



Condensed Consolidated Interim Financial  
Statements for the three and nine months ended  
September 30, 2022 and 2021 (Unaudited)

**NowVertical Group Inc.**  
**Condensed Consolidated Interim Statements of Financial Position**  
(Unaudited)  
Expressed in U.S. Dollars

	Note	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
<b>Assets</b>			
Current assets:			
Cash		\$ 2,816,514	\$ 9,102,915
Trade and other receivables		3,369,699	518,453
Unbilled receivables		1,350,960	-
Taxes receivable		-	231,803
Prepaid expenses and other current assets		527,539	340,097
		<u>8,064,712</u>	<u>10,193,268</u>
Non-current assets:			
Property and equipment, net		252,543	15,924
Right of use asset		268,258	-
Intangibles, net	10	8,785,861	3,962,569
Goodwill	11	12,816,458	6,908,953
		<u>22,123,120</u>	<u>10,887,446</u>
<b>Total assets</b>		<b>\$ 30,187,832</b>	<b>\$ 21,080,714</b>
<b>Liabilities and Shareholder's Equity</b>			
Current liabilities:			
Accounts payable		\$ 3,100,463	\$ 1,198,478
Accrued expenses and other current liabilities		5,408,739	1,550,305
Taxes payable		49,309	-
Loan payable and current portion of long-term debt	12	917,745	765,037
Consideration payable related to acquired companies	7	3,228,855	1,905,380
Equity and contingent consideration related to acquired companies	7	672,190	-
Deferred revenue	8	2,787,244	1,313,492
		<u>16,164,545</u>	<u>6,732,692</u>
Non-current liabilities:			
Contingent consideration payable related to acquired companies	7	1,312,232	-
Consideration payable related to acquired companies	7	-	1,435,250
Long-term lease liability		269,812	-
Long-term debt	12	4,927,842	653,714
Deferred revenue	8	26,302	10,218
Warrants liability		596,655	1,460,943
Deferred tax liability		474,380	25,399
		<u>7,607,223</u>	<u>3,585,524</u>
<b>Total liabilities</b>		<b>23,771,768</b>	<b>10,318,216</b>
Shareholders' Equity:			
Common shares		24,099,915	22,580,976
Contributed surplus		4,169,344	3,943,943
Foreign currency translation reserve		(22,749)	77,164
Accumulated deficit		(21,830,446)	(15,839,585)
		<u>6,416,064</u>	<u>10,762,498</u>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 30,187,832</b>	<b>\$ 21,080,714</b>

Going Concern (Note 2)

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

**NowVertical Group Inc.**  
**Condensed Consolidated Interim Statements of Loss and Comprehensive Loss**  
(Unaudited)  
Expressed in U.S. Dollars

	Note	Three months ended		Nine months ended	
		September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Revenue	8	\$ 8,381,076	\$ 957,708	\$ 18,617,418	\$ 2,080,569
Cost of revenue		5,104,686	171,555	10,642,541	344,321
Gross profit		3,276,390	786,153	7,974,877	1,736,248
Administrative expenses	16	5,098,971	2,179,646	13,709,242	7,517,740
Loss from operations		(1,822,581)	(1,393,493)	(5,734,365)	(5,781,492)
Other expense:					
Contingent compensation related to acquisitions		(419,549)	-	(1,067,397)	-
Revaluation of warrant liability		(201,816)	-	834,612	-
Revaluation of share consideration		(56,770)	-	64,228	-
Revaluation of earn-out and deferred consideration		(70,210)	-	95,121	-
Gain on settlement of lease obligation		-	-	-	1,640,370
Loss on settlement of lease holdback		-	-	-	(1,881,820)
Inflation effect on the net monetary position		(316,363)	-	(732,333)	-
Listing expense		-	-	-	(1,011,110)
RTO expenses		-	21,089	-	(2,117,763)
Interest income (expense), net		156,071	(14,072)	109,325	(225,437)
		(908,637)	7,017	(696,444)	(3,595,760)
Loss before income taxes		(2,731,218)	(1,386,476)	(6,430,809)	(9,377,252)
Income tax expense (benefit)	14	171,409	(15,726)	(439,948)	(15,757)
Net loss		(2,902,626)	(1,370,750)	(5,990,861)	(9,361,495)
Foreign currency translation adjustment		(211,032)	(9,258)	(99,913)	33,167
Other comprehensive income		(211,032)	(9,258)	(99,913)	33,167
Total comprehensive loss		\$ (3,113,658)	\$ (1,380,008)	\$ (6,090,774)	\$ (9,328,328)
Net loss per share, basic and diluted		\$ (0.05)	\$ (0.03)	\$ (0.10)	\$ (0.19)
Weighted average number of shares, basic and diluted		63,750,719	49,590,007	62,810,662	49,187,428

**NowVertical Group Inc.**  
**Condensed Consolidated Interim Statement of Shareholders' Equity**  
(Unaudited)  
Expressed in U.S. Dollar

Nine months ended September 30, 2022	Note	Issued capital Common Shares		Contributed surplus	Foreign currency translation reserve	Accumulated Deficit	Total
		Shares	Amount				
<b>Balances at January 1, 2022</b>		62,042,154	\$ 22,580,976	\$ 3,943,943	\$ 77,164	\$ (15,839,586)	\$ 10,762,498
Net loss						(5,990,861)	(5,990,861)
Vesting of restricted shares				18,857			18,857
Share-based compensation expense	13			218,463			218,463
Exercise of stock options	13	5,968	11,920	(11,920)			-
Hyperinflation adjustment			43,665				43,665
Shares issued on acquisition	6	1,358,333	648,417				648,417
Shares issued related to acquisitions	7	1,561,298	814,937				814,937
Foreign currency translation adjustment					(99,913)		(99,913)
<b>Balances at September 30, 2022</b>		64,967,753	\$ 24,099,915	\$ 4,169,344	\$ (22,749)	\$ (21,830,446)	\$ 6,416,064

Nine months ended September 30, 2021		Issued capital Common Shares		Contributed surplus	Foreign currency translation reserve	Accumulated Deficit	Total
		Shares	Amount				
<b>Balances at January 1, 2021</b>		28,601,160	\$ 2,587,463	\$ -	\$ -	\$ (1,979,197)	\$ 608,266
Net loss						(9,361,495)	(9,361,495)
Vesting of restricted shares		4,365,275		2,904,755			2,904,755
Share-based compensation expense				975,648			975,648
Issuance of subscription receipts		8,394,000	6,772,279				6,772,279
Subscription receipts issuance costs			(887,525)				(887,525)
Common shares retained under RTO		1,202,593	1,035,707				1,035,707
Conversion of convertible notes		3,910,814	2,528,558				2,528,558
Convertible notes issuance costs			(88,954)				(88,954)
Shares issued on private placement		1,000,000	806,800				806,800
Issuance of shares -acquisition of Integra		555,556	394,445				394,445
Shares issued for services		1,778,000	1,434,490				1,434,490
Foreign currency translation adjustment			-		33,167		33,167
<b>Balances at September 30, 2021</b>		49,807,398	\$ 14,583,263	\$ 3,880,403	\$ 33,167	\$ (11,340,692)	\$ 7,156,140

On March 19, 2021, the Company effected a forward stock split such that 1 outstanding common share in the capital of the Company was converted into 148.13499 common shares, with fractional interests, if any, being rounded to the nearest whole number. All share amounts have been stated on a post-forward share split basis.

On June 28, 2021, in connection with the completion of its reverse takeover, the Company effected a forward stock split such that 1 outstanding common share in the capital of the Company was exchanged and transferred for 1.778 Subordinate Voting Shares or Proportionate Voting Shares. All share amounts have been stated on a post-forward share split basis. See Note 5.

**NowVertical Group Inc.**  
**Condensed Consolidated Interim Statements of Cash Flows**  
(Unaudited)  
Expressed in U.S. Dollars

		<b>Nine months ended</b>	
		<b>September 30, 2022</b>	<b>September 30, 2021</b>
Cash flows from (used in) operating activities:	Notes		
Net loss		\$ (5,990,861)	\$ (9,361,495)
Listing expense		-	1,011,110
Interest expense		58,298	55,066
Non-cash adjustments	15	483,503	3,884,061
Net changes in working capital	15	3,522,341	1,591,447
		<u>(1,926,719)</u>	<u>(2,819,811)</u>
Cash flows from (used in) investing activities:			
Acquisitions of subsidiaries, net of cash acquired	6	(4,913,283)	(416,002)
Purchase of property and equipment		(26,485)	-
		<u>(4,939,768)</u>	<u>(416,002)</u>
Cash flows from (used in) financing activities:			
Proceeds from borrowings		1,350,000	-
Repayment of borrowings	12	(670,000)	-
Repayment of leasing liabilities		-	(921,000)
Cash acquired on reverse takeover		-	37,128
Proceeds from subscription receipts, net of issuance costs		-	5,884,754
Proceeds from convertible notes, net of issuance costs		-	2,384,539
Proceeds from issue of share capital		-	806,800
		<u>680,000</u>	<u>8,192,221</u>
Effect of exchange rates on cash		(99,913)	33,167
Net change in cash and cash equivalents		(6,286,401)	4,989,575
Cash and cash equivalents, beginning of period		9,102,915	1,252,942
<b>Cash and cash equivalents, end of period</b>		<b>\$ 2,816,514</b>	<b>\$ 6,242,517</b>

# **NowVertical Group Inc.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

(Unaudited)

Expressed in U.S. Dollars, except share information and unless otherwise noted

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### **1. Background and nature of operations**

NowVertical Group Inc. and its subsidiaries (together referred to as the "Company") is an Ontario corporation that is listed on the TSX Venture Exchange (the "TSXV") under the symbol "NOW". Prior to its name change in connection with the closing of the transaction discussed below, the Company was a capital pool company on the TSXV known as Good2Go Corp. ("G2G").

On March 22, 2021, G2G entered into a share purchase agreement with NowVertical Group, Inc. ("NVG"), an entity incorporated in Delaware, US on September 22, 2020, which contemplated the acquisition by G2G of all the issued and outstanding shares of NVG (the "Transaction"). The Transaction, which was structured as a "three-cornered" amalgamation and a reverse triangular merger, constituted a reverse takeover of G2G by NVG and the Qualifying Transaction of G2G under the CPC. Coincident with the Transaction's closing on June 28, 2021, G2G changed its (i) name to Now Vertical Group Inc., (ii) symbol on the TSXV to "NOW", and (iii) year-end from February 28 to December 31 to conform with that of NVG. NVG was identified as the accounting acquirer and as such, these financial statements represent a continuation of NVG's financial statements (see Note 5).

As a matter of emphasis, note that the ultimate public entity, NowVertical Group Inc. does not have a comma (",") in its legal name, whereas the US operating company, NowVertical Group, Inc. does have a comma in its legal name. Post the Transaction, the combined businesses of G2G and NVG are sometimes referred to below as the "Resulting Issuer".

The Company is a big data, analytics and vertical intelligence company. The Company's operating segments are Technology and Solutions. The registered office of the Company is located at 333 Bay Street, Suite 3400 Toronto, Ontario M5H 2S7 and its head office is located at 7750 Okeechobee Blvd STE 4-2024, West Palm Beach FL 33411.

### **2. General information, statement of compliance and going concern assumption**

These condensed consolidated interim financial statements are presented for the three and nine months ended September 30, 2022 in United States dollars (USD), which is the reporting currency of the Company, on a going concern basis.

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". Certain prior period amounts have been reclassified to conform with the current period presentation in the segment disclosure, the Statement of Loss and Comprehensive Loss, the note disclosure for the Statement of Cash Flows, and the presentation of equity. These condensed consolidated interim financial statements do not include all the information required in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2021.

The interim financial statements were approved for issue by the Board of Directors on November 16, 2022.

#### **Going Concern**

These condensed consolidated interim financial statements have been prepared in accordance with IFRS, which contemplates continuation of the Company as a going concern. However, during the period from its inception on September 22, 2020 to September 30, 2022, the Company has experienced operating losses and negative cash flows from operations. Whether and when the Company can attain profitability and positive cash flows from operations is uncertain. Continued operations of the Company depend upon the Company's ability to meet its financing requirements on a continuing basis, to continue to have access to financing, and to generate positive operating results. These material uncertainties raise substantial doubt about the Company's ability to continue as a going concern. These condensed consolidated interim financial statements have been prepared on a going concern basis and, as such, do not include any adjustments that might result from the outcome of this uncertainty or the recoverability and classification of recorded asset amounts or amounts and classifications of liabilities that might be necessary should the Company be unable to continue in existence.

Management intends to improve revenue and profitability of existing business by leveraging internal sales channels and other cross-entity synergies. On October 6, 2022, the Company completed a convertible debenture financing for net proceeds of \$3.2 million (see Note 19). The Company plans to raise additional funds through financings, if required, and to fund acquisitions under a new long-term acquisition credit facility being sought by the Company. The Company has raised over \$19 million in net cash from equity and convertible notes to date.

The Company intends to rely primarily on cash flows from operations and financings for its day-to-day operating needs and additional financing through a credit facility to achieve its acquisition strategy. There can be no assurance, however, that the Company can reach profitability, continue to raise working capital financing, or close a new long-term credit facility for acquisitions.

## NowVertical Group Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

Expressed in U.S. Dollars, except share information and unless otherwise noted

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#### Company information

The condensed consolidated interim financial statements of the Company include:

NowVertical Group Inc. (formerly Good2Go Corp.), Parent Company, Ontario, Canada.

NowVertical Group, Inc., principal operating company, Delaware, USA, 100% owned by NowVertical Group Inc.

Signafire Technologies Inc., data analytics software, Delaware, USA, 100% owned by NowVertical Group, Inc.

Seafront Analytics, LLC, data analytics and consulting services, Delaware, USA, 100% owned by NowVertical Group, Inc.

NowVertical Canada, Inc., administrative support, Ontario, Canada, 100% owned by NowVertical Group Inc.

Integra Data and Analytic Solutions Corp., Alberta, Canada, 100% owned by NowVertical Canada, Inc.

NowVertical UK Ltd., data analytics and compliance software, UK, 100% owned by NowVertical Group Inc.

Robert Baratheon Ltd., data analytics and compliance software, Israel, 100% owned by NowVertical Group Inc.

Affinio Inc., Canada, 100% owned by the NowVertical Group Inc.

Affinio Holdings Inc., data analytics software, Canada, 100% owned by Affinio Inc.

CoreBI S.A., data analytics services, Argentina, 90% owned by NowVertical Group Inc. and 10% owned by NowVertical Group, Inc.

CoreBI S.A.S., data analytics services, Colombia, 100% owned by NowVertical Group Inc.

Exonar Ltd., data privacy software, UK, 100% owned by NowVertical UK Ltd.

NOW Guardian Inc., administrative support, Delaware, USA, 100% owned by NowVertical Group Inc.

Allegient Defense Inc., systems engineering and technical services, Virginia, USA, 100% owned by NOW Guardian Inc.

NowVertical US Holdings Inc., administrative support, Delaware, USA, 100% owned by NowVertical Group Inc.

Resonant Analytics, LLC, data analytics services, Delaware, USA, 100% owned by NowVertical US Holdings Inc.

#### **3. Standards, amendments, and interpretations to existing standards that are not yet effective and have not been adopted early by the Company**

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncements. There were no new Standards, amendments and interpretations adopted in the current period.

#### **4. Summary of significant accounting policies**

The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the Company's most recent audited financial statements for the period ended December 31, 2021, in addition to the following significant accounting policies adopted during the period:

##### *Classification of Argentina as a hyper-inflationary economy*

The Argentinian economy was designated as hyperinflationary since July 1, 2018. As a result, application of IAS 29, Financial Reporting in Hyperinflationary Economies ("IAS 29") has been applied to CoreBI S.A., whose functional currency is the Argentinian Peso. The application of IAS 29 includes:

## NowVertical Group Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

Expressed in U.S. Dollars, except share information and unless otherwise noted

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- Adjustment of historical cost non-monetary assets and liabilities for the change in purchasing power caused by inflation from the date of initial recognition to the balance sheet date;
- Adjustment of the statement of operations for inflation during the reporting period;
- Translation of the statement of operations at the period end foreign exchange rate instead of an average rate; and
- Adjustment of the statement of operations to reflect the impact of inflation and exchange rate movement on holding monetary assets and liabilities in local currency.

On the application of IAS 29, the Company used the conversion coefficient derived from the national consumer price index, the IPC Nacional (the "IPC"). The level of the IPC on September 30, 2022 was 967.31, which represents an increase of 52.7% over the IPC of 633.43 on February 16, 2022, when CoreBI S.A. was acquired. As a result of the change in the conversion coefficient during the period from acquisition to the reporting period date, the Company recognized a net monetary loss of \$732,333 to adjust transactions recorded during the period into the measuring unit current as of September 30, 2022.

As per IAS 21, The Effects of Changes in Foreign Exchange Rates, all amounts (i.e., assets, liabilities, equity and expenses) are translated at the closing foreign exchange rate at the date of the most recent consolidated statement of financial position, except that comparative amounts are not adjusted for subsequent changes in the price level or subsequent changes in exchange rates.

#### *Accounting for cost plus fixed fee contracts*

The Company satisfies its performance obligation as services are rendered and as it performs the work outlined in the statement of work. Revenues for cost plus fixed fee contracts are recognized as the agreed upon services are performed over time. Customers are invoiced on hours rendered for the period at agreed rates, plus a fixed fee. The Company recognizes revenue on an input-based measure that reflects its performance, that measure being direct labour hours and materials. Amounts remaining unbilled at the end of a reporting period are presented in the financial statements as unbilled receivables if only the passage of time is required before payment of these amounts will be due.

#### **4.1 Significant management judgement in applying accounting policies and estimation uncertainty**

In preparing these condensed consolidated interim financial statements, management makes a number of judgements, estimates and assumptions that affect reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. In addition to those disclosed in the Company's audited financial statements for the year ended December 31, 2021, the most significant judgements pertain to accounting for contingent consideration related to acquired companies and accounting for obligations to issue shares in the future.

#### *Accounting for contingent consideration*

The determination of the accounting treatment for contingent consideration related to acquisitions is an area of significant management judgment which involves the determination of whether the contingent consideration is purchase price consideration or compensation, whether it should be classified as equity or as a liability, and how to measure the fair value of the potential future payments. Contingent consideration related to acquisitions is considered purchase price consideration if it is not tied to future employment, is classified as a liability, and is measured at fair value through profit and loss (mark to market) at each reporting period. The fair value is measured using a Monte Carlo simulation model which requires several significant management estimates, including share price volatility.

#### *Accounting for future obligations to issue shares*

The determination of the accounting treatment for future obligations to issue shares is an area of significant management judgment which involved the determination of whether the shares to be issued should be classified as equity or as liabilities, and the fair value of the obligation. The future share issuances related to acquisitions are classified as liabilities if the number of shares to be issued is variable. The fair value of the liability is measured using a Monte Carlo simulation model and is re-measured at fair value through profit and loss (mark to market) at each reporting period.

#### **5. Details of and accounting for the reverse takeover transaction**

The shares used to effect the Transaction described in Note 1 are referred to as the NowVertical Resulting Issuer Shares.

Immediately prior to the close of the Transaction:

- G2G amended its articles of incorporation to reclassify its common shares as Class A Subordinate Voting Share (the "Subordinate Voting Shares" or "SVS"), and then completed a share consolidation of one SVS for 4.5 G2G pre-consolidation common shares. As a result of the share consolidation, G2G had 1,202,593 post-consolidation SVS outstanding pre-Transaction and 90,000 granted post-consolidation stock options. Upon completion of the Transaction, G2G shareholders received one NowVertical Resulting Issuer Share for each G2G SVS. G2G's articles of amendment also created a new class of shares, the Class B Proportionate Voting Shares (the "Proportionate Voting Shares" or "PVS").

## NowVertical Group Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

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- Pursuant to a private placement financing discussed below under the heading "Concurrent Financings in March and April 2021", Finco issued 8,394,000 common shares, which were then exchanged for 8,394,000 SVS upon completion of the Transaction. Immediately following this, shareholders of Finco and G2G effected the combination of Finco and 2824877 Ontario Inc. ("Pubco Sub"), a wholly owned subsidiary of G2G in order to create "Amalco" which continued in the name of NVG Canada Finco, Inc., being the corporation resulting from the three-cornered amalgamation among Finco, Pubco sub and G2G. Each share of Pubco Sub held by G2G was cancelled and in consideration therefor, G2G received 1 share of the post-amalgamation NVG Canada Finco, Inc. such that G2G held 100 shares of such entity. Pubco Sub was amalgamated into NVG Canada Finco on June 28, 2021 and NVG Canada Finco, Inc., was dissolved after the completion of the transaction.
- Each of the 587,580 warrants issued to the agents in connection with the subscription receipt financing were exchanged for an equivalent number of warrants in the Resulting Issuer, exercisable into such an equivalent number of SVS (see Note 12).

At the closing of the Transaction:

- The convertible notes issued by NVG in February and March 2021 (collectively the "Convertible Notes", see Note 15) were converted, pursuant to their terms, into 2,199,561 shares of NVG, and then exchanged for 3,910,814 shares of the Company on a 1.778 to 1 basis.
- Each of the 2,455,162 restricted stock units ("RSUs", see Note 12) granted in NVG vested in their entirety and settled for 2,455,162 common shares of NVG (the "Vested RSUs"). The Vested RSUs were then exchanged for 4,365,275 SVS of G2G.
- Each NVG shareholder exchanged its NVG shares with G2G for:
  - In the case of US resident NVG shareholders (other than in connection with the Vested RSUs described above), 1.778 PVS for each 100 NVG shares exchanged; and
  - In the case of non-US NVG shareholders (other than in connection with the Vested RSUs described above), 1.778 SVS for each NVG share exchanged.
- Each of the 144,874 warrants issued by NVG to the agents in connection with the convertible note financing in February and March 2021 were exchanged on a 1.778 to 1 basis for warrants exercisable into SVS of the Resulting Issuer such that those certain agents held an aggregate of 257,586 warrants in connection with the convertible note financing.
- The 2021 Equity Incentive Plan of NVG was dissolved and replaced by a legacy equity incentive plan established by the Resulting Issuer (the "Legacy Plan"). Existing stock option holders in NVG received 1.778 options to acquire shares in the capital of the Resulting Issuer for each NVG stock option held immediately before the Transaction under the Legacy Plan. The Resulting Issuer also established an omnibus equity incentive plan for new equity incentive grants going forward.
- As a result of the Transaction, G2G became the sole shareholder of NVG.

The Transaction did not qualify as a business combination under IFRS 3, Business Combinations, as at the time of the Transaction, G2G did not meet the definition of a business. As a result, the Transaction was accounted for in accordance with IFRS 2, Share Based Payments, as a reverse takeover asset acquisition with NVG identified as the accounting acquirer, the net assets of the G2G being treated as the acquired assets, the recapitalization of NVG and the continuation of NVG's financial statements. The difference between the consideration given to acquire G2G and the fair value of G2G's net assets was recorded as a listing expense. These consolidated financial statements present the historical financial information of NVG up to the date of the Transaction.

The fair value of the deemed consideration to former G2G shareholders of \$970,252 (C\$1,202,593) plus \$65,455 (C\$81,129) for replacement options is based on the concurrent financings' C\$1.00 per share price in the Private Placement and the price per share received by NVG for common stock issued in April 2021. The options held by G2G shareholders had previously been fully vested and as such the total amount of the replacement options was included in the consideration. The fair value of the replacement options was estimated on the date of the transaction using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%, risk free discount rate of 0.40%, expected volatility of 88.90%, forfeiture rate of 0%, and expected life of 1 year.

**NowVertical Group Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**

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**Fair value of Resulting Issuer Shares Retained by G2G shareholders:**

Common shares	\$970,252
Options	65,455
	<u>1,035,707</u>
Less: Fair Value of G2G Net Assets Acquired	<u>(24,597)</u>
Total Listing Expense	<u>\$1,011,110</u>

**Fair Value of G2G Net Assets Acquired**

Cash	37,128
Accounts payable and accrued expenses	<u>(12,531)</u>
	<u>\$24,597</u>

*Concurrent Financings in March and April 2021*

On March 23, 2021, the Company completed a private placement offering of subscription receipts for gross proceeds of approximately \$6.7 million (C\$8,394,000) through its wholly-owned subsidiary, Finco. Each subscription receipt entitled the holder to one common share of Finco, which was exchanged for one SVS of the Resulting Issuer upon completion of the Transaction. The Company agreed to pay the agents a cash fee of approximately \$467,000 (CAD \$587,580) in connection with the private placement and granted the agents 587,580 warrants to purchase one common share of Finco (then exchanged for one warrant to purchase one SVS of the Resulting Issuer). Net of the agent's cash fee and transaction expenses, the Company raised \$5,884,753.

On April 29, 2021, the Company received \$806,800 (C\$1,000,000) in connection with the issuance of 562,430 newly issued common shares, which on the completion of the Transaction on June 28, 2021 converted into 1,000,000 SVS (at a forward-split ratio of 1.778:1).

**6. Acquisitions**

*CoreBI S.A. and CoreBI S.A.S.*

On February 16, 2022, the Company acquired 100% of the issued and outstanding securities of CoreBI S.A. and CoreBI S.A.S. (together, "CoreBI"), data science and analytics consulting companies based in Latin America, thereby obtaining control of both companies. The acquisition was made to enhance the Company's data analytics services business. The Company accounted for this transaction as an acquisition of a business. In connection with the acquisition, the Company made a cash payment of \$3.0 million and has a deferred cash payment of \$1.75 million payable on February 16, 2023 (which is payable provided certain corporate objectives are satisfied). Future payments of up to a maximum aggregate of US\$3.25 million, payable on the first, second, third, and fourth year anniversaries of closing, are due upon CoreBI achieving certain adjusted EBITDA targets. The deferred cash payment of \$1.75 million is related to continued employment and is recorded to compensation expense over the twelve-month period. The future payments represent contingent purchase consideration and have been recorded as a liability measured at fair value that is revalued through profit and loss at each reporting period. In connection with the acquisition, the Company incurred acquisition-related costs of \$98,215 which have been recorded in administrative expenses. Goodwill has been allocated to the Solutions operating segment and is not expected to be deductible for tax purposes.

*Exonar Ltd.*

On March 25, 2022, the Company acquired 100% of the issued and outstanding securities of Exonar Ltd. ("Exonar"), a UK-based software solutions firm, through its subsidiary NowVertical UK Limited, thereby obtaining control. The acquisition was made to enhance the Company's data compliance software business. The Company accounted for this transaction as an acquisition of a business. In connection with the acquisition, the Company made a cash payment of \$149,999 and agreed to issue Subordinate Voting Shares on March 25, 2023 valued at \$500,000 at the greater of (A) the Canadian dollar equivalent of US\$1 per share and (B) the Company's 20-day volume weighted average trading price on the day prior to issuance, less the maximum discount permitted under the rules of the TSXV. The Company has the option to pay the \$500,000 in cash. The shares to be issued in the future have been valued at fair value using a Monte Carlo simulation model and are revalued at each reporting period through profit and loss. In connection with the acquisition, the Company incurred acquisition-related costs of \$90,073 which have been recorded in administrative expenses. Goodwill has been allocated to the Technology operating segment and is not expected to be deductible for tax purposes.

**NowVertical Group Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**

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Expressed in U.S. Dollars, except share information and unless otherwise noted

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Allegient Defense Inc.

On April 6, 2022, the Company acquired 100% of the issued and outstanding securities of Allegient Defense Inc. ("Allegient"), a U.S.-based systems engineering and technical assistance support firm, through its subsidiary NOW Guardian Inc., thereby obtaining control. Allegient Defense Inc. is a U.S.-based government defense contractor providing systems engineering and technical assistance support to the Department of Defense and other governmental agencies through data analysis and assessment of cutting-edge technologies. The Company accounted for this transaction as an acquisition of a business. In connection with the acquisition, the Company made cash payments of \$2,000,000 (in May 2022) and issued 600,000 Subordinate Voting Shares on April 6, 2022 with a fair value of \$383,000. Future payments of up to a maximum aggregate of US\$4 million, payable on the first, second, and third year anniversaries of closing, are due upon Allegient achieving certain adjusted EBITDA targets. Future payments are to be settled in either 100% of the Company's shares or up to 50% in cash and the balance in the Company's shares. The earn-out was valued at fair value using a Monte Carlo simulation model and is revalued at each reporting period through profit and loss. In connection with the acquisition, the Company incurred acquisition-related costs of \$419,010 which have been recorded in administrative expenses. Goodwill has been allocated to the Solutions operating segment and is not expected to be deductible for tax purposes.

Resonant Analytics, LLC

On July 20, 2022, the Company acquired 100% of the issued and outstanding securities of Resonant Analytics LLC ("Resonant"), a USA-based guided solutions analytics firm providing CRM program strategy, database marketing and business intelligence solutions to Fortune 500 companies. The acquisition was made to enhance the Company's data analytics services business.. Pursuant to the terms of a stock purchase agreement dated July 5, 2022, the aggregate consideration consisted of (i) a cash payment of \$1,500,000 (subject to holdbacks) paid on closing, (ii) 900,000 Subordinate Voting Shares (subject to a holdback) issued on closing, and (iii) earn-out consideration paid over three fiscal years based on certain adjusted EBITDA targets, and paid annually in two-thirds cash and one-third Subordinate Voting Shares priced at the greater of the 20-day VWAP prior to each annual issuance and \$1.00 USD per share. The closing cash consideration was funded with term debt with a U.S. banking partner. In connection with the acquisition, Resonant secured a revolving line of credit of up to \$250,000. The earn-out was valued at fair value using a discounted cash flow model, is being accounted for as compensation since it is tied to employment. In connection with the acquisition, the Company incurred acquisition-related costs of \$113,223 which have been recorded in administrative expenses. Goodwill has been allocated to the Solutions operating segment and is not expected to be deductible for tax purposes.

The following table summarizes the consideration paid and the preliminary allocation of the purchase price based on the fair values of the acquired assets and liabilities of CoreBI, Exonar, Allegient, and Resonant at their respective dates of acquisition:

## NowVertical Group Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

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	CoreBI	Exonar	Allegient	Resonant	Total
Fair value of consideration transferred:					
Amount settled in cash	\$ 3,000,000	\$ 149,999	\$ 2,000,000	\$ 1,192,667	\$ 6,342,666
Future amounts to be settled in cash or equity	1,021,000	284,000	1,468,789	304,583	3,078,372
Fair value of shares issued for consideration	-	-	383,000	265,417	648,417
<b>Total fair value of consideration transferred</b>	<b>\$ 4,021,000</b>	<b>\$ 433,999</b>	<b>\$ 3,851,789</b>	<b>\$ 1,762,667</b>	<b>\$ 10,069,455</b>
Fair value of net assets acquired:					
Property and equipment , net	\$ 189,212	\$ 46,476	\$ 3,578	\$ 26,788	\$ 266,054
Deposits	-	-	12,648	19,301	31,949
Goodwill	1,503,410	802,351	4,159,953	7,262	6,472,976
Right of use asset	-	-	328,158	-	328,158
Intangible assets	1,292,000	425,000	3,283,000	1,194,000	6,194,000
<b>Total non-current assets</b>	<b>2,984,622</b>	<b>1,273,827</b>	<b>7,787,337</b>	<b>1,247,351</b>	<b>13,293,137</b>
Prepaid expenses and other current assets	-	-	12,317	49,974	62,291
Unbilled revenue	559,286	-	331,181	-	890,467
Receivables	928,603	981,401	1,516,281	465,237	3,891,522
Cash	728,221	84,354	399,151	217,657	1,429,383
<b>Total current assets</b>	<b>2,216,110</b>	<b>1,065,755</b>	<b>2,258,930</b>	<b>732,868</b>	<b>6,273,663</b>
Deferred tax liability	(323,000)	-	(832,410)	-	(1,155,410)
Lease liability	-	-	(331,137)	-	(331,137)
Deferred revenue	-	(306,000)	-	(88,845)	(394,845)
Long term debt	-	-	(3,800,000)	-	(3,800,000)
<b>Total non-current liabilities</b>	<b>(323,000)</b>	<b>(306,000)</b>	<b>(4,963,547)</b>	<b>(88,845)</b>	<b>(5,681,392)</b>
<b>Accounts payable and accrued expenses</b>	<b>(856,732)</b>	<b>(1,599,583)</b>	<b>(1,230,931)</b>	<b>(128,706)</b>	<b>(3,815,952)</b>
<b>Total current liabilities</b>	<b>(856,732)</b>	<b>(1,599,583)</b>	<b>(1,230,931)</b>	<b>(128,706)</b>	<b>(3,815,952)</b>
<b>Total fair value of net assets acquired</b>	<b>\$ 4,021,000</b>	<b>\$ 433,999</b>	<b>\$ 3,851,789</b>	<b>\$ 1,762,667</b>	<b>\$ 10,069,455</b>
Cash impact of acquisitions:					
Consideration transferred settled in cash	\$ 3,000,000	\$ 149,999	\$ 2,000,000	\$ 1,192,667	\$ 6,342,666
Cash acquired	(728,221)	(84,354)	(399,151)	(217,657)	(1,429,383)
<b>Net cash outflow on acquisition</b>	<b>\$ 2,271,779</b>	<b>\$ 65,645</b>	<b>\$ 1,600,849</b>	<b>\$ 975,010</b>	<b>\$ 4,913,283</b>
Acquisition costs charged to expenses	\$ 98,215	\$ 90,073	\$ 419,010	\$ 113,223	\$ 720,520

Intangible assets acquired were as follows:

CoreBI: Customer Relationships - \$1,164,000 with a useful life of 12.5 years, Trade Name - \$83,000 with a useful life of 2 years; and Non-compete Agreements - \$45,000 with a useful life of 4 years.

Exonar: Developed Technology - \$305,000 with a useful life of 4 years; Customer Relationships - \$89,000 with a useful life of 4.7 years; and Trade Name - \$31,000 with a useful life of 2 years.

Allegient: Customer Relationships - \$422,000 with a useful life of 33 years; Trade Name - \$279,000 with a useful life of 2 years; Order Backlog - \$2,572,000 with a useful life of 6 years; and Non-compete Agreements - \$10,000 with a useful life of 4 years.

Resonant: Customer Relationships - \$1,114,000 with a useful life of 34 years; Trade Name - \$35,000 with a useful life of 2 years; Order Backlog - \$42,000 with a useful life of 5 months; and Non-compete Agreements - \$3,000 with a useful life of 4 years.

## NowVertical Group Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

Expressed in U.S. Dollars, except share information and unless otherwise noted

#### 7. Consideration payable related to acquired companies

	September 30, 2022	December 31, 2021
Current liabilities:		
Consideration payable	\$ 3,228,855	\$ 1,905,380
Equity consideration payable	243,122	-
Contingent consideration payable	429,067	-
	<u>\$ 3,901,044</u>	<u>\$ 1,905,380</u>
Long-term liabilities:		
Contingent consideration payable	\$ 1,312,232	\$ -
Consideration payable	-	1,435,250
	<u>\$ 1,312,232</u>	<u>\$ 1,435,250</u>

Consideration amounts payable are in relation to acquired companies and are comprised of cash consideration, equity consideration and contingent consideration. Consideration payable represents deferred cash payments, holdbacks, and purchase price adjustments due within one year; equity consideration payable represents the fair value of obligations to issue shares in the future; and contingent consideration payable represents the fair value of potential future performance-based earn-out payments.

On June 30, 2022, the Company and the Affinio former shareholders agreed to amend the terms of a deferred payment of \$1.5 million that was due on July 2, 2022. The Company agreed to pay \$750,000 and to issue Subordinate Voting Shares ("SVS") for an aggregate value of \$750,000 at a price per SVS equal to the volume weighted average price of the SVS for the 10-day period prior to the date of issuance, plus 195,000 SVS, on or before August 31, 2022. On June 30, 2022, the Company recorded the fair value of the shares of \$814,937 as equity payable, reversed the consideration payable of \$750,000, and recorded the difference of \$64,937 through profit and loss. The Company issued the shares on August 31, 2022, which had a fair value of \$821,147 on the date of issuance. The difference of \$6,210 was recorded through profit and loss.

#### 8. Revenues

The following table summarizes revenue by type of service:

	Three months ended		Nine months ended	
	September 30, 2022	September 30 2021	September 30, 2022	September 30 2021
Data analytics services				
Cost plus fixed fee	\$ 2,795,210	\$ -	\$ 5,592,545	\$ -
Fixed firm price	1,066,451	-	1,984,695	-
Time and materials	3,003,972	207,708	6,628,519	311,943
Total data analytics services	6,865,633	207,708	14,205,760	311,943
Maintenance and support	748,651	750,000	2,248,651	1,768,626
Software-as-a-service and other recurring	766,792	-	2,163,007	-
Total revenue	<u>\$ 8,381,076</u>	<u>\$ 957,708</u>	<u>\$ 18,617,418</u>	<u>\$ 2,080,569</u>

The following table summarizes revenue by the country of the customer's domicile:

	Three months ended		Nine months ended	
	September 30, 2022	September 30 2021	September 30, 2022	September 30 2021
USA	\$ 5,439,973	\$ 957,708	\$ 11,648,004	\$ 2,080,569
Argentina	2,581,163	-	6,270,169	-
Other countries	359,940	-	699,246	-
	<u>\$ 8,381,076</u>	<u>\$ 957,708</u>	<u>\$ 18,617,418</u>	<u>\$ 2,080,569</u>

**NowVertical Group Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**

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The following table provides information about deferred revenue.

**Nine months ended September 30, 2022**

Opening balance	\$	1,323,710
Increase from business acquisitions		394,845
Increase from cash received and amounts billed		5,824,991
Revenue recognized		<u>(4,730,001)</u>
<b>Balance September 30, 2022</b>	<b>\$</b>	<b>2,813,546</b>

Deferred revenue classified as a current liability	\$	2,787,244
Deferred revenue classified as a non-current liability	\$	26,302

Unbilled receivables relate to the Company's right to consideration for work completed but not billed at the reporting date for data analytics services contracts.

**9. Segment reporting**

As a result of the Allegient acquisition in April, 2022, management reassessed its operating and reporting segments to reflect how management views the consolidated business and determined there are three operating and reportable segments - Technology, Solutions and Corporate.

For segment reporting purposes, the CEO is the Chief Operating Decision Maker ("CODM"). The determination of the Company's reportable segments is based on its organization structure and how the information is reported to the CODM on a regular basis. The accounting policies of the reportable segments are the same as those described in the significant accounting policies.

Information related to each reportable segment is set out below. Segment income (loss) from operations is used to measure performance because management believes this information is the most relevant in evaluating the results of the respective segments.

The adjustments to reconcile from segment income (loss) from operations to the financial statements include acquisition accounting revenue adjustments, amortization of intangible assets, transaction expenses related to acquisitions, transactional gains or losses on assets, asset impairment charges, non-recurring expense items, non-cash stock compensation costs, and the full year impact of cost synergies related to reduction of employees.

	September 30, 2022					September 30, 2021				
	Technology	Solutions	Corporate	Adjustments	Total	Technology	Solutions	Corporate	Adjustments	Total
Revenue	\$ 1,612,077	\$ 6,903,967	\$ -	\$ (134,968)	\$ 8,381,076	\$ 750,000	\$ 207,708	\$ -	\$ -	\$ 957,708
Cost of revenue	(135,543)	(4,838,199)	-	(130,944)	(5,104,686)	(34,374)	(121,431)	-	(15,750)	(171,555)
Gross Profit	1,476,534	2,065,768	-	(265,912)	3,276,390	715,626	86,277	-	(15,750)	786,153
Administrative expenses	(881,445)	(1,273,511)	(1,669,602)	(1,274,413)	(5,098,971)	(43,810)	(128,717)	(1,511,335)	(970,497)	(2,654,359)
Income (loss) from operations	\$ 595,089	\$ 792,257	\$ (1,669,602)	\$ (1,540,325)	\$ (1,822,581)	\$ 671,816	\$ (42,377)	\$ (1,511,335)	\$ (986,247)	\$ (1,868,144)

	September 30, 2022					September 30, 2021				
	Technology	Solutions	Corporate	Adjustments	Total	Technology	Solutions	Corporate	Adjustments	Total
Revenue	\$ 4,927,009	\$ 14,243,921	\$ -	\$ (553,512)	\$ 18,617,418	\$ 2,250,000	\$ 311,944	\$ -	\$ (481,375)	\$ 2,080,569
Cost of revenue	(484,764)	(9,786,822)	-	(370,955)	(10,642,541)	(100,729)	(196,342)	-	(47,250)	(344,321)
Gross Profit	4,442,245	4,457,099	-	(924,467)	7,974,877	2,149,271	115,602	-	(528,625)	1,736,248
Administrative expenses	(2,566,591)	(2,774,377)	(4,778,055)	(3,590,219)	(13,709,242)	(227,642)	(332,943)	(2,337,218)	(4,555,855)	(7,453,658)
Income (loss) from operations	\$ 1,875,654	\$ 1,682,722	\$ (4,778,055)	\$ (4,514,686)	\$ (5,734,365)	\$ 1,921,629	\$ (217,341)	\$ (2,337,218)	\$ (5,084,480)	\$ (5,717,410)

**NowVertical Group Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**

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**10. Intangible assets**

Details of the Company's intangible assets and their carrying amounts are as follows:

	Trade Names	Customer Relationships	Developed Technology	Non-Compete Agreements	Order Backlog	Total
Cost:						
Opening at January 1, 2022	\$ 768,614	\$ 668,787	\$ 2,671,000	\$ 254,000	\$ -	\$ 4,362,401
Acquisitions	428,000	2,789,000	305,000	58,000	2,614,000	6,194,000
Foreign exchange	(64,125)	(117,406)	(145,520)	(22,736)	-	(349,787)
Closing at September 30, 2022	1,132,489	3,340,381	2,830,480	289,264	2,614,000	10,206,614
Accumulated Amortization:						
Opening at January 1, 2022	94,802	139,769	151,567	13,694	-	399,832
Amortization Expense	176,375	181,402	369,806	72,658	227,793	1,028,035
Foreign exchange	(789)	(2,328)	(1,958)	(201)	(1,837)	(7,113)
Closing at September 30, 2022	270,387	318,843	519,416	86,151	225,956	1,420,754
Net book value at September 30 2022	\$ 862,101	\$ 3,021,538	\$ 2,311,065	\$ 203,113	\$ 2,388,044	\$ 8,785,861

In the nine months ended September 30, 2022, amortization expense and related foreign exchange expense totaling \$367,850 is included in cost of revenue and \$653,072 is included in administrative expenses in the consolidated statements of loss (2021: \$47,250 and \$160,961 respectively).

**11. Goodwill**

The following table provides information about the changes in goodwill.

**Nine months ended September 30, 2022**

Balance, December 31, 2021	\$	6,908,953
Acquired through business combinations		6,472,976
Foreign exchange		(565,471)
Balance, September 30, 2022	\$	12,816,458

For the purpose of impairment testing, goodwill for each CGU is allocated to the Company's business units, which represent the lowest level within the Company at which goodwill is monitored for internal purposes. Goodwill for each business unit is as follows: Technology \$7,247,644 and Solutions \$5,568,814.

**12. Long-term debt**

	Nine months ended September 30, 2022		Nine months ended September 30, 2021	
Opening Balance	\$	1,418,751	\$	1,327,018
Additions		5,150,000		-
Interest accrued		748		16,588
Repayments		(670,000)		(40,000)
Revaluation		(53,912)		-
Ending Balance	\$	5,845,587	\$	1,303,606
Current portion	\$	917,745	\$	1,303,606
Long-term portion	\$	4,927,842	\$	-

Long-term debt consists of:

- a) \$112,979 related to a loan assumed upon acquisition of Signafire, which is collateralized by substantially all the assets and equity of Signafire and bears interest at 8%.

## NowVertical Group Inc.

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- b) \$665,475 related to four unsecured, non-interest-bearing loans to Affinio, denominated in Canadian dollars. The debt was initially recorded at fair value, estimated using future payments discounted at a market rate of interest, with the adjustment amortized into profit and loss over the term of the debt as interest expense.
- c) \$3,717,132 related to a term loan to Allegient on April 6, 2022 bearing interest at 6.2%, with interest-only payments for three months and repayable over the following six years. The loan is secured by the assets of Allegient and NOW Guardian Inc. and is subject to standard financial covenants measured quarterly beginning on September 30, 2022.
- d) \$1,350,000 related to a term loan to Resonant on July 20, 2022 bearing interest at a floating rate of interest equal to the greater of 4.50% per annum and the sum of the Three Month Treasury Rate as of July 20, 2022 plus 3.15%. The loan is secured by the assets of Resonant and NowVertical US Holdings Inc. and is subject to standard financial covenants measured quarterly beginning on December 31, 2022.

Estimated principal repayments over the next five years are as follows:

2022	\$259,427
2023	\$834,153
2024	\$899,637
2025	\$935,999
2026	\$994,659

The Company is in compliance with all debt covenants as of September 30, 2022.

### 13. Share capital

- a) Authorized

Unlimited number of Class A Subordinate Voting Shares, and unlimited number of Class B Proportionate Voting Shares without par value.

- b) Issued and fully paid

#### Nine months ended September 30, 2022

Beginning of period	62,042,151
Issuance of shares - exercise of options	5,968
Issuance of shares - related to acquisitions	2,919,631
Shares cancelled	(21,000)
<b>End of Period</b>	<b>64,946,750</b>

- c) Stock Options:

The Company has an omnibus equity incentive plan (the "Omnibus Plan") which provides that the Board of Directors of the Company may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Company non-transferable equity-based awards, including stock options, to purchase Subordinate Voting Shares, restricted stock units, deferred stock units, and performance stock units (collectively "Awards"). The Company is authorized to grant up to 6,965,646 Subordinate Voting Shares as Awards pursuant to the Omnibus Plan. The Board of Directors determines the price per Award which may be allocated to each director, officer, employee and consultant and all other terms and conditions of the Award. Stock options typically vest over four years and become partially exercisable on the first anniversary date the options were granted, and Awards vest pursuant to the Omnibus Plan. The Company also has a legacy equity incentive plan which it has granted stock options to certain employees and contractors previously, and which such plan is no longer being used for new grants.

During the nine months ended September 30, 2022, the Company recognized \$218,463 (2021: \$975,648) in share-based compensation expense. The fair value of the options granted in the quarter was estimated using the Black-Scholes option pricing model on the date of grant using the following assumptions: risk free rate 2.54%, expected life 4 years, expected volatility 82% based on comparable companies, forfeiture rate 12%, and dividend yield 0%.

The following table shows the stock options activity during the period:

**NowVertical Group Inc.****Notes to the Condensed Consolidated Interim Financial Statements**

(Unaudited)

Expressed in U.S. Dollars, except share information and unless otherwise noted

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	Number of options	Weighted average exercise price
Outstanding, January 1, 2022	4,134,706	\$ 0.90
Granted	1,060,000	0.93
Forfeited	(574,400)	0.96
Exercised	(28,213)	0.82
Outstanding, September 30, 2022	4,592,093	0.90
Exercisable, September 30, 2022	3,217,320	\$ 0.86

The weighted average remaining life of the options outstanding as of September 30, 2022 is 8.61 years.

**14. Income tax provision**

Income tax expense is recognized at an amount determined by multiplying the profit (loss) before tax for the interim reporting period by management's best estimate of the weighted-average annual income tax rate expected for the full financial year, adjusted for the tax effect of certain items recognized in full in the interim period. As such, the effective tax rate in the interim financial statements may differ from management's estimate of the effective tax rate for the annual financial statements.

For the nine months ended September 30, 2022, the Company recorded an income tax benefit of \$439,948 on pre-tax book loss of \$6,430,809. The Company's effective tax rate for the nine-months ended September 30, 2022 was 6.84% which differs from the Canadian statutory rate of 26.5% primarily due to certain pre-tax losses for which no benefit was recorded. The Company recorded a discrete income tax benefit of \$681,030 in the nine months ended September 30, 2022 related to a partial recognition of the Company's U.S. deferred tax assets given the business combination consummated during the interim period ended September 30, 2022 created a source of future taxable income.

For the three months ended September 30, 2022, the Company recorded an income tax expense of \$171,409 on pre-tax book loss of \$2,731,218. The Company's effective tax rate for the three-months ended September 30, 2022 was (6.28)%, which differs from the Canadian statutory rate of 26.5% primarily due to certain pre-tax losses for which no benefit was recorded.

## NowVertical Group Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

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#### 15. Cash flow adjustments and changes in working capital

The following non-cash adjustments and adjustments for changes in working capital have been made to net loss to arrive at operating cash flow:

	Nine months ended	
	September 30, 2022	September 30, 2021
Non-cash adjustments in operating activities:		
Depreciation of property and equipment	\$ 55,920	\$ 1,327
Amortization of intangible assets	1,020,922	208,211
Income tax expense (benefit)	(439,948)	-
Share-based compensation expense	237,303	1,027,426
Share consideration revaluation	(64,228)	-
Earn-out consideration revaluation	(166,339)	-
Deferred consideration revaluation	71,218	-
Warrant liability revaluation	(834,612)	-
Equity adjustment per IAS 29	43,665	-
Foreign exchange differences	559,603	-
Gain on settlement of lease	-	(1,640,370)
Shares for services	-	1,434,490
RSUs related to the RTO Transaction	-	2,852,977
	\$ 483,503	\$ 3,884,061
Net changes in working capital:		
Change in deferred revenue	\$ 1,094,991	\$ 1,250,104
Change in trade and other receivables	1,072,225	(169,813)
Change in unbilled revenue	(460,493)	-
Change in prepaid expenses and other current assets	(125,151)	(661,832)
Change in accounts payable	(1,913,967)	641,874
Change in accrued expenses and other liabilities	3,854,737	531,114
	\$ 3,522,341	\$ 1,591,447

#### 16. Administrative Expenses

General and administrative expenses include compensation, employee benefits, professional services fees, marketing and investor relations, product development, depreciation, and other general overhead costs.

	Three months ended		Nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Compensation and benefits	\$ 3,256,501	\$ 1,147,654	\$ 7,647,450	\$ 1,952,087
Professional fees	832,294	243,038	2,882,970	948,709
Marketing and advertising	284,944	138,150	776,367	151,186
Investor relations and filing fees	118,316	59,097	505,571	64,082
Product development	-	42,188	243,000	90,776
Office and other expenses	103,167	149,344	569,714	187,452
Travel expense	49,463	-	154,721	-
Depreciation	33,513	616	55,920	1,217
Amortization of intangible assets	272,802	49,513	653,072	160,961
Exchange (gain) / loss	63,022	2,534	(16,846)	80,867
RSU compensation expense	-	-	-	-
Share-based compensation expense	84,949	347,512	237,303	3,880,404
<b>Total administrative expenses</b>	<b>\$ 5,098,971</b>	<b>\$ 2,179,646</b>	<b>\$ 13,709,242</b>	<b>\$ 7,517,740</b>

## NowVertical Group Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

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Expressed in U.S. Dollars, except share information and unless otherwise noted

#### 17. Financial Instruments

##### *Fair value*

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.

Level 2: Fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (derived from prices).

Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The carrying amount of cash, accounts receivable, unbilled revenue, taxes receivable, other current assets, accounts payable, accrued expenses and other current liabilities, loan payable, long-term debt, and consideration payable related to acquired companies approximates their fair value due to the short-term maturities of these items. The fair value of the warrants liability is determined using Level 2 valuation techniques. The fair values of equity consideration related to acquired companies and contingent consideration related to acquired companies are determined using Level 3 valuation techniques.

#### 18. Related party transactions

The Company considers a related party a person or entity that is related to the Company and has control, joint control, or significant influence over the Company, or is a member of key management personnel. Key management personnel of the Company are its chief officers, executive members of the board of directors, and non-executive directors. Key management personnel remuneration includes the following expenses:

	Three months ended		Nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Salaries and bonuses	\$ 272,500	\$ 904,063	\$ 817,500	\$ 1,185,938
Consulting fees	-	-	-	80,000
Share-based payments	63,533	447,622	96,560	636,327
	<u>\$ 336,033</u>	<u>\$ 1,351,685</u>	<u>\$ 914,060</u>	<u>\$ 1,902,265</u>

#### 19. Subsequent events

On October 5, 2022 the Company closed a marketed public offering of 4,569 senior unsecured Convertible Debenture Units and a concurrent private placement of 500 Debenture Units, both at a price of \$1,000 per Debenture Unit for total gross proceeds of C\$5,069,000 (net proceeds of \$3.2 million). Each Debenture Unit consists of one 10% senior unsecured Convertible Debenture of the Company with a face value of C\$1,000 and 715 Class A subordinate voting share purchase warrants of the Company, representing 75% warrant coverage. The Convertible Debentures will mature 36 months from October 5, 2022. The Principal Amount per Convertible Debenture shall be convertible, for no additional consideration, into Class A Subordinate Voting Shares of the Company at the option of the holder (with the exception of the Company Conversion asset out below) in whole or in part at any time and from time to time prior to the earlier of: (i) the close of business on the Maturity Date, and (ii) the business day immediately preceding the date specified by the Company for redemption of the Convertible Debentures upon a change of control at a conversion price per share equal to C\$1.05 subject to adjustment in certain events (the "Conversion Price"). Each Warrant is exercisable for one Subordinate Voting Share at a price of C\$1.25 per Subordinate Voting Share for a period of 36 months following the closing date. The Warrants are listed under the symbol "NOW.WT.A". The Company will be entitled to force the conversion (the "Company Conversion") of the Principal Amount of the then outstanding Convertible Debentures at the Conversion Price on not more than 60 days' and not less than 30 days' notice (i) in the event that the daily volume weighted average trading price of the Subordinate Voting Shares on the TSXV is greater than C\$1.60 per share for 10 consecutive trading days of the Subordinate Voting Shares on the TSXV preceding such notice, or (ii) in connection with an equity or similar financing (either qualified by a prospectus or by way of private placement) involving Subordinate Voting Shares, or warrants exercisable for Subordinate Voting Shares, resulting in aggregate gross proceeds to the Company of not less than C\$12,500,000 (the "Qualified Financing"), in each case subject to the Company Conversion being permitted under the policies of the TSXV for any trading of the Subordinate Voting Shares at that time. If a Qualified Financing is completed at a

**NowVertical Group Inc.****Notes to the Condensed Consolidated Interim Financial Statements**

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price per security that is lower than the Conversion Price (with such Conversion Price being calculated, in the case of warrants, by adding the issue and exercise price), the Conversion Price will be reduced to equal the greater of \$0.10 and the closing price of the Subordinate Voting Shares on the TSXV on the day before the press release announcing the Qualified Financing is disseminated, provided that, amount other things, the conditional approval of the TSXV is obtained.

On October 7, 2022, the Company issued 115,000 Subordinate Voting Shares to a vendor in settlement of an amount payable.

On October 13, 2022, the Company issued 16,667 Subordinate Voting Shares pursuant to the exercise of options.