# EDGE TOTAL INTELLIGENCE INC.

**(Formerly Aphelion Capital Corp.)**

# Condensed Consolidated Interim Financial Statements

**For the Three and Six Months Ended June 30, 2023 and 2022**
**Expressed in United States Dollars**

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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)*

| | | June 30, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| ASSETS | | | | |
| Current Assets | | | | |
| Cash | $ | **527,972** | $ | 480,135 |
| Accounts receivable | | **1,597,885** | | 931,062 |
| Prepaid expenses | | **115,598** | | 72,962 |
| Total current assets | | **2,241,455** | | 1,484,159 |
| Property and equipment | | **41,203** | | 27,893 |
| Right of use assets (Note 4) | | **154,085** | | 52,615 |
| Intangible assets and goodwill (Note 5) | | **1,702,114** | | 2,010,211 |
| TOTAL ASSETS | $ | **4,138,857** | $ | 3,574,878 |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Accounts payable and accrued liabilities (Note 6) | $ | **859,989** | $ | 974,220 |
| Deferred revenue, current (Note 7) | | **3,047,638** | | 1,512,068 |
| Lease liabilities, current (Note 9) | | **169,533** | | 64,685 |
| Promissory note payable, current (Note 10) | | **2,916,854** | | 5,955,138 |
| Warrant liability (Note 11) | | **300,000** | | 300,000 |
| Related party payables (Note 3) | | **-** | | 1,305,390 |
| Total current liabilities | | **7,294,014** | | 10,111,501 |
| Related party payables (Note 3) | | **1,051,321** | | - |
| Related party line of credit facility (Note 3) | | **5,950,000** | | 1,740,000 |
| TOTAL LIABILITIES | $ | **14,295,335** | $ | 11,851,501 |
| EQUITY | | | | |
| Share capital (Note 12) | $ | **10,228,892** | $ | 10,210,529 |
| Contributed surplus | | **10,958,663** | | 10,829,674 |
| Accumulated deficit | | **(31,445,229)** | | (29,417,205) |
| Accumulated other comprehensive income | | **101,196** | | 100,379 |
| | | **(10,156,478)** | | (8,276,623) |
| TOTAL LIABILITIES AND EQUITY | $ | **4,138,857** | $ | 3,574,878 |

Going Concern (Note 1)

Subsequent Events (Note 20)

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

Approved by the Board of Directors "Signed" "Signed"

Brett Paulson - Director Jim Barrett - CEO and Director

# Edge Total Intelligence Inc.

## Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
## For the three months and six months ended,

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **June 30, 2023** | June 30, 2022 | **June 30, 2023** | June 30, 2022 |
| Revenue (Note 8) | **$ 894,732** | $ 951,219 | **$ 1,808,924** | $ 1,907,740 |
| Cost of revenue (Note 15) | **336,372** | 250,026 | **636,374** | 485,848 |
| Gross profit | **558,360** | 701,193 | **1,172,550** | 1,421,892 |
| Selling and marketing expenses | **177,117** | 388,966 | **450,101** | 780,564 |
| Administrative expenses (Note 15) | **586,542** | 612,245 | **1,003,538** | 1,343,707 |
| Research and development expenses | **370,958** | 359,673 | **781,102** | 779,115 |
| Other expenses (Note 16) | **20,257** | 111,619 | **42,099** | 218,811 |
| Share-based expenses (Note 12) | **6,907** | - | **128,989** | - |
| | **1,161,781** | 1,472,503 | **2,405,829** | 3,122,197 |
| **Operating loss** | **(603,421)** | (771,310) | **(1,233,279)** | (1,700,305) |
| Finance costs (Note 17) | **296,274** | 229,858 | **544,211** | 463,735 |
| Change in fair value of warrant liability (Note 11) | **-** | (283,362) | | (119,270) |
| (Gain) loss on debt modification | **-** | - | **(289,972)** | - |
| Foreign exchange loss | **22,362** | (90,198) | **22,502** | (50,572) |
| Bad Debt Expense (Note 19) | **518,004** | - | **518,004** | - |
| **Loss before income taxes** | **(1,440,061)** | (627,608) | **(2,028,024)** | (1,994,198) |
| Income tax expense | | | | |
| Net loss and comprehensive loss | **(1,440,061)** | (627,608) | **(2,028,024)** | (1,994,198) |
| **Other comprehensive loss** | | | | |
| Foreign currency translation (gain) loss | **-** | 14,110 | **(817)** | (48,802) |
| Net loss and comprehensive loss | **$ (1,440,061)** | $ (613,498) | **$ (2,027,207)** | $ (2,043,000) |
| Net loss per share (Note 14) | | | | |
| Basic | **$ (0.08)** | $ (0.03) | **$ (0.11)** | $ (0.11) |
| Diluted | **$ (0.08)** | $ (0.03) | **$ (0.11)** | $ (0.11) |
| Weighted average number of common shares outstanding | | | | |
| Basic | **19,092,492** | 18,572,708 | **19,050,674** | 17,908,754 |
| Diluted | **19,092,492** | 18,572,708 | **19,050,674** | 17,908,754 |

*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 six months ended,

*(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 Comprehensive Income | Total Equity |
|---|---|---|---|---|---|---|---|
| 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 | - | - | - | - | (1,994,198) | (48,802) | (2,043,000) |
| Stock option issuance | - | - | - | 156,945 | - | - | 156,945 |
| Share based options and warrants exercised (Note 12) | 496,000 | - | 774,603 | - | - | - | 774,603 |
| Issuance of Shares on conversion of debenture | 1,577,815 | - | 19,527 | - | - | - | 19,527 |
| Balance June 30, 2022 | 18,993,459 | 26,600 | $ 10,198,618 | $ 10,722,255 | $ (25,179,607) | $ 14,110 | $ (4,244,624) |
| | | | | | | | |
| Balance December 31, 2022 | 18,993,459 | 26,600 | $ 10,210,529 | $ 10,829,674 | $ (29,417,205) | $ 100,379 | $ (8,276,623) |
| Net loss and comprehensive loss | - | - | - | - | (2,028,024) | 817 | (2,027,207) |
| Share based compensation expense (Note 12) | - | - | - | 128,989 | - | - | 128,989 |
| Share based options and warrants exercised (Note 12) | 132,000 | - | 18,363 | - | - | - | 18,363 |
| Balance June 30, 2023 | 19,125,459 | 26,600 | $ 10,228,892 | $ 10,958,663 | $ (31,445,229) | $ 101,196 | $ (10,156,477) |

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

# Edge Total Intelligence Inc.

## Condensed Consolidated Interim Statements of Cash Flows

## For the three months ended,

*(Expressed in United States dollars, Unaudited)*

| | **June 30, 2023** | June 30, 2022 |
|---|---|---|
| Cash flows from operating activities | | |
| Net (loss) gain for the period | **$ (1,440,061)** | $ (1,994,198) |
| Items not involving cash | | |
| Amortization of deferred financing costs | **6,860** | 41,165 |
| Amortization of property and equipment | **1,186** | 2,729 |
| Amortization of intangible assets (Note 5) | **154,048** | 483,096 |
| Amortization of right of use assets (Note 4) | **18,375** | 37,214 |
| Change in fair value of warrant liability (Note 11) | **-** | (119,270) |
| Share based compensation expense (Note 12) | **6,907** | 156,945 |
| Unrealized foreign exchange loss | **-** | (48,802) |
| Gain on debt modification | **-** | - |
| Interest accretion and other | **173,771** | 82,078 |
| Change in non-cash working capital (Note 13) | **349,900** | (701,559) |
| Cash flows from (used in) operating activities | **(729,014)** | (2,060,602) |
| | | |
| Cash flows from financing activities | | |
| Repayments of promissory note payable (Note 10) | | (250,000) |
| Related party loan advances (Note 3) | **46,663** | - |
| Related party loan repayment (Note 3) | | (500,000) |
| Lease payments on right to use assets (Note 4) | **(17,179)** | (46,818) |
| Issuance of SVS shares (Note 12) | **-** | 19,815 |
| Stock options and warrants exercised (Note 12) | **-** | - |
| Cash flows from financing activities | **29,484** | (777,003) |
| | | |
| Cash flows used in investing activities | | |
| Property and equipment | **-** | (10,913) |
| Software development costs | **-** | (239,363) |
| Cash used in investing activities | **-** | (250,276) |
| | | |
| Increase (decrease) in cash | **(699,530)** | (3,087,882) |
| | | |
| Cash, beginning of period | **1,227,502** | 3,792,446 |
| Cash, end of period | **$ 527,972** | $ 704,564 |

## 1. Reporting Entity and Going Concern

### Reporting Entity

Edge Total Intelligence Inc. (“EdgeTI” or “Company”) was originally incorporated on January 10, 2019, under the name Aphelion Capital Corp ("Aphelion") pursuant to the British Columbia Business Corporation Act. The Company’s registered office and principal place of business is located at Suite 2500, 666 Burrard Street, Vancouver, British Columbia, Canada V6C 2X8. On December 14, 2021, Aphelion 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"). As a result of the QT, the Company changed its name to Edge Total Intelligence Inc. and now owns 100% of the outstanding common shares of Edge. Edge was incorporated in the state of Virginia, and its registered office and principal place of business is located at 1501 Lee Hwy Suite 301, Arlington, Virginia, United States 22209. The Company is listed on the TSX Venture Exchange under the symbol “CTRL”.

The Company’s principal business activity involves the development, marketing, and sales of a network management software, in conjunction with maintenance and support services for customers. The Company markets its solutions directly to its customers, who include corporations, governmental, and inter-governmental entities; however, the Company's primary channel is through value-added resellers. 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.

### Going Concern

These unaudited interim condensed consolidated interim financial statements (‘‘financial statements’’) have been prepared based on accounting policies applicable to a going concern, which assumes that the Company will continue 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 three-month period ended June 30, 2023, the Company incurred negative cash flows from operating activities of $699,530 (June 30, 2022 – negative cash flows of $3,087,882); an accumulated deficit of $31,438,322 (December 31, 2022 – $29,417,205); and an excess of current liabilities over current assets of $5,052,559 (December 31, 2022 – $8,627,342).

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 its ability to attain sufficient funds and profitable operations, maintain compliance with covenants relating to lending agreements, continue receiving financial support from shareholders, and obtain new financing. There is no certainty that the Company will raise these necessary funds from financing or operations. As a result of these factors, there is a material uncertainty that may result in a significant doubt on the Company’s ability to meet its obligations as they become due and continue as a going concern.

Management is confident that the Company will obtain sufficient working capital from external financing and operating cash flows to settle the Company’s liabilities and commitments as they become due. However, there is a risk that funding will not be available on a timely basis or on terms acceptable to the Company. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the company be unable to continue as a going concern, adjustments to the carrying value of assets and liabilities, the expenses, and the statement of financial position classifications used would be necessary.

## 2. Basis of preparation

**Statement of compliance**

These 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, 2022. These 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 (''IFRS'') as issued by the International Accounting Standards Board have been omitted or condensed. These financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2022.

**Authorization**

These financial statements were authorized for issue by the Board of Directors on August 25, 2023.

**Functional and presentation currency**

These consolidated financial statements are presented in United States dollars ("USD") and include the accounts of the following entities:

| Name of entity | Principle activity | Place of operations | Functioning currency | Legal ownership |
|---|---|---|---|---|
| Edge Total Intelligence Inc. | Legal parent | Canada | Canadian dollar | - |
| Edge Technologies Inc. | Accounting parent and operating company | United States | US dollar | 100% |
| Edge Technologies DOO Beograd (Serbia) | Research and development | Serbia | US dollar | 100% |

Assets and liabilities of foreign operations having a functional currency other than the Canadian dollar are translated at the rate of exchange prevailing at the reporting date, and revenues and expenses at average rates during the period. Gains or losses on translation are included as a component of shareholders' equity in accumulated other comprehensive loss.

Transactions in foreign currencies are translated to the respective functional currencies of the Company's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in net income or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency gains and losses are reported on a net basis.

**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 financial statements in accordance with IFRS requires the use of certain critical accounting estimates. Management is also required to exercise judgement when applying the Company's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements and their carrying values 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 fair market value of the Company's equity. Management uses the closing market price of the Company's publicly traded SVS shares to determine the fair value of its warrant liability. The Company's SVS shares at times may not be easily sold or exchanged for cash without a significant price change which could result in a potentially 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. The useful lives of intangible assets were determined based on expected life in which the assets' future economic benefits are expected to be consumed, historical experience with similar assets, and anticipation of future events which may impact an asset's useful life, such as changes in technology.

*Impairment of intangible asset*
Impairment testing of intangible assets requires an estimation of the value in use of assets and cash-generating units

("CGUs"). The value in use calculation requires an estimation of future cash flows and an appropriate discount rate that reflects current market assessments of the time value of money and the risks associated with the assets and CGUs.

*Deferred income taxes*

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

*Lease liability*

As the Company's leases do not provide an implicit rate, the net present value of future minimum lease payments is determined using the Company's incremental borrowing rate. The Company's incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments in an economic environment where the leased asset is located.

*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 date at which they are granted. Determining the fair value of such share-based awards granted as warrants and stock options requires an estimate as to the appropriate valuation model (i.e., 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 Company's ability to achieve positive cash flows from operations and/or obtain necessary equity or other financing to increase the number of subscription customers, and sale of professional services, and to continue expansion within the digital transformation market.

*Debt modification*

The Company evaluates amendments to its debt instruments in accordance with IFRS 9. This evaluation includes comparing (1) if applicable, the change in fair value of debt immediately prior to amendment and (2) the net present value of future cash flows of the amended debt to that of the original debt to determine, in each case, if a change greater than 10 percent occurred. In instances where the net present value of future cash flows or the fair value of if any, changed more than 10 percent, the Company applies extinguishment accounting. In instances where the net present value of future cash flows and the fair value of an embedded conversion option, if any, changed less than 10 percent, the Company accounts for the amendment to the debt as a debt modification. Debt amendments that are considered debt modifications are accounted for prospectively through yield adjustments, based on the revised terms. Legal fees and other costs incurred with third parties that are directly related to debt modifications are expensed as incurred and generally are included in interest expense in the consolidated statements of operations. Amounts paid by the Company to the lender are included in future cash flows for accounting treatment determination and, if debt modification is applicable, are also included in the determination of yield adjustment.

## 3. Related-Party Transactions

The following table provides a summary of the related party payable balances as at:

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Loans payable to ConnertonA LLC (i) | **$ 550,056** | $ 550,056 |
| Convertible note agreement with management and directors (ii) | **650,000** | 749,050 |
| Foreign currency derivative liability associated with convertible debentures (iii) | **-** | 950 |
| | **$ 1,200,056** | $ 1,300,056 |
| | | |
| Line of credit with Lotus Domaine III, L.P. (iv) | **$ 5,950,000** | $ 1,740,000 |

(i) *Related party payable to ConnertonA LLC*
As of June 30, 2023, Edge Technologies Inc. has a related party payable to ConnertonA LLC of $550,056 (December 31, 2022 - $550,056). The ConnertonA LLC payable bears interest at 8% compounded annually and included in accounts payable and accrued liabilities at June 30, 2023 is accrued interest of $53,736 (December 31, 2022- $31,915). On January 23, 2023, the Company amended its payable to ConnertonA LLC, that increased the interest rate to 8% and extended the maturity date to January 20, 2026. The interest rate can be increased to 13% for the entire period in the event the debt is not repaid on or before the maturity date.

ii) *Convertible note agreement with management and directors*
On August 9, 2021, the Company entered into a 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. The holders, have the right to convert the principal and any unpaid interest into SVS shares at a price per share of $0.48 ($0.62 CAD). On January 23, 2023, the Company completed partial repayments totaling $100,000 to certain related party convertible promissory note holders. Additionally, the maturity on all remaining related party convertible promissory notes were extended to January 20, 2026 and the interest rate was reduced to 8%. The interest rate can be increased to 13% for the entire period in the event the debt is not repaid on or before the maturity date. Included in accounts payable is at June 30, 2023 $136,019 (December 31, 2022 $105,138) of accumulated accrued interest.

iii) *Foreign currency derivative liability associated with convertible debentures*
As the conversion feature is denominated in CAD and not in the functional currency of the Company, the conversion feature is a derivative liability that arises from the changes in exchange rates. As a result, the convertible debenture is assessed as being a financial liability with an embedded derivative liability. The embedded derivative at the time the convertible note agreement was entered into was calculated as the difference between the CAD to USD spot exchange rate and the forward CAD to USD exchange rate. Subsequently, the embedded derivative is measured at fair value with the changes recognized in profit or loss. At June 30, 2023 the embedded derivative was determined to be nil (December 31, 2022- $950).

iv) *Line of credit with Lotus Domaine III, L.P.*
On June 1, 2022 the Company entered into a credit facility agreement with Lotus Domaine III, L.P ("Lotus"), a private

equity fund which is also a controlling shareholder of the Company (the "Credit Facility Agreement"), pursuant to which Lotus agreed to make available to the Company a credit facility (the "Credit Facility") in the authorized aggregate amount of up to $1.00 million. The Credit Facility bore interest at 5% per annum and maturity date of May 31, 2025.

The Credit Facility Agreement was amended pursuant to an amended dated December 2, 2022, which amendment was effective late January 2023 following negotiations with Salem Investment Partners IV, L.P ("Salem"), to increase the Credit Facility to $5 million based on certain conditions including (i) the partial repayment to Salem and the indebtedness to Salem to not exceed $3 million, (ii) the interest rate was increased to 13% per annum and (iii) the maturity date was extended to December 2, 2025. Pursuant to the amended Credit Facility Agreement, the Company must (i) maintain a minimum liquidity of $100,000 at all times, (ii) the Company's trailing six-month revenue, as determined in accordance with IFRS, measured as of the last day of each month, shall be greater than or equal to 80% of the previously agreed business plan between Lotus and the Company.

On January 20, 2023, the Company amended the Credit Facility Agreement to, among other things: increase the Credit Facility to $5.1 million (ii) decrease the interest rate to 8% per annum; and (iii) extend the repayment date to January 20, 2026. $3.2 million of the Credit Facility was drawn on January 23, 2023 to complete a partial repayment on the promissory note with Salem. On March 1, 2023, the Company further amended the Credit Facility Agreement to (i) increase the amount available under the Credit Facility to $5.95 million and (ii) allow for the principal amount and unpaid interest on the Credit Facility to be converted to SVS at a conversion price of $0.90 CAD per SVS.

On June 30, 2023, the Company announced the issuance, subject to Exchange approval, of an aggregate of 9,109,541 SVS to Lotus at a deemed price of CA$0.90 per SVS for the settlement of US$6,185,278.79, being the principal amount plus interest accrued as of June 30, 2023, owed under the Credit Facility (the "Debt Settlement'). The Credit Facility and Debt Settlement remain subject to Exchange review and acceptance and as of the date hereof, no SVS have been issued to Lotus.

The credit and convertible liability is subsequently recognized on an amortized cost basis until extinguished on conversion or maturity of the notes.

*Related party transactions during the year*

The Company has a three-year lease arrangement for office space with a company controlled by an executive employee of the Company that commenced on March 1, 2021. During the quarter, the Company renewed this lease arrangement. The Company is required to make monthly payments of $4,700 under the terms of the lease. During the three months ended June 30, 2023, the Company paid $14,100 (June 30, 2022 - $14,100) under this arrangement.

The Company defines key management personnel as being the Chief Executive Officer, Chief Technology Officer, and the Chief Financial Officer. No post-employment benefits or other long-term benefits were made during the three months ended June 30, 2023 or June 30, 2022. No termination payment was made during the six-months ended June 30, 2023 (June 30, 2022 - $52,000). Short-term key management and director compensation consists of the following:

*(Expressed in United States dollars, Unaudited)*

| | **June 30, 2023** | June 30, 2022 |
|---|---|---|
| Salaries, bonus, and short-term employment benefits | **$ 305,296** | $ 458,012 |

### 4. Right of Use Assets

The Company enters into leases for office space and the leases have remaining lease terms three years. The following table provides a reconciliation of right of use assets cost and accumulated amortization as at:

| | **June 30, 2023** | **December 31, 2022** |
|---|---|---|
| Opening balance | **$ 52,615** | $ 120,840 |
| Additions | **138,220** | - |
| Amortization | **(36,750)** | (68,225) |
| Ending balance | **$ 154,085** | $ 52,615 |

### 5. Intangible Assets and Goodwill

**Intangible assets cost subject to amortization**

| | **Customer relationships** | **Trade name** | **Software development costs** | **Total intangible assets** | **Goodwill** | **Total intangible assets and Goodwill** |
|---|---|---|---|---|---|---|
| Opening balance, December 31, 2022 | $ 2,121,096 | $ 790,000 | $ 5,491,425 | $ 8,402,521 | $ - | $ 8,402,521 |
| Additions | - | - | - | - | - | - |
| Impairment | - | - | - | - | - | - |
| June 30, 2023 | 2,121,096 | 790,000 | 5,491,425 | 8,402,521 | - | 8,402,521 |

**Intangible assets accumulated amortization**

| | **Customer relationships** | **Trade name** | **Software development costs** | **Total intangible assets** | **Goodwill** | **Total intangible assets and Goodwill** |
|---|---|---|---|---|---|---|
| Opening balance, December 31, 2022 | $ 2,121,096 | $ 790,000 | $ 3,481,214 | $ 6,392,310 | $ - | $ 6,392,310 |
| Amortization | - | - | 308,096 | 308,096 | - | 308,096 |
| June 30, 2023 | $ 2,121,096 | $ 790,000 | $ 3,789,310 | $ 6,700,406 | $ - | $ 6,700,406 |
| | | | | | | |
| **Net book value December 31, 2022** | **$ -** | **$ -** | **$ 2,010,211** | **$ 2,010,211** | **$ -** | **$ 2,010,211** |
| **Net book value June 30, 2023** | **$ -** | **$ -** | **$ 1,702,115** | **$ 1,702,115** | **$ -** | **$ 1,702,115** |

The Company performs an annual goodwill impairment test on December 31st of each year. For the purposes of impairment testing, goodwill is allocated to the Company's sole CGU and the carrying amount of the CGU is compared to its recoverable amount. There were no indicators of impairment at June 30, 2023.

*(Expressed in United States dollars, Unaudited)*

### 6. Accounts Payable and Accrued Liabilities

The following table provides a breakdown of the Company's accounts payable and accrued liabilities as at:

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Accounts payable and accrued expenses | **$ 622,558** | $ 735,347 |
| Accrued interest | **264,626** | 213,127 |
| Sales tax payable | **25,746** | 25,746 |
| | **$ 859,989** | $ 974,220 |

### 7. Deferred Revenue

The following table provides a reconciliation of deferred revenue to invoiced billings as at:

| | June 30, 2023 | March 31, 2023 |
|---|---|---|
| Opening balance | **$ 2,307,507** | $ 1,512,068 |
| Billings | **1,634,863** | 1,709,571 |
| Revenue recognized | **(894,732)** | (914,132) |
| Ending balance | **$ 3,047,638** | $ 2,307,507 |

### 8. Revenue

The Company's disaggregated revenues for the three months ended June 30, 2023 and 2022 are as follows:

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2023 | June 30, 2022 | June 30, 2023 | June 30, 2022 |
| Subscription software licenses | **$ 894,732** | $ 814,749 | **$ 1,808,864** | $ 1,690,646 |
| Professional consulting services | **-** | 136,740 | **-** | 217,094 |
| | **$ 894,732** | $ 951,489 | **$ 1,808,864** | $ 1,907,740 |

The Company's revenue by geographic segments for the three months ended June 30, 2023 and 2022 are as follows:

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2023 | June 30, 2022 | June 30, 2023 | June 30, 2022 |
| United States | **$ 831,087** | $ 872,805 | **$ 1,679,870** | $ 1,736,385 |
| International | **63,645** | 78,414 | **128,994** | 171,335 |
| | **$ 894,732** | $ 951,219 | **$ 1,808,864** | $ 1,907,720 |

### 9. Lease Liabilities

The following table provides a reconciliation of the Company's lease liabilities at:

*(Expressed in United States dollars, Unaudited)*

| | June 30, 2023 |
|---|---|
| Opening balance | $ 64,685 |
| Additions to lease liabiltiies | 138,220 |
| Lease payments | (39,514) |
| Accretion | 6,142 |
| Present value of total lease liability | $ 169,533 |

The Company’s maturities of lease liabilities are as follows:

| | June 30, 2023 |
|---|---|
| Less than 1 year | $ 95,077 |
| 1-3 years | 97,228 |
| Total lease payments | $ 192,305 |

As at June 30, 2023, the average lease term is 2 years and the average interest discount rate is 12% per annum.

**10. Promissory Note Payable**

On January 24, 2023, the Company amended its promissory note with Salem Investment Partners IV, Limited Partnership (“Lender”) and made a one-time principal payment of $3 million. The interest rate was reduced from 12% to 6% and future ongoing principal repayment requirements were removed until the amended maturity date of January 1, 2024. The Company has the right to repurchase the 7% Salem warrant for the agreed settlement amount of $300,000 until the date of loan maturity. The Company determined that the change in fair value of the debt immediately prior to the amendment and the present value of future cash flows of the amended debt was less than 10% and as a result the Company accounted for the change as a debt modification. As a result of the modification, a gain on modification was recognized of $133,718. The lender’s legal costs of $15,000 are included in the fair value adjustment of the debt.

**Covenants**
The covenant is to not cause or permit the Company’s EBITDA to be less than 1) negative $150,000 for the nine months ended September 30,2021, 2) $1,000,000 for the year ended December 31, 2021, and 3) $1,500,000 for the year ended December 31, 2022 and on December 31st of each calendar year thereafter. On October 16, 2020, the Company and the Lender, amended the promissory note payable agreement which waived specific defaults and suspended the leverage and the fixed charge coverage ratio requirements until March 31, 2022.

At June 30, 2023 the Company was in compliance with the minimum liquidity covenant, but not EBITDA requirement.

*(Expressed in United States dollars, Unaudited)*

**Principal Payments**

The following table provides a reconciliation of the promissory note payable as at:

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Principal balance at the beginning of the period | **$ 5,989,442** | $ 6,489,442 |
| Less: Deferred financing costs | **(41,165)** | (117,295) |
| Principal balance net of deferred financing costs at the beginning of the period | **5,948,277** | 6,372,147 |
| Repayments on the promissory note payable | **(3,000,000)** | (500,000) |
| (Gain)/loss on debt modification | **(133,718)** | - |
| Accretion | **102,294** | - |
| Amortization of financing costs | **-** | 82,991 |
| Total notes payable | **$ 2,916,854** | $ 5,955,138 |
| Current portion | **2,916,854** | 5,955,138 |
| Non-current portion | **-** | - |

Maturities of the promissory note are as follows:

| Principal repayment dates | Principal repayments |
|---|---|
| January 1, 2024 | $ 2,989,442 |
| | $ 2,989,442 |

**11. Warrant Liability**

In conjunction with the promissory note payable described in Note 10, a warrant was granted to the Lender. The warrant requires the Company to issue the Lender shares equal to 7% of all issued and outstanding equity of the Company on a fully diluted basis. The warrant liability is payable upon the occurrence of 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, and 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 fair value and the Company recognizes any change in fair value in profit or loss. During the year ended December 31, 2022, the Company reached a settlement amount with the lender and as a result the fair value was estimated to be the agreed amount. There was no change in the fair value of the warrant liability as at June 30, 2023.

The change in fair value of the warrant liability is as follows:

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Beginning balance | **$ 300,000** | $ 1,561,874 |
| (Decrease) increase in fair value | **-** | (1,261,874) |
| Ending balance | **$ 300,000** | $ 300,000 |

*(Expressed in United States dollars, Unaudited)*

## 12. Share Capital

### *(a) Authorized*

The Company is authorized to issue an unlimited number of non-par value Class A Subordinate Voting Shares (“SVS”) and an unlimited number of Multiple Voting Shares (“MVS”). The following are the Class A Subordinate Voting Share transactions during the year:

| | Number of shares | | Amount |
|---|---|---|---|
| Balance December 31, 2021 | 16,919,644 | $ | 9,404,488 |
| Conversion of convertible debentures (a) | 1,577,815 | | 774,868 |
| Stock options and warrants exercised (b) | 496,000 | | 31,173 |
| Balance December 31, 2022 | 18,993,459 | $ | 10,210,529 |
| Stock options and warrants exercised (c) | 32,000 | | 14,669 |
| Stock options and warrants exercised (d) | 100,000 | | 3,731 |
| Balance June 30, 2023 | 19,125,459 | $ | 10,228,929 |

(a) On April 25, 2022, the Company converted the entire amount of the convertible loan with Lotus 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.

(b) During the year ended December 31, 2022, the Company issued 496,000 SVS shares on the exercise of 396,000 warrants and 100,000 stock options for gross cash proceeds of $19,534 ($24,800 CAD) and the fair value associated $11,639 ($14,880 CAD) was transferred from contributed surplus to share capital.

(c) On February 17, 2023, the Company issued 32,000 SVS shares on the exercise of 32,000 stock options for gross cash proceeds of 14,669 ($19,840 CAD) and the fair value associated $8,085 ($10,240 CAD) was transferred from contributed surplus to share capital.

(d) On May 1, 2023, the Company issued 100,000 SVS shares on the exercise of 100,000 stock options for gross cash proceeds of 3,731 ($5,000 CAD) and the fair value associated $2,056 ($2,784 CAD) was transferred from contributed surplus to share capital.

The following are the Multi Voting Share transactions:

On December 21, 2021, the Company amended its articles to create a new class of MVS shares and issued 26,600 MVS shares to the former shareholders of Edge Technologies Inc. At June 30, 2023 and December 31, 2022, the Company has 26,600 MVS shares issued and outstanding.

Each MVS share is entitled to one thousand votes for each share; 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; and 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

*(Expressed in United States dollars, Unaudited)*

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.

***(c) Dividends***

Dividends declared for the three months ended June 30, 2023 were $nil (December 31, 2022 - $nil).

**Stock-based Compensation**

The Company implemented an Incentive Stock Option Plan (the "Stock Plan") on February 1, 2019. Pursuant to the Stock 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 Stock Plan will be determined by the Board of Directors. Until the completion of the QT, options granted to a director or officer individually may not exceed 5% of the common shares outstanding as at the closing of the offering and 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 an 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, as adjusted to reflect the 2:1 stock split effective December 15, 2021, outstanding and exercisable are summarized in the following tables:

| Expiry Date | Number | Weighted Average Exercise Price in CAD | | Weighted Average Life Remaining (in Years) |
|---|---|---|---|---|
| February 1, 2024 | 200,000 | $ | 0.05 | 0.8 |
| December 23, 2026 | 400,000 | | 0.62 | 3.7 |
| January 18, 2027 | 1,687,998 | | 0.62 | 3.8 |
| March 9, 2027 | 20,000 | | 0.67 | 3.9 |
| November 20, 2027 | 59,957 | | 0.72 | 4.6 |
| February 18, 2028 | 1,767,500 | | 1.03 | 4.9 |
| June 8, 2028 | 100,000 | | 1.40 | 5.2 |
| | 4,235,455 | $ | 0.77 | 4.2 |

The fair value of the share-based compensation issued during the three months ended June 30, 2023 were determined using the Black Scholes option pricing model using the following assumptions.

| | | |
|---|---|---|
| Expected life (in years) | | 5 |
| Grant date market price (in CAD) | $ | 1.40 |
| Expected volatility | | 48% |
| Dividend yield | | 0% |

*(Expressed in United States dollars, Unaudited)*

| Stock options: | Number of Options | Average Exercise Price (in CAD) | |
|---|---|---|---|
| Balance, December 31, 2021 | 800,000 | $ | 0.34 |
| Grants during the period | 2,034,935 | | 0.62 |
| Exercised during the period | (100,000) | | 0.05 |
| Forfeited during the period | (183,301) | | 0.62 |
| **Balance, December 31, 2022** | **2,551,634** | **$** | **0.56** |
| Grants during the period | 1,867,500 | | 1.05 |
| Exercised during the period | (132,000) | | 0.19 |
| Forfeited during the period | (51,679) | | 0.62 |
| **Balance, June 30, 2023** | **4,235,455** | **$** | **0.77** |

**Warrants**

On December 23, 2021, the Company issued broker warrants to purchase 547,885 shares of SVS common stock with an exercise price of $0.48 ($0.62 CAD) per share. The fair value of the broker warrants were determined using the Black Scholes option pricing model using the following assumptions.

| | | |
|---|---|---|
| Expected life (years) | | 2 |
| Grant date market price per share (in CAD) | $ | 0.62 |
| Interest rate | | 0.989% |
| Expected volatility | | 50% |
| Dividend Yield | | 0% |

Information about warrants, as adjusted to reflect the 2:1 stock split effective December 15, 2021, outstanding and exercisable are summarized in the following tables:

| **Expiry Date** | **Number** | **Weighted Average Exercise Price in CAD** | **Weighted Average Life Remaining (in Years)** |
|---|---|---|---|
| December 23, 2023 | 547,885 | 0.62 | 1 |

| | **Number of options** | **Weighted Average Exercise Price in CAD** | |
|---|---|---|---|
| Balance, December 31, 2020 | 396,000 | $ | 0.05 |
| Grants during the period | 547,885 | | 0.62 |
| **Balance, December 31, 2021** | **943,885** | **$** | **0.38** |
| Exercised during the period | 396,000 | | 0.05 |
| **Balance, December 31, 2022 and June 30, 2023** | **547,885** | **$** | **0.62** |

*(Expressed in United States dollars, Unaudited)*

## 13. Supplemental Cash Flow Information

The following are the changes in non-cash working capital for the three months ended June 30, 2023 and 2022:

| | | June 30, 2023 | | June 30, 2022 |
|---|---|---|---|---|
| Accounts receivable | **$** | **(525,656)** | $ | (12,546) |
| Prepaids | | **(20,431)** | | (160,801) |
| Accounts payable and accrued liabilities | | **(44,144)** | | (454,744) |
| Deferred revenue, current | | **940,131** | | (125,432) |
| | **$** | **349,900** | $ | (753,523) |

## 14. Net Loss per Share

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

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | **June 30, 2023** | June 30, 2022 | **June 30, 2023** | June 30, 2022 |
| Net loss for the three-month period ended | **$ (1,472,340)** | $ (627,608) | **$ (2,021,117)** | $ (1,994,198) |
| Weighted average number of SVS common shares - basic | **19,092,492** | 18,572,708 | **19,050,674** | 17,908,754 |
| Additions to reflect the dilutive effect of the following: | | | | |
| MVS shares converted to SVS shares | **26,600,000** | 26,600,000 | **26,600,000** | 26,600,000 |
| Stock options | **4,235,455** | 2,318,333 | **4,235,455** | 2,318,333 |
| Warrants | **547,885** | 547,885 | **547,885** | 547,885 |
| Weighted average number of SVS common shares diluted for the three-month period ended | **50,475,832** | 48,038,926 | **50,434,014** | 47,374,972 |
| Loss per share - basic | **$ (0.08)** | (0.03) | **$ (0.11)** | (0.11) |
| Loss per share - diluted | **$ (0.08)** | (0.03) | **$ (0.11)** | (0.11) |

(1) For the three and six months ended June 30, 2023 and 2022, the Company incurred net losses which cannot be diluted and therefore basic and diluted loss per common share is the same.

## 15. Expenses

Included in administrative expenses for the six months ended June 30, 2023 are employee benefits of $233,747 (June 30, 2022 - $308,683).

Included in cost of revenue for the six months ended June 30, 2023, is amortization of software development costs of $308,096 (June 30, 2022 - $308,096).

## 16. Other expenses

The following table provides a breakdown of the Company's other expenses as at:

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | **June 30, 2023** | **June 30, 2022** | **June 30, 2023** | **June 30, 2022** |
| Depreciation and amortization | **$ 20,257** | $ 107,656 | **$ 39,839** | $ 214,943 |
| Other miscellaneous expenses | | 3,963 | **2,260** | 3,868 |
| Other expenses | **$ 20,257** | $ 111,619 | **$ 42,099** | $ 218,811 |

*(Expressed in United States dollars, Unaudited)*

## 17. Finance Costs

The following table provides a breakdown of the Company’s finance costs as at:

| | June 30, 2023 |
|---|---|
| Interest | $ 175,391 |
| Accretion on lease liabilities | 2,571 |
| Accretion related party liabilities | 31,759 |
| Accretion on promissory note payable | 86,553 |
| Amortization of deferred financing costs | - |
| | $ 296,274 |

## 18. Capital Risk Management

The Company manages its capital structure based on the funds available to the Company in order to support its organic growth and general operations. The Board of Directors do not establish a quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the 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 ended June 30, 2023. The Company is not subject to externally imposed capital requirements but is subject to debt covenants, which are discussed in Note 10.

## 19. Bad Debt Expense

On June 29, 2023 the Company executed a significant multi-year contract with a creditworthy client. The contract will have a total contract value of roughly $4.7 million over the next five years. In executing this agreement, the company wrote down debt that was associated with the client that was accrued over the course of the last nine months as the new contract begins and entails only work from June 30,2023 forward. The amount of the write down totaled $518,004 and was incurred in the second quarter.

## 20. 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. Credit risk arises primarily from the Company's operating activities from trade receivables and financing activities from cash and cash equivalents.

Credit risk from financing activities is minimized by maintaining accounts in reputable financial institutions with high quality credit ratings. Cash is placed with a major U.S. financial institution and the Company’s concentration of credit risk for cash and maximum exposure thereto as at June 30, 2023 is $527,972 (December 31, 2022 - $480,135).

*(Expressed in United States dollars, Unaudited)*

Credit risk from trade receivables is minimized by establishing credit polices such as determining and monitoring customer credit limits and requiring credit approvals. The Company does not hold any collateral as security but mitigates credit risk from trade receivables by transacting only with recognized and creditworthy counterparties.

During the three months ended June 30, 2023, the Company determined there was no single customer that was likely unable to meet its payment obligations (December 31, 2022 - $15,000), however the Company did take a bad debt writedown to reflect the shift of payment obligation as discussed in Note 19. The Company's trade accounts receivable balance as at June 30, 2023 net of the provision is as follows:

| | Under 30 | 1-30 | 31-60 | 61-90 | 91 and over | Total |
|---|---|---|---|---|---|---|
| Accounts receivable aging | $ 212,500 | $ 985,500 | $ 28,050 | $ 36,112 | $ 335,723 | $ 1,597,885 |

The Company is exposed to concentration of credit risk relating to one customer that represents 50% of trade accounts receivable as at June 30, 2023 (December 31, 2022 - 40%).

During the three months ended June 30 ,2023 and 2022, one customer accounted for 14% and 17% of total revenue respectively.

**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 lenders. The Company's exposure to liquidity risk is dependent on the Company's ability to generate sales, manage its expenditures based on sales, and continued support from its lenders. At June 30, 2023, the Company has $11,412,962 (December 31, 2022 - $10,339,434) of liabilities net of deferred revenues with the following due dates and carrying values:

| | Under 3 months | 3 months - 1 year | 1 - 2 years | 3 - 5 years | Total |
|---|---|---|---|---|---|
| Accounts payable and accured liabilties | $ 859,989 | $ - | $ - | $ - | **$ 859,989** |
| Related party loan payable | - | - | 1,193,814 | - | **1,193,814** |
| Lease payments | 23,722 | 71,355 | 59,628 | 37,600 | **192,305** |
| Promissory note payable | - | 2,916,854 | - | - | **2,916,854** |
| Related party line of credit facility | - | - | - | 5,950,000 | **5,950,000** |
| Warrant liability | - | 300,000 | - | - | **300,000** |
| **Total** | **$ 883,711** | **$ 3,288,209** | **$ 1,253,442** | **$ 5,987,600** | **$ 11,412,962** |

**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.

**Currency risk**

Currency risk is the risk that changes in foreign exchange rates will cause fluctuations to the fair values and cash flows of the Company's financial instrument holdings. The Company has minimal exposure to currency risk as it does not hold significant assets in currency other than USD and its international sales are denominated in USD.

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk through its convertible note agreement which bears interest at 8%, but can increase to 13% under certain conditions.

**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.