the Company, received one SVS share of the Company, resulting in 7,181,774 SVS shares being issued

(Expressed in United States dollars, Unaudited)

(c) Dividends

Dividends declared for the year ended December 31, 2021 were nil.

Share Based Compensation

The Company implemented an Incentive Stock Option Plan (the "Plan") on February 1, 2019. Pursuant to the Plan, the Company grants stock options to directors, officers, employees and consultants for services, provided that the number of common shares reserved for issuance shall not exceed 10% of the issued and outstanding common shares exercisable for a period of up to 10 years. The exercise price and vesting terms of the options granted under the Plan will be determined by the Board of Directors. Until the completion of Qualifying Transaction, options granted to a director or officer individually may not exceed 5% of the common shares outstanding as at the closing of the Offering; options granted to all technical consultants may not exceed 2% of the common shares outstanding as at the closing of the Offering. No options may be granted to investor relations service provider; and the exercise price cannot be less than the greater of the Offering share price and the Discounted Market Price.

Information about stock options issued and exercised during the three-month period ended September 30, 2022 is as follows:

	Number of options issued	Weighted average exercise price ($CAD)	
Oustanding at December 31, 2021	800,000	$	0.34
Grants	1,945,000		0.62
Exercises	(100,000)		0.05
Forefeitures	(326,667)		0.10
Outstanding at September 30, 2022	2,318,333	$	0.62

Included in administrative expenses, the Company recognized share based compensation expense from the issuance of stock options of $163,149 for the nine months ended September 30, 2022. (September 30, 2021 — nil).

Information about stock options, as adjusted to reflect the 2:1 stock split effective December 15, 2021, outstanding and exercisable as at September 30, 2022 is summarized in the following table:

Expiry Date	Number	Weighted Average Exercise Price in CAD		Weighted Average Life Remaining (in Years)
December 23, 2026	400,000	$	0.62	4.5
January 18, 2027-March 22, 2027	1,918,333		$0.62-$0.67	4.7
	2,318,333	$	0.62	4.7

Warrants

Information about warrants issued and exercised during the three-month period ended September 30, 2022 is as follows:

(Expressed in United States dollars, Unaudited)

	Number of warrants issued	Weighted average exercise price ($CAD)
Outstanding at December 31, 2021	943,885	$ 0.38
Exercises	(396,000)	(0.05)
Outstanding at September 30, 2022	547,885	$ 0.62

Information about warrants, as adjusted to reflect the 2:1 stock split effective December 15, 2021, outstanding and exercisable as at September 30, 2022 is summarized in the following table:

Expiry Date	Number	Weighted Average Exercise Price in CAD	Weighted Average Life Remaining (in Years)
December 23, 2023	547,885	$ 0.62	1.5

13. Net Loss per Share

The basic and diluted weighted average number of shares has been calculated as follows:

	For Three Months Ended		For Nine Months Ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Net income (loss)	**$ 292,906**	$ (844,410)	**$ (1,701,292)**	$ (2,221,407)
Weighted average number of SVS shares - basic	**18,993,459**	8,000,400	**18,275,639**	8,000,400
MVS shares converted to SVS shares [(1)]	**26,600,000**	-		-
Stock options [(1)]	**2,318,333**	-		-
Warrants [(1)]	**547,885**	-		-
Net loss per share - basic	**$ 0.02**	$ (0.11)	**$ (0.09)**	$ (0.28)
Net loss per share - diluted	**$ 0.01**	$ (0.11)	**$ (0.09)**	$ (0.28)

[(1)] For the three-month and the nine-month period ended September 30 2021 and for the nine-month period ended September 30, 2012, the Company incurred net losses which cannot be diluted and therefore basic and diluted loss per common share is the same.

14. Expenses

Included in cost of revenue for the nine months ended September 30, 2022, is amortization of software development costs of $462,145 ($620,934 – September 30, 2021).

(Expressed in United States dollars, Unaudited)

15. Other (income) expenses

	For Three Months Ended		For Nine Months Ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Other (income) items:				
Paycheck protection program loan forgiveness	-	-	-	$ (575,059)
Miscellaneous income	-	-	$ **(11,343)**	(2,254)
Other expense items:				
Provision for credit loss	-	$ -	-	184,950
Depreciation and amortization	$ **105,789**	147,276	$ **335,943**	439,081
Other Misc. Expenses	-	1,682	-	1,869
Other expense	**105,789**	148,958	$ **324,600**	$ 48,587

16. Capital Risk Management

The Company manages its capital structure and adjusts it based on the funds available to the Company, in order to support its organic growth, general operations of the Company and facilitate the liquidity needs of its operations. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include share capital.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the three months ending September 30, 2022 from December 31, 2021. The Company is not subject to externally imposed capital requirements but is subject to debt covenants.

17. Financial Instruments and Risk Management

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from deposits with banks and outstanding receivables. Cash is placed with a major US financial institution and the Company’s concentration of credit risk for cash and maximum exposure thereto is $432,409 ($3,792,446 – December 31, 2021).

The Company trades only with recognized, creditworthy third parties. The Company performs credit checks for all customers who wish to trade on credit terms. The Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance. The Company has no history of customer credit defaults and as a result has not made a provision for credit risk default of customers.

	Under 30	30-60 days	Over 60 days	Total
Accounts receivable aging	$ 959,520		$ 12,884	$ 972,404

(Expressed in United States dollars, Unaudited)

The Company is exposed to concentration of credit risk relating to one customer that represents 77% of trade accounts receivable as at September 30, 2022 (December 31, 2021 - 94%).

During the three months ended September 30, 2022, one customer accounted for 15% (September 30, 2021 – 14%) of total revenue.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company mitigates liquidity risk by adjusting its expenses in relation to its revenues, through working capital management, and loans and advances from its lender and Lotus. The Company's exposure to liquidity risk is dependent on the Company's ability to generate sales, manage its expenditures based on its sales and continued support from its lender. At September 30, 2022, the Company has $432,409 of cash and liabilities with the following due dates and carrying values.

	Under 3 months	3 months - 1 year	1-2 years	3-5 years
Accounts payable and accrued liabilities	$ 752,011	-	-	-
Secured convertible promissory note agreements	750,000		-	-
Related party loan payable	-	$ 550,390	-	-
Lease payments	15,730	52,334	$ 25,827	-
Promissory note payable	-	5,934,556	-	-
Warrant liability	-	300,000	-	-
Total	$ 1,517,741	$ 6,837,280	$ 25,827	$ -

Market risk

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

Currency risk

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates. The Company does not have any significant assets held in currencies other than the USD and is not exposed to significant foreign currency exchange risk as international sales are denominated in its functional currency.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to other price risks.

18. Subsequent Events

On November 3, 2022 the Company was advanced $100,000 from the credit facility with Lotus Domaine III LP. On November 16, 2022 the credit facility with Lotus Domaine III LP was amended and increased to $1,350,000 and $350,000 was advanced to the Company resulting in a total of $1,350,000 being advanced to the Company under the credit facility with Lotus Domaine III LP.