ZEDCOR INC.

CONSOLIDATED FINANCIAL STATEMENTS

Zedcor

SECURITY
SOLUTIONS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

zedcor.ca

Independent Auditor's Report

To the Shareholders of Zedcor Inc.:

Opinion

We have audited the consolidated financial statements of Zedcor Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years 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 December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits 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 audits 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Key Audit Matter Description

The accounting policy for revenue recognition is set out in Note 3(i) and additional information is included in Note 16 to the consolidated financial statements. The Company's revenue is comprised of the sale of products, the provision of services and the rental of equipment. Revenue from the sale of products is recognized when the products are delivered to the customer. Revenue from the provision of services is recognized as the services are provided and revenue from the rental of equipment is recognized as the rental service is provided.

Revenue is a key audit matter due to the significant audit effort required to perform audit procedures related to the Company's revenue recognition.

Audit Response

We responded to this matter by performing procedures in relation to revenue recognition. Our audit work in relation to this included, but was not restricted to, the following:

- We obtained confirmations from the two largest customers and reconciled to the amount of revenue recognized during the year;
- We selected a sample of revenue transactions throughout the year to evaluate revenue recognition by agreeing to the customer invoices, cash receipts and other support as applicable;
- We selected a sample of revenue transactions recorded before and after the reporting period to verify revenue had been recorded in the correct period; and,
- We reviewed credit memos issued before and after the reporting period to evaluate the recognition of revenue.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Stephen Bonnell.

Calgary, Alberta

MNP LLP

April 12, 2023

Chartered Professional Accountants

ZEDCOR INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2022 AND 2021
IN THOUSANDS OF CANADIAN DOLLARS

	December 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash	$ 571	$ 108
Accounts receivable (note 23)	4,699	3,143
Current portion of finance lease receivable (note 4)	527	448
Income taxes recoverable (note 11)	—	88
Inventory (note 5)	1,315	383
Prepaid expenses and deposits	430	272
	7,542	4,442
Non-current assets:		
Finance lease receivable (note 4)	2,362	2,882
Deposits	167	109
Property and equipment (note 6)	17,563	11,073
Right-of-use assets (note 7)	2,939	1,290
Deferred tax (note 11)	2,005	—
	25,036	15,354
Total assets	$ 32,578	$ 19,796
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 3,409	$ 2,380
Current portion of lease liabilities (note 9)	1,772	1,351
Current debt (note 8)	2,198	2,231
	7,379	5,962
Non-current liabilities:		
Note payable (note 10)	3,182	3,115
Lease liabilities (note 9)	5,179	4,604
Long term debt (note 8)	8,349	5,717
	16,710	13,436
Total liabilities	24,089	19,398
Shareholders' equity		
Share capital (note 12)	113,183	107,807
Preferred equity (note 12)	—	2,864
Warrants (note 13)	1,368	587
Contributed surplus	1,809	1,681
Deficit	(107,871)	(112,541)
	8,489	398
Total liabilities and shareholders' equity	32,578	$ 19,796

Approved on behalf of the Board of Directors:

(Signed) *"Dean Swanberg"*
Dean Swanberg – Director

(Signed) *"Brian McGill"*
Brian McGill – Director

See accompanying notes to the Consolidated Financial Statements

ZEDCOR INC.

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

IN THOUSANDS OF CANADIAN DOLLARS

	Year ended December 31, 2022	2021
Revenues (note 16)	$ 22,099	$ 13,550
Direct expenses		
Direct operating costs	9,164	5,892
Depreciation of equipment (note 6)	2,162	1,483
	11,326	7,375
Gross margin	10,773	6,175
Operating expenses		
General and administrative (note 17)	5,495	3,430
Depreciation of other property and equipment (note 6)	250	142
Depreciation of right-of-use assets (note 7)	938	649
Gain on sale of equipment (note 6)	(139)	(17)
(Gain) loss on disposal of right-of-use assets (note 7)	(14)	407
Gain on substantial debt modification (note 10)	—	(45)
	6,530	4,566
Other expenses		
Finance costs (note 18)	1,063	3,164
Foreign exchange loss	70	25
Other income (note 21)	(883)	—
	250	3,189
Income (loss) before income taxes	**3,993**	**(1,580)**
Income taxes (note 11)		
Current tax expense	—	—
Deferred tax recovery	(2,005)	—
	(2,005)	—
Net income (loss) from continuing operations	**5,998**	**(1,580)**
Net loss from discontinued operations (note 21)	—	(2,321)
Net income (loss) and comprehensive income (loss)	**$ 5,998**	**$ (3,901)**
Net income (loss) per share from continuing operations		
Basic	$ 0.09	$ (0.03)
Diluted	$ 0.08	$ (0.03)
Basic and diluted loss per share from discontinued operations	$ —	$ (0.04)
Net income (loss) per share		
Basic	$ 0.09	$ (0.07)
Diluted	$ 0.08	$ (0.07)
Weighted average number of shares outstanding (note 15)		
Basic	67,639,086	57,885,234
Diluted	72,927,501	57,885,234

See accompanying notes to the Consolidated Financial Statements

ZEDCOR INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
IN THOUSANDS OF CANADIAN DOLLARS

	Share capital	Preferred shares	Warrants	Contributed surplus	Deficit	Total
Balance – December 31, 2020	$ 107,625	$ 2,864	$ 587	$ 1,582	$ (108,640)	$ 4,018
Stock based compensation (note 14)	—	—	—	135	—	135
Exercise of stock options (note 12)	107	—	—	(36)	—	71
Shares issued (note 12)	75	—	—	—	—	75
Net loss	—	—	—	—	(3,901)	(3,901)
Balance – December 31, 2021	107,807	2,864	587	1,681	(112,541)	398
Stock based compensation (note 14)	—	—	—	129	—	129
Exercise of stock options (note 12)	20	—	—	(1)	—	19
Units issued, net of Unit issue costs (note 12)	1,203	—	—	—	—	1,203
Warrants issued (note 13)	—	—	781	—	—	781
Conversion of preferred shares, net of share issue costs (note 12)	2,825	(2,864)	—	—	—	(39)
Shares issued for dividend on conversion of preferred shares (note 12)	1,328	—	—	—	—	1,328
Dividend on conversion of preferred shares (note 12)	—	—	—	—	(1,328)	(1,328)
Net income	—	—	—	—	5,998	5,998
Balance – December 31, 2022	$ 113,183	$ —	$ 1,368	$ 1,809	$ (107,871)	$ 8,489

See accompanying notes to the Consolidated Financial Statements

ZEDCOR INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
IN THOUSANDS OF CANADIAN DOLLARS

	Year ended December 31, 2022	2021
Cash from (used in):		
Operating activities		
Net income (loss) from continuing operations	$ 5,998	$ (1,580)
Depreciation of property and equipment (note 6)	2,412	1,625
Depreciation of right-of-use assets (note 7)	938	649
Gain on disposal of property and equipment (note 6)	(139)	(17)
(Gain) loss on disposal of right-of-use assets (note 7)	(14)	407
Income tax recovery (note 11)	(2,005)	—
Stock based compensation (note 14)	129	135
Non-cash interest expense and other financing costs	145	1,395
Receipt of finance lease receivable (note 4)	441	350
Gain on substantial debt modification (note 10)	—	(45)
Income taxes recovered	88	—
Cash flow from operating activities before changes in non-cash working capital	7,993	2,919
Changes in non-cash working capital (note 19)	(1,803)	63
Cash flow from continuing operating activities	6,190	2,982
Cash flow from discontinued operating activities (note 21)	—	1,561
Cash flow from operating activities	6,190	4,543
Investing activities		
Change in non-cash working capital related to investing activities (note 19)	128	343
Purchase of property and equipment (note 6)	(8,988)	(5,760)
Proceeds from disposal of property and equipment (note 6)	225	167
Proceeds from disposal of right-of-use assets (note 7)	28	—
Cash flow (used in) continuing investing activities	(8,607)	(5,250)
Cash flow from discontinued investing activities (note 21)	—	11,825
Cash flow (used in) from investing activities	(8,607)	6,575
Financing activities		
Proceeds from debt (note 8)	5,223	8,199
Repayment of debt (note 8)	(2,687)	(18,391)
Proceeds from Unit issuance, net of costs	1,984	—
Conversion of preferred shares	(39)	—
Payment of finance lease liability (note 9)	(1,612)	(1,653)
Proceeds from exercise of stock options	11	74
Cash flow (used in) financing activities	2,880	(11,771)
Net change in cash in the year	463	(653)
Cash, beginning of year	108	761
Cash, end of year	$ 571	$ 108

See accompanying notes to the Consolidated Financial Statements

1. CORPORATE INFORMATION AND NATURE BUSINESS:

Zedcor Inc. (the "Company") was formed under the laws of Alberta as a corporation on August 10, 2011. The Company is a technology enabled business that is changing how physical security services are provided to businesses. Zedcor operates throughout Canada with service centers in British Columbia, Alberta, Manitoba and Ontario. The Company has three main service offerings to customers across all market segments: 1) surveillance and live monitoring through its proprietary MobileyeZ security towers; 2) surveillance and live monitoring of fixed site locations; and 3) security personnel.

The Company is listed on the TSX Venture Exchange under the symbol ZDC.

2. BASIS OF PREPARATION:

a) Statement of compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") and in effect at the closing date of December 31, 2022. These consolidated financial statements were authorized for issue by the Company's Board of Directors on April 12, 2023.

b) Functional and presentation currency and basis of presentation

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency and presentation currency. All currency amounts have been rounded to the nearest thousand dollars, unless otherwise indicated.

The Company's consolidated financial statements are prepared under the historical cost convention, with the exception of items that IFRS requires to be measured at fair value. The accounting policies set out in note 3 have been applied consistently in the preparation of the consolidated financial statements.

c) Critical accounting estimates and significant management judgments

The following judgments and estimates are those deemed by management to be material to the Company's consolidated financial statements.

Depreciation and amortization

Amounts recorded for depreciation and amortization are based on the estimated useful lives and residual values of the underlying assets. Useful lives and residual values are based on management's best estimate using knowledge of past transactions and as such are subject to measurement uncertainty. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear and legal or other limitations to use. It is possible that changes in these factors may cause changes in the estimated useful lives and residual values of the Company's property and equipment, right of use assets, and intangible assets in the future.

Recoverability of assets

The Company assesses impairment on its non-financial assets when it has determined that a potential indicator of impairment exists. The assessment of the existence of impairment indicators is based on various internal and external factors and involves management's judgement. Impairment exists when the carrying value of a non-financial asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use ("VIU").

Assessing for indicators of possible impairment requires judgment in the assessment of facts and circumstances and is a subjective process that often involves a number of estimates and is subject to interpretation.

Allowance for doubtful accounts

Amounts included in allowance for doubtful accounts reflect the lifetime expected credit losses for trade receivables. Management determines allowances based on specific accounts of future expected credit losses, considering historical credit loss experience, current economic conditions, and forecasts of future economic conditions. Significant or unanticipated changes in economic conditions could impact the magnitude of future expected credit losses.

The Company uses the "expected credit loss" model for calculating allowance for doubtful accounts and recognizes expected credit losses as a loss allowance for assets measured at amortized cost. The Corporation's trade and other receivables are typically short-term with payments received within a twelve month period, do not have a significant financing component and are to customers with good credit ratings, therefore the Company recognizes expected credit losses based on specific reserves for individual customers. The carrying amount of these assets is net of any loss allowance.

Income taxes

Tax interpretations, regulations, and legislation, in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred taxes are assessed by management at the end of the reporting period to determine the likelihood that they may be realized from future taxable earnings.

Inventories

Management reviews the carrying amount of inventories at the end of each reporting year and the recorded amount is adjusted to the lower of cost or net realizable value. As part of the review, management is required to make certain assumptions when determining expected realizable amounts. The value of slow-moving inventories is based on management's assessment of market conditions for its products as determined by usage and estimated future demand.

Leases

IFRS 16 requires management to make judgements and estimates in order to determine the value of the right-of-use assets and the lease liabilities. Judgements may relate to the identification of a lease in a contract, calculation of the incremental borrowing rate and the determination of the lease term and whether an extension or termination option in a lease will be exercised. Estimates may relate to the lease term, separation of lease and non-lease components and the determination of the appropriate discount rates.

Share-based payments

The compensation costs relating to share-based payment arrangements are based on estimates of how many stock options and warrants will actually vest, be exercised, estimated volatility, future forfeiture rates and expected life of the stock options and warrants.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

a) Basis of consolidation:

These financial statements include the accounts of Zedcor Inc. and its wholly owned subsidiaries. Subsidiaries are those entities controlled by Zedcor Inc. Control exists when Zedcor Inc. has power over an investee, exposure or rights to variable returns from its involvement with its investees and the ability to use its power to affect its return from the investee. Subsidiaries are fully consolidated from the date on which control is transferred to Zedcor Inc. They are derecognized from the date that control ceases. The following entities have been included in these consolidated financial statements:

Zedcor Inc.	Parent
Zedcor Security Solutions Corp.	100% owned
Zedcor Security Solutions (USA) Corp.	100% owned
Zedcor Industrial Services Corp.	100% owned

Inter-entity balances, transactions and any unrealized gains or losses arising from inter-entity transactions are eliminated in the preparation of these consolidated financial statements.

b) Business combinations:

The acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets obtained, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquired business. The acquired business' identifiable net assets, including intangible assets, liabilities and contingent liabilities, are recognized at their fair values at the acquisition date.

To the extent the fair value of consideration paid exceeds the fair value of the net identifiable tangible and intangible assets, goodwill is recognized. To the extent the fair value of consideration paid is less than the fair value of net identifiable tangible assets and intangible assets, the excess is recognized in the statement of income (loss).

Transaction costs, other than those associated with the issuance of debt or equity securities, incurred in connection with a business combination, such as legal fees, due diligence fees and other professional and consulting fees, are expensed as incurred.

c) Inventory:

Inventories, which comprise of supplies and finished products for sale to customers, in the construction of the Company's assets or for parts and supplies in maintaining the Company's assets, are stated at the lower of cost and net realizable value. Costs of inventories are determined using the weighted average cost method and includes the cost of purchase and other costs required to bring the inventories to their present location and condition. Net realizable value represents the estimated selling price for inventories, less all estimated costs of completion and costs necessary to make the sale. The cost of finished product inventories includes the cost of materials and the cost of direct labour. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of write-down previously recorded is reversed.

Inventory is recognized as property and equipment when it meets the definition of property and equipment and are expected to be used in construction of the Company's own assets. Spare parts inventory is recognized in the statement of income (loss) when it is determined to be replacing broken parts on the Company's property and equipment.

d) Property and equipment:

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized in the statement of income (loss).

The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

IN THOUSANDS OF CANADIAN DOLLARS

Depreciation is provided for at the following rates and methods:

	Basis of depreciation	Useful life/ declining balance rate	Residual value
Security towers and support equipment	Straight line	3 to 10 years	0% to 10%
Technology equipment for security towers	Declining balance	30%	—
Rental equipment	Declining balance	20% to 30%	0% to 20%
Automotive and other equipment	Declining balance	20% to 30%	—
Furniture, computer, software and office equipment	Declining balance	20% to 100%	—

Leasehold improvements and right-of-use assets are amortized over the term of the lease or, for right-of-use assets where ownership is transferred at the end of the lease, over its estimated useful life.

e) Impairment of non-financial assets:

The carrying value of long-term assets, excluding goodwill, is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or CGU may not be recoverable. If indicators of impairment exist, the recoverable amount of the asset or CGU is estimated. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal and its VIU. Fair value is determined to be the amount for which the asset could be sold for in an arm's length transaction. The VIU calculation is based on a discounted cash flow model. The cash flows are derived from the Company's forecast and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Reversals of impairments are recognized when the indicators of an impairment loss recognized in prior periods may no longer exist, or may have decreased. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. In this event, the carrying amount of the asset or CGU is increased to its revised recoverable amount with an impairment reversal recognized in net earnings. The recoverable amount is limited to the original carrying amount less depreciation and amortization as if no impairment had been recognized for the asset or CGU for prior periods. An impairment loss in respect of goodwill is not reversed.

f) Leases:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease; if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

i. As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. 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 the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise of the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension options, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the term of the lease.

Practical expedient

In response to the COVID-19 pandemic, the IASB issued amendments to IFRS 16. This amendment introduces a practical expedient which allows lessees not to account for rent concessions as lease modifications if they are a direct consequence of COVID-19 and meet certain other conditions. The Company has applied this guidance to rent concessions received during the period ended December 31, 2021.

ii. As a lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract.

The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term.

g) Provisions:

A provision is recognized if, as a result of a past event, the Company has a legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

h) Onerous contracts:

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the asset associated with that contract.

i) Revenue recognition:

Revenue from security tower rentals is recognized over time as the rental service and monitoring is rendered, based upon agreed daily, weekly or monthly rates, and only if collectability is reasonably assured.

Revenue from fixed camera installations is recognized when inventories are sold to the customer and installed at client sites. If there is a substantial delay between delivery of inventories and installation of inventories, the Company separately recognizes revenue related to the inventory and the installation services. In these circumstances, the Company recognizes revenue upon shipment of inventory to customer location as performance is complete and only if it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. The Company recognizes revenue related to installation services when the services are rendered and complete and only if it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Revenue from monitoring contracts at fixed locations is recognized over time as the monitoring services are rendered, based upon agreed monthly rates and only if it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Revenue from security personnel services are recognized over time as the service is rendered, based upon agreed daily or hourly rate, and only if collectability is reasonably assured.

j) Equity settled transactions:

The Company has a share-based compensation plan that allows employees, contractors, officers and directors, who have been granted options, to purchase common shares at a set price over a specified time period. Option exercise prices approximate the market price of the shares on the date the options are granted. Options granted under the plan vest over three years and expire five years after the grant date.

Share based compensation expense is determined based on the estimated fair value of the options on the date they are granted. The fair value of the options granted is estimated using the Black-Scholes option pricing model. Factors used in this model include expected volatility, expected dividends, risk-free interest rates, expected life of the options and estimated future forfeitures.

The compensation expense is recognized in earnings over the vesting period, with a corresponding increase in contributed surplus.

Consideration paid on the exercise of the options is recorded as an increase in shareholders' equity together with corresponding amounts previously recognized in contributed surplus. Forfeitures are estimated for at date of grant, which may result in a reduction of compensation expense in the period of the forfeiture.

k) Finance costs:

Finance costs are comprised of interest expense on borrowings, amortization of the discount on the Note Payable and other non-cash finance costs, and are recognized in earnings when incurred. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset are recognized in profit or loss.

l) Income taxes:

Income tax expense is comprised of current and deferred tax. Current and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or recoverable on the taxable income or loss for the period, using tax rates enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that will not affect accounting nor taxable profit or loss.
- Temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be in effect when the temporary differences reverse, based on laws that have been enacted or substantially enacted at the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available in sufficient amounts to offset the tax losses, credits and temporary differences.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

m) Net income (loss) and comprehensive income (loss) per share:

Basic net income per share is determined by dividing the net income by the weighted average number of shares outstanding during the year. Diluted net income per share reflects the potential dilution that would occur if stock options and warrants were exercised. The treasury stock method is used to determine the dilutive effect of stock options and warrants. Under the treasury stock method only "in-the-money" options and warrants impact the dilution calculation.

n) Foreign currency translation:

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency at the year end are translated into Canadian dollars at the yearend spot rate. Foreign currency gains and losses resulting from fluctuations in exchange rates between the transaction dates and reporting dates are included in income in the period in which they occur. The Canadian dollar is the Company's functional and presentation currency.

o) Financial instruments:

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The "expected credit loss" model applies to financial assets measured at amortized cost, and contract assets and debt instruments at FVOCI.

Non-derivative financial assets

The Company initially recognizes accounts receivable and deposits on the date that they originate. All other financial assets (including assets designated at fair value through net income or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortized cost is calculated using the "expected credit loss" model and recognizes expected credit losses as a loss allowance. The Corporation recognizes an amount equal to the lifetime expected credit losses based on the Corporation's historical experience and including forward-looking information. The carrying amount of these assets in the consolidated statement of financial position is net of any loss allowance. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Company has the following non-derivative financial assets:

Financial instrument	Initial measurement	Subsequent measurement
Cash and cash equivalents	Amortized cost	Amortized cost
Accounts receivable	Amortized cost	Amortized cost

Cash and cash equivalents comprise of cash balances and cash deposits with original maturities of three months or less.

The Company initially recognizes trade and other receivable on the date that they originate. Impairment of trade and other receivables is recognized in selling, general and administration expenses when evidence of impairment arises. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss, or a portion of such is reversed. The amount of the impairment loss reversed may not exceed the original impairment amount.

Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they originate. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities:

Financial instrument	Initial measurement	Subsequent measurement
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Note payable	Amortized cost	Amortized cost
Debt	Amortized cost	Amortized cost

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Interest, losses and gains relating to the financial liability are recognized in profit or loss.

Financial derivatives not using hedge accounting

The Company holds derivative financial instruments at times to hedge its interest rate exposure. Financial derivatives not using hedge accounting are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are recognized at fair value and changes therein are accounted for in profit or loss.

p) Segment reporting:

The Company's operating segments are organized based on the operating structure of the Company's business and are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM"). The CEO has authority for resource allocation and assessment of the Company's performance and is therefore the CODM.

As a result of the sale of the Company's Rental assets on June 30, 2021, the Company only has one remaining segment – Security & Surveillance (S&S).

q) Government subsidies

Government subsidies are recognized only when there is reasonable assurance that (a) the Company will comply with any conditions attached to the subsidy and (b) the subsidy will be received. The government subsidies are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes the expense for the related costs for which the subsidies are intended to compensate. The Company has elected to present these amounts net of the related expense.

Government subsidies related to current expenses are recorded as a reduction of the related expenses. During the twelve month period ended December 31, 2021, the Company qualified for the Canada Emergency Wage Subsidy and the Canada Emergency Rent Subsidy programs and recognized $282 as a reduction to direct operating costs and $396 as a reduction to general and administrative expenses.

IN THOUSANDS OF CANADIAN DOLLARS

4. LEASE RECEIVABLE:

	Properties	Equipment	Total
At December 31, 2020	3,695	32	3,727
Additions	31	18	49
Payments	(413)	(33)	(446)
At December 31, 2021	3,313	17	3,330
Additions	—	10	10
Payments	(443)	(8)	(451)
At December 31, 2022	2,870	19	2,889

5. INVENTORY:

The major components of inventory are as follows:

	December 31, 2022	December 31, 2021
Finished goods	1,315	383
	1,315	383

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the average cost method and net realizable value is the estimated selling price in the ordinary course of business. As at December 31, 2022 and 2021, the balance of the Company's inventory was carried at weighted average cost.

The following tables summarizes the movements in inventory:

	December 31, 2022	December 31, 2021
Opening balance	383	—
Inventory additions	3,455	975
Expensed to direct operating costs	(552)	(91)
Reclassification to property and equipment	(1,971)	(501)
	1,315	383

The Company sells inventory to its customers and uses inventory in the assembly and maintenance of its property and equipment. Due to the nature of the Company's inventory and its supply chains, which were impacted by the COVID-19 pandemic and global supply chain shortages, the Company is required to purchase inventory in advance of being able to determine an expectation for its use. Management is required to use judgment on the classification of inventory.

IN THOUSANDS OF CANADIAN DOLLARS

6. PROPERTY AND EQUIPMENT:

Cost	Security towers & equipment	Automotive	Office furniture & computers	Leasehold improvements	Total
At December 31, 2020	52,943	241	1,175	177	54,536
Additions	5,233	—	440	87	5,760
Disposals and discontinued operations	(42,942)	(125)	(495)	(113)	(43,675)
At December 31, 2021	15,234	116	1,120	151	16,621
Additions	8,235	125	519	109	8,988
Disposals	(86)	(4)	(7)	(12)	(109)
At December 31, 2022	23,383	237	1,632	248	25,500

Accumulated depreciation	Security towers & equipment	Automotive	Office furniture & computers	Leasehold improvements	Total
At December 31, 2020	30,768	221	857	141	31,987
Depreciation	2,191	8	145	18	2,362
Elimination on disposal discontinued operations	(28,150)	(113)	(427)	(111)	(28,801)
At December 31, 2021	4,809	116	575	48	5,548
Depreciation	2,116	19	231	46	2,412
Elimination on disposal	(14)	—	—	(9)	(23)
At December 31, 2022	6,911	135	806	85	7,937

Net Book Value	Security towers & equipment	Automotive	Office furniture & computers	Leasehold improvements	Total
At December 31, 2021	10,425	—	545	103	11,073
At December 31, 2022	16,472	102	826	163	17,563

For the twelve months ended December 31, 2022, the Company sold assets with a net book value of $86 for proceeds of $225, resulting in a gain of $139 (twelve months ended December 31, 2021 - loss of $2,882).

At each reporting period, the Company reviews the carrying value of its property and equipment for indicators of impairment. As at December 31, 2022 and 2021, no indicators of impairment existed for the Company's security & surveillance CGU.

IN THOUSANDS OF CANADIAN DOLLARS

Change in accounting estimates

At the start of the fourth quarter of 2021, the Company conducted a review of its security tower assets. The review was based on the current economic and operating environment and considered the operating history of the security towers in order to assess their useful lives, pace of economic consumption and residual values. As a result of this review, effective October 1, 2021, certain changes were made to the Company's estimates of the useful life and residual values of these assets which is summarized as follows:

	Previous basis of depreciation	New basis of depreciation	Previous estimated useful life	New estimated useful life	Previous residual value	New residual value
Security towers and support equipment	Declining balance	Straight line	20% declining balance	3 to 10 years	20%	10%

As a result of these changes in estimates, which were applied prospectively, depreciation expense for the fourth of 2021 quarter was reduced by $108.

7. RIGHT-OF-USE ASSETS:

Cost	Properties	Automotive	Equipment	Total
At December 31, 2020	3,018	619	—	3,637
Additions	96	1,007	316	1,419
Disposals	(558)	(569)	—	(1,127)
Elimination on lease modification	(1,422)	—	—	(1,422)
Elimination on sublease	(848)	—	—	(848)
At December 31, 2021	286	1,057	316	1,659
Additions	1,806	772	106	2,684
Disposals	(191)	(219)	—	(410)
At December 31, 2022	1,901	1,610	422	3,933

Accumulated Depreciation	Properties	Automotive	Equipment	Total
At December 31, 2020	1,522	278	—	1,800
Depreciation	591	304	—	895
Disposals	(558)	(353)	—	(911)
Elimination on lease modification	(1,083)	—	—	(1,083)
Elimination on sublease	(332)	—	—	(332)
At December 31, 2021	140	229	—	369
Depreciation	351	453	134	938
Disposals	(191)	(122)	—	(313)
At December 31, 2022	300	560	134	994

IN THOUSANDS OF CANADIAN DOLLARS

Net Book Value	Properties	Automotive	Equipment	Total
At December 31, 2021	146	828	316	1,290
At December 31, 2022	1,600	1,051	288	2,939

During the year ended December 31, 2022, the Company:

a. Disposed of right-of-use automotive assets with a net book value of $97. This resulted in a gain on disposal of $14 (twelve months ended December 31, 2021 – $74).

b. Entered into a 36 month financing lease for certain inventory items for $106.

c. Ended the lease for one of its properties which reduced right-of-use cost by $191 and accumulated amortization by the same amount.

d. Entered into leases for new service center properties in Calgary, Ottawa, Toronto and Winnipeg; the Company also relocated its service center in Edmonton. The Company also entered into a lease for its head office space. This increased right-of-use asset cost by $1,806.

e. Expanded its fleet of vehicles which resulted in increased right-of-use asset cost by $772.

8. CREDIT FACILITIES:

	Interest rate	Final maturity	Facility maximum	Outstanding as at December 31, 2022	Outstanding as at December 31, 2021
Term Loan	5.15%	Oct 2026	6,100	4,748	5,861
Revolving Equipment Financing	Prime + 2.00%	Revolving	6,000	5,799	1,182
Authorized Overdraft	Prime + 1.50%	Revolving	3,000	—	905
				10,547	7,948
Current portion				(2,198)	(2,231)
Long term debt				8,349	5,717

On October 18, 2021, the Company repaid its existing credit facilities and entered into a new financing agreement ("Financing Agreement") which consists of:

1. A $6.1 million term loan that is fully committed for five years ("Term Loan"). The Term Loan bears interest at 5.15% and will have monthly blended principal and interest payments of $116. $4.4 million of the proceeds of the term loan was used to repay the Company's outstanding Loan and Security Facility.

IN THOUSANDS OF CANADIAN DOLLARS

2. A $3.0 million revolving equipment financing facility (“Revolving Equipment Financing”). The Company is able to draw on this facility at any time for up to 75% of new equipment purchases. The draws bear interest at Prime + 2.0% and each draw will be amortized over 5 years with blended principal and interest payments. As at December 31, 2022 the Prime Interest Rate was 6.45% and the interest rate on the Revolving Equipment Financing was 8.45%. As the Company pays down the debt, it can borrow back up to the facility maximum of $3.0 million.
3. An authorized overdraft facility (“Authorized Overdraft”) up to $3.0 million, secured by the Company’s accounts receivable, up to 75%, less priority payables which are GST payable, income taxes payable, employee remittances payable and WCB payables. The Authorized Overdraft is due on demand and any outstanding overdraft bears interest at Prime + 1.5%. As at December 31, 2022 the Prime Interest Rate was 6.45% and the interest rate on the Revolving Equipment Financing was 7.95%.

On April 27, 2022, the Company entered into an amended financing agreement with its lender (the “Amended Financing Agreement”) which expanded the Revolving Equipment Financing from $3.0 million to $6.0 million.

The Amended Financing Agreement is secured with a first charge over the Company’s current and after acquired equipment, a general security agreement, a subordination and postponement agreement with a director of the Company with respect to a note payable, and other standard non-financial security.

The agreement has the following annual financial covenant requirements for the fiscal year ends December 31, 2022 and onwards:

- a debt servicing covenant of no less than 1.25 to 1.00; and
- a funded debt to EBITDA covenant of no more than 3.00 to 1.00.

As at December 31, 2022, the Company is in compliance with its financial covenant requirements. The debt servicing ratio as calculated based on the Amended Financing Agreement was 3.66 to 1.00 and the funded debt to EBITDA was 1.42 to 1.00.

The following table summarizes the Company’s credit facility maturity:

Maturity Analysis	Total
Less than one year	2,854
Two to five years	9,340
More than five years	—
Total undiscounted liability as at December 31, 2022	**12,194**
Less: implicit interest	(1,647)
Total as at December 31, 2022	**10,547**

IN THOUSANDS OF CANADIAN DOLLARS

9. LEASE LIABILITES:

The following table summarizes the Company's lease liabilities based on type:

	Properties	Automotive	Equipment	Total
At December 31, 2020	6,521	343	—	6,864
Repayments	(1,348)	(305)	—	(1,653)
Additions	96	1,007	316	1,419
Disposals	—	(217)	—	(217)
Eliminations	(458)	—	—	(458)
At December 31, 2021	4,811	828	316	5,955
Repayments	(1,066)	(436)	(110)	(1,612)
Additions	1,823	772	107	2,702
Disposals	—	(94)	—	(94)
At December 31, 2022	5,568	1,070	313	6,951

The following table summarizes the Company's lease maturities:

Maturity Analysis	Total
Less than one year	2,198
Two to five years	5,685
More than five years	—
Total undiscounted lease payables as at December 31, 2022	**7,883**
Less: implicit interest	(932)
Total lease liabilities as at December 31, 2022	**6,951**

IN THOUSANDS OF CANADIAN DOLLARS

10. NOTE PAYABLE:

As at December 31, 2022, the note payable had a carrying value of $3,182.

Balance, December 31, 2020	**2,696**
Interest payable	175
Accretion of note payable discount	290
Extinguishment of note payable	(3,161)
Recognition of note payable at fair value	3,115
Balance, December 31, 2021	**3,115**
Accretion of note payable discount	67
Balance, December 31, 2022	**3,182**

The Note Payable is due to a corporation controlled by a director of the Company. It is due to mature on December 1, 2026 at its nominal value of $2.5 million. The Note Payable bears interest at 7% per annum, accruing daily from the issue date. The Company made monthly interest payments of $14 in 2022. The Note Payable is unsecured and subordinated to the Credit Facilities.

On December 1, 2021, the lender agreed to extend the maturity of the note from January 1, 2023 to December 1, 2026. Due to the extension of the term, this resulted in a substantial debt modification. Accordingly, the Company de-recognized the previously outstanding amount and, recognized a new financial liability of $3,115 using a discount rate of 7.4% and recorded a gain of $45 for the year ended December 31, 2021.

11. INCOME TAXES:

The major components of income tax expense are as follows:

	December 31, 2022	December 31, 2021
Current income tax expense	—	—
Deferred tax recovery	(2,005)	—
Provision for income taxes	(2,005)	—

IN THOUSANDS OF CANADIAN DOLLARS

Reconciliation of effective tax rate:

	December 31, 2022	December 31, 2021
Net loss before income tax	3,993	(3,901)
Statutory tax rate	24.3%	24.2%
Expected tax	970	(944)
Non-deductible expenses and non-taxable income	65	60
Change in valuation allowance	(3,175)	—
Unrecognized benefit of tax losses	—	989
Change in enacted tax rate	80	(253)
Difference in deferred tax rate on temporary differences	103	—
Prior year adjustment	(48)	148
Tax recovery	2,005	—

The statutory tax rate changed due to the Company's operations being in different provinces which have higher tax rates.

The Company's deferred assets and liabilities are as follows:

	December 31, 2022	December 31, 2021
Property & equipment	5,145	2,772
Right-of-use asset and lease receivables	(1,432)	(1,115)
Capital lease obligations	(1,708)	(1,657)
Net deferred tax asset	2,005	—

The following table summarizes the Company's unrecognized deductible temporary differences:

	December 31, 2022	December 31, 2021
Property & equipment	29,339	27,226
Non-capital losses	21,278	27,773
Capital losses	2,196	2,196

As at December 31, 2022 the Company's had non-capital loss carry forwards of approximately $21,278 (as at December 31, 2021 - $27,773) which are available to reduce future taxable income. $12,309 of these losses expire in 2036 and the remaining losses expire in 2037. During the year, the Company recognized $13,086 of the non-capital losses as a deferred tax asset which is equivalent to approximately two years of forecasted net income. Also included in the December 31, 2022 tax pools are net capital losses of $2,196 (as at December 31, 2021 - $2,196), which are available to reduce future capital gains and do not expire. However, these loses are unrecognized as a deferred income tax asset at December 31, 2022 and 2021, as management does not believe sufficient future net capital gains will be generated.

IN THOUSANDS OF CANADIAN DOLLARS

12. SHARE CAPITAL:

(a) Common share capital

Authorized:
The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares without par value.

Common shares issued and fully paid:	Number of shares	$
Balance, December 31, 2020	**57,611,244**	**107,625**
Issued as consideration for loan guarantee	295,369	75
Issued as consideration for loan fees	393,330	107
Balance, December 31, 2021	**58,299,943**	**107,807**
Unit issuance, net of issuance costs	5,233,930	1,203
Issued on conversion of preferred shares, net of issuance costs	4,400,000	2,825
Issued for stock dividend on conversion of preferred shares	2,883,386	1,328
Issued on exercise of stock options	75,000	20
Balance, December 31, 2022	**70,892,259**	**113,183**

On March 30, 2022, the Company issued 4,533,930 units ("Units") for $0.50 per Unit and total gross proceeds of $2,267. Each Unit consisted of one common share of the Company and one-half of one common share purchase warrant of the Company. Each whole common share purchase warrant entitles the holder thereof to acquire one common share at a price of $0.70 for a period of two years from the date of issue (note 13).

On April 6, 2022, the Company completed a private placement of 700,000 additional Units for $0.50 per Unit, and total gross proceeds of $350. As part of the private placement, the Company issued an additional 350,000 warrants which entitle the holders thereof to acquire one common share at a price of $0.70 for a period of two years from the date of issue (note 13).

Net proceeds of the March 30, 2022 and April 6, 2022 Unit issuances were allocated as follows:

Issue date	March 30, 2022	April 6, 2022	Total
Gross proceeds	2,267	350	2,617
Less: share issue costs	(582)	(51)	(633)
Net proceeds	1,685	299	1,984
Allocated to share capital	1,018	185	1,203
Allocated to warrants	667	114	781

(b) Preferred equity

Preferred shares issued:	Number of shares	$
Balance, December 31, 2021	**4,400,000**	**2,864**
Conversion of preferred shares to common shares	(4,400,000)	(2,864)
Balance, December 31, 2022	—	—

IN THOUSANDS OF CANADIAN DOLLARS

On April 7, 2022, the Company redeemed all outstanding Preferred Shares through the issuance of 4,400,000 common shares at the stated conversion price of $0.70 per share. In respect of the cumulative dividend payable on the Preferred Shares in the amount of $1,328, the Company issued 2,883,386 common shares.

13. WARRANTS:

Changes in the outstanding number, weighted average exercise price and movements in warrants are as follows:

Warrants issued	Number of warrants	$
Balance, December 31, 2021	**4,744,905**	**587**
Warrant issuance – March 30, 2022	2,266,965	667
Warrant issuance – April 6, 2022	350,000	114
Balance, December 31, 2022	**7,361,870**	**1,368**

As part of the Unit issuances completed on March 30, 2022 and April 6, 2022 (note 12), the Company issued 2,616,965 warrants. Each warrant issued allows the holder to acquire one common share at a price of $0.70 for a period of two years from the date of issue.

The fair value of the warrants was determined using the Black-Scholes model with the following assumptions:

Issue date	March 30, 2022	April 6, 2022
Expected annual dividend	$0.00	$0.00
Expected volatility	166%	152%
Risk-free interest rate	2.31%	2.37%
Expected life of warrants	2 years	2 years

The following table summarizes the Company's issued and outstanding warrants, exercise prices and expiry dates as at December 31, 2022:

Issue date	December 4, 2020	March 30, 2022	April 6, 2022
Warrants issued and outstanding	4,744,905	2,266,965	350,000
Exercise price	$0.12	$0.70	$0.70
Expiry date	Nov 25, 2024	Mar 30, 2024	Apr 6, 2024

Subsequent to the end of the year, 2,000,000 warrants were exercised at $0.12 per share (note 24).

IN THOUSANDS OF CANADIAN DOLLARS

14. STOCK OPTIONS:

Changes in outstanding and exercisable employee options are as follows:

	Number of options	Vested/ Exercisable	Exercise price	Remaining contractual life in years	Weighted average exercise price
Options as at December 31, 2020	**3,615,000**	**358,330**	**—**	**2.35**	**0.16**
Options vested	—	1,093,328	0.16	—	—
Options exercised	(393,330)	(393,330)	0.19	—	—
Options forfeited	(421,670)	(8,333)	0.165	—	—
Options granted – May 28, 2021	200,000	—	0.28	4.41	0.28
Options granted – August 25, 2021	150,000	—	0.305	4.65	0.305
Options as at December 31, 2021	3,150,000	1,049,995	—	3.43	0.17
Options vested	—	1,000,001	0.16	—	—
Options exercised	(75,000)	(75,000)	0.15	—	—
Options forfeited	(183,334)	(49,999)	0.21	—	—
Options granted – April 29, 2022	325,000	—	0.50	4.33	0.50
Options granted – August 18, 2022	350,000	—	0.50	4.63	0.50
Options as at December 31, 2022	3,566,666	1,924,997	—	2.86	0.23

The Company estimated the fair value of the 350,000 and 675,000 employee stock options issued in 2021 and 2022, respectively, using the Black-Scholes method of valuation. All options vest equally over three years on each of the first, second and third anniversaries of the grant date. The Black-Scholes estimate of fair value used the following assumptions:

Issue date	**August 18, 2022**	**April 29, 2022**	**August 25, 2021**	**May 28, 2021**
Expected annual dividend	$0.00	$0.00	$0.00	$0.00
Expected volatility	153.7%	157.1%	170.8%	174.3%
Risk-free interest rate	3.27%	2.64%	0.53%	0.45%
Expected life of options	2.85 years	2.73 years	2.68 years	2.71 years
Expected forfeiture rate	37.2%	38.1%	40.3%	40.4%
Grant date fair value	$0.41	$0.36	$0.26	$0.24

During the year ended December 31, 2022, $129 of stock-based compensation related to these stock options was recorded in general and administrative expenses (twelve months ended December 31, 2021 - $135). At December 31, 2022, the weighted average price of exercisable options was $0.23 (as at December 31, 2021 - $0.17).

IN THOUSANDS OF CANADIAN DOLLARS

15. PER SHARE AMOUNTS:

Basic and diluted earnings per share have been calculated on the basis of weighted average number of common shares outstanding as outlined below:

	December 31, 2022	December 31, 2021
Net income (loss) for the period	5,998	(3,901)
Less: dividend on preferred shares for the period	(82)	—
Net income (loss) for the period attributable to common shareholders	5,916	(3,901)
Weighted average number of shares outstanding – basic	67,639,086	57,885,234
Earnings (loss) per share – basic	0.09	(0.07)
Weighted average number of shares outstanding – basic	67,639,086	57,885,234
Share option dilution	1,836,282	—
Warrant dilution	3,452,133	—
Weighted average number of shares outstanding – diluted	72,927,501	57,885,234
Earnings (loss) per share – diluted	0.08	(0.07)

The diluted weighted average reflects the dilutive effect of "in-the-money" options outstanding. As at December 31, 2022 2,891,666 issued options and 4,744,905 warrants were "in-the-money". As at December 31, 2021 all issued options and warrants were "in-the-money" but were not used in the purposes of the diluted weighted average number of shares as they would be anti-dilutive.

16. REVENUE:

Revenue is generated from the following sales and services:

	December 31, 2022	December 31, 2021
Security tower surveillance services	20,485	12,851
Fixed site monitoring services	1,030	499
Security personnel	584	200
	22,099	13,550

17. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses from continuing operations are comprised of the following:

	December 31, 2022	December 31, 2021
Administrative salaries and office costs	4,426	2,538
Professional and consulting fees	329	245
Advertising, promotion, and investor relations	329	195
Computer and technology related expenses	272	317
Bad debt expenses	10	—
Stock based compensation	129	135
	5,495	3,430

IN THOUSANDS OF CANADIAN DOLLARS

18. FINANCE COSTS:

Finance costs are comprised of the following:

	December 31, 2022	December 31, 2021
Bank charges and interest	30	29
Interest on debt	561	2,482
Interest and accretion of discount on note payable (note 10)	242	465
Interest on finance leases	230	188
	1,063	3,164

19. CHANGES IN NON-CASH WORKING CAPITAL:

Changes in non-cash working capital related to operating activities:

	December 31, 2022	December 31, 2021
Accounts receivable	(1,556)	48
Inventory	(932)	(383)
Prepaid expenses and deposits	(216)	(43)
Accounts payable and accrued liabilities	901	441
Income taxes payable	—	—
	(1,803)	63
Change in accounts payable related to investing activities	128	343
Total change in non-cash working capital	(1,675)	406
Supplementary information:		
Cash interest paid	918	1,769
Taxes recovered	(88)	—

20. RELATED PARTY TRANSACTIONS:

a) Key management personnel compensation:

In addition to their salaries, the Company also provides non-cash benefits to executive officers. The Company has no retirement or post-employment benefits available to its directors and executive officers.

The remuneration of key management personnel and directors during the year ended December 31 was:

	2022	2021
Short term employment salary and benefits	1,455	891
Share-based payments expense	69	93

b) Transactions with key management personnel and directors:

On February 2, 2016 the Company issued a vendor take back note as part of an acquisition. During 2017, the holder of the vendor take back note was elected as a director of the Company. As at December 31, 2022, the note payable had a carrying value of $3,182 (as at December 31, 2021 - $3,115) (note 10).

The Company had the following related party transactions for continued operations for the twelve months ended December 31, 2022:

- $nil in rent, property taxes and building operating costs paid for two buildings to corporations owned by a director of the Company (twelve months ended December 31, 2021 - $257).
- $nil paid to a director of the Company for a personal guarantee provided on the Long Term Debt (twelve months ended December 31, 2021 - $75).
- $120 in wages paid to close family members of an executive officer (December 31, 2021 - $132).
- $99 in corporate secretarial services paid to a company owned by a close family member of an executive officer (December 31, 2021 - $70).
- $41 in promotional products purchased from a company owned by a close family member of an executive officer (twelve months ended December 31, 2021 - $64).
- $612 in management fees and rent received from a company controlled by a director as per the purchase and sale agreement for the sale of the Company's Rentals assets (twelve months ended December 31, 2021 - $301) (note 21). In addition, the Company purchased $70 in services from the same company (twelve months ended December 31, 2021 - $nil).
- $883 in bonus payments were received during the year from a company controlled by a director as per the purchase and sale agreement for the sale of the Company's Rentals assets (twelve months ended December 31, 2021 - $nil) (note 21).

These related party transactions are in the normal course of business and have been recorded at the exchange amount. At December 31, 2022 the amounts receivable from related parties was $107 and amounts payable to related parties was $7 (as at December 31, 2021 - $54 receivable and $39 payable).

21. DISCONTINUED OPERATIONS:

On June 30, 2021, the Company sold the assets of its Rentals Segment to a company controlled by a director of the Company for gross proceeds of $11.3 million. The sale allows the Company to focus on its Security & Surveillance business while reducing the debt on its balance sheet.

In addition to the gross proceeds of $11.3 million, the Company will receive a monthly management fee for up to 36 months after the closing date. The Company may also receive an annual bonus payment of 35% of EBITDA in excess of certain annual targets. The annual targets are calculated on the first, second, and third anniversary dates of closing. No accrual for these fees or bonus payments has been made in the Consolidated Financial Statements as they are contingent receivables. The Company earned $600 in management fees for the year ended December 31, 2022 (year ended December 31, 2021 - $301) and $883 in bonus payments for the year ended December 31, 2022 (year ended December 31, 2021 - $nil). The management fees have been netted against general and administrative expenses while the bonus payment is recorded in other income on the consolidated statements of income (loss) and comprehensive income (loss).

IN THOUSANDS OF CANADIAN DOLLARS

The following tables summarize the Company's discontinued operations the years ended December 31, 2022 and 2021:

	Year ended December 31, 2022	2021
Revenues	—	3,052
Direct expenses	—	
Direct operating costs	—	1,085
Depreciation of equipment	—	737
	—	1,822
Gross margin	—	1,230
Operating expenses		
General and administrative	—	406
Depreciation of right-of-use assets	—	246
Loss on sale of equipment	—	199
Impairment	—	—
	—	851
Operating income (loss)	—	379
Loss on sale of discontinued operations	—	(2,700)
Loss before income taxes	—	**(2,321)**

Cash flows from discontinued operations:

	Year ended December 31, 2022	2021
Net cash flow from operating activities	—	1,561
Net cash flow from investing activities	—	11,825
Net cash flow from financing activities	—	—
Net cash flows	—	**13,386**

22. CAPITAL MANAGEMENT:

The Company's objective when managing capital is to prudently exercise financial discipline and to deliver positive returns. The Company's capital management strategy remained unchanged during the year ended December 31, 2022.

The Company monitors capital based on the ratio of debt to Adjusted EBITDA (Adjusted EBITDA is a non-GAAP measure and defined as net income before interest, taxes, depreciation, amortization, gain or loss on disposal of property and equipment and non-cash share-based compensation plus non-recurring charges such as acquisition expenses, refinancing charges and severance payments). This ratio is calculated as debt, defined as total liabilities excluding trade payables and other accrued current liabilities incurred in the ordinary course of business, and deferred income taxes divided by Adjusted EBITDA. The Company's strategy is to maintain the debt to EBITDA ratio and debt service coverage ratios within the parameters as set out in the Company's current loan agreement (note 8).

The Company considers its capital structure to include shareholders' equity, credit facilities, and working capital. In order to maintain or adjust its capital structure, the Company may from time to time, issue shares and adjust its capital spending to manage the level of its short-term borrowings, or may revise the terms of its credit facilities to support future growth initiatives.

23. FINANCIAL INSTRUMENTS:

a) Fair value:

The fair value of the Company's financial instruments consisting of cash, accounts receivable, accounts payable and accrued liabilities, current debt, note payable and long term debt approximate their carrying value as at December 31, 2022 and 2021, due to their short-term maturities, floating interest rates and that the interest rate for the Note payable approximates market interest rates.

b) Credit risk:

Credit risk is the risk of financial loss resulting from a customer or counter party to a financial instrument failing to meet its obligation to the Company. Credit risk arises principally from the Company's cash, accounts receivable and leases receivable.

The Company is exposed to credit risk with respect to cash and actively manages that risk with deposits at reputable financial institutions.

The Company is exposed to credit risk with respect to accounts receivable as it has a concentration of customers involved in the pipeline construction industry. The Company's accounts receivable represent balances owing, largely, by a number of unrelated companies with no significant exposure to any individual customer, other than two investment grade pipeline construction companies with an accounts receivable balance of 51% of the total year end receivable balance. Management believes that the Company's credit risk with respect to accounts receivable is limited due to the Company's broad customer base. Historically credit losses have not been significant.

The Company considers accounts that have been outstanding for more than 90 days as past due. The allowance for doubtful accounts in respect of trade receivables is used to record impairment losses unless the Company is satisfied that a recovery of the amount owing is extremely remote, at which point the amounts are considered irrecoverable and are written off against the trade receivables directly.

IN THOUSANDS OF CANADIAN DOLLARS

Aging of accounts receivable is as follows:

	December 31, 2022	December 31, 2021
Trade receivables, gross:		
Outstanding 1 - 30 days	2,427	1,512
Outstanding 30 – 60 days	1,893	984
Outstanding over 60 days	376	414
	4,696	2,910
Allowance for doubtful accounts	(50)	(50)
Trade receivables, net	4,646	2,860
Sales tax and other receivables	53	283
Accounts receivable	4,699	3,143

The movement in the allowance for doubtful accounts in respect of trade receivables during the years ended December 31, 2022 and 2021 was as follows:

	2022	2021
Balance as at January 1,	50	74
Decrease in allowance of trade receivables	—	(24)
Balance as at December 31,	50	50

Based on historical default rates, the Company believes that no additional bad debt allowance is necessary in respect of trade receivables.

The Company is also exposed to credit risk with respect to lease receivables. A significant portion of the lease receivable balance is due from one sublessor. Management believes that the Company's credit risk with respect to leases receivable is limited as the sublessor is a large company with a diversified customer base and diversified operations.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due.

At December 31, 2022, the Company had working capital of $163 (as at December 31, 2021 - ($1,520)). The Company believes that future cash flows from operations will be sufficient to meet its obligations as they arise.

IN THOUSANDS OF CANADIAN DOLLARS

The following table shows the undiscounted contractual maturities of the Company's financial liabilities and financial lease obligation as at December 31, 2022:

	1 Year	2-3 years	4-5 years	Thereafter	Total	Carrying value
Accounts payable and accrued liabilities	3,409	—	—	—	3,409	3,409
Current debt	2,854	—	—	—	2,854	2,198
Long-term debt	—	5,708	3,632	—	9,340	8,349
Note payable	175	350	3,625	—	4,150	3,182
Finance lease liabilities	2,198	3,668	2,017	—	7,883	6,951
Total	8,636	9,726	9,274	—	27,636	24,089

The Company is actively managing its financing and cash flow from operations to ensure adequate liquidity is available through fiscal year 2023. As at December 31, 2022, the Company's debt service coverage ratio, calculated in accordance with the agreement with the lender, was 3.66:1.00 which is above the requirement of 1.25:1.00. In addition, the Company is not forecasting a breach of covenants for fiscal year 2023. This expectation could be adversely affected by a material negative change or a longer than anticipated downturn in the economy. The Company regularly prepares and updates budgets and forecasts in order to monitor its liquidity and ability to meet its financial obligations and commitments, including the ability to comply with the financial covenants. If available liquidity is not sufficient to meet the Company's operating and debt servicing obligations as they come due, management's plans include further expenditure reductions, asset dispositions, or pursuing other corporate strategic alternatives.

d) Market risk

Interest rate risk:

Interest rate risk is the risk that the fair value of a financial instrument or its cash flows will fluctuate as a result of changes in interest rates. As at December 31, 2022, the Company has $5,799 of floating interest rate debt. At December 31, 2022, a 1% change in interest rates on the floating rate debt would result in a $58 change to net income before taxes (December 31, 2021 - $21).

Currency risk:

Currency risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Company purchases equipment, parts and supplies from foreign suppliers that are denominated in United States dollars. At December 31, 2022 $40 of accounts payable and accrued liabilities was denominated in foreign currencies. Management does not believe that its foreign currency risk would result in a material loss due to the short-term nature of the foreign currency denominated payables and does not employ derivative instruments to manage foreign currency risk.

Dependence on major customers:

The Company generates approximately 72% of its revenue from continuing operations from its top three customers (twelve months ended December 31, 2021 – 65% from largest customer). No other customer accounts for more than 10% of revenue from continuing operations. There can be no assurance that the current customers will continue their relationships with the Company. The loss of the Company's major customer, or any significant decrease in services provided to a customer, prices paid or any other changes to the terms of service with customers, could have a material adverse effect on the financial results, cash flows, and the overall financial condition of the Company.

24. SUBSEQUENT EVENTS

One million warrants were exercised for common shares on February 21, 2023. A further one million warrants were exercised for common shares on March 8, 2023. Total proceeds from the warrant exercises subsequent to December 31, 2022 was $240.