

BeWhere Holdings Inc.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Periods Ended September 30, 2022 and 2021

(Expressed in Canadian Dollars)

BeWhere Holdings Inc.

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For the Periods Ended September 30, 2022 and 2021

(Expressed in Canadian Dollars)

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BeWhere Holdings Inc.

Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

	As at September 30, 2022	As at December 31, 2021
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,240,481	\$ 2,558,673
Trade receivables (Note 4 and 14)	1,951,408	1,228,022
HST and other receivables	19,868	12,921
Prepaid expenses (Note 5)	61,710	238,121
Inventory (Note 6)	816,468	859,202
Total current assets	6,089,935	4,896,939
Intangible assets - net (Note 7)	527,388	736,854
Property and equipment – net (Note 8)	535,122	23,415
Total assets	\$ 7,152,445	\$ 5,657,208
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (Notes 9 and 11)	\$ 1,431,647	\$ 912,415
Loan from Government of Canada (Note 12)	38,874	-
Deferred revenue (Note 14)	76,920	93,562
Lease liability (Note 15)	113,028	-
Total current liabilities	1,660,469	1,005,977
Long-term Liabilities		
Loan from Government of Canada (Note 12)	112,391	34,709
Deferred revenue (Note 14)	10,821	32,339
Lease liability (Note 15)	424,303	-
Total liabilities	2,207,984	1,073,025
SHAREHOLDERS' EQUITY		
Capital stock (Note 13)	10,949,265	11,001,988
Share-based payment reserve (Note 13)	2,374,673	2,349,137
Deficit	(8,379,477)	(8,766,942)
Total shareholders' equity	4,944,461	4,584,183
Total liabilities and shareholders' equity	\$ 7,152,445	\$ 5,657,208

Nature of operations (Note 1)

Subsequent event (Note 19)

These interim consolidated financial statements are authorized for issue by the Board of Directors on November 21, 2022.

They are signed on the Company's behalf by:

“Rajiv Khanna”
Rajiv Khanna, CFO

“Owen Moore”
Owen Moore, CEO

The accompanying notes form an integral part of these interim consolidated financial statements.

BeWhere Holdings Inc.Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Expressed in Canadian Dollars)

	Three months ended		Nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Revenue (Note 14)				\$
	\$ 2,648,541	\$ 2,421,851	\$ 7,742,812	6,431,110
Cost of sales				
Products and services costs	1,595,684	1,805,960	4,963,085	4,624,493
Amortization for Internally developed technology (Note 7)	55,636	73,856	166,908	221,566
Gross profit	997,221	542,035	2,612,819	1,585,051
Expenses				
Amortization and depreciation (Notes 7 and 8)	49,034	15,547	145,109	47,802
Bad debts	12,847	389	12,847	389
Consulting fees (Note 11)	110,729	81,196	373,829	287,827
General and office expenses	65,329	55,753	179,440	166,180
Insurance	13,009	10,733	31,732	28,114
Marketing	78,766	10,588	131,712	39,167
Professional fees	8,862	18,600	32,352	51,137
Research and development (Note 16)	127,472	-	373,287	-
Salaries and wages (Note 11)	370,381	221,804	1,013,831	707,247
Share-based compensation (Notes 13)	11,890	18,536	30,372	38,906
Travel	265	150	1,177	766
	848,584	433,296	2,325,688	1,367,535
Income (loss) before other items and income tax expense	148,637	108,739	287,131	217,516
Other items:				
Foreign exchange gain (loss)	50,870	35,715	81,679	5,795
Government loan (Note 12)	20,492	-	39,621	12,018
Interest income	10,639	1,656	15,957	6,798
Accretion expense (Note 12 and 15)	(13,867)	(978)	(36,923)	(2,811)
Income (loss) before income tax	216,771	145,132	387,465	239,316
Income tax expense	-	-	-	-
Total comprehensive Income (loss) for the period	\$ 216,771	\$ 145,132	\$ 387,465	\$ 239,316
Basic income (loss) per share - basic	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Basic income (loss) per share - diluted	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Weighted average shares outstanding - Basic	88,240,917	88,055,568	88,274,638	88,028,540
Weighted average shares outstanding - Diluted	88,626,947	88,406,918	88,076,909	88,648,711

The accompanying notes form an integral part of these interim consolidated financial statements.

BeWhere Holdings Inc.

Interim Consolidated Statements of Cash Flow

(Expressed in Canadian Dollars)

	For the nine-month period ended	
	September 30, 2022	September 30, 2021
	\$	\$
Operations		
Comprehensive Income (loss) for the period	387,465	239,316
Items not affecting cash:		
Amortization and depreciation	312,017	269,368
Share-based compensation	30,372	38,906
Bad debts	12,847	389
Accretion expense	36,923	2,811
Government loan	(39,621)	(12,018)
Changes in non-cash working capital items:		
Trade and other receivables	(743,180)	78,001
Inventory	42,734	66,125
Prepaid expenses	176,411	21,386
Deferred revenue	(38,160)	26,564
Accounts payable and accrued liabilities	519,232	(31,747)
Net cash provided by (used in) operating activities	697,040	699,101
Investing		
Purchase of property and equipment	(30,253)	(10,466)
Intangible assets - patents, licenses & trademarks	-	(205)
Intangible assets - customer relations	-	-
Intangible assets - development costs	-	(491,617)
Net cash used in investing activities	(30,253)	(502,287)
Financing		
Loan from Government of Canada	149,580	-
Repayment of lease liability	(77,000)	20,000
Warrants and options exercised	9,500	31,831
Normal course issuers bid – purchase of shares (Note 13)	(67,059)	-
Net cash provided by financing activities	15,021	51,831
Increase (Decrease) in cash and cash equivalents	681,808	248,645
Cash and cash equivalents, beginning of year	2,558,673	2,466,630
Cash and cash equivalents, ending of period	3,240,481	2,715,275
The components of cash and cash equivalents are:		
Cash at the bank	\$ 1,740,481	\$ 1,215,275
Cashable GIC, bearing 2.45% to 3.05% interest per annum	\$ 1,500,000	\$ 1,500,000

The accompanying notes form an integral part of these interim consolidated financial statements.

BeWhere Holdings Inc.

Interim Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

	Share Capital		Share-based payment reserve	Deficit	Total
	Shares	Amount			
Balance, December 31, 2020	87,888,039	\$ 10,881,983	\$ 2,341,807	\$ (9,183,463)	\$ 4,040,327
Exercise of warrants and options (Note 13)	167,529	48,031	(16,200)	-	31,831
Share-based compensation expense (Note 13)	-	-	38,907	-	38,907
Comprehensive loss for the period	-	-	-	239,316	239,316
Balance, September 30, 2021	88,055,568	\$ 10,930,014	\$ 2,364,514	\$ (8,944,147)	\$ 4,350,381
Balance, December 31, 2021	88,296,488	\$ 11,001,988	\$ 2,349,137	\$ (8,766,942)	\$ 4,584,183
Exercise of warrants and options (Note 13)	50,000	14,336	(4,836)	-	9,500
Share-based compensation expense (Note 13)	-	-	30,372	-	30,372
Normal course issuers bid share purchase (Note 13)	(285,000)	(67,059)	-	-	(67,059)
Comprehensive Income (loss) for the period	-	-	-	387,465	387,465
Balance, September 30, 2022	88,061,488	\$ 10,949,265	\$ 2,374,673	\$ (8,379,477)	\$ 4,944,461

The accompanying notes form an integral part of these interim consolidated financial statements.

1. Nature of Business and Going Concern

Nature of business

BeWhere Holdings Inc. (the “Company” or “BeWhere Holdings”) was incorporated on October 28, 2003 under the Ontario Business Corporations Act. The Company’s shares are listed on the TSX Venture Exchange. The primary office of the Company is located at 2475 Skymark Avenue, Unit 4, Mississauga, Ontario L4W 4Y6.

The Company is an internet provider of real-time information on equipment, tools, and inventory in-transit and at facilities serving the emergency service, construction, utility, and transportation industries. BeWhere Holdings designs and sells beacons and develops mobile applications, middle-ware, and cloud-based solutions enabling a level of operational visibility that was previously unavailable and/or cost prohibitive.

Going concern assumption

The Company is in an early development stage and is subject to risks and challenges like other companies in comparable operations. These risks include, but are not limited to, dependence on key individuals, and the ability to secure adequate financing to meet the minimum capital required to successfully continue as a going concern. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or available under terms favorable to the Company.

As of September 30, 2022, the Company has a deficit of \$8,379,477 (December 31, 2021 - \$8,766,942). These factors indicate the existence of material uncertainties that may cast significant doubt upon the Company’s ability to continue as a going concern.

These interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and presentation that would be necessary should the going concern assumption be inappropriate, and those adjustments could be material.

2. Basis of Presentation and Statement of Compliance

The unaudited interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting. The accounting policies applied in these interim consolidated financial statements are consistent with those used in the Company’s audited consolidated financial statements for the year ended December 31, 2021. There have been no changes from the accounting policies applied in the December 31, 2021 consolidated financial statements. The preparation of interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the related amounts of assets and liabilities, revenues and expenses. In management’s opinion, all adjustments considered necessary for fair presentation have been included in these unaudited interim consolidated financial statements. Interim results are not necessarily indicative of the results expected for the financial year. Annual results may differ from interim estimates. The significant judgments made by management applied in the preparation of these unaudited interim consolidated financial statements are consistent with those applied and disclosed in the Company’s audited consolidated financial statements for the year ended December 31, 2021.

For a description of the critical accounting estimates and assumptions, please refer to the Company’s audited consolidated financial statements for the year ended December 31, 2021.

The board of directors approved these interim consolidated financial statements for issue on November 21, 2022.

Statement of compliance

The interim consolidated financial statements of the Company comply with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

2. Basis of Presentation and Statement of Compliance (continued)

Basis of measurement

These interim consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value. In addition, these interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The functional and presentation currency of the Company is the Canadian dollar.

Basis of consolidation

The interim consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed or has right to variable returns from its involvements with the investee; and
- has the ability to use its power to affect its returns.

The Company reassess whether or not it controls an investee if facts and circumstances indicate that there are changes in one or more of the three elements of control listed above. These interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries BeWhere Inc., incorporated in Ontario Canada and BeWhere, Inc., incorporated in Delaware USA. All transactions and balances between the Company and its subsidiaries are eliminated on consolidation.

3. Significant Accounting Policies

The accounting policies applied by the Company in these interim consolidated financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended December 31, 2021.

4. Trade Receivables

	September 30, 2022	December 31, 2021
Trade receivables	\$ 2,030,708	\$ 1,299,022
Allowance for doubtful accounts	(79,300)	(71,000)
	\$ 1,951,408	\$ 1,228,022

The Company generally does not hold any collateral as security for trade receivables; however, it minimizes its credit risk associated with its trade receivables by requiring customer deposits or prepayments in some cases and performing credit evaluations, approval, and monitoring processes. As at September 30, 2022, the allowance for doubtful trade accounts was \$79,300 (December 31, 2021 - \$71,000).

4. Trade Receivables (continued)

The aging of trade receivables as at the reporting date, based on due dates of invoices is as follows:

	September 30, 2022	December 31, 2021
Current	\$ 1,741,283	\$ 1,239,869
31 – 60 days	67,465	-
61 – 90 days	130,141	5,069
Greater than 90 days	91,819	54,084
	\$ 2,030,708	\$ 1,299,022

BeWhere Holdings Inc.
Notes to Interim Consolidated Financial Statements
For the periods ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

5. Prepaid Expenses

	September 30, 2022	December 31, 2021
Trade suppliers and others	\$ 61,710	\$ 238,121
	\$ 61,710	\$ 238,121

6. Inventory

At September 30, 2022, the Company had inventory totaling \$816,468 (December 31, 2021 - \$859,202), which consists primarily of equipment purchases from third parties for resale.

7. Intangible Assets

The following is a summary of the activity during the nine months ended September 30, 2022:

	Internally developed technology	Customer Relations	Patents	Total
Cost:				
As at December 31, 2020	\$ 1,360,274	\$ 213,086	128,251	\$ 1,701,611
Additions	667,632	-	204	667,836
As at December 31, 2021	\$ 2,027,906	\$ 213,086	\$ 128,455	\$ 2,369,447
Additions	-	-	-	-
As at September 30, 2022	\$ 2,027,906	\$ 213,086	\$ 128,455	\$ 2,369,447
Accumulated depreciation:				
As at December 31, 2020	\$ (1,138,708)	\$ (135,538)	\$ (25,687)	\$(1,299,933)
Amortization	(277,202)	(42,575)	(12,883)	(332,660)
As at December 31, 2021	\$ (1,415,910)	\$ (178,113)	\$ (38,570)	\$(1,632,593)
Amortization	(166,908)	(32,895)	(9,663)	(209,466)
As at September 30, 2022	\$ (1,582,818)	\$ (211,008)	\$ (48,233)	\$(1,842,059)
Net carrying amounts:				
As at December 31, 2021	\$ 611,996	\$ 34,973	\$ 89,885	\$ 736,854
As at September 30, 2022	\$ 445,088	\$ 2,078	\$ 80,220	\$ 527,388

The Development costs are related to the development and testing of prototypes and software. Internally developed technology consists of hardware design, sampling, firmware, certifications, software integration and quality assurance. Amortization of \$166,908 for the period ended September 30, 2022 (September 30, 2021 - \$221,566) related to the internal developed technology has been allocated to the costs of sales.

8. Property and Equipment

The following is a summary of the activity during the nine months ended September 30, 2022:

	Office equipment	Computer and Phones	Leasehold improvement s	Trade booth	Right-of-use asset	Total
Cost:						
As at December 31, 2020	\$ 5,210	\$ 23,312	\$ 4,595	\$ 11,710	\$ 50,515	\$ 95,342
Additions	5,362	20,946	-	-	-	26,308
As at December 31, 2021	\$ 10,572	\$ 44,258	\$ 4,595	\$ 11,710	\$ 50,515	\$ 121,650
Additions	12,448	17,805	-	-	584,005	614,258
As at September 30, 2022	\$ 23,020	\$ 62,063	\$ 4,595	\$ 11,710	\$ 634,520	\$ 735,908
Accumulated depreciation:						
As at December 31, 2020	\$ (3,664)	\$ (19,499)	\$ (4,595)	\$ (10,533)	\$ (50,515)	\$ (88,806)
Amortization	(1,653)	(6,599)	-	(1,177)	-	(9,429)
As at December 31, 2021	\$ (5,317)	\$ (26,098)	\$ (4,595)	\$ (11,710)	\$ (50,515)	\$ (98,235)
Amortization	(4,295)	(13,482)	-	-	(84,774)	(102,551)
As at September 30, 2022	\$ (9,612)	\$ (39,580)	\$ (4,595)	\$ (11,710)	\$ (135,289)	\$ (200,786)
Net carrying amounts:						
As at December 31, 2021	\$ 5,255	\$ 18,160	\$ -	\$ -	\$ -	\$ 23,415
As at September 30, 2022	\$ 13,408	\$ 22,483	\$ -	\$ -	\$ 499,231	\$ 535,122

9. Accounts Payable and Accrued Liabilities

	September 30, 2022	December 31, 2021
Accounts payable	\$ 1,338,757	\$ 809,615
Accrued liabilities (Note 11)	92,890	102,800
	\$ 1,431,647	\$ 912,415

10. Credit facility

The Company maintains a Revolving demand facility of \$250,000 bearing interest at prime rate plus 2.5% per annum. During the year the Company incurred no interest expense. At September 30, 2022 the Company had drawn no amounts against the credit facility.

The Revolving demand facility is secured by a first ranking security interest in all personal property of the Company. The Revolving demand facility has no financial or non-financial covenants.

11. Key Management and Related Party Balances and Transactions

The Company entered into the following transactions with related parties:

- For the nine months ended September 30, 2022, the Key Management of the Company was paid salaries and consulting fees of \$534,423 (2021 - \$467,813).
- For the nine months ended September 30, 2022, the Independent Directors of the Company were paid salaries of \$40,500 (2021 - \$40,500).
- Total accrued fees due to Directors as at September 30, 2022 is \$13,500 (2021 - \$13,500) (Note 9). The amounts due are unsecured, due on demand and bears no interest.

12. Loan from Government of Canada

During the year ended December 31, 2020, as part of the Canadian government funded COVID-19 financial assistance programs, the Company received a loan in the amount \$40,000 (“the first installment”) under the Canadian Emergency Business Account program (“CEBA term loan”). During the period ended March 31, 2021, the Company received additional \$20,000 (“the second installment”) loan under CEBA term loan. These CEBA term loans are due on December 31, 2023 and bear interest at 5% per annum thereafter. If at least 67% of the CEBA term loan principal is paid on or before December 21, 2022, the balance of the loan will be forgiven.

The benefit of the government loan received at below market rate of interest is treated as a government grant. This loan was recognized at the fair value of \$22,116 from the first installment and \$7,982 for the second installment, using the Company’s incremental borrowing rate of 12% per annum. The difference between the initial carrying amount and proceeds received of \$17,884 for the first installment and \$12,018 for the second installment was recorded as government grant income. During the period ended September 30, 2022, the Company recorded interest expense of \$1,095 on the loan (2021: \$2,811). The balance of the loan at September 30, 2022 is \$38,874 (December 31, 2021: \$34,709).

The Company was approved for an interest free subordinate loan of \$500,000 for ‘Business Scale Up Initiative’. The funds are expected to be received over the next eight quarters. The repayment will be in sixty equal monthly installments starting January 2025. During the period ended September 30, 2022, the Company received the first installment of \$65,564 and second installment of \$84,016. The Company recorded interest expense of \$2,428 during the nine months ended September 30, 2022. The difference between the initial carrying amount and proceeds received of \$39,621 was recorded as government grant income.

13. Shareholders’ Equity

a) Share capital

Authorized – Unlimited common shares, no par value.

During the period ended September 30, 2022, no options were exercised, and 50,000 warrants were exercised for gross cash proceeds of \$9,500. The Share price on the date the warrants were exercised was \$0.24. During the period ended September 30, 2021, 167,529 warrants and no options were exercised for gross cash proceeds of \$31,831.

On May 18, 2022, the Company received acceptance from TSX Venture Exchange to the Company’s intention to purchase by way of a Normal Course Issuer Bid of up to an aggregate of 4,416,074 of its Common Shares, representing approximately 5% of the issued and outstanding Common Shares of the Company. The normal course issuer bid commenced on May 24, 2022 and will terminate on May 23, 2023 or the earlier of the date all shares which are subject to the Normal Course Issuer Bid are purchased. Purchases subject to the Normal Course Issuer Bid will be carried out pursuant to open market transactions through the facilities of the TSX Venture Exchange and the price which the Corporation will pay for the Common Shares acquired by it will be the market price of the Common Shares at the time of acquisition.

During the period ended September 30, 2022, the purchased 285,000 common shares at average price of \$0.2353. These common shares were cancelled.

13. Shareholders' Equity (continued)

The Company has an employee stock option plan under which the Board of Directors, or a committee appointed for such purpose, may from time-to-time grant to employees, officers, directors of, or consultants to the Company, options to acquire common shares in such numbers, for such terms, and at such exercise prices, as may be determined by the Board of Directors or such committee. The options granted to employees are valid for a maximum of 10 years from the date of issue.

	Share purchase warrants		Stock options	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding, December 31, 2021	11,281,024	\$ 0.34	3,474,500	\$ 0.26
Exercised	(50,000)	0.19	-	-
Expired	-	-	-	-
Issued	-	-	300,000	0.23
Outstanding, September 30, 2022	11,231,024	0.34	3,774,500	0.26

As at September 30, 2022, exercisable incentive stock options were outstanding as follows:

Outstanding options	Exercisable options	Exercise price \$	Expiry date
499,500	499,500	0.15	February 23, 2026
75,000	75,000	0.17	May 1, 2026
250,000	250,000	0.28	May 5, 2027
150,000	150,000	0.39	October 18, 2022
520,000	520,000	0.375	October 18, 2022
500,000	500,000	0.335	May 29, 2023
410,000	410,000	0.28	June 26, 2023
150,000	150,000	0.28	August 15, 2023
520,000	520,000	0.15	August 31, 2025
400,000	250,000	0.20	May 26, 2026
300,000	37,500	0.23	May 26, 2027
3,774,500	3,362,000		

As at September 30, 2022, share purchase warrants were outstanding as follows:

Exercisable warrants	Exercise price \$	Expiry date
10,592,105	0.35	February 15, 2024
638,919	0.19	February 15, 2024
11,231,024		

During the nine months ended September 30, 2022, the Company recognized share-based payments of \$30,372 (2021 - \$38,907) for options granted in previous years and vested during the nine months ended September 30, 2022.

14. Revenues

Major components of revenues are as follows:

	Three months ended		Nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Product sales	\$ 1,546,456	\$ 1,664,734	\$ 4,744,154	\$ 4,269,107
Service fees	57,461	17,454	239,849	49,305
Recurring fees	1,044,624	739,663	2,758,809	2,112,698
	\$ 2,648,541	\$ 2,421,851	\$ 7,742,812	\$ 6,431,110

During the nine months ended September 30, 2022, one customer exceeded 10% of total revenue, comprised of 16%. During the nine months ended September 30, 2021, three customers each exceeded 10% of total revenue, comprised of 30%, 15% and 10%, respectively, of total revenue.

As at September 30, 2022, five customers each exceeded 10% of total accounts receivable, comprised of 20%, 14%, 12%, 12% and 11%, respectively. As at September 30, 2021, three customers exceeded 10% of total accounts receivable, comprised of 35%, 15% and 12%, respectively, of total accounts receivable.

Deferred revenue consists of the following:

- Deposits received in advance for the recurring fees.
- Performance obligation to be completed for sales with three-year service agreements

The total short-term portion of the deferred revenue as at September 30, 2022 is \$76,920 (December 31, 2021: \$93,562) and the long-term portion is \$10,821 (December 31, 2021: \$32,339).

15. Lease liability and Right-of-use asset

Effective January 1, 2022, the Company entered into one lease for its office premises. The Company discounted the future lease payments using its incremental borrowing rate of 8% per annum to determine the lease liability and the right of use assets at the inception of the lease.

The recognized right-of-use asset and lease liability relates to the Company's lease agreement which is included under property and equipment and lease liability on the interim consolidated statement of financial position as follow:

	September 30, 2022	December 31, 2021
Right-of-use asset, net book value (Note 8)	\$ 499,231	\$ -
Lease Liability	537,331	-

Depreciation expense of \$84,774 was recognized on the right-of-use asset during the nine months ended September 30, 2022 (Note 8).

The lease liability is as follows:

		Office Space
Balance at December 31, 2021	\$	-
Additions	\$	584,005
Payments	\$	(77,000)
Interest	\$	30,326
Balance at September 30, 2022	\$	537,331
Current Liability		113,028
Long Term Liability		424,303
Balance at September 30, 2022	\$	537,331

16. Research and development

During the nine months ended September 30, 2022, the Company spent \$373,287 on research and development on its new device. These costs did not meet the criteria for capitalization under IAS 38.

17. Financial Instruments

The Company's interim consolidated financial instruments consist of cash and cash equivalent, trade receivables, accounts payable and loan from Government of Canada. The fair values of these financial instruments approximate their carrying values because of their current nature.

Fair value

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

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

The fair value of cash and cash equivalent was determined using Level 1 inputs.

Financial risk management

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

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The carrying amounts of cash and cash equivalents and accounts receivable on the interim consolidated statement of financial position represent the Company's maximum credit exposure at September 30, 2022. The Company reduces its credit risk on cash by placing cash with institutions of high credit worthiness and by monitoring customers creditworthiness on an ongoing basis. The amounts disclosed in the interim consolidated financial statements for accounts receivable are net of allowance for doubtful accounts, estimated by management based on its assessment of the current economic environment.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity risk by maintaining adequate cash balances to meet liabilities as they become due.

The Company maintained cash and cash equivalents at September 30, 2022 in the amount of \$3,240,481 (December 31, 2021 - \$2,558,673), in order to meet short-term business requirements of \$1,660,469 (December 31, 2021 - \$1,005,977).

Market risk

Market risk consists of currency risk and interest rate risk. These are discussed further below.

18. Financial Instruments (continued)

Foreign exchange risk

Foreign currency exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company has financial assets and liabilities denominated in the American dollar. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

The following is an analysis of Canadian dollar equivalent of financial assets and liabilities that are denominated in American dollars:

	September 30, 2022	December 31, 2021
Financial assets		
Cash	\$ 1,496,983	\$ 976,374
Trade receivable	1,460,258	906,244
	2,955,241	1,882,618
Financial liabilities		
Accounts payable	1,098,070	642,325
	\$ 1,098,070	\$ 642,325

Interest rate risk

Interest rate risk consists of two components:

- a. To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- b. To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

As at September 30, 2022 and December 31, 2021, the Company does not have any financial instruments subject to this risk.

18. Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of share capital and working capital.

There were no changes in the Company's approach to capital management during the period. The Company is not subject to any externally imposed capital requirements.

19. Subsequent event

Subsequent to September 30, 2022 670,000 options expired unexercised.