BUILDDIRECT.COM TECHNOLOGIES INC.

Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2023 and 2022

(Expressed in United States dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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 CPA Canada for a review of interim financial statements by an entity.

BUILDDIRECT.COM TECHNOLOGIES INC.

Condensed Consolidated Interim Statements of Financial Position
(Unaudited)
(Expressed in United States dollars)

	As at March 31, 2023 $	As at December 31, 2022 $
Assets		
Current assets:		
Cash and cash equivalents	4,810,913	4,107,754
Short-term investments	318,000	318,000
Trade and other receivables (note 3)	3,790,128	4,000,121
Income taxes receivable	-	171,502
Inventories (note 4)	6,479,597	6,657,450
Prepaid materials, expenses, and deposits	2,056,565	1,696,828
Total current assets	17,455,203	16,951,655
Non-current assets:		
Property and equipment (note 5)	583,989	591,880
Intangible assets (note 6)	7,545,832	8,155,769
Right-of-use assets (note 7)	3,273,165	3,566,442
Non-current deposits	968,989	987,216
Goodwill (note 6)	2,530,622	2,530,622
Deferred tax asset	1,207,110	1,207,110
Total non-current assets	16,109,707	17,039,039
Total Assets	33,564,910	33,990,694
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	5,498,192	5,475,426
Income taxes payable	23,498	-
Current portion of lease liabilities (note 9)	1,466,423	1,441,420
Deferred revenue (note 10)	2,603,431	1,767,136
Loan payable (note 11)	3,461,513	3,691,672
Current portion of promissory note (note 13)	1,079,502	1,065,131
Current portion of deferred consideration payable (note 14)	1,971,527	1,903,731
Warrants (note 12)	6,678	28,382
Total current liabilities	16,110,764	15,372,898
Non-current liabilities:		
Deferred consideration payable (note 14)	-	701,611
Lease liabilities (note 9)	2,483,636	2,859,607
Loan payable (note 11)	5,160,726	4,974,463
Promissory note (note 13)	2,357,065	2,634,573
Total non-current liabilities	10,001,427	11,170,254
Shareholders' equity:		
Share capital (note 15)	123,109,599	122,803,204
Share based payment reserve	11,164,228	11,121,785
Deficit	(126,821,108)	(126,477,447)
Total Shareholders’ equity	7,452,719	7,447,542
Total Liabilities and Equity	33,564,910	33,990,694

Going Concern (note 2(b)); Commitments and contingencies (note 18)
See accompanying notes to Condensed Consolidated Interim Financial Statements.

Approved on behalf of the Board:

Milan Roy Director *Tim Howley* Director

BUILDDIRECT.COM TECHNOLOGIES INC.

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
(Unaudited)
(Expressed in United States dollars)

For the three months ended March 31, 2023 and 2022

	March 31, 2023 $	March 31, 2022 $
Revenue (note 16)	17,846,299	24,396,076
Cost of goods sold (note 4)	10,853,858	15,671,680
Gross Profit	6,992,441	8,724,396
Operating expenses:		
Fulfillment costs	1,159,656	2,146,838
Selling and marketing	1,331,809	2,319,546
Administration	3,440,035	4,034,351
Research and development	122,598	467,393
Depreciation and amortization	917,869	1,007,550
Total operating expenses	6,971,967	9,975,678
Profit (Loss) from operations	20,474	(1,251,282)
Other income (expense):		
Interest income	15,128	15,263
Interest expense	(526,764)	(435,953)
Rental income	61,670	56,471
Fair value adjustment of warrants (note 12)	21,704	683,982
Foreign exchange gain (loss)	259,127	(577,714)
Total Other income (expense)	(169,135)	(257,951)
Loss before income taxes	(148,661)	(1,509,233)
Income tax expense	195,000	212,575
Total loss and comprehensive loss for the period	(343,661)	(1,721,808)
Loss per share		
Basic and diluted loss per share (note 21)	(0.01)	(0.06)

See accompanying notes to Condensed Consolidated Interim Financial Statements.

BUILDDIRECT.COM TECHNOLOGIES INC.

Condensed Consolidated Interim Statement of Changes in Equity (Deficiency)
(Unaudited)
(Expressed in United States dollars)

For the three months ended March 31, 2023 and 2022

	Common Shares		Share based payment reserve	Deficit	Total
	Number	Amount			
		$	$	$	$
Balance – December 31, 2021	29,661,096	119,075,245	10,854,968	(118,607,020)	11,323,193
Loss and comprehensive loss for the year	-	-	-	(1,721,808)	(1,721,808)
Share-based payment expense (note 15)	-	-	97,635	-	97,635
Balance – March 31, 2022	29,661,096	119,075,245	10,952,603	(120,328,828)	9,699,020
Balance – December 31, 2022	40,819,913	122,803,204	11,121,785	(126,477,447)	7,447,542
Issuance of share capital (note 15)	1,121,622	306,395	-	-	306,395
Loss and comprehensive loss for the year	-	-	-	(343,661)	(343,661)
Share-based payment expense (note 15)	-	-	42,443	-	42,443
Balance – March 31, 2023	41,941,535	123,109,599	11,164,228	(126,821,108)	7,452,719

See accompanying notes to Condensed Consolidated Interim Financial Statements.

BUILDDIRECT.COM TECHNOLOGIES INC.

Condensed Consolidated Interim Statement of Cash Flows
(Unaudited)
(Expressed in United States dollars)

For the three months ended March 31, 2023 and 2022

	March 31, 2023 $	March 31, 2022 $
Cash provided by (used in):		
Operating activities:		
Loss for the year	(343,661)	(1,721,808)
Add (deduct) items not affecting cash:		
Depreciation and amortization	917,869	1,007,550
Income tax expense	195,000	212,574
Stock-based compensation expense	42,443	97,635
Interest paid on leases	58,779	76,565
Other interest and finance cost	467,985	359,388
Interest earned on lease receivables	(15,128)	(15,263)
Fair value adjustment on warrants	(21,704)	(683,982)
Unrealized foreign exchange	(2,455)	89,890
	1,299,128	(577,451)
Income taxes paid	-	-
Changes in non-cash operating working capital:		
Trade and other receivables	145,493	407,350
Inventories	177,853	(28,437)
Prepaid materials, expenses and deposits	(341,510)	597,428
Accounts payable and accrued liabilities	22,766	1,235,509
Deferred revenue	836,295	(269,078)
Total operating activities	2,140,025	1,859,039
Investing activities:		
Purchase of property and equipment	(6,764)	(3,011)
Principal received on lease receivables	64,501	58,969
Total investing activities	57,737	55,958
Financing activities:		
Private placement proceeds	306,395	-
Interest paid	(236,075)	(253,512)
Principal lease payments	(350,968)	(319,752)
Promissory note repayment	(311,250)	(311,250)
Deferred consideration repayment	(675,000)	(675,000)
Loan repayment	(227,705)	-
Loan proceeds	-	3,000,000
Total financing activities	(1,494,603)	1,440,486
Increase (decrease) in cash and cash equivalents	703,159	3,355,483
Cash and cash equivalents, beginning of period	4,107,754	1,716,986
Cash and cash equivalents, end of period	4,810,913	5,072,469

See accompanying notes to Condensed Consolidated Interim Financial Statements.

1. Nature of business:

BuildDirect.com Technologies Inc. (BuildDirect or the "Company") was incorporated under the Canada Business Corporations Act (CBCA) on October 20, 1999. BuildDirect is an innovative marketplace for purchasing and selling building materials online. The BuildDirect platform connects homeowners and home improvement professionals in North America with suppliers and sellers of quality building materials from around the world, including flooring, tile, decking and more. The head office of the Company is located in Vancouver, British Columbia.

On December 31, 2020, BuildDirect completed the acquisition of 100% of the outstanding shares of Charter Distributing Company ("FloorSource"). FloorSource was incorporated in 1980 and is a wholesale flooring distributor with four locations (distribution centers and showrooms) in the state of Michigan ("MI"). FloorSource provides carpeting, carpet padding, hardwood, vinyl, laminate, and flooring supplies to customers such as contractors, project management companies and retailers.

On August 13, 2021, BuildDirect., VLCTY Capital Inc. ("VLCTY", a Canadian company listed on the TSX Venture Exchange), and a wholly owned subsidiary company 9923896 Canada Inc. of VLCTY, entered into a three-cornered amalgamation agreement with VLCTY changing its name to BuildDirect.com Technologies Inc. The transactions represent a reverse acquisition whereby the Company is considered the acquirer of VLCTY; the resulting financial statements are presented as a continuance of BuildDirect (accounting acquirer).

On November 17, 2021, BuildDirect completed the acquisition of 100% of the outstanding shares of Superb Floor Covering, LLC ("Superb"). Superb was incorporated in 2008 and is headquartered in Troy, MI. Superb is a seller and installer of carpet, laminate, luxury vinyl, custom area rugs, and specialty flooring options.

2. Significant accounting policies:

(a) Basis of presentation:

These condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein.

These condensed consolidated interim financial statements were approved by the Board of Directors on May 15, 2023.

(Expressed in United States dollars)

2. Significant accounting policies (continued):

(b) Going Concern:

The Company recognized a loss of $343,661 during the three months ended March 31, 2023 (2022 - $1,721,808), and has positive operating cash flows of $2,140,025 (2022 – $1,859,039). As at March 31, 2023, the Company has an accumulated deficit of $126,821,108, an excess of current assets over current liabilities of $1,344,439 and cash and cash equivalents of $4,810,913. As a result, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Based on the Company's liquidity position as at the date of authorisation of these condensed consolidated interim financial statements, management estimates that it will need to refinance existing Loan Payable (note 11) to meet its financial obligations. The Company is currently in discussions with its bankers regarding replacing and extending this loan and there are multiple financing options being considered. However, there is no assurance that financing can be obtained, within the next twelve months. If the Company is unable to obtain financing or take other actions in response to these circumstances within that time, it may be unable to continue as a going concern.

These condensed consolidated interim financial statements have been prepared on a going concern basis and do not include any adjustments to the carrying amounts and classification of assets and liabilities and reported revenues and expenses that may otherwise be required if the going concern basis was not appropriate. Such adjustments could be material.

3. Trade and other receivables:

	March 31, 2023 $	December 31, 2022 $
Trade receivables	3,106,970	3,415,266
Lease and other receivables	683,158	584,855
	3,790,128	4,000,121

(Expressed in United States dollars)

4. Inventories:

	March 31, 2023 $	December 31,2022 $
Building materials	6,159,775	6,411,866
Building materials in transit	319,822	245,584
Total	6,479,597	6,657,450

The cost of inventories and the cost of labour recognized as cost of goods sold during the three months ended March 31, 2023 was $9,310,522 (2022 - $14,124,567) and $1,543,336 (2022 - $1,547,113) respectively.

5. Property and equipment:

	Computer Equipment $	Office furniture and fixtures $	Office equipment $	Leasehold improvements $	Total $
Cost:					
Balance as January 1, 2022	771,208	128,430	315,015	632,141	1,846,794
Additions	-	3,073	73,497	-	76,570
Disposals	(62)	(29,251)	-	-	(29,313)
Balance as December 31, 2022	771,146	102,252	388,512	632,141	1,894,051
Additions	-	-	6,764	-	6,764
Disposals	-	-	-	-	-
Balance as at March 31, 2023	771,146	102,252	395,276	632,141	1,900,815
Accumulated amortization:					
Balance as January 1, 2022	672,879	100,428	307,642	166,613	1,247,562
Depreciation	24,106	3,073	10,247	18,432	55,858
Disposals	-	(1,249)	-	-	(1,249)
Balance as December 31, 2022	696,985	102,252	317,889	185,045	1,302,171
Depreciation	5,514	-	4,710	4,431	14,655
Disposals	-	-	-	-	-
Balance as at March 31, 2023	702,499	102,252	322,599	189,476	1,316,826
Carrying amounts:					
Balance as at December 31, 2022	74,161	-	70,623	447,096	591,880
Balance as at March 31, 2023	68,647	-	72,677	442,665	583,989

Management regularly assesses property and equipment for impairment indicators and has determined that no impairment is required for the three months ended March 31, 2023 (2022 - nil).

(Expressed in United States dollars)

6. Intangible assets and Goodwill:

	Goodwill	Intangible Assets			
		Computer Software	Customer List	Brand	Total Intangible Assets
	$	$	$	$	$
Cost:					
Opening balance as at January 1, 2022	4,280,165	826,219	11,725,800	2,360,000	14,912,019
Additions		-	-	-	-
Disposals	-	(7,000)	-	-	(7,000)
Balance as at January 1, 2023	4,280,165	819,219	11,725,800	$ 2,360,000	14,905,019
Additions		-	-	-	-
Disposals	-	-	-	-	-
Balance as at March 31, 2023	4,280,165	819,219	11,725,800	$ 2,360,000	14,905,019
Accumulated amortization and impairment:					
Opening balance as at January 1, 2022	-	690,554	1,287,140	283,797	2,261,491
Amortization	-	34,768	2,345,161	472,000	2,851,928
Impairment of Superb CGU	1,749,543	-	1,635,830	-	1,635,830
Balance as at December 31, 2022	1,749,543	725,322	5,268,131	755,797	6,749,250
Amortization	-	7,886	484,051	118,000	609,937
Balance as at March 31, 2023	1,749,543	733,208	5,752,182	873,797	7,359,187
Carrying amounts as at:					
December 31, 2022	2,530,622	93,897	6,457,669	1,604,203	8,155,769
March 31, 2023	2,530,622	86,011	5,973,618	1,486,203	7,545,832

Computer software is internally generated.

Impairment

The Company operates as three operating segments comprised of the Superb CGU, BuildDirect.com CGU and the FloorSource group of CGUs. All goodwill and intangible assets are assessed and tested at the CGU.

The Company assesses for impairment indicators at each interim period end and performs an annual test of impairment for goodwill at December 31, 2022. The Company did not identify any indicators of impairment for any intangible asset or goodwill for the three months ended March 31, 2023.

(Expressed in United States dollars)

7. Right-of-use assets:

	Premises $	Equipment $	Total $
Cost:			
Balance as January 1, 2022	6,055,719	65,747	6,121,466
Additions	-	423,328	423,328
Balance as January 1, 2023	6,055,719	489,075	6,544,794
Additions	-	-	-
Balance as at March 31, 2023	6,055,719	489,075	6,544,794
Accumulated amortization:			
Balance as January 1, 2022	1,770,771	45,048	1,815,819
Amortization	1,094,904	67,629	1,162,533
Balance as January 1, 2023	2,865,675	112,677	2,978,352
Amortization	273,726	19,551	293,277
Balance as at March 31, 2023	3,139,401	132,228	3,271,629
Carrying amounts:			
Balance as at December 31, 2022	3,190,044	376,398	3,566,442
Balance as at March 31, 2023	2,916,318	356,847	3,273,165

Management regularly assesses right-of-use assets for impairment indicators and has determined that no impairment is required for the three months ended March 31, 2023 (2022 - nil).

8. Accounts payable and accrued liabilities:

	March 31, 2023 $	December 31, 2022 $
Trade accounts payable and accruals	5,158,272	5,221,655
Payroll and health taxes	333,761	253,750
Other payables	6,159	21
	5,498,192	5,475,426

(Expressed in United States dollars)

9. Leases:

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. The Company's lease obligations have effective annual discount rates ranging from 2.75% to 9%.

(a) As a lessee:

Maturity analysis contractual undiscounted cash flows	March 31, 2023 $	December 31, 2022 $
Less than one year	1,645,610	1,643,190
One to five years	2,605,266	3,004,016
More than five years	-	13,417
Total undiscounted lease liabilities at period end	4,250,876	4,660,623
Lease liabilities included in the consolidated statement of financial position as at period end	3,950,059	4,301,027
Current lease liabilities	(1,466,423)	(1,441,420)
Non-current lease liabilities	2,483,636	2,859,607

During the three months ended March 31, 2023, the Company did not enter into any new leases. During the three months ended March 31, 2022, the Company entered into two new leases for equipment for a period of 6 years. The associated right-of-use assets are initially measured at the amount of the lease liability, of $423,328 (note 7).

The following amounts relate to the leases recognized on the consolidated statement of operations:

	March 31, 2023 $	March 31,2022 $
Interest on lease liabilities	58,779	76,565
Income from subleasing right-of-use assets	(130,256)	(130,256)
	(71,477)	(53,691)

(Expressed in United States dollars)

9. Leases (continued):

(b) As a lessor:

The Company has two subleases for an office and warehouse. The office lease is for a term of 6 years and the warehouse lease is for a term of 1 year, both without extension options.

(i) Finance lease:

The Company classified the office lease as a finance lease, as it transfers substantially all the risks and rewards of the head lease to the sub-lessee. During the three months ended March 31, 2023, the Company recognized interest income of $9,284 on the finance lease (2022 - $14,816).

The following table sets out the maturity analysis of lease receivables to be received after the reporting date:

	March 31,2023 $	December 31, 2022 $
Less than one year	295,139	295,139
One to two years	122,974	196,759
Two to three years	-	-
Three to four years	-	-
Total remaining after 4 years	-	-
Total undiscounted lease receivables	418,113	491,898
Unearned finance income	23,997	33,281
Total net investment in the lease	394,116	458,617

(ii) Operating lease:

The Company classified the warehouse lease as an operating lease, as the risks and rewards of the head lease do not transfer to the sub-lessee.

10. Deferred revenue:

Deferred revenue represents cash received from customers in advance of delivery.

	March 31, 2023 $	December 31,2022 $
Beginning balance	1,767,136	3,874,745
Additions to deferred revenue	2,603,431	1,767,136
Revenue recognized	(1,767,136)	(3,874,745)
Ending balance	2,603,431	1,767,136

(Expressed in United States dollars)

11. Loan payable:

	March 31, 2023 $	December 31,2022 $
Secured note	3,461,513	3,691,672
Secured debt financing	5,160,726	4,974,463
Total loan payable	8,622,239	8,666,135

The Secured note agreement (the "2018 Notes") has a principal amount of $3,353,902 (CDN$4,538,835) (2022 $3,584,147 and CDN$4,854,369), bears interest at the greater of 15% and CDOR plus 10% effective January 1, 2023 and matures December 31, 2023. Certain quarterly payments are to be made towards the aggregate outstanding principal amount commencing January 1, 2023 as well as payment of premium fees in the amount of (i) between 3% - 9% of the Quarterly Principal Payments and (ii) between 3%- 9% of the then current outstanding principal of the 2018 Notes subject to timing for payment in full of the 2018 Notes. During the year ended December 31, 2022 the 2018 Notes were amended and determined to be a substantial modification resulting in the recognition of a loss on extinguishment of $107,524 impacting the fair value of the 2018 Notes.

The 2018 Notes are secured by all property, assets, and rights of the Company, excluding property assets and rights of FloorSource. Covenants include, but are not limited to, making timely payments per the agreement, allowing the note holders access to financial records, maintaining appropriate insurance and accounting records including completing the audit of the consolidated financial statements within 120 days after the end of each fiscal year, complying with all material laws and regulations, filing and paying taxes as due. The Company has met all covenants as at March 31, 2023.

The Company secured debt financing on February 15, 2022 and on June 29, 2022, in an aggregate amount of $3,000,000 and $1,500,000 respectively via issuance of secured notes (the "2022 Notes") to Pelecanus Investments Ltd. ("Pelecanus"), Lyra Growth Partners Inc. ("Lyra), and Beedie Investments Ltd. ("Beedie") all related parties. The 2022 Notes mature on March 31, 2024 and bear interest of 15% per annum, payable upon repayment of the loan. A commitment fee equal to 1% of the loan is payable upon the repayment of the loan. The 2022 Notes are secured by all property, assets, and rights of the Company. Covenants include, but are not limited to, making timely payments per the agreement, allowing the note holders access to financial records, maintaining appropriate insurance and accounting records. The Company has met all covenants as at March 31, 2023.

12. Warrants:

	March 31, 2023		December 31, 2022	
	Number	Amount $	Number	Amount $
Beginning of year	8,133,505	28,382	8,133,505	823,090
Change in fair value	-	(21,704)	-	(794,708)
Ending balance	8,133,505	6,678	8,133,505	28,382

The following table summarizes the outstanding warrants to purchase common shares at March 31, 2023:

Issuance date	Exercise price	Expiry date	Outstanding warrants	Carrying Amount $
December 30, 2020	CDN $4.23	December 2031	753,725	6,678
August 13, 2021	CDN $6.90	August 2023	7,174,765	-
August 13, 2021	CDN $5.75	August 2023	193,710	-
August 13, 2021	CDN $2.65	August 2023	11,305	-
			8,133,505	6,678

Warrants issued by the Company have an exercise price denominated in Canadian dollars, whereas the functional currency of the Company is the U.S. dollar, and therefore these warrants are accounted for as a derivative liability and are carried at fair value through profit and loss for accounting purposes. During the three months ended March 31, 2023 the Company recognized a fair value gain of $21,704 (2022 – $683,982) on the carrying amount of warrants liability.

The fair value of the warrants, which are carried at fair value through profit and loss, was determined using Black-Scholes model with the following assumptions at March 31, 2023 and December 31, 2022:

	December 30, 2020 Warrants Issue	August 13, 2021, Warrants Issue	August 13, 2021, Warrants Issue	August 13, 2021, Warrants Issue
Exercise price (per share)	CDN $4.2281	CDN $6.90	CDN $2.6538	CDN $5.75
At March 31, 2023 Assumptions:				
Time to maturity (in years)	8.00	0.62		
Volatility	67%			
Risk-free rate	0.46%			
Value of common shares	CDN $0.18			
At December 31, 2022 Assumptions:				
Time to maturity (in years)	8.00	0.62		
Volatility	67%			
Risk-free rate	0.46%			
Value of common shares	CDN $0.275			

(Expressed in United States dollars)

13. Promissory note:

	March 31, 2023 $	December 31, 2022 $
Current promissory note	1,079,502	1,065,131
Long term promissory note	2,357,065	2,634,573
Total secured promissory note	3,436,567	3,699,704

The promissory note, which has a principal amount of $6,193,725, was issued as part of the consideration for the acquisition of FloorSource on December 31, 2020, is secured by all present and future property, assets, and rights of FloorSource. The promissory note bears interest at a rate of 5% compounded annually and is payable commencing on April 1, 2021, and thereafter on the first day of each calendar quarter, on the outstanding principal amount. The Company was required to make a principal payment of $1,245,000 on December 31, 2021 and commencing on April 1, 2022, and thereafter on the first day of each calendar quarter, in equal installments of $311,250 each. During the three months ended March 31, 2023, the Company made the required principal repayments totalling $311,250.

The promissory note has a maturity date of the earlier of:

(i) January 1, 2026,

(ii) Acceleration upon the occurrence of any event of default, the holder has the right to declare the entire principal amount and all interest outstanding thereon and expenses and other amounts payable under note to be due and payable immediately. The event of default defined in the promissory note agreement, includes the failure of the Company to make any payment within five (5) days of when such payment is due; the filing of any petition for relief by or against the Company under any provision Bankruptcy Laws; when the Company defaults, under any lease, indebtedness or guaranty involving an obligation to pay more than $200,000 or which is secured by any of the assets of the Company.

(iii) a change in control defined as (1) the sale of more than 50% of the issued and outstanding stock or other equity securities (on an as-converted basis) of any of the Company; or (2) the sale, lease, transfer, exclusive license, or other disposition of substantially all of the assets of the Company.

Since the secured promissory note is part of the consideration transferred in the acquisition of FloorSource, in accordance with *IFRS 3 Business Combination*, it was initially recorded at fair value in accordance with principles of *IFRS 13 Fair Value Measurements*. The original fair value of $5,241,608 was determined by using a discounted cash flow model using a risk adjusted discount rate of 12.0%. The secured promissory note is accounted for at amortized cost, with the $952,117 discount from the principal amount of the promissory note being accreted over the life of the promissory note as a charge to interest expense. Interest accrued for the three months ended March 31, 2023 was $53,102 (2022 - $67,155). Interest payments of $47,570 for the three months ended March 31, 2023 (2022 - $61,650).

(Expressed in United States dollars)

14. Deferred consideration payable:

The deferred consideration payable table below provides the deferred consideration obligation recorded at fair value as at December 31, 2022 and March 31, 2023. The deferred consideration was part of the consideration for the acquisition of FloorSource on December 31, 2020 and Superb on November 17, 2021.

	$
Balance at January 1, 2022	3,038,302
Interest expense	242,040
Principal repayment of FloorSource	(675,000)
Balance at December 31, 2022	2,605,342
Interest expense	41,185
Principal repayment of FloorSource	(675,000)
Balance at March 31, 2023	1,971,527

During the three months ended March 31, 2023 the rates used to remeasure the deferred consideration were unchanged from the prior year and are as follows:

Risk adjusted discount rate of 22% for FloorSource deferred consideration

Risk adjusted discount rates of 2.87% and 7.87% for Superb deferred considerations

	March 31, 2023 $	December 31,2022 $
Current portion	1,971,527	1,903,731
Non-current portion	-	701,611
Total deferred consideration	1,971,527	2,605,342

(Expressed in United States dollars)

15. Shareholders' equity:

(a) Share capital:

Authorized:

Unlimited common shares, without par value

Unlimited preference shares, without nominal or par value

The following changes in share capital occurred in the current period:

	Three months ended March 31, 2023		Year ended December 31, 2022	
	Number	Amount $	Number	Amount $
Common Shares:				
Beginning of year	40,819,913	122,803,204	29,661,096	119,075,245
Issuance of common shares for private placement	1,121,622	306,395	11,136,615	3,712,715
Exercise of stock options	-	-	27,202	15,244
Ending balance	41,941,535	123,109,599	40,819,913	122,803,204

On September 8, 2022 and September 28, 2022, BuildDirect obtained funding from a non-brokered private placement offering of 6,847,830 common shares issued at a price of CDN$0.46 per common share for total gross proceeds of $2,469,916 (CDN$3,150,000).

On December 30, 2022, BuildDirect obtained funding from a non-brokered private placement offering of 4,283,785 common shares issued at a price of CDN$0.37 per common share for total gross proceeds of $1,242,799 (CDN$1,585,000).

On January 3, 2023, BuildDirect obtained second tranche of funding from a non-brokered private placement offering of 1,121,622 common shares issued at a price of CDN$0.37 per common share for total gross proceeds of $306,395 (CDN$415,100).

During the 2023 year, there were no employees exercised stock options for common shares. In 2022, employees exercised stock options for 27,202 common shares.

(b) Share based payments:

Since July 2018, the Company has an incentive stock option plan under which up to a total 17,908,161 options can be issued. Stock options vest over a four-year period. 25% of a grant vests on the first anniversary, and the remaining 75% vests over 36 months, subsequent to the first 25% vesting.

(Expressed in United States dollars)

15. Shareholders' equity (continued):

The following summarizes stock option activity for the three months ended March 31,2023 and the year ended December 31, 2022:

	2023		2022	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Options to purchase common shares:				
Outstanding, beginning of year	1,231,319	$ 1.26	2,931,407	$ 0.96
Granted to employees	-	-	-	-
Exercised	-	-	(27,202) [(1)]	0.59
Cancelled or forfeited	(779,738)	1.26	(1,672,886)	0.99
Outstanding, end of year	451,581	$ 1.26	1,231,319	$ 1.26

(1) Average share price on date of exercise was CDN $0.45

(b) Share based payments (continued):

There were no options granted to employees or options exercised during the 2023 year.

Share-based payment expense of $42,443 has been recognized during the three months ended March 31, 2023 (2022: $97,635).

The following tables summarizes information concerning outstanding and exercisable options:

As at March 31, 2023:

Exercise price ($USD)	Outstanding options	Weighted average remaining contractual life (years)	Options exercisable	Weighted average remaining contractual life (years)
$ 0.54	111,901	6.77	91,933	6.77
$ 0.76	102,589	5.45	102,545	5.45
$ 1.36	46,356	8.72	18,344	8.72
$ 1.94	183,199	7.94	96,791	7.94
$ 2.12	7,536	7.58	7,536	7.58
$ 1.27	451,581	7.16	317,149	7.16

(Expressed in United States dollars)

15. Shareholders' equity (continued):

As at December 31, 2022:

Exercise price ($USD)	Outstanding options	Weighted average remaining contractual life (years)	Options exercisable	Weighted average remaining contractual life (years)
$ 0.54	302,425	7.00	239,138	7.00
$ 0.76	267,494	5.71	279,145	5.71
$ 1.36	146,356	8.97	63,362	8.97
$ 1.94	507,508	8.12	230,588	8.12
$ 2.12	7,536	0.82	7,536	0.82
$ 1.27	1,231,319	7.38	819,769	7.38

16. Revenue:

Revenues from external customers are split into four main streams. Product revenue is earned from customers who purchase goods in store and online through the Company's website. Service revenue is made up of three streams of revenue, Freight, Warehouse and Installation revenue. Freight revenue is the amount collected for the freight shipping and handling of products, either ones sold on the Company's website, or for third parties requiring the logistics services. Warehouse revenue is earned for the storage of third-party inventory. Installation revenue is the amount charged to customers for installation services. Product revenue, and service revenue related to Freight and Warehouse are recognized at the point in time when the customer obtains control of the good or when the service provided. Service revenue related to installation is recognized at the point in time when the service is provided or for larger scale installations over the period of time that the service is provided.

The Company recognizes the Product, Freight, Warehouse and Installation revenue on a gross basis.

As all payments for items purchased through the Product and Freight streams are paid for at the time of order, deferred revenue is recorded for the period of time between when the order is placed and when the order has been delivered at the customer's chosen destination.

For the three months ended March 31, 2023, the Company recognized $60,117 (2022 - $152,051) of refund liability which is included in accounts payable and accrued liabilities.

	March 31,2023 $	March 31,2022 $
Product revenue	15,826,822	22,550,802
Service revenue:		
Freight	327,935	759,375
Warehouse	47,773	119,500
Installation	1,643,769	966,399
	17,846,299	24,396,076

(Expressed in United States dollars)

17. Segment information:

The Company's Chief Operating Decision-Maker (CODM), which consists of the Executive Leadership Team ("ELT"), regularly assesses the performance of, and makes resource allocation decisions based on, the two operating segments, BuildDirect.com and Independent Retailers (FloorSource & Superb) and therefore both reportable segments are broken out below. In presenting the following information, segment revenue has been based on the geographic location of customer and non-current assets have been based on the geographic location of the assets.

(a) Revenue:

Please see the breakdown of revenue by geographical region:

	March 31, 2023 $	March 31,2022 $
BuildDirect.com:		
United States	5,165,690	10,652,043
Canada	141,685	112,042
Other	-	23,726
Independent Retailers:		
United States	12,538,924	13,608,265
	17,846,299	24,396,076

(b) Non-current assets:

Please see the breakdown of non-current assets by geographical region:

	March 31, 2023 $	December 31, 2022 $
BuildDirect.com:		
Canada	1,396,535	1,501,938
United States	397,616	397,616
Independent Retailers:		
United States	14,315,556	15,139,485
	16,109,707	17,039,039

18. Commitments and contingencies:

(a) Claims are made against the Company in the ordinary course of operations. The Company has made provisions for such claims, when necessary.

(b) The Company issues letters of guarantee through its financial institution to provide guarantees for duty on cross-border shipments. Outstanding letters of guarantee amount to $518,000 (2022 - $318,000).

(Expressed in United States dollars)

19. Financial risk management:

The Company's operations expose it to a variety of financial risks including liquidity risk, market risk and credit risk.

(a) Liquidity risk:

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company manages its liquidity risk by monitoring its operating requirements and through ongoing review of working capital balances and management of cash. The Company prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. The ability to fund operating requirements depends on future operating performance and cash flows, which are subject to economic, financial, competitive, and other factors, some of which are beyond our control, such as the potential impact of COVID-19. For the three months ended March 31, 2023 there is net loss of $343,661 generated (2022 – net loss of $1,721,808) and there is positive cash flow from operations of $2,140,025 (2022 – positive cash flow of $1,859,039). Due to the decrease in working capital from $1,607,139 at December 31, 2022 to $1,344,439 at March 31, 2023, and current cash balance of $4,810,913 at March 31, 2023, the Company believes that it will need additional financing to meet its financial obligations, see note 2(b) for details.

The following table summarizes the amount of contractual undiscounted future cash flows for the Company's financial liabilities, including interest as at March 31, 2023:

	2023 $	2024 $	2025 $	2026 $	2027 $	Total $
Accounts payable and accrued liabilities	5,498,192	-	-	-	-	5,498,192
Income taxes payable	23,498	-	-	-	-	23,498
Promissory note	1,049,781	1,344,780	1,250,918	-	-	3,645,479
Loan payable	4,592,547	6,211,403	-	-	-	10,803,950
Deferred consideration payable	1,350,000	750,000	-	-	-	2,100,000
Lease liabilities	1,645,610	1,467,572	895,210	168,696	73,788	4,250,876
	14,159,628	9,773,755	2,146,128	168,696	73,788	26,321,995

19. Financial risk management (continued):

(b) Market risk:

(i) Currency risk:

Currency risk reflects the risk that the Company's earnings will decline due to fluctuations in exchange rates.

The Company has cash and cash equivalents denominated in Canadian dollars. As at March 31, 2023, the amount totaled $129,552 (2022 - $41,303).

The Company has accounts payable and accrued liabilities denominated in Canadian dollars. As at March 31, 2023, the amount totaled $851,026 (2022 - $2,290,528).

The Company holds a loan payable in Canadian dollars. As at March 31, 2023, the amount totaled $3,461,513 (2022 – $3,963,831).

If the period-end foreign exchange rate of Canadian dollar had been 10% higher, or 10% lower, with all other variables held constant, the effect on the Company's foreign exchange for the three months ended March 31, 2023 would have been $380,272 (2022 - $564,823) higher or lower.

(ii) Interest risk:

Interest Risk is the risk that the fair value or cash flows from a financial instrument will fluctuate due to a change in market interest rates. The Company does not hold any variable rate long-term debt thus is not subject to significant changes in the future cash flows due to interest rate risk. The interest rate risk on cash and short-term investments is considered insignificant due to the low interest rates in the current economic environment and short-term nature of its holdings and as such the Company does not take any actions to manage interest rate risk.

(c) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Company, in its normal course of business, evaluates the financial condition of its customers on a regular basis, in addition to assessing the loss allowance under the ECL model. In addition, the Company requires a majority of its customers to prepay for orders before shipment can be made. Therefore, the Company has determined there is no significant exposure to customer credit risk.

(Expressed in United States dollars)

19. Financial risk management (continued):

(d) Capital management:

The Company's objective when managing its capital structure is to maintain a strong financial position and to provide returns with sufficient liquidity to undertake further growth for the benefit of its shareholders. The Company's capital is comprised of long-term obligations and equity as outlined below:

	March 31, 2023 $	December 31, 2022 $
External debt	14,037,011	14,999,563
Less cash	(4,810,913)	(4,107,754)
Net external debt	9,226,098	10,891,809
Total shareholders' equity	7,452,719	7,447,542
Total capitalization	16,678,817	18,339,351

There were no changes to the Company's approach to capital management during the year The Company is subject to certain covenants (none of which are financial covenants) on its debt obligations. The Company's strategy is to ensure it remains in compliance with all its existing covenants so as to ensure continuous access to required debt to fund growth. Management reviews results and forecasts to monitor the Company's compliance.

(e) Fair value hierarchy:

- Level 1: The fair value of financial instruments traded in active markets and based on quoted market prices at the end of the reporting period.
- Level 2: The fair value of financial instruments that are not traded in an active market and determined using valuation techniques using observable market data and rely little on entity-specific estimates If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3 (i.e. unlisted equity securities).

(Expressed in United States dollars)

19. Financial risk management (continued):

(e) Fair value hierarchy (continued):

The Company's cash, trade and other receivables, short-term investments, accounts payable and accrued liabilities, are classified as measured at amortized cost. The carrying amounts of these instruments approximate fair value as at March 31, 2023 and March 31, 2022. The fair value of warrants and deferred consideration are described below and the basis of their valuation are explained in the respective notes.

	Level 1	Level 2	Level 3
Warrants (note 12)	-	-	(6,678)
Deferred consideration payable (note 14)	-	(1,256,916)	(714,611)

20. Breakdown of expenses by nature:

	March 31, 2023 $	March 31, 2022 $
Building materials and consumables	12,013,514	17,818,518
Employee costs	2,684,661	3,330,910
Marketing and promotion	478,853	1,403,812
Professional services	650,173	920,157
Rent and other	1,038,312	1,068,776
Depreciation and amortization	917,869	1,007,550
Share-based compensation expense	42,443	97,635
	17,825,825	25,647,358

21. Loss per Share:

Loss per share represents loss from the period divided by the weighted average number of common and preference shares outstanding during the period. The weighted average number of shares is as follows:

	March 31, 2023 $	March 31, 2022 $
Beginning balance, shares outstanding	40,819,913	26,836,770
Effect of share issuances	1,084,235	-
Weighted average number of shares	41,904,148	26,836,770

Diluted loss per share is calculated by dividing the applicable loss by the sum of the weighted average number of shares outstanding and all additional common shares that would have been outstanding if potentially dilutive shares had been issued during the period. The calculation has not been provided as the effects of dilution would result in anti-dilutive loss per share.

(Expressed in United States dollars)

21. Loss per Share (continued):

Earnings (loss) per share are as follows:

	March 31, 2023 $	March 31, 2022 $
Net loss	(343,661)	(1,721,808)
Basic weighted average number of shares	41,904,148	26,836,770
Basic and diluted loss per share	(0.01)	(0.06)