

SPARQ CORP. (Formerly, MJ Innovation Capital Corp.)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

(Expressed in Canadian dollars)

The accompanying unaudited Condensed Interim Consolidated Financial Statements for the three and nine months ended September 30, 2022 and 2021 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

In accordance with National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators, the Company herewith discloses that the accompanying unaudited Condensed Interim Consolidated Financial Statements have not been reviewed by an auditor.

SPARQ CORP. (Formerly, MJ Innovation Capital Corp.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(Expressed in Canadian dollars)

As at:	Note	September 30, 2022	December 31, 2021
		\$	\$
Assets			
Current Assets			
Cash and cash equivalents		5,940,577	9,297,999
Accounts and other amounts receivable		195,566	82,661
Investment tax credits recoverable	12	402,000	330,000
Inventory	5	1,366,930	529,331
Prepaid expenses		286,337	6,840
Total current assets		8,191,410	10,246,831
Property and equipment	6	136,462	40,004
Total assets		8,327,872	10,286,835
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		698,247	607,440
Total current liabilities		698,247	607,440
Term loan	7	38,196	38,196
Total liabilities		736,443	645,636
Shareholders' Equity			
Share Capital	8	26,462,308	26,462,308
Contributed Surplus	9	2,138,417	1,560,658
Warrants	8	3,946,176	3,946,176
Deficit		(24,955,472)	(22,327,943)
Total shareholders' equity		7,591,429	9,641,199
Total liabilities and shareholders' equity		8,327,872	10,286,835

Going concern (Note 2(e))

Commitments and contingencies (Note 13)

Approved on behalf of the Board of Directors:

"Praveen Jain", Director

"Nishith Goel", Director

SPARQ CORP. (Formerly, MJ Innovation Capital Corp.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND SEPTEMBER 30, 2021

(Expressed in Canadian dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
Revenue		-	-	-	-
Cost of sales	5	35,380	2,014	83,918	25,210
Gross loss		(35,380)	(2,014)	(83,918)	(25,210)
Expenses					
Research and development		415,916	250,500	1,073,076	748,553
Sales and marketing		2,782	631	5,374	15,239
General and administration	8(iv)	283,210	295,025	934,188	669,258
Depreciation of property and equipment	6	9,707	5,328	20,916	12,783
Stock based compensation	9	164,916	-	577,759	-
Total expenses		(876,531)	(551,484)	(2,611,313)	(1,445,833)
Loss before the undernoted items		(911,911)	(553,498)	(2,695,231)	(1,471,043)
Other income (expense)					
Investment tax credits	12 (a)	24,000	90,000	72,000	270,000
Government assistance - wage subsidy	12 (b)	-	91,077	-	298,453
Interest income		19,676	413	32,915	1,599
Foreign exchange gain (loss)		(34,703)	(748)	(37,213)	2,733
		8,973	180,742	67,702	584,589
Net loss and comprehensive loss for the period		(902,938)	(372,756)	(2,627,529)	(886,454)
Basic and diluted loss per share		(0.01)	(0.00)	(0.03)	(0.00)
Weighted average shares outstanding		82,444,752	41,994,228	82,444,752	41,994,228

SPARQ CORP. (Formerly, MJ Innovation Capital Corp.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIENCY) EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

(Expressed in Canadian dollars)

	Number of Shares	Common Shares \$	Contributed Surplus \$	Warrants \$	Deficit \$	Total \$
Note						
Balance, December 31, 2020	42,000,000	15,248,419	1,113,378	-	(14,521,866)	1,839,931
Net loss for the period	-	-	-	-	(886,454)	(886,454)
Balance, September 30, 2021	42,000,000	15,248,419	1,113,378	-	(15,408,320)	953,477
Balance, December 31, 2021	82,444,752	26,462,308	1,560,658	3,946,176	(22,327,943)	9,641,199
Share based payments	9	-	577,759	-	-	577,759
Net loss for the period	-	-	-	-	(2,627,529)	(2,627,529)
Balance, September 30, 2022	82,444,752	26,462,308	2,138,417	3,946,176	(24,955,472)	7,591,429

The accompanying notes are an integral part of these consolidated financial statements

SPARQ CORP. (Formerly, MJ Innovation Capital Corp.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

(Expressed in Canadian dollars)

	Note	2022	2021
		\$	\$
Operating activities:			
Net loss for the period		(2,627,529)	(886,454)
Items not involving cash			
Depreciation expense	6	20,916	12,783
Forgivable portion of CEBA loan		-	(11,804)
Stock-based compensation	9	577,759	-
Changes in non-cash working capital:			
Accounts and other amounts receivable		(112,905)	(24,436)
Investment tax credits recoverable		(72,000)	63,232
Inventory		(837,599)	(197,536)
Prepaid expenses		(279,497)	(18,877)
Government assistance receivable		-	30,193
Accounts payable and accrued liabilities		90,807	70,341
Cash flow used in operating activities		(3,240,048)	(962,558)
Investing activities			
Acquisition of equipment	6	(117,374)	(36,045)
Cash flow used in investing activities		(117,374)	(36,045)
Financing activities:			
Advances of term loan	7	-	20,000
Cash flow from financing activities		-	20,000
Net decrease in cash and cash equivalents		(3,357,422)	(978,603)
Cash and cash equivalents at beginning of the period		9,297,999	1,346,904
Cash and cash equivalents at end of the period		5,940,577	368,301

The accompanying notes are an integral part of these consolidated financial statements

SPARQ CORP. (Formerly, MJ Innovation Capital Corp.)
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

(Expressed in Canadian dollars)

1. Nature of business

SPARQ Corp. (formerly, MJ Innovation Capital Corp.) (the “**Company**”) was incorporated under the *Business Corporations Act* (Ontario) on November 13, 2018. On December 31, 2021, the Company completed its qualifying transaction pursuant to the rules of the TSX Venture Exchange (the “**Qualifying Transaction**”), resulting in a reverse takeover of the Company by SPARQ Systems Inc. (“**SPARQ**”). The Qualifying Transaction was completed by way of a three-cornered amalgamation (the “**Amalgamation**”) pursuant to which, among other things, (i) SPARQ amalgamated with a wholly-owned subsidiary of the Company, incorporated for the purposes of the Amalgamation, pursuant to the provisions of the *Business Corporations Act* (Ontario), and (ii) all of the outstanding common shares in the capital of SPARQ (the “**SPARQ Shares**”) were cancelled and, in consideration therefor, the holders thereof received post-consolidation common shares in the capital of the Company on a 1:1 basis.

Prior to the completion of the Qualifying Transaction, the Company changed its name to “SPARQ Corp.” and consolidated its common shares on a 1.25:1 basis (the “**Consolidation**”). In addition, SPARQ completed a consolidation of the SPARQ Shares on a 10.8085146:1 basis.

In connection with the Qualifying Transaction, on December 22, 2021, SPARQ completed a brokered private placement of subscription receipts (each, a “**Subscription Receipt**”) at a price of \$0.50 per Subscription Receipt, pursuant to which SPARQ issued an aggregate of 20,000,000 Subscription Receipts for aggregate gross proceeds of \$10,000,000 (the “**Offering**”). Concurrent with closing of the Qualifying Transaction, each Subscription Receipt was converted into units of the Company (each, a “**Unit**”) consisting of one common share and one common share purchase warrant (the “**Warrants**”) with each such Warrant entitling the holder thereof to acquire one common share at an exercise price of \$0.75 per share for a period of 24 months from the date of issuance, pursuant to the provisions of a subscription receipt agreement entered into among the Company, SPARQ, Echelon Capital Markets (the “**Agent**”) and TSX Trust Company dated December 22, 2021. In connection with the Offering, 1,258,250 compensation options (the “**Compensation Options**”) were issued to members of the selling group, with each such Compensation Option being exercisable for one common share and one Warrant on the same terms as those issued pursuant to the Offering.

The Company designs and manufactures next generation single-phase microinverters for residential and commercial solar electric applications. The Company has developed a proprietary photovoltaic (“**PV**”) solution called the Quad; the Quad inverter optimizes four PV modules with a single microinverter, simplifying design and installation, and lowering cost for solar power installations when compared to existing market offerings.

The address of the Company’s registered and head office is 945 Princess Street, Box 212, Kingston, Ontario K7L 0E9. The common shares are listed for trading on the TSX Venture Exchange under the symbol “SPRQ” and the Warrants are listed for trading under the symbol “SPRQ.WT”. The common shares are also quoted for trading on the OTCQX® Best Market under the symbol “SPRQF”.

COVID-19

Since the commencement of the COVID-19 outbreak in the early part of the year ended December 31, 2020, there have been significant disruptions to organizations throughout Canada and the rest of the world, resulting in a general economic slowdown.

The Company has been monitoring announcements and guidelines published by civil authorities with regards to the health and safety matters at its premises. The Company has experienced challenges to its sales during the COVID-19 pandemic, and has attempted to mitigate the resulting cash flow reductions by accessing available federal government support programs.

Going forward, it is not possible to estimate the duration or severity of the impacts on the Company’s revenue stream or cost patterns arising from the COVID-19 pandemic.

SPARQ CORP. (Formerly, MJ Innovation Capital Corp.)
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

(Expressed in Canadian dollars)

2. Basis of presentation, measurement, and consolidation

a) Statement of compliance

The Condensed Interim Consolidated Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards (“**IFRS**”) and its interpretations adopted by the International Accounting Standards Board and in accordance with IAS 34, Interim Financial Reporting. These consolidated financial statements were authorized for issue by the Board of Directors of the Company on November 22, 2022.

b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and share-based compensation transactions which have been measured at fair value.

On December 31, 2021, the Company acquired all of the issued and outstanding securities of SPARQ, which resulted in the shareholders of SPARQ holding the majority of the issued and outstanding common shares. While the Company is the legal acquirer, SPARQ is the accounting acquirer since shareholders of SPARQ held and controlled the majority of the issued and outstanding common shares upon completion of the Qualifying Transaction. Accordingly, these consolidated financial statements are presented with SPARQ as the continuing entity.

c) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, SPARQ and Sparq Systems (USA) Inc., the former of which was incorporated under the laws of the Province of Ontario and the latter of which was incorporated under the laws of the State of Delaware. Inter-company transactions and balances between the Company and its subsidiaries have been eliminated on consolidation. All subsidiaries have a reporting date of December 31.

Profit or loss and other comprehensive loss of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

d) Functional and presentation Currency

The functional currency of the Company and its subsidiaries is determined using the currency of the primary economic environment in which each entity operates. The functional and presentation currency of the Company and its subsidiaries is the Canadian dollar.

e) Going concern assumption

These consolidated financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at September 30, 2022, the Company had a deficit of \$24,955,472 (2021 - \$22,327,943) and, for the nine months then ended, incurred a net loss of \$2,627,529 (2021 - \$886,454) and negative cash flows from operating activities of \$3,240,048 (2021 – \$962,558). The Company has used debt and equity financing from both related and unrelated sources to supplement its operations and will continue to be reliant on additional debt and/or equity financing in order to fully develop its business plan.

Although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding will be available in the future or available under terms acceptable to the Company, or that the Company will be able to generate sufficient returns from operations.

SPARQ CORP. (Formerly, MJ Innovation Capital Corp.)
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

(Expressed in Canadian dollars)

2. Basis of presentation, measurement, and consolidation (continued)

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities and commitments when due is dependent on the Company generating revenue and debt and/or equity financing sufficient to fund its cash flow needs.

3. Significant accounting policies

These condensed interim consolidated financial statements reflect the accounting policies described in Note 3 to the audited consolidated financial statements for the year ended December 31, 2021 and accordingly, should be read in conjunction with such financial statements and the notes thereto.

4. Qualifying Transaction

On December 31, 2021, the Company completed the Qualifying Transaction, pursuant to which it acquired all of the issued and outstanding securities of SPARQ (Note 1). While the Company was the legal acquirer, SPARQ was the accounting acquirer since shareholders of SPARQ held and controlled the majority of the issued and outstanding common shares upon completion of the Qualifying Transaction. Accordingly, the consolidated financial statements are presented with SPARQ as the continuing entity.

The Qualifying Transaction was accounted for as an asset acquisition, as the assets acquired and liabilities assumed did not constitute a business, as defined in IFRS 3, Business Combinations. The total consideration was allocated to the fair value of the net assets acquired and liabilities assumed, as follows:

	Estimated fair value
Consideration Paid	\$
2,444,752 common shares at \$0.3156 per share	771,580
244,000 stock options at an exercise price of \$0.25	44,395
	<u>815,975</u>
Allocation	\$
Cash	165,726
Accounts payable	(26,006)
Net assets acquired	<u>139,720</u>

In connection with the Qualifying Transaction, the Company recognized a listing expense in the amount of \$676,255 in the year ended December 31, 2021, such amount being equal to the consideration paid less the net assets acquired under the Qualifying Transaction.

5. Inventory

	September 30, 2022	December 31, 2021
Finished goods	\$ -	\$ 155,932
Raw materials	1,382,333	388,802
	1,382,333	544,734
Provision	(15,403)	(15,403)
	<u>\$ 1,366,930</u>	<u>\$ 529,331</u>

During the nine months ended September 30, 2022, inventory provision related to obsolescence of \$83,918 have been expensed within cost of sales (2021 - \$25,210).

SPARQ CORP. (Formerly, MJ Innovation Capital Corp.)
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

(Expressed in Canadian dollars)

6. Property and equipment

	Equipment \$	Furniture and fixtures \$	Computer equipment \$	Computer software \$	Total \$
Cost					
Balance, December 31, 2020	376,243	24,826	58,278	-	459,347
Additions	29,695	-	-	6,350	36,045
Balance, December 31, 2021	405,938	24,826	58,278	6,350	495,392
Additions	104,878	-	9,996	2,500	117,374
Balance, September 30, 2022	510,816	24,826	68,274	8,850	612,766
Accumulated depreciation					
Balance, December 31, 2020	357,563	24,826	54,887	-	437,276
Depreciation	10,992	-	1,829	5,291	18,112
Balance, December 31, 2021	368,555	24,826	56,716	5,291	455,388
Depreciation	16,722	-	1,678	2,516	20,916
Balance, September 30, 2022	385,277	24,826	58,394	7,807	476,304
Net book value					
At December 31, 2021	37,382	-	1,563	1,059	40,004
At September 30, 2022	125,539	-	9,880	1,043	136,462

7. Term loan

During the year ended December 31, 2020, the Company obtained an unsecured loan of \$40,000 in respect of the Canada Emergency Business Account (the “CEBA”). The loan bears interest at a rate of 0% per annum during the initial term. No principal repayments are required during the initial term. If the Company has repaid 75% of the loan amount prior to December 31, 2022, the lender will forgive the remaining outstanding balance of the loan (see note 14). If a balance still exists at January 1, 2023, interest will commence at a rate of 5% per annum, payable monthly. Any balance remaining on the loan will be repayable in full on December 31, 2025. As at December 31, 2020, management had determined that it is likely that the non-forgivable portion of the loan will be repaid by December 31, 2022, and had recognized the \$10,000 forgivable portion of the arrangement in income during the year ended December 31, 2020. In 2022, the Government of Canada extended the December 31, 2022 repayment date to December 31, 2023.

SPARQ CORP. (Formerly, MJ Innovation Capital Corp.)
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

(Expressed in Canadian dollars)

8. Share capital

Authorized

An unlimited number of common shares

Issued

	Number of shares	Dollar Amount
	#	\$
Balance, December 31, 2020	42,000,000	15,248,419
Shares issued pursuant to Qualifying Transaction (note 4)	2,444,752	771,580
Management share bonus (ii)	18,000,000	5,680,926
Shares issued in accordance with a private placement (i)	20,000,000	10,000,000
Valuation of warrants (i)	-	(3,687,860)
Share issue costs – cash (i)	-	(1,292,441)
Share issue costs - compensation options (i)	-	(258,316)
Balance, December 31, 2021 and September 30, 2022	82,444,752	26,462,308

- (i) On December 22, 2021, SPARQ completed a brokered private placement of Subscription Receipts, which converted into units of SPARQ (each, a “**SPARQ Unit**”) immediately prior to the completion of the Qualifying Transaction, with each SPARQ Unit consisting of one SPARQ Share and one common share purchase warrant (each, a “**SPARQ Warrant**”). Each SPARQ Warrant entitles the holder thereof to acquire one additional SPARQ Share at a price of \$0.75 per share for a period of 24 months. Upon completion of the Qualifying Transaction, the SPARQ Units were exchanged for Units on a one-for-one basis. The SPARQ Warrants were allocated an estimated fair value of \$3,687,860 using the Black-Scholes option pricing model using the weighted average assumptions of an expected forfeiture rate of 0%, a risk-free interest rate of 0.96%, an expected dividend yield of 0%, an expected stock price volatility of 152%, and an expected life of two years. On the private placement, the Company paid commissions of \$856,072 and professional fees of \$436,369 which have been accounted for as share issuance costs.

In addition, the Company issued the Agent an aggregate of 1,258,250 Compensation Options. Each Compensation Option is exercisable to acquire one Unit at \$0.50, consisting of one common share and one Warrant, for a period of 24 months. The Compensation Options issued were allocated an estimated fair value of \$258,315 using the Black-Scholes option pricing model using the same assumptions as the SPARQ Warrants above.

- (ii) In accordance with the articles of SPARQ, upon completion of the Qualifying Transaction, the Company issued 18,000,000 common shares to certain eligible employees. 12,000,000 of such common shares were issued to Praveen Jain. As at September 30, 2022, an aggregate of 33,473,470 common shares were held in escrow.

SPARQ CORP. (Formerly, MJ Innovation Capital Corp.)
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

(Expressed in Canadian dollars)

9. Stock-based compensation

The Company has an omnibus equity incentive plan (the “**Omnibus Plan**”) which provides for a wide range of incentive awards, including stock options (“**Options**”), deferred share units (“**DSUs**”), restricted share units (“**RSUs**”), performance share units (“**PSUs**”) and other share-based awards (“**Other Share-Based Awards**”, and together with Options, DSUs, RSUs, PSUs, “**Awards**”) to attract, retain and motivate Employees, Directors, Officers and Consultants of the Company (as such terms are defined in the Omnibus Plan). The Omnibus Plan is a “rolling up to 10% and fixed up to 10%” Security Based Compensation Plan, as defined in Policy 4.4 - Security Based Compensation of the TSXV. The Omnibus Plan is a: (a) “rolling” plan pursuant to which the number of common shares that are issuable pursuant to the exercise of Options granted under the Omnibus Plan shall not exceed 10% of the issued and outstanding common shares as at the date of any Option grant; and (b) “fixed” plan under which the number of common shares that are issuable pursuant to all Awards other than Options granted under the Omnibus Plan and under any other security based compensation arrangement, in aggregate is a maximum of 8,244,475 common shares, in each case, subject to adjustment as provided in the Omnibus Plan and any subsequent amendment to the Omnibus Plan. Shareholders approved the adoption of the Omnibus Plan at the Company’s annual and special meeting held on June 1, 2022. The Omnibus Plan replaced the Company’s rolling stock option plan (the “**Legacy Plan**”).

The table below details all Options granted under the Omnibus Plan during the nine months ended September 30, 2022 and the year ended December 31, 2021. No DSUs, RSUs, PSUs or Other Share-Based Awards have been issued as of the date hereof.

	Number of Options #	Weighted average exercise price \$
Balance, December 31, 2020	-	-
Granted pursuant to the initial public offering (i)	244,000	0.25
Granted (ii)	5,025,000	0.50
Balance, December 31, 2021	5,269,000	0.49
Expired	(132,000)	(0.25)
Granted (iii)	275,000	0.50
Balance, September 30, 2022	5,412,000	0.50

- (i) In connection with the Company’s initial public offering completed on August 9, 2019, the Company granted Options to acquire up to an aggregate of 305,000 common shares at a price of \$0.20 per share to its directors and officers for a period of 10 years from the date of grant. Following the completion of the Consolidation and the Qualifying Transaction with SPARQ, the number of common shares issuable pursuant to the Options was reduced to 244,000 common shares and the exercise price per share was increased from \$0.20 to \$0.25 per share.
- (ii) On December 31, 2021, an aggregate of 5,025,000 Options were granted to directors, officers and consultants, under the Legacy Plan. Options issued were allocated an estimated fair value of \$1,263,994 using the Black-Scholes option pricing model to estimate the fair value using the weighted average assumptions of an expected forfeiture rate of 0%, a risk-free interest rate of 1.25%, an expected dividend yield of 0%, an expected stock price volatility of 123%, and an expected life of five years. The underlying expected stock price volatility is based on historical data of similar companies, as the Company has limited historical data itself on which it could be based. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the Options.

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9. Stock based compensation (continued)

(iii) On February 24, 2022, 275,000 Options were granted to Dr. Arul Shanmugasundaram under the Legacy Plan. Options issued were allocated an estimated fair value of \$69,173 using the Black-Scholes option pricing model to estimate the fair value using the same weighted average assumptions in (ii) above.

The Options have various vesting terms. In total, \$577,759 of stock-based compensation expense relating to options was included in the consolidated statements of loss and comprehensive loss for the nine months ended September 30, 2022 (2021 – \$nil) and credited to contributed surplus.

As at September 30, 2022 the Company had the following Options outstanding:

Number of Options Outstanding	Exercise Price (\$'s)	Expiry Date	Number of Options Exercisable	Weighted Average Remaining Life (years)
112,000	0.25	8/9/2029	112,000	6.87
5,025,000	0.50	12/31/2026	1,931,668	4.25
275,000	0.50	02/24/2027	165,000	4.41
5,412,000				4.19

10. Related party transactions

- (a) As at September 30, 2022, accounts payable and accrued liabilities included \$nil (December 31, 2021 - \$181,620) payable to certain shareholders of the Company, which are non-interest bearing, unsecured and due on demand.
- (b) During the three and nine months ended September 30, 2022, the Company was charged \$75,000 and \$225,000 (three and nine months ended September 30, 2021 - \$35,000 and \$105,000) for consulting services provided by PE Consultants Inc., an entity which is controlled by Praveen Jain, the CEO of the Company. These expenses have been recorded in research and development expenses.
- (c) During the three and nine months ended September 30, 2022, the Company was charged \$9,000 and \$27,000 (three and nine months ended September 30, 2021 - \$nil and \$nil) for consulting services provided by CFO Advantage Inc., an entity which is controlled by Kyle Appleby, the CFO of the Company. These expenses have been recorded in general and administrative expenses.
- (d) On June 16, 2022, the Company signed a manufacturing agreement (the “**Manufacturing Agreement**”) with Ti-Lane Precision Electronic Company Limited (“**Ti-Lane**”) to manufacture turn-key Q1200 microinverters for the Company on a high volume basis at Ti-Lane’s facility based in Guangdong Province, China. The Manufacturing Agreement has an initial term of three years and will automatically renew for additional one year terms after expiration of the initial term unless terminated earlier by either the Company or Ti-Lane. Ti-Lane is a shareholder in the Company and is controlled by Baojun (Robbie) Luo, one of the Company’s directors.
- (e) Transactions with related parties are incurred during the course of normal operations and initially recorded at fair value. Key management includes directors and officers of the Company. Compensation awarded to key management was comprised of the following for the three and nine months ended September 30, 2022 and 2021:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Short-term compensation	\$ 84,000	\$ 35,000	\$ 252,000	\$ 105,000
Share-based payments	164,916	-	577,759	-
Total	\$ 248,916	\$ 35,000	\$ 829,759	\$ 105,000

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(Expressed in Canadian dollars)

11. Government grant

In April 2016, the Company was approved for a government grant and was eligible to receive up to a maximum of \$1,500,000. During the nine months ended September 30, 2022, the Company received \$Nil (2021 - \$Nil) of funding under the program.

12. Government assistance

- (a) During the nine months ended September 30, 2022, the Company accrued \$72,000 (nine months ended September 30, 2021 - \$270,000) of SR&ED tax credits on eligible expenditures incurred.
- (b) During the nine months ended September 30, 2022, the Company applied for \$nil (2021 - \$298,453) under Canada Emergency Wage Subsidy program.
- (c) During the nine months ended September 30, 2022, the Company applied for \$nil (2021 - \$12,607) under Canada Emergency Rent Subsidy program.

13. Commitments and contingencies

Commitments

The Company is party to a one-year facility lease agreement which expired on September 30, 2022 at a rate of \$7,004 per month plus applicable sales tax.

On July 31, 2013, the Company entered into a licensing agreement with PARTEQ Research and Development Innovations (“**PARTEQ Agreement**”) for commercial rights to certain power generation, conversion, and switching technologies used in its products. Pursuant to the terms of the PARTEQ Agreement, the Company is obligated to pay 1% of specified net sales generated from the sale of products using the licensed technology. During the nine months ended September 30, 2022, the Company paid licensing fees of \$nil (nine months ended September 30, 2021 - \$nil).

Contingencies

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As at September 30, 2022 and December 31, 2021, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company’s operations. There are also no proceedings in which any of the Company’s directors, officers or affiliates is an adverse party or has a material interest adverse to the Company’s interest.

14. Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Company mitigates these risks by assessing, monitoring and approving the Company’s risk management processes:

- a) Credit risk

Credit risk is the risk of a potential loss to the Company if one party of a financial instrument fails to meet its contractual obligations. The maximum credit exposure as at September 30, 2022 and December 31, 2021 relates to the carrying amount of cash and cash equivalents, accounts receivable, investment tax credit recoverable, and government assistance receivable. To reduce credit risk, all significant cash balances are placed with major financial institutions.

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14. Financial risk management (continued)

The Company provides credit to its customers in the normal course of its operations. It carries out, on a continuing basis, credit checks on its clients and maintains provisions for contingent credit losses which, once they materialize, are consistent with management's forecasts. The maximum exposure to credit risk is the carrying value of the accounts receivable. The Company does not normally require a guarantee. The largest one customer represented an aggregate of \$nil (2021 - \$nil) of the Company's billings for the three and nine months ended September 30, 2022. As at September 30, 2022, 0% of the Company's accounts receivables were comprised of outstanding balances from this customer (2021- 0%).

The Company's expected credit loss allowance is estimated using historical loss information, current industry conditions and payment practices, as well as reasonable and supportable forecasts of future economic conditions. Credit risk is assessed based on days outstanding and utilizes both internal credit assessments and publicly available credit information. As a result, the allowance reflects anticipated effects caused by recent market deterioration. As at September 30, 2022, the current expected credit loss allowance was \$nil (December 31, 2021 - \$nil).

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the effective management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity at all times to settle obligations and liabilities when due. The Company has the following contractual obligations:

	Less than 1 year	1 to 3 years	3 to 5 years	Greater than 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	698,247	-	-	-	698,247
CEBA term loan	-	38,196	-	-	38,196
September 30, 2022	698,247	38,196	-	-	736,443

	Less than 1 year	1 to 3 years	3 to 5 years	Greater than 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	607,440	-	-	-	607,440
Term loan	-	38,196	-	-	38,196
December 31, 2021	607,440	38,196	-	-	645,636

c) Interest rate risk

Interest rate risk relates to 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's financial liabilities are non-interest bearing as at September 30, 2022 and December 31, 2021, and therefore the Company is not exposed to interest rate risk.

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14. Financial risk management (continued)

d) Foreign exchange risk

The Company is exposed to foreign exchange risk from various currencies, primarily the US dollar. Foreign exchange risk arises from sales and purchase transactions as well as recognized financial assets and liabilities that are denominated in a currency other than the Canadian dollar, which is the functional currency of the Company.

The Company's primary objective in managing its foreign exchange risk is to preserve sales values and cash flows and reduce variations in performance. Although management monitors exposure to such fluctuations, it does not employ any external hedging strategies to counteract the foreign currency fluctuations.

The following amounts were denominated in foreign currency:

	<u>Currency</u>	<u>30-Sept-22</u>	<u>31-Dec-21</u>
Cash	US dollar	24,939	2,744
Accounts Receivable	US dollar	7,527	5,685
Accounts Payable	US dollar	488,484	121,834

On September 30, 2022, an increase of 1% in the value of US dollar will result in a gain of \$250 (December 31, 2021 - \$35) in the value of cash, \$75 (December 31, 2021 - \$72) in accounts receivable and loss of \$4,884 (December 31, 2021 - \$1,545) in accounts payable. Similarly, a decrease of 1% in the value of US dollar will have similar effects but in opposite direction.

15. Capital management

The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders. The Company considers the items included in shareholders' equity of \$7,591,429 as capital, as at September 30, 2022 (December 31, 2021 - \$9,641,199). The Company manages the capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the Company's business. To secure the additional capital necessary to pursue these plans, the Company intends to raise additional funds through equity or debt financing. The Company is not subject to any capital requirements imposed by a regulator.