Consolidated financial statements of

Hemisphere GNSS Inc.

For the period January 1 - August 31, 2022 and

the year ended December 31, 2021

Hemisphere GNSS Inc.

For the period January 1 - August 31, 2022 and the year ended December 31, 2021

Table of contents

Independent Auditor's Report

To the Shareholder of Hemisphere GNSS Inc.:

Opinion

We have audited the Consolidated financial statements of Hemisphere GNSS Inc. (the "Company"), which comprise the Consolidated statements of financial position as at August 31, 2022 and the Consolidated statements of income and other comprehensive income, changes in equity and cash flows for the eight months period then ended, and notes to the Consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying Consolidated financial statements present fairly, in all material respects, the Consolidated financial position of the Company as at August 31, 2022 and its Consolidated financial performance and its Consolidated cash flows for the eight months period then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the Consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of Consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated financial statements, including the disclosures, and whether the Consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Mississauga, Ontario

MNP LLP

March 10, 2023

Chartered Professional Accountants

Hemisphere GNSS Inc.

Consolidated statements of income and comprehensive income

(In US dollars)

	8 months ended August 31, 2022 $	12 months ended December 31, 2021 $
Revenue		
Product sales (Notes 18)	34,930,342	53,384,408
Service revenue (Note 18)	1,840,857	2,459,232
	36,771,199	**55,843,640**
Cost of sales (Notes 5 and 18)	20,881,246	30,538,540
Gross profit	**15,889,953**	**25,305,100**
Expenses		
Research and development expenses	1,113,649	1,662,408
Sales and marketing expenses	1,180,504	1,688,329
General and administration expenses	3,198,511	4,334,879
Payroll and benefits expenses	5,538,629	6,244,766
Incentive compensation expense (Note 20)	277,226	1,331,483
Depreciation of plant and equipment (Note 6)	198,681	318,819
Amortization of right-of-use assets (Note 8)	272,056	391,259
Amortization of intangible assets (Note 7)	1,838,564	2,674,548
	13,617,820	**18,646,491**
Operating income	**2,272,133**	**6,658,609**
Other Income (expense)		
Interest income	1,104	8,313
Interest expense (Note 18)	(794,690)	(570,465)
Gain on disposition of plant and equipment	650	800
Foreign exchange (loss)	(7,593)	(125,684)
Divestiture expenses (Note 1)	(269,484)	-
Government subsidy repayment provision (Note 15)	(2,690,660)	-
Other expenses	(109,041)	-
	(3,869,714)	**(687,036)**
Income before income taxes	**(1,597,581)**	**5,971,573**
Income tax (expense) (Note 19)	(373,275)	(1,311,621)
Deferred income tax recovery (Note 19)	-	237,266
Net income (loss) and comprehensive income	**(1,970,856)**	**4,897,218**

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

Hemisphere GNSS Inc.

Consolidated statements of financial position

(In US dollars)

	As at August 31, 2022 $	As at December 31, 2021 $
Assets		
Current assets		
Cash and cash equivalents (Note 3)	1,924,282	1,831,979
Accounts receivable (Notes 4 and 18)	13,143,229	13,162,748
Inventories (Note 5)	15,274,439	13,780,223
Short-term advance (Note 18)	112,000	112,000
Prepayments and deposits	579,690	661,870
	31,033,640	**29,548,820**
Long term prepaids and deposits	4,252,612	4,393,312
Deferred tax asset (Note 19)	1,709,984	1,709,984
Property, plant and equipment (Note 6)	2,344,856	2,434,529
Intangible assets (Notes 7)	7,133,968	8,152,795
Right-of-use assets (Notes 8)	1,409,057	1,507,185
Goodwill (Note 9)	2,487,655	2,487,655
Total assets	**50,371,772**	**50,234,280**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Notes 10 & 18)	17,504,615	16,383,421
Customer deposits and deferred revenue (Notes 11 and 18)	2,677,295	2,521,053
Income tax payable (Note 19)	348,225	1,029,219
Warranty provision (Note 12)	185,427	179,400
Government subsidy repayment provision (Note 15)	2,690,660	-
Incentive compensation accrual (Note 20)	752,958	1,515,520
Current portion of lease liabilities (Note 8)	405,255	375,634
Short term loan (Note 14)	4,014,729	3,499,299
Current portion of shareholder's loans (Note 13)	7,500,000	-
	36,079,164	**25,503,546**
Shareholder's loans (Note 13)	5,100,000	12,600,000
Long term loan (Note 14)	733,165	1,547,368
Deferred tax liability (Note 19)	532,196	546,574
Long term lease liabilities (Note 8)	1,099,696	1,238,385
	43,544,221	**41,435,873**
Shareholder's equity		
Share capital - Common shares (Note 17)	8,500.000	8,500,000
(Deficit) Retained earnings	(1,672,449)	298,407
Total shareholder's equity	**6,827,551**	**8,798,407**
Total liabilities & shareholder's equity	**50,371,772**	**50,234,280**

Contingencies, guarantees and commitments (Notes 15 and 16) Subsequent events (Note 24)

Approved by the Board of Directors

________ Director ________ Director

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

Hemisphere GNSS Inc.

Consolidated statements of cash flows

(In US dollars)

	8 months ended August 31, 2022 $	12 months ended December 31, 2021 $
Cash flows from operating activities		
Net income/ (loss) for the year	**(1,970,856)**	**4,897,218**
Items not affecting cash		
Depreciation of property, plant and equipment	198,681	318,819
Amortization of right-of-use assets	272,056	391,259
Amortization of intangible assets	1,838,564	2,674,548
Loss (gain) on disposition of plant and equipment	(650)	(800)
Stock-based compensation expense	110,562	607,587
Interest on lease liabilities	78,921	117,653
Write-off of intangible assets	-	110,822
	527,278	**9,117,105**
Changes in non-cash operating working capital items		
Accounts receivable	19,519	(2,889,510)
Prepaid expenses and deposits	222,880	(80,198)
Inventories	(1,494,216)	(5,083,837)
Income tax payable	(680,994)	929,919
Deferred tax	(14,378)	(236,473)
Accounts payable and accrued liabilities	228,959	606,821
Customer deposits and deferred revenue	156,242	1,171,051
Warranty provision	6,027	58,980
Government subsidy repayment provision (Note 15)	2,690,660	-
Cash provided for (used in) operating activities	**1,661,977**	**3,593,858**
Cash flows from investing activities		
Purchase of plant and equipment	(109,009)	(278,916)
Additions to intangible assets	(819,738)	(888,390)
Proceeds on sale of plant and equipment	650	800
Cash used in investing activities	**(928,097)**	**(1,166,506)**
Cash flows from financing activities		
(Repayment of) bank loans	(298,773)	(769,833)
(Repayment of) lease liabilities	(342,804)	(488,360)
Cash (used in) provided for financing activities	**(641,577)**	**(1,258,193)**
Net increase (decrease) in cash and cash equivalents	92,303	1,169,160
Cash and cash equivalents, beginning of year	1,831,979	662,819
Cash and cash equivalents, end of period	**1,924,282**	**1,831,979**

Supplemental cash flow information:

	8 months ended August 31, 2022 $	12 months ended December 31, 2021 $
Tax paid	1,153,416	297,265
Interest paid	179,904	238,549

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

Hemisphere GNSS Inc.

Consolidated statements of shareholder's equity

(In US dollars)

	Share capital	Retained earnings (Accumulated deficit)	Total
	$	$	$
Balance – December 31, 2020	8,500,000	(4,598,811)	3,901,189
Net income and comprehensive income for the year	-	4,897,218	4,897,218
Balance – December 31, 2021	8,500,000	298,407	8,798,407
Net income and comprehensive income for the 8 months period	-	(1,970,856)	(1,970,856)
Balance – August 31, 2022	8,500,000	(1,672,449)	6,827,551

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

1. Description of the business and continuity of operations

Hemisphere GNSS Inc. (the “Company”) is incorporated under the Alberta Business Corporations Act and designs and manufactures global navigation satellite system (“GNSS”) and complementary products for positioning, guidance, and machine control applications. The Company is a wholly owned subsidiary of Beijing UniStrong Science & Technology Co., Ltd (the “Parent Company” or “UniStrong”). The Company’s head office is located at 7666, 8th Street, N.E, Calgary, Alberta, T2E 8A2.

The Company’s business was impacted by the COVID pandemic in 2020, before gradually recovering in 2021 and 2022. However, component shortages due to global supply disruptions triggered by the COVID pandemic were still a key issue impacting the Company’s business in 2022. While global supply chains have improved in some areas in 2022, a few key components for the Company’s products continued to be difficult to procure, which impacted the Company’s ability to deliver certain customer orders. In addition, certain components, even if available, cost significantly more. The Company’s Management has expanded the supply chain network, procured the key components at higher price and stocked up more components to partially mitigate the impact of the component shortages.

During 2022, the Company was subject to government enquiries, requests for information and investigations. Based on the investigation carried out by the Committee on Foreign Investment in the United States (“CFIUS”), the Company and UniStrong have entered into a National Security Agreement (“NSA”) effective August 19, 2022. CFIUS concluded that UniStrong’s acquisition and continued ownership of the Company posed a risk to U.S. national security. Under the NSA, UniStrong has agreed to divest the Company. UniStrong has engaged financial advisors to assist in the divestiture. The NSA requires a divestiture be completed by May 19, 2023.

On May 25, 2022, the Company received a notice from the US Department of Commerce’s Bureau of Industry and Security (”BIS”) prohibiting the Company from supplying product or technology, subject to the Export Administration Regulations of the Department of Commerce to UniStrong, without a license from the BIS. The BIS letter significantly impacted the ability of the Company to ship product to its customers and to procure product from suppliers affiliated with UniStrong. As well, revenue from the China market was for most part discontinued.

The preparation of the consolidated financial statements requires management to make judgments regarding the ability to continue as a going concern. The impact of the BIS letter and the NSA, particularly if a divestiture is not completed by the NSA required deadline could impact the Company’s ability to continue as a going concern. These financial statements have been prepared on a going concern basis and do not reflect any adjustments to the carrying values of assets and liabilities and the reported revenues, expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations and such adjustments could be material.

These consolidated financial statements were approved by the Board of Directors of the Company on March 10, 2023.

2. Significant accounting policies

Statement of compliance

The Company’s consolidated financial statements comply with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standard Board (“IASB”) and interpretations as issued by the International Financial Reporting Interpretations Committee (“IFRIC”). Due to the divestiture notice received in August 2022, the Company will be classified as “Asset on Sale” on the Parent Company level after August 31, 2022. The Parent Company required the audited financial statements for the 8 months period ended August 31, 2022 for consolidation purpose. These consolidated financial statements have been prepared under this special circumstance ended on August 31, 2022. (Note 1)

2 Significant accounting policies (continued)

Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below.

Basis of consolidation

These consolidated financial statements include the financial position, results of operations and cash flows of the Company and its wholly owned subsidiaries. The Company consolidates controlled and owned subsidiaries beginning on the date which control is obtained. Intercompany balances, transactions and income and expenses, including gains and losses relating to subsidiaries, have been eliminated on consolidation. The consolidated financial statements include the accounts of the Company and its wholly owned U.S. subsidiary, Hemisphere GNSS (USA) Inc. ("Hemisphere USA").

Significant accounting estimates, judgments and assumptions

To prepare financial statements in conformity with IFRS, the Company must make estimates, judgments and assumptions concerning the future that affect the carrying values of assets and liabilities as of the date of the consolidated financial statements and the reported values of revenues and expenses during the reporting period. By their nature, these are uncertain and actual outcomes could differ from the estimates, judgments and assumptions.

The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods when the revision affects both current and future periods. Significant accounting judgments, estimates and assumptions are reviewed on an ongoing basis.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could have an effect on the amounts recognized in the consolidated financial statements relate to the following:

Going concern

The preparation of the consolidated financial statements requires management to make judgments regarding the ability to continue as a going concern. Some research and development projects have been funded by the parent company. It is important that the Company continues to develop innovative technology and launch new products to remain competitive in the marketplace and to generate new sales. The Company has received extended payment terms with related parties and from its parent company, which have helped the Company's cash flows. The impact of the BIS letter and the NSA, particularly if a divestiture is not completed by the NSA required deadline could impact the Company's ability to continue as a going concern. These consolidated financial statements have been prepared on a going concern basis and do not reflect any adjustments to the carrying values of assets and liabilities and the reported revenues, expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations and such adjustments could be material.

Allowances for expected credit loss

The Company makes estimates for allowances for potential losses in respect of trade and short-term advances. An allowance for expected credit loss is estimated based on expected default rates. Management considers the credit history and current relationships with the customers as well as their financial situation. Changes in these estimates affect the amount of bad debt expenses recognized in the consolidated statements of income and comprehensive income. The expected default rate is based on the past payment history of customers. The customers' receivable balances are classified into 4 risk categories, with each category having its own default rate. The Company assigns the default rate with respective to each risk category to calculate the allowance for expected credit loss.

2 Significant accounting policies (continued)

Provision for slow moving, scrap and obsolete inventory

The Company makes provision for potential losses in inventory during product life cycle of inventory. Management considers the category, aging, and demand of the inventory to determine if the inventory is active, slow moving or obsolete. The allowance rates are based on past history of actual scrap and obsolete inventory with Management judgement. Management applies different allowance rates for each inventory category. Changes in these estimates will be recognized in the consolidated statements of income and comprehensive income.

Warranty reserves

The Company typically provides a 15-month, and up to 36 months for certain customers, free warranty for the products sold to the customers. The Company determines the warranty reserve requirements based on the past history of the product repairs. The Company applies the estimated warranty rate on the revenue as monthly reserve. Each quarter, the Company compares the actual warranty claims and the reserve balances. If the warranty claims have exceeded the reserve balances, the Company will adjust the warranty reserve requirements to reflect the most accurate and updated warranty trend. Changes in these estimates are recognized in the consolidated statements of income and comprehensive income.

Stock-based compensation

The Company issued cash-settled stock-based compensation awards to employees and board members. Each year the stock-based compensation plan has slightly different performance requirements and calculations. The estimates of stock-based compensation are based on 2 factors: (a) each year's performance measurement to determine the period's vesting percentage; and (b) the estimated stock price at year end. Changes in these estimates are recognized in the consolidated statements of income and comprehensive income.

Under the plan effective prior to 2017, cash-settled stock-based compensation awards are measured at fair value determined by the board based on certain performance criteria. The fair value of the cash-settled stock-based compensation awards is expensed on a straight-line basis over the graded vesting period incorporating estimate on forfeiture rate. The estimates are based on the achieved percentage of the performance criteria on quarterly basis. The estimates are revised at each reporting date and a cumulative adjustment to compensation cost is recorded accordingly.

In 2017 and 2018, the Company made changes to the stock-based compensation plan. The fair value of the cash-settled stock-based compensation awards is based on the Parent Company's share price and is expensed on a straight-line basis over the graded vesting period. The estimates are revised at each reporting date based on the share price of the Parent Company's share at each period end and a cumulative adjustment to incentive compensation expense is recorded accordingly.

In 2019, the Company revised the stock-based compensation plan. The fair value of the cash-settled stock-based compensation awards is based on the parent company's share price and the company performance determined by the board. These awards vest at the end of the 2nd year after issuance. The estimates are revised at each reporting date based on the share price of the Parent Company's share at each period end and a cumulative adjustment to incentive compensation expense is recorded accordingly.

In 2020, the Company launched a new stock-based compensation plan (2020 Plan). The fair value of the cash-settled stock-based compensation awards is based on 1) 50% on the Parent Company's share price and 2) 50% on the Company's revenue growth over a base level as determined by the board. The fair value of the cash-settled stock-based compensation awards is expensed on a straight-line basis over the graded vesting period incorporating estimated on forfeiture.

2 Significant accounting policies (continued)

Stock-based compensation (continued)

In 2021, the Company launched a cash-settled stock-based compensation plan following similar terms and conditions as the 2020 plan. The estimates are revised at each reporting date based on the share price of the parent company's share at each period end and a cumulative adjustment to incentive compensation expense is recorded accordingly.

In 2022, the Company launched a cash-settled stock-based compensation plan. The fair value of the cash-settled stock-based compensation award is based on the Company's revenue growth over the baseline revenue from 2021. The estimates are revised at each reporting date based on the estimated revenue and a cumulative adjustment to incentive compensation expense is recorded accordingly.

Provision for government subsidy repayment

For the repayment of government subsidy or loan, the Company would pay the principal amount and interest. In the case of any violation of the rules, the Company would pay the principal amount, interest and penalty. The accrued interest is calculated based on the interest rate published by the United States' Inland Revenue Department or Canada Revenue Agent from the time of receiving the subsidy or loan until the end of the reported financial period. The penalty is calculated based on the probability of the penalty from public cases and management's estimates.

Business combination

The acquired assets, assumed liabilities (other than deferred taxes), and contingent consideration are recognized at fair value on the date the Company effectively obtains control. The measurement of each business combination is based on the information available on the acquisition date. The estimate of fair value of the acquired intangible assets (including goodwill), property, plant and equipment and other assets and the liabilities assumed at the date of acquisition as well as the useful lives of the acquired intangible assets and property, plant and equipment is based on assumptions. The measurement is largely based on projected cash flows, discount rates and market conditions at the date of acquisition.

Impairment of long-lived assets

Property, plant and equipment and definite lived intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is tested for impairment annually. If the carrying amount of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less cost of disposal, the asset is impaired and an impairment loss is recognized. The assessment of fair value requires the use of estimates and assumptions. Differences in these estimates and assumptions could have a significant impact on the consolidated financial statements. For the purpose of the annual impairment test, the Company applied the value in use method in completing its analysis. The key assumptions used to calculate the value in use are those regarding discount rates, growth rates and expected changes in margins.

As disclosed in Note 15, the Company is subject to government enquiries, requests for information and other proceedings, including the impact of the BIS letter and the NSA letter. In light of uncertainties involved in these proceedings, especially if a divestiture will not be achieved within the NSA requirements, there can be no assurance that the outcome would not result in an impairment to the Company's long-lived assets.

2 Significant accounting policies (continued)

Deferred taxes

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses and other tax assets, to the extent future taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses and other tax assets can be utilized. The recognition of deferred tax assets is based on estimates of projections of future earnings, tax deductions and anticipated income tax rates. Changes in the timing of the reversal of temporary differences and potential changes of the income tax rates applicable in future years could result in significant differences between the estimates and the actual amounts realized, which would affect net earnings in a subsequent period.

Financial instruments

Management determines the classification of financial assets and financial liabilities at initial recognition and, except in very limited circumstances, the classification is not changed subsequent to initial recognition. The Company classified its financial instruments as either amortized cost or fair value through profit and loss (“FVTPL”). The classification depends on the purpose for which the financial instruments were acquired, their characteristics and/or management’s intent. Transaction costs with respect to instruments not classified as FVTPL are recognized as an adjustment to the cost of the underlying instruments and amortized using the effective interest method.

The Company’s financial instruments were classified in the following categories:

Financial Instrument	***Classification***
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Short-term advance	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Incentive compensation accrual	FVTPL
Shareholder’s loans	Amortized cost
Long-term and short-term loans	Amortized cost
Lease liabilities	Amortized cost

Recognition and measurement

Financial assets, measured at fair value on the date they are originated:

An instrument is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments included in this category are initially recognized at fair value and transaction costs are taken directly to earnings along with gains and losses arising from changes in fair value.

Financial assets and liabilities at amortized cost:

Financial assets and liabilities at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost net of directly attributable transaction costs and any impairment.

After initial recognition, financial liabilities and financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate (“EIR”) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are integral part of the EIR. The EIR amortization is included in finance cost in the consolidated statement of income and comprehensive income.

2 Significant accounting policies (continued)

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk of financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

Transaction costs

Transaction costs associated with financial instruments, carried at fair value through profit or loss, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Income (loss) on derecognition are generally recognized in the consolidated statements of income and comprehensive income.

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of income and comprehensive income.

Cash and cash equivalents

The Company considers cash equivalents to be cash and highly liquid investments with original maturities of three months or less.

Prepayments and deposits

The Company makes prepayments and deposits to suppliers of products, services and intellectual property rights. These are recognized as prepayments when made and recognized as expenses when the products or services are received. Prepayments and deposits on assets that are long term in nature are recorded as long-term prepayments and deposits.

Inventories

Raw materials, work in process and finished goods are valued at the lower of cost and net realizable value. Cost is determined on the weighted-average costing basis. The cost of work in process and finished goods includes the cost of raw materials and the applicable share of the cost of labor and fixed and variable production overheads. Net realizable value is the estimated selling price less the estimated cost of completion and the estimated costs necessary to make the sale.

2 Significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are recorded at cost. The Company reviews residual value on a periodic basis. Depreciation is based on the estimated useful life of the item using the following methods and rates or term:

Land	Indefinite	
Building	Straight-line	39 years
Furniture and fixtures	Straight-line	5 years
Computer equipment	Straight-line	3 years
Production equipment and molds	Straight-line	3 years
Research and development equipment	Straight-line	3 years
Vehicle	Straight-line	10 years
Leasehold improvements	Straight-line	Term of the lease

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of acquired businesses.

Intangible assets

Intangible assets are accounted for at cost. Amortization is based on their estimated useful lives using the straight-line method and the following periods:

Trademarks	Indefinite (not amortized)
Patents	10 years
Technology and customer relationships	8 years
Deferred development costs	3-5 years
Software	2 years
License rights	8 years

Impairment of long-lived assets

Long-lived assets subject to depreciation or amortization are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Goodwill and intangible assets that are not subject to amortization are tested for impairment at least annually.

The impairment test involves comparing the recoverable value of the asset with their carrying amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For purposes of impairment testing, assets that cannot be tested individually are grouped together into cash generating units ("CGU"), the smallest group of assets that generate net cash flows from continuing use that are largely dependent on the net cash flows from other assets or group of assets.

An impairment loss is recognized when the carrying amount of the asset, or its related CGU, exceeds its estimated recoverable amount.

Long-lived assets, apart from goodwill, that suffer an impairment are tested for possible reversal of the impairment at each reporting date.

2 Significant accounting policies (continued)

Development phase expenditures

The Company capitalizes expenditures incurred during the development phase of technology projects as intangible assets, subject to the Company demonstrating all of the following:

a) The technical feasibility of completing the intangible asset so that it will be available for use or sale.

b) Its intention to complete the intangible asset and use or sell it.

c) Its ability to use or sell the intangible asset.

d) The ability of the intangible asset to generate probable future economic benefits.

e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

For the eight-month period ended August 31, 2022, the Company capitalized development costs of $781,225 (December 31, 2021 - $790,553). All research and development costs that do not meet the capitalization criteria are expensed.

Consideration given to customers

Cash consideration given by the Company to a customer, such as discounts, coupons and rebates are assumed to be a reduction of the selling prices of the Company's products or services and are, therefore, accounted for as a reduction of revenue when recognized in the consolidated statement of income and comprehensive income. However, cash consideration is accounted for as an expense if the Company receives an identifiable benefit in exchange for the consideration.

Revenue recognition

The Company generates revenue from the sale of GNSS products, engineering services and license fees. The Company uses the following five-step contract-based analysis of transactions to determine if, when and how much revenue can be recognized:

1. Identify the contract with a customer;
2. Identify the performance obligation(s) in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations(s) in the contract; and
5. Recognize revenue when, or as, the Company satisfies the performance obligation(s).

Sales of products are based on cost of components parts, shipping, assembly labor and warranty. Revenue is measured based on the consideration specified in a contract with the customers. The Company may include variable consideration in contracts with customers which could include volume or other discounts. The Company recognises revenue when it transfers control of a product.

The Company provides customized engineering services to the customer stated in the contract. The engineering service is considered to be a distinct service. The transaction price allocated to the contract may be hourly or fixed amount per milestone or specific performance requirement stated in the contract. Revenue is recognized based on the consideration specified in a contract with milestones or specific customer acceptance criteria, which have been transferred or delivered, over a period of time.

The Company provides subscription service for customers under contractual agreements. The contracts specify the consideration and duration of services. The transaction price allocated to these services is recognized as deferred revenue at the time of initial sales and released on a straight-line basis over the contract period.

2 Significant accounting policies (continued)

Revenue recognition (continued)

The Company owns certain patents and intellectual property which can be licensed to customers under contractual agreements. License fees can be fixed or determined with specific criteria. The transaction price allocated to fixed license fee is recognized as deferred revenue at the time of initial sales and released on a straight-line basis over the contract period.

Foreign currency translation

The consolidated financial statements have been presented in U.S dollars, the functional currency of the Company and its subsidiary, Hemisphere USA.

Foreign currency transactions of the Company are translated into U.S. dollars by the use of the exchange rate in effect at the date of the transaction. At each month-end date, monetary items denominated in a foreign currency are adjusted to reflect the exchange rate in effect at the month-end date and the related exchange gain or loss is recognized in the consolidated statement of income and comprehensive income. Non-monetary assets and liabilities are translated at the historical exchange rate.

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Income Tax Estimates

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

2 Significant accounting policies (continued)

Leases

The Company assesses whether a contract is, or contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases (with term of less than 12 months) and leases of low-value assets. The Company recognizes right-of-use assets representing the right to use the underlying asset and lease liabilities representing its obligation to make lease payments.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from commencement date to the end of the lease term.

The lease liability is initially measured at the present value of fixed lease payments, excluding maintenance and operating costs, that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. The lease liability is subsequently increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of the lease liabilities is remeasured if there is a modification such as a change in lease payments or a change in the assessment of an option to purchase the underlying asset.

IAS 20 – Accounting for Government Grants

The Company recognizes government grants or subsidies in the accounting period when the following two conditions have been met:

1. the Company has complied with the conditions attached to the grants/subsidies; and
2. the grants have been received.

A forgivable loan from government is treated as a government grant when there is reasonable assurance that the Company will meet the terms for the forgiveness of the loan. The Company adopted the income approach for government grants.

The Company recognizes the government grants related to costs or expenses that are readily ascertainable. The grants in recognition of specific expenses are recognized in profit or loss in the same period as the relevant expenses. The grants are allocated and credited against the relevant expenses in the same period.

If the grants are related to depreciable assets, the grants are recognized in profit or loss over the periods and in the proportions in which depreciation expenses on those assets are recognized.

If the Government assistances or grants are not for specific expenditures, the Company will recognize them as Other Income.

New accounting pronouncements

IAS 16 – Property, Plant and Equipment ("IAS 16") was amended.

The amendments introduce new guidance, such that the proceeds from selling items before the related property, plant and equipment is available for its intended use can no longer be deducted from the cost. Instead, such proceeds are to be recognized in profit or loss, together with the costs of producing those items. The adoption of the amendments to IAS 16 on January 1, 2022 did not have a significant impact on the consolidated financial statements.

IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets ("IAS 37") was amended.

The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract – i.e. a full-cost approach. Such costs include both the incremental costs of the contract (i.e. costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g. contract management and supervision, or depreciation of equipment used in fulfilling the contract. The adoption of the amendments to IAS 37 on January 1, 2022 did not have a significant impact on the consolidated financial statements.

Recent accounting pronouncements not yet adopted

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2023. Many are not applicable or do not have a significant impact to the Company and have been excluded.

IAS 1 – Presentation of Financial Statements ("IAS 1") was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company's right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company's own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2023. The Company does not expect the amendments to IAS 1 to have a significant impact on the consolidated financial statements.

IAS 1 – In February 2021, the IASB issued 'Disclosure of Accounting Policies' with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for year ends beginning on or after January 1, 2023. The Company does not expect the amendments to IAS 1 to have a significant impact on the consolidated financial statements.

IAS 8 – In February 2021, the IASB issued 'Definition of Accounting Estimates' to help entities distinguish between accounting policies and accounting estimates. The amendments are effective for year ends beginning on or after January 1, 2023. The Company does not expect the amendments to IAS 8 to have a significant impact on the consolidated financial statements.

(All monetary amounts are in US dollars, unless specified otherwise)

3. Cash and cash equivalents

	August 31, 2022 $	**December 31, 2021 $**
Cash	1,751,100	1,659,213
Short-term investments, with original maturities of less than three months	173,182	172,766
	1,924,282	**1,831,979**

4. Accounts receivable

	August 31, 2022 $	**December 31, 2021 $**
Trade	8,775,450	7,469,733
Allowance for expected credit losses	(60,877)	(32,624)
	8,714,573	**7,437,109**
Related party – trade receivable (Note 18)	4,244,113	5,718,542
Other	184,543	7,097
	13,143,229	**13,162,748**

The impact of the movement of the expected credit loss's provision is shown below:

	$
Balance at December 31, 2020	**(56,825)**
Bad debt recovery	24,200
Balance at December 31, 2021	**(32,625)**
Provision for expected credit loss	(28,252)
Balance at August 31, 2022	**(60,877)**

5. Inventories

	August 31, 2022 $	**December 31, 2021 $**
Raw materials	3,767,956	3,827,233
Work-in-progress	486,902	473,190
Finished goods	11,019,581	9,479,800
	15,274,439	**13,780,223**

As of August 31, 2022, the Company has recorded a provision for obsolete, scrap and slow-moving inventory of $1,169,362 (December 31, 2021 - $1,031,061) which is included in the above numbers. As of August 31, 2022, the Company has scrapped $nil (December 31, 2021 - $154,155) of inventory.

For the period ended August 31, 2022, the Company charged a total of $17,890,559 of inventory to cost of sales (for the year ended December 31, 2021 - $27,673,688).

(All monetary amounts are in US dollars, unless specified otherwise)

6. Property, plant and equipment

Cost
August 31, 2022

	Cost, beginning of the year	Additions during the period	Disposals during the period	Write off during the period	Cost, end of the period
	$	$	$	$	$
Land	150,000	-	-	-	150,000
Building	1,917,247	50,674	-	-	1,967,921
Furniture and fixtures	390,247	105	(181)	-	390,171
Computer equipment	877,814	30,950	(1,068)	-	907,696
Production equipment	227,244	(2,180)	-	-	225,064
Research and development equipment	200,024	1,188	-	-	201,212
Molds	292,242	21,853	-	-	314,095
Vehicles	226,026	14,684	-	-	240,710
Leasehold improvements	400,495	-	-	(8,265)	392,230
	4,681,339	117,274	(1,249)	(8,265)	4,789,099

Accumulated Depreciation
August 31, 2022

	Accumulated depreciation, beginning of the year	Depreciation during the period	Disposals during the period	Accumulated depreciation, end of August 31, 2022	Net book value, end of August 31, 2022
	$	$	$	$	$
Land	-			-	150,000
Building	159,804	33,449		193,253	1,774,668
Furniture and fixtures	301,981	30,336	(181)	332,136	58,035
Computer equipment	779,964	55,837	(1,068)	834,733	72,963
Production equipment	140,568	29,284	-	169,852	55,212
Research and development equipment	195,098	2,591		197,689	3,523
Molds	285,316	3,396		288,712	25,383
Vehicles	86,016	18,788		104,804	135,906
Leasehold improvements	298,064	25,000		323,064	69,166
	2,246,811	198,681	(1,249)	2,444,243	2,344,856

(All monetary amounts are in US dollars, unless specified otherwise)

6. Property, plant and equipment (continued)

Cost
December 31, 2021

	Cost, beginning of the year	Additions during the year	Disposals during the year	Write Off during the year	Cost, end of the year
	$	$	$	$	$
Land	150,000	-	-	-	150,000
Building	1,859,090	58,157	-	-	1,917,247
Furniture and fixtures	399,600	67,031	(76,384)	-	390,247
Computer equipment	839,266	52,584	(14,036)	-	877,814
Production equipment	149,294	77,950	-	-	227,244
Research and development equipment	200,024	-	-	-	200,024
Molds	286,610	5,632	-	-	292,242
Vehicles	226,026	-	-	-	226,026
Leasehold improvements	527,695	17,563	(144,763)	-	400,495
	4,637,605	**278,917**	**(235,183)**	**-**	**4,681,339**

Accumulated Depreciation
December 31, 2021

	Accumulated depreciation, beginning of the year	Depreciation during the year	Disposals during the year	Accumulated depreciation, end of the year	Net book value, end of the year
	$	$	$	$	$
Land	-	-	-	-	150,000
Building	110,926	48,878	-	159,804	1,757,443
Furniture and fixtures	331,526	46,839	(76,384)	301,981	88,266
Computer equipment	696,786	97,213	(14,035)	779,964	97,850
Production equipment	89,833	50,734	-	140,568	86,677
Research and development equipment	183,119	11,979	-	195,098	4,926
Molds	284,133	1,183	-	285,316	6,926
Vehicles	58,294	27,722	-	86,016	140,010
Leasehold improvements	408,556	34,270	(144,762)	298,064	102,431
	2,163,173	**318,819**	**(235,181)**	**2,246,811**	**2,434,529**

(All monetary amounts are in US dollars, unless specified otherwise)

7. Intangible assets

Cost
August 31, 2022

	Cost, beginning of the year	Additions during the period	Disposals during the period	Write off, during the period	Cost, end of the period
	$	$	$	$	$
Technology	3,563,600	-	-	-	3,563,600
License right	3,000,000	-	-	-	3,000,000
Customer relationships	2,883,900	-	-	-	2,883,900
Development cost	13,236,859	781,225	-	-	14,018,084
Software	1,414,179	15,495	-	-	1,429,674
Patents	485,050	23,018	-	-	508,068
Trademarks	1,784,280	-	-	-	1,784,280
	26,367,868	**819,738**	**-**	**-**	**27,187,606**

Accumulated depreciation
August 31, 2022

	Accumulated amortization, beginning of the year	Amortization, during the period	Disposals, during the period	Accumulated Amortization, end of August 31, 2022	Net book value, end of August 31, 2022
	$	$	$	$	$
Technology	3,315,684	35,417	-	3,351,101	212,499
License right	1,875,000	250,000	-	2,125,000	875,000
Customer relationships	1,901,567	140,333	-	2,041,900	842,000
Development cost	9,570,062	1,335,467	-	10,905,529	3,112,555
Software	1,285,335	54,549	-	1,339,884	89,790
Patents	267,426	22,798	-	290,224	217,844
Trademarks	-	-	-	-	1,784,280
	18,215,074	**1,838,564**	**-**	**20,053,638**	**7,133,968**

(All monetary amounts are in US dollars, unless specified otherwise)

7. Intangible assets (continued)

Cost
December 31, 2021

	Cost, beginning of the year	Additions, during the year	Disposals, during the year	Write off, during the year	Cost, end of the year
	$	$	$	$	$
Technology	3,563,600	-	-	-	3,563,600
License right	3,000,000	-	-	-	3,000,000
Customer relationships	2,883,900	-	-	-	2,883,900
Development Cost	12,446,306	790,553	-	-	13,236,859
Software	1,390,709	23,470	-	-	1,414,179
Patents	540,625	55,247	-	(110,822)	485,050
Trademarks	1,765,160	19,120	-	-	1,784,280
	25,590,300	**888,390**	**-**	**(110,822)**	**26,367,868**

Accumulated depreciation
December 31, 2021

	Accumulated amortization, beginning of the year	Amortization, during the year	Disposals, during the year	Accumulated Amortization, end of the year	Net book value, end of the year
	$	$	$	$	$
Technology	3,229,865	85,819	-	3,315,684	247,916
License right	1,500,000	375,000	-	1,875,000	1,125,000
Customer relationships	1,678,568	222,999	-	1,901,567	982,333
Development Cost	7,764,185	1,805,877	-	9,570,062	3,666,797
Software	1,162,013	123,322	-	1,285,335	128,844
Patents	205,895	61,531	-	267,426	217,624
Trademarks	-	-	-	-	1,784,280
	15,540,526	**2,674,548**	**-**	**18,215,074**	**8,152,794**

(All monetary amounts are in US dollars, unless specified otherwise)

8. **Leases**

The Company leases several locations under various leases. In 2022, the right-of-use assets consist of the following:

Right-of-use asset	USA $	Canada $	Australia $	Total $
January 1, 2022	1,976,967	493,291	154,686	2,624,944
Additions	-	-	173,928	173,928
August 31, 2022	1,976,967	493,291	328,614	2,798,872

Accumulated Amortization	USA $	Canada $	Australia $	Total $
January 1, 2022	915,924	110,512	91,322	1,117,758
Amortization	192,916	51,214	27,926	272,056
August 31, 2022	1,108,840	161,726	119,248	1,389,816

Net carrying value	USA $	Canada $	Australia $	Total $
August 31, 2022	868,127	331,564	209,366	1,409,057

The Company used 8% incremental borrowing rate for the lease interest. The lease liabilities consist of the following:

Lease liabilities	USA $	Canada $	Australia $	Total $
January 1, 2022	1,149,866	398,270	65,882	1,614,018
Additions/Retired	-	-	154,816	154,816
Interest expense	53,506	18,503	6,912	78,921
Payments	(239,184)	(75,565)	(28,055)	(342,804)
August 31, 2022	964,188	341,208	199,555	1,504,951
Non-current portion	667,186	266,692	165,818	1,099,696
Current portion	297,002	74,516	33,737	405,255

(All monetary amounts are in US dollars, unless specified otherwise)

8. **Leases (continued)**

In 2021, the right-of-use assets consist of the following:

Right-of-use asset	USA $	Canada $	Australia $	Total $
January 1, 2021	2,001,848	259,146	109,587	2,370,581
(Retired)	(24,881)	(75,966)	-	(100,847)
Additions	-	310,111	45,099	355,210
December 31, 2021	**1,976,967**	**493,291**	**154,686**	**2,624,944**

Accumulated Amortization	USA $	Canada $	Australia $	Total $
January 1, 2021	631,805	115,867	54,793	802,465
Retired	-	(75,966)	-	(75,966)
Amortization	284,119	70,611	36,529	391,259
December 31, 2021	**915,924**	**110,512**	**91,322**	**1,117,758**

Net carrying value	USA $	Canada $	Australia $	Total $
January 1, 2021	1,370,043	143,278	54,794	1,568,115
December 31, 2021	**1,061,043**	**382,779**	**63,364**	**1,507,185**

In 2021, the Company used 8% internal interest rate for the lease interest. The lease liabilities consist of the following:

Lease liabilities	USA $	Canada $	Australia $	Total $
January 1, 2021	1,434,890	161,750	63,643	1,660,283
Additions/Retired	(22,346)	301,690	45,099	324,443
Interest expense	95,105	19,452	3,096	117,653
Payments	(357,783)	(84,622)	(45,955)	(488,360)
December 31, 2021	**1,149,866**	**398,270**	**65,883**	**1,614,019**
Non-current portion	867,718	325,568	45,099	1,238,385
Current portion	282,148	72,702	20,784	375,634

(All monetary amounts are in US dollars, unless specified otherwise)

9. Goodwill

Goodwill as at August 31, 2022 consists of goodwill from the acquisition of Hemisphere on January 31, 2013 of $2,405,501 and Outback Guidance on August 31, 2019 of $82,154.

	August 31, 2022	December 31, 2021
	$	$
Goodwill of acquisition of Hemisphere	2,405,501	2,405,501
Goodwill of acquisition of Outback Guidance	82,154	82,154
	2,487,655	**2,487,655**

As at August 31, 2022, the recoverable amount of Hemisphere is determined based on the fair value less costs of disposal (FVLCD). In calculating the FVLCD, the Company determined the fair value based on comparisons of recently completed revenue and cost projections and other relevant information. The estimated recoverable amount exceeded the carrying value of Hemisphere and no impairment is required.

As at August 31, 2022, the recoverable amount of Outback Guidance is determined based on FVLCD. The similar calculations have performed. The Company determined the fair value based on comparisons of recently completed revenue and cost projections and other relevant information. The estimated recoverable amount exceeded the carrying value of Outback Guidance and no impairment is required.

10. Accounts payable and accrued liabilities

	August 31, 2022 $	December 31, 2021 $
Trade	3,477,762	5,437,204
Accrued liabilities	1,537,383	1,498,208
	5,015,145	6,935,412
Related party – trade payables (Note 18)	12,489,470	9,448,009
	17,504,615	**16,383,421**

11. Customer deposits and deferred revenue

	August 31, 2022 $	December 31, 2021 $
January 1	2,521,053	1,350,001
Additions	3,278,436	8,747,246
Revenue recognized	(3,122,194)	(7,576,194)
December 31	**2,677,295**	**2,521,053**

(All monetary amounts are in US dollars, unless specified otherwise)

12. Warranty provision

During the normal course of its operations, the Company assumes certain maintenance and repair costs under warranties offered on products. The warranties typically cover a period of 15 months and up to 36 months for certain customers. This estimated expense is based on past experience and is accounted for as a liability under the heading warranty provision. The actual amount that the Company may have to pay and the timing of the repairs to be carried out are unforeseeable. It is therefore possible that the terms and conditions may change and that this may require a significant change in the amounts recognized.

	August 31, 2022 **$**	**December 31, 2021** **$**
Warranty provision - opening	179,400	120,420
Actual warranty claims	(47,234)	(113,357)
Additional provision (recovery)	53,261	172,337
Warranty provision - closing	**185,427**	**179,400**

13. Shareholder's loans

The Company entered into the following loan agreements with its shareholder:

Date	**Long Term Portion** **$**	**Maturity Date**
January 30, 2013	6,000,000	January 31, 2023
July 15, 2013	1,000,000	January 31, 2023
September 15, 2013	500,000	January 31, 2023
August 31, 2014	450,000	January 31, 2024
September 1, 2015	2,450,000	January 31, 2025
September 1, 2016	2,200,000	January 31, 2025
	12,600,000	

The loans are unsecured and carry a 5% interest rate payable annually. The Company's shareholder had waived the interest for 2021. The interest incurred and payable for the period ended August 31,2022 was $420,000.

	August 31, 2022 **$**	**December 31, 2021** **$**
Shareholder's loans – long term portion	5,100,000	12,600,000
Shareholder's loans – current portion	7,500,000	-
Interest incurred and payable (Note 18)	420,000	-

(All monetary amounts are in US dollars, unless specified otherwise)

14. Bank indebtedness and long-term debt

The Company has a term loan and revolving credit facility with its bank. In addition, the Company has a loan on a vehicle acquired and leasehold improvement.

a) Long-term debt

	August 31, 2022 $	December 31, 2021 $
Term loan	**700,000**	**1,500,000**
Less: Deferred financing fees	1,334	10,367
Net term loan	698,666	1,489,633
Loans on fixed assets	34,499	57,735
Long-term debt	**733,165**	**1,547,368**

b) Short-term debt

	August 31, 2022 $	December 31, 2021 $
Term loan	**1,200,000**	**1,200,000**
Less: Deferred financing fees	16,791	29,585
Net short-term loan	1,183,209	1,170,415
Revolving credit facility (c)	2,800,663	2,297,406
Loans on fixed assets	30,857	31,478
Short-term debt	**4,014,729**	**3,499,299**

The term loan matures on March 31, 2024 and has $100,000 monthly scheduled principal repayments. Interest is paid on monthly basis. Under the term loan, the Company borrows at US Dollar prime rate borrowings, plus 2% (7.25% as of August 31, 2022, 5% as of December 31, 2021). The loan was measured at amortized cost with an effective interest rate of 8% and $240,000 in transaction costs.

The term loan requires additional loan repayments if certain events occur. As at August 31, 2022, the Company was not required to make additional payments.

During the period ended August 31, 2022, the Company incurred interest expense of $88,799 (for the year ended December 31, 2021 - $167,205) and recognised deferred transaction costs of $21,827 (for the year ended December 31, 2021 - $39,952) related to this instrument.

Loans on fixed asset are for a vehicle purchased and Canadian office leasehold improvement. The loan on purchased vehicle is interest free. The Company paid monthly truck loan amount of $655 and the loan balance as of August 31, 2022 is $22,270 (December 31, 2021 - $28,165). The loan will mature in July 2025. The Canadian office leasehold improvement loan has incurred interest expense of $2,093 for the period ended August 31, 2022 (for the year ended December 31,2021 - $6,994). The loan interest is 6% and will mature in May 2024. The leasehold improvement loan balance as of August 31, 2022 is $43,086 (December 31, 2021 - $ 61,049). The total fixed asset loans as of August 31, 2022 are $65,356 (December 31, 2021 - $89,214).

14. Bank indebtedness and long-term debt (continued)

c) Bank indebtedness

The Company has a revolving credit facility of $7,000,000. The revolving credit facility bears interest at US dollar prime rate plus 2% (7.25% as of August 31, 2022, 5% as of December 31, 2021). As at August 31, 2022, the company has a $300,000 letter of credit against the revolving credit facility. The loan was measured at amortized cost with an effective interest rate of 7%.

The Credit Facilities are collateralized by a first priority lien on all assets, leased real property interests and inventory. In addition, the Company has to maintain certain financial covenants. As at August 31, 2022, the Company was in compliance with all financial covenants.

During the period ended August 31, 2022, the Company incurred interest expense of $89,771 (for the year ended December 31, 2021 - $76,461

15. Contingencies

In the normal course of business, the Company is involved in various claims. Though the outcome of these claims cannot be determined with certainty as at August 31, 2022, their outcome could have a significant adverse impact on its financial position, operating results or cash flows.

As disclosed in last year's audit report, the Company is subject to government enquiries, requests for information and investigations. On October 5, 2021, the U.S. government, through the Committee on Foreign Investment in the United States ("CFIUS"), commenced a review to determine if UniStrong's acquisition of the Company poses a risk to U.S. national security. Based on the investigation carried out by CFIUS, the Company and UniStrong have entered into a National Security Agreement ("NSA") effective August 19, 2022. CFIUS concluded that UniStrong's acquisition and continued ownership of the Company posed a risk to U.S. national security. Under the NSA, UniStrong has agreed to divest the Company. UniStrong has engaged financial advisors to assist in the divestiture. The NSA requires a divestiture be completed by May 19, 2023.

In August of 2022, the U.S. Department of Justice ("DOJ") notified the Company that it would begin conducting an inquiry into whether the Company was eligible for the second Paycheck Protection Program ("PPP") loan it received in 2021 and whether the Company had violated the U.S. False Claims Act (the "FCA") in applying for and receiving the loan. After the Company received notice from the DOJ , that it is determined the Company was not eligible for the second PPP loan under the amended rules. The new requirement disqualified companies that were directly or indirectly owned 20% or more by a Chinese entity or which had a Chinese resident on their board. The company has accrued a contingency of $2.7 million representing the original principal loan amount of $1.57 million together with expected interest and costs of $1.12 million, based on Management's best estimates. The DOJ extended an initial offer of an aggregate payment of $4,300,000 (representing principal, interest and civil money damages) to resolve the matter. The matter has not yet reached resolution.

In light of the various uncertainties involved, there can be no assurance that the impact of the BIS letter, the divestiture process under the NSA and the final determination of the PPP outcome will not be material to the Company's business operations and operating results. An adverse outcome could have a material adverse effect on the Company's business including, but not limited to, procurement of product supply on a timely basis, fulfilment of customer sales orders, reputational damage, and its ability to operate as a going concern.

(All monetary amounts are in US dollars, unless specified otherwise)

16. Commitments

The Company has commitments under purchase orders outstanding as at August 31, 2022 of $20,561,613 (December 31, 2021 - $20,912,370) primarily related to inventory and operating expenses.

17. Share capital

Authorized, unlimited number

Class A, Class B and Class C common voting shares

Class D, Class E and Class F common non-voting shares

Preferred shares issuable in one or more series

Issued	August 31, 2022 $	December 31, 2021 $
100 Class A shares were issued on incorporation	100	100
1,000 Class A shares were issued on January 1, 2013	8,499,900	8,499,900
Total share capital	**8,500,000**	**8,500,000**

18. Related party transactions

During the year, goods and services were sold to or purchased from related parties in which the Parent Company has a controlling interest. The companies under common control of the Parent Company are:

- Beijing UniStrong Science & Technology Co. Ltd.
- Globalstar Hong Kong International Co. Ltd.
- Guangzhou Geoelectron Science & Technology Co. Ltd.
- Hemisphere Co. Ltd.
- Shanghai UniOne Science & Technology Co. Ltd.
- Shenzhen UniStrong Science & Technology Co. Ltd.
- Stonex s.r.l.
- Stonex Hong Kong Co. Ltd.
- UniStrong Hong Kong Co. Ltd.
- UniStrong Japan Co. Ltd. / Hemisphere Japan Co. Ltd. * (No longer related party from September 2022)
- UniStrong (Henan) Science & Technology Research Institute
- UniStrong Intelligent Manufacturing (Henan) Technology Co. Ltd
- Wuhan UniStrong Spatial Information Co. Ltd.
- Xian UniStrong Navigation Technology Co. Ltd

(All monetary amounts are in US dollars, unless specified otherwise)

18. Related party transactions (continued)

These transactions were made in the normal course of business and have been recorded at the exchange amounts:

	August 31, 2022 $	**December 31, 2021 $**
Sales to		
UniStrong Japan Co. Ltd. /Hemisphere Japan Co. Ltd	3,526,033	4,153,742
Guangzhou Geoelectron Science & Technology Co. Ltd	528,460	2,732,035
Globalstar Hong Kong International Co. Ltd.	73,700	468,811
Beijing UniStrong Science & Technology Co. Ltd.	-	49,635
Stonex s.r.l.	(1,938)	40,720
Shenzhen UniStrong Science & Technology Co. Ltd.	-	990
Total	**4,126,255**	**7,445,933**
Service fees to		
UniStrong (Henan) Science & Technology Research Institute	-	300,300
Xian UniStrong Navigation Technology Co. Ltd	-	43,000
Total	**-**	**343,300**
Purchases from		
Shenzhen UniStrong Science & Technology Co. Ltd	848,886	9,588,873
Guangzhou Geoelectron Science & Technology Co. Ltd	5,365,392	5,295,278
Wuhan UniStrong Spatial Information Co. Ltd	-	508,798
Shanghai UniOne Science & Technology Co. Ltd	-	496,030
UniStrong Intelligent Manufacturing (Henan) Technology Co. Ltd	7,887,118	345,434
Stonex s.r.l.	-	113,745
Xian Unistrong Navigation Technology Co. Ltd	1,640,297	-
Total	**15,741,693**	**16,348,158**

The amounts receivable in respect of these transactions as of August 31, 2022 and December 31, 2021 were:

	August 31, 2022 $	**December 31, 2021 $**
UniStrong Japan Co. Ltd	2,082,820	2,878,830
Guangzhou Geoelectron Science & Technology Co. Ltd.	239,560	1,340,957
Hemisphere Co. Ltd	700,000	700,000
Globalstar Hong Kong International Co. Ltd.	976,693	417,397
Stonex Hong Kong Co. Ltd	204,265	204,265
UniStrong Intelligent Manufacturing (Henan)Technology Co Ltd	-	120,681
Beijing UniStrong Science & Technology Co. Ltd	34,904	34,904
Stonex s.r.l.	5,871	21,508
Total	**4,244,113**	**5,718,542**

(All monetary amounts are in US dollars, unless specified otherwise)

18. Related party transactions (continued)

The amounts payable in respect of these transactions as of August 31, 2022 and December 31, 2021 were:

	August 31, 2022 $	December 31, 2021 $
Shenzhen UniStrong Science & Technology Co. Ltd.	6,713,053	5,864,166
Guangzhou Geoelectron Science & Technology Co. Ltd.	1,670,913	1,174,359
UniStrong Intelligent Manufacturing (Henan)Technology Co Ltd	1,428,790	317,278
Xian UniStrong Navigation Technology Co. Ltd.	205,881	71,514
Wuhan UniStrong Spatial Information Co. Ltd	487,003	487,003
Stonex s.r.l.	30,141	-
Total	**10,535,781**	**7,914,320**

The customer deposits made by a related party as of August 31, 2022 and December 31, 2021 were:

	August 31, 2022 $	December 31, 2021 $
Beijing UniStrong Science & Technology Co. Ltd	1,533,689	1,533,689

The loans are unsecured and carry a 5% interest rate payable annually. The Company's shareholder had waived the interest for 2021. The interest incurred and payable for the period ended August 31,2022 was $420,000:

	August 31, 2022 $	December 31, 2021 $
Beijing UniStrong Science & Technology Co. Ltd	420,000	-

In 2019, the Company has provided a 12-month advance to a related party at 6% interest rate. In 2020, the loan was transferred from Uni Japan KK Ltd to UniStrong Hong Kong Co. Ltd. The short-term advance in receivable was:

	August 31, 2022 $	December 31, 2021 $
UniStrong Hong Kong Co. Ltd	112,000	112,000

Key management personnel are composed of the Board of Directors, Chief Executive Office, Chief Technology Officer, Vice President and Senior Directors.

The following are compensation to key management during the period ended August 31, 2022 and the year ended December 31, 2021 were:

	August 31, 2022 $	December 31, 2021 $
Management compensation and professional fees	958,333	1,927,439
Stock-based compensation	210,448	120,323
Bonus	127,762	246,478
Total	**1,296,543**	**2,294,240**

(All monetary amounts are in US dollars, unless specified otherwise)

19. Income taxes

The Companies head office is located in Calgary, Alberta. In 2022, the combined Canadian federal and provincial statutory tax rate is 26.5% (2021 – 24.16%). The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% to the effective tax rate is as follows:

	August 31, 2022 $	December 31, 2021 $
Net income (loss) before recovery of income taxes	**(1,597,581)**	**5,971,573**
Expected income tax expense	(390,810)	1,442,732
Differences in foreign tax rates	(16,390)	(41,279)
Tax rate changes and other adjustments	20,304	225,585
Foreign exchange rate differences	69,760	(793)
Share based compensation and non-deductible expenses	42,550	(196,910)
Book to filing adjustments on unrealized foreign exchange	-	9,629
Interest and penalties	274,090	-
Impact of PPP loan	384,110	(364,609)
Change in tax benefits not recognized	(10,340)	-
Income tax expense	**373,274**	**1,074,355**
The Company's income tax recovery is allocated as follows:		
Current tax expense	373,275	1,311,621
Deferred tax (recovery) expense	-	(237,266)
Total	**373,275**	**1,074,355**

Deferred Tax

The following table summarizes the components of deferred tax:

	August 31, 2022 $	December 31, 2021 $
Deferred tax assets and liabilities		
Goodwill – U.S.	86,955	86,955
Capital lease obligation	378,311	378,311
Accrued liabilities	387,210	387,210
Share issuance costs	34,911	34,911
Inventory reserves & UNICAP	610,552	610,552
Accounts payable reserves	559,384	559,384
Unrealized FX gain or losses	45,742	45,742
Operating tax losses carried forward	273,347	273,347
State losses carried forward	137,561	137,561
Plant, property and equipment	(420,211)	(420,211)
Goodwill - Canada	(581,267)	(581,267)
Unrealized FX gain or losses	(334,707)	(349,085)
Net deferred tax assets	**1,177,788**	**1,163,410**
Recorded on the consolidated statements of financial position as follows:		
Deferred tax asset	1,709,984	1,709,984
Deferred tax liability	(532,196)	(546,574)
Net deferred tax asset	**1,177,788**	**1,163,410**

(All monetary amounts are in US dollars, unless specified otherwise)

19. Income taxes (continued)

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in net deferred tax asset

	August 31, 2022 $	December 31, 2021 $
Balance at the beginning of the year	1,163,410	926,937
Recognized in profit / loss	-	237,266
Foreign exchange	14,378	(793)
Balance at the end of the year	**1,177,788**	**1,163,410**

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	August 31, 2022 $	December 31, 2021 $
Capital losses carried forward	298,850	299,027
Unrealized foreign exchange gain or losses on account of capital	1,499,080	1,182,942
	1,797,930	**1,481,969**

The Capital loss carry forward may be carried forward indefinitely but can only be used to reduce capital gains.

20. Stock-based compensation

The Company has various long-term incentive plans under which phantom shares ("Phantom Share Plan") are granted to employees and members of the Board of Directors. The phantom shares are a cash settled stock-based compensation award and cannot be converted into equity of the Company. The cash settlement value is determined by the board at each issuance. The company has four different types of plans in existence as of August 31, 2022.

a) In 2018, the Company launched a new long-term incentive plan (the "New Plan"). The vesting requirement is based on the Company's operational performance. If the Company meets the performance criteria, 1/3 of the phantom shares will be vested annually. The measurement of the share value is based on the share price of the Parent Company, which is traded in the Chinese public market using the average of last 20 days share price of each month, with estimated forfeiture rate of 0% for 2018 Plan. The accumulated phantom shares issued and outstanding as of August 31, 2022 are 11,980 (December 31, 2021 – 52,053).

   Vesting under the New Plan is based on achieving performance criteria such as revenue growth over the term of the phantom share plan as determined and approved by the Board. The Company has accrued $12,459 as of August 31, 2022 (December 31, 2021 - $54,402) related to the New Plan, based on a cash settlement value of $1.04 per share for 2018 shares.

(All monetary amounts are in US dollars, unless specified otherwise)

20. Stock-based compensation (continued)

b) In 2020, the Company launched a new plan (the "2020 Plan"). The vesting requirement is based on the Company's operational performance. Depending on the level of achievement of revenue relative to the annual budgets up to one third of the phantom shares will be vested annually over the following three years. The measurement of the share value is 50% based on the share price the Parent Company using the average of last 20 days share price of each month, and 50% based on the Company's revenue growth over the 2019 base year. The estimated forfeiture rate is 6.18%. The Company did not meet the performance measure in 2020 and forfeited 1/3 of the shares. In 2021, the Company met the performance measure, and 1/3 of the shares vested. As of August 31, 2022, the estimated vesting of the last 1/3 tranche for 2022 is 16% which is based on the forecast revenue. The accumulated phantom shares vested and outstanding as of August 31, 2022 are 158,708 (December 31, 2021 – 217,304).

The Company has accrued $106,605as of August 31, 2022 (December 31, 2021 -$263,189), based on a cash settlement value of $1.53 per share.

c) In 2021, the Company launched a similar plan as the 2020 Plan. The vesting requirement is based on the Company's operational performance. Depending on the level of achievement of revenue relative to the annual budgets, up to one third of the phantom shares will vest annually over the following three years. The measurement of the share value is 50% based on the share price the Parent Company using the average of last 20 days share price of each month, and 50% based on the Company's revenue growth over the 2021 base year. The estimated forfeiture rate is 1.976%. The accumulated phantom shares issued and outstanding as of August 31, 2022 are 423,388 (December 31, 2021 - 597,197).

The Company met the revenue performance in 2021 and 1/3 of employee shares vested. But in 2022, the Company has only met 83% of the revenue and with 16% vesting. The Company has accrued $265,562 (December 31, 2021 - $472,751), based on a cash settlement value of $1.28 per share.

d) In 2022, the Company launched a plan with valuation based on the Company's revenue growth relative to a baseline revenue from 2021, (the "2022 Plan") . The vesting requirement is based on the Company's operational performance. Depending on the level of achievement of revenue relative to the annual budgets, up to one third of the phantom shares will vest annually over the following three years. The measurement of the share value is based on the Company's revenue growth over the 2021 base year. The estimated forfeiture rate is 1.865%. The accumulated phantom shares issued and outstanding as of August 31, 2022 are 600,371.

The Company has only met 83% of the revenue performance in 2022 and 16% of employee shares vested. The Company has accrued $206,475, based on a cash settlement value of $1.06 per share.

Upon a completion of the divestiture of the Company, the remaining outstanding phantom shares which have not vested as of the divestiture date are expected to vest. As of August 31, 2022, the number of phantom shares that would be unvested and subject to this acceleration would be 542,307 as of August 31, 2022. The Company has accrued the accelerated portion of the unvested shares for the period ended August 31, 2022.

	August 31, 2022	**December 31, 2021**
	$	**$**
Opening balance	**794,124**	**407,753**
Adjustment to fair value, vesting and forfeitures	(489,809)	141,269
Cash out	(313,584)	(227,649)
Current period issuance	600,371	472,751
Total stock-based compensation accrual	**591,102**	**794,124**

The stock-based compensation accrual is recorded with incentive compensation accrual on the consolidated statements of financial position.

21. Economic dependence

During 2022, sales to one customer represented approximately 15% of the Company's total sales. During 2021, sales to one customer represented approximately 13% of the Company's total sales.

The Company designs the majority of its own products and subcontracts the majority of product manufacturing including converting in-progress inventory to finished goods to four key sub-contract manufacturers. These four key sub-contract manufacturers are related parties. They are Shenzhen UniStrong Science & Technology Co. Ltd which supplied approximately 3% of the Company's products for the period ended August 31, 2022 (38% for the year ended December 31, 2021), Guangzhou Geoelectron Science & Technology Co. Ltd which supplied approximately 21% of the Company's products for the period ended August 31, 2022 (21% for the year ended Dec 31, 2021), Unistrong Intelligence Manufacturing (Henan) Co. Ltd which supplied approximately 27% of the Company's products the period ended August 31, 2022 (1% for the year ended December 31, 2021), and Xian Unistrong Navigation Technology Co. Ltd which supplied approximately 8% of the Company's products for the year ended August 31, 2022 (2% for the year ended December 31, 2021) (Note 18). During 2022, the Company has been gradually transitioning the manufacturing from China to Mexico. The new Mexican sub-contract manufacturer will be the key supplier to the Company going forward. The Company also purchased electronic components from other suppliers for assembly products. The Company is economically dependent on these key sub-contract manufacturers and a disruption to product supply from them could have a material adverse effect on the Company's business.

22. Financial risk management

Currency risk

Currency risk is the risk that the value of future cash flows of a financial instrument denominated in a currency other than the U.S. dollar will fluctuate due to changes in foreign currency exchange rates. The major expenses in the Canadian entity were related to employee compensation and general office administration expenses which are in Canadian dollars. The major revenue in the Canadian entity is product sales, royalty income and engineering service fees. The invoiced currency for the Canadian entity is in US dollars. However, the Company has opened its Australia branch and the invoiced currency is in Australian dollar which incurred foreign currency exposure. If there is 1% change in Canadian dollar to US dollar, the change in net income would be approximately $4,789. If there is 1% change in Australia dollar to US dollar, the change in net income would be approximately $1,383. For the period ended August 31, 2022, the Company has incurred $7,592 foreign exchange loss (for the year ended December 31, 2021 – $125,684 loss). The Company is exposed to foreign currency risk. Management has monitored the foreign currency exposure closely.

Credit risk

The Company provides credit to its customers in the normal course of its operations. It carries out, on a continuing basis, credit checks on its customers and maintains an allowance for expected credit loss. As of August 31, 2022, the Company had $5,578,849 (December 31, 2021 - $1,278,150) of overdue accounts receivable (over 30 days outstanding). During the period ended August 31, 2022, management recorded an allowance of $60,877 (for the year ended December 31, 2021 - $32,624). In addition, under IFRS 9, the Company recorded a stage 4 expected loss provision of $39,752 during the period ended August 31, 2022 (for the year ended December 31, 2021 - $12,540). As of August 31, 202, the overdue accounts receivable balance of $2,558,872 were from related parties (December 31, 2021 - $248,143). The allowance recorded for balances due from related parties as of August 31, 2022 was $28,258 (December 31, 2021 - $nil). Three major customers, one of which is related party, represent 17% (December 31, 2021 - 52%) of the Company's accounts receivable as at August 31, 2022.

(All monetary amounts are in US dollars, unless specified otherwise)

22. Financial risk management (continued)

The accounts receivable aging balances as follows :

Aging of accounts receivable	August 31, 2022 $	December 31, 2021 $	Expected credit loss range
Current	6,230,242	11,917,222	0.17%
Aged 31-60 days	2,536,297	434,774	0.44%
Aged 61-90 days	440,698	207,522	1.05%
Aged more than 90 days	2,601,854	635,854	1.35%
	11,809,092	**13,195,372**	
Expected credit loss provision	**(60,877)**	**(32,624)**	
Accounts receivable	**11,748,215**	**13,162,748**	

Interest rate risk

The shareholder's loan bears interest at a 5% fixed rate. As the loan is provided by the shareholder and has a fixed rate, the Company does not view this as a significant risk.

In 2022, the Company has a term loan and revolving credit line from the bank with interest rate at US Dollar Prime Rate plus 1.75%. If the interest rate changes +/-1%, the interest expenses will increase or decrease by $44,988. The US Dollar Prime Rate has increased four times in 2022. Management believes the Company is not exposed to high interest rate risk.

The interest-bearing short-term investments are the deposits in bank which have very low interest rate. The interest income generated from these deposits is negligible and is not a major source of funding or income. Management believes the interest rate risk in this area is very minimal.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to this risk mainly in respect of its accounts payable, accrued liabilities, lease payments, shareholder's loan, bank loans and other loans.

Future lease payments include the following amounts payable over the following periods:

	2022 – 4 months $	2023 $	2024 $	2025 $	2026 $	Total $
USA	150,779	506,268	518,921	213,111	-	1,389,079
Canada	41,020	123,589	86,187	61,759	61,759	374,314
Australia	17,308	47,966	48,671	49,806	50,752	214,503
Total	209,107	677,823	653,779	324,676	112,511	1,977,896

Future loan payments over the following periods:

	2022- 4 months $	2023 $	2024 $	2025 $	2026 $	Total $
Bank term loans	400,000	1,200,000	300,000	-	-	1,900,000
Loans on fixed assets	10,392	34,172	16,207	4,585	-	65,356
Total	**410,392**	**1,234,172**	**316,207**	**4,585**	**-**	**1,965,356**

22. Financial risk management (continued)

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company also received financial support from the Parent Company to support the operations and financial commitments. The Company monitors and reviews current and future working capital requirements to manage its financial assets in order to settle financial liabilities. At August 31, 2022, the Company had current assets of $31,033,640 (December 31, 2021 - $29,548,820) to settle current liabilities of $36,079,164 (December 31, 2021 - $25,503,546).

23. Capital management

The Company defines capital as all components of shareholder's equity. The Company has a working capital line of credit as well as deferred revenue, due to related parties, accounts payable and accrued liabilities in the ordinary course of operations. The Board of Directors does not establish quantitative return on capital criteria for management. The Company does not pay dividends. The Company is not subject to any externally imposed capital requirements.

The Company manages the capital structure and makes adjustments thereto in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust capital structure, the Company may attempt to acquire or dispose of assets, attempt to obtain additional debt financing, repay debt facility, or obtain advances from shareholder. There have been no changes to in capital management during the year.

24. Subsequent event

In November 2022, the Company received indications of interest from several parties interested in acquiring the Company. The Company, with the advice of its financial advisor, selected certain parties for further negotiations. The Company is continuing negotiations with the intention of entering into a definitive agreement before May 2023.