# INEO Tech Corp.

## Interim Condensed Consolidated Financial Statements

As at and for the six months ended December 31, 2021

(Expressed in Canadian Dollars)

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management of the Company is responsible for the preparation of the accompanying unaudited interim condensed consolidated financial statements. The unaudited interim condensed consolidated financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS") for the preparation of interim condensed financial statements and are in accordance with IAS 34 – Interim Financial Reporting.

The Company's auditor has not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

February 23, 2022

## INEO Tech Corp.

Interim Condensed Consolidated Statements of Financial Position
(Unaudited - expressed in Canadian dollars)

| | Note | | 31-Dec-21 | | 30-Jun-21 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Cash | | $ | **3,653,331** | $ | 5,199,328 |
| Accounts receivable | 4 | | **118,434** | | 108,758 |
| GST recoverable | | | **22,048** | | 20,301 |
| Inventory | 5 | | **159,824** | | 98,908 |
| Prepaid expenses | 6 | | **113,368** | | 52,576 |
| | | | **4,067,005** | | 5,479,871 |
| **Non-current assets** | | | | | |
| Equipment | 7 | | **702,418** | | 561,974 |
| Right-of-use asset | 17 | | **98,331** | | 113,857 |
| | | | **800,749** | | 675,831 |
| **Total assets** | | $ | **4,867,754** | $ | 6,155,702 |
| | | | | | |
| **Liabilities and Shareholders' Equity (Deficiency)** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable and accrued liabilities | 8 | $ | **447,232** | $ | 368,331 |
| Government grants | 10 | | **103,381** | | 95,957 |
| Due to related parties | 13 | | **15,944** | | 9,750 |
| Current portion of lease liability | 18 | | **29,023** | | 26,868 |
| Loan payable | 9 | | **162,500** | | 156,250 |
| | | | **758,080** | | 657,156 |
| **Non-current liabilities** | | | | | |
| Non-current portion of lease liability | 18 | | **79,901** | | 94,934 |
| | | | **79,901** | | 94,934 |
| **Total liabilities** | | | **837,981** | | 752,090 |
| | | | | | |
| **Shareholders' equity** | | | | | |
| Share capital | 11 | | **13,535,082** | | 13,518,831 |
| Reserves | 11 | | **609,070** | | 505,918 |
| Deficit | | | **(10,114,379)** | | (8,621,137) |
| | | | **4,029,773** | | 5,403,612 |
| **Total liabilities and shareholders' equity** | | $ | **4,867,754** | $ | 6,155,702 |

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

Nature and continuance of operations (Note 1)

Subsequent event (Note 20)

Approved on behalf of the Board on February 23, 2022:

*"Steve Matyas"*
Steve Matyas - Director

*"Serge Gattesco"*
Serge Gattesco – Director

# INEO Tech Corp.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
(Unaudited - expressed in Canadian dollars)

| | Note | For the three months ended | | For the six months ended | |
|---|---|---|---|---|---|
| | | 31-Dec-21 | 31-Dec-20 | 31-Dec-21 | 31-Dec-20 |
| **Sales** | 19 | **$ 256,987** | $ 187,239 | **$ 495,658** | $ 335,389 |
| **Cost of Sales** | 19 | **(162,691)** | (107,952) | **(306,970)** | (199,461) |
| **Gross Profit** | | **94,296** | 79,287 | **188,688** | 135,928 |
| **Expenses** | | | | | |
| General and administrative expenses | 12, 13 | **359,068** | 331,866 | **716,088** | 559,785 |
| Selling and marketing | 12 | **322,768** | 165,589 | **616,625** | 324,972 |
| Research and development | 12 | **178,114** | 122,203 | **357,185** | 222,843 |
| | | **(859,950)** | (619,658) | **(1,689,898)** | (1,107,600) |
| **Net Income (loss) before other income (expenses)** | | **(765,654)** | (540,371) | **(1,501,210)** | (971,672) |
| **Other Income (Expenses)** | | | | | |
| Other income | 10, 12 | **10,262** | 27,331 | **17,873** | 113,472 |
| Foreign exchange gain (loss) | | **523** | (3,065) | **3,771** | (2,719) |
| Interest expense | 9,10 | **(6,907)** | (9,147) | **(13,676)** | (18,453) |
| | | **3,878** | 15,119 | **7,968** | 92,299 |
| **Loss and comprehensive loss** | | **$ (761,776)** | $ (525,252) | **$ (1,493,242)** | $ (879,373) |
| **Weighted average number of common shares outstanding - basic and diluted** | 11 | **60,170,462** | 40,680,740 | **60,158,115** | 40,680,740 |
| **Basic and diluted loss per share** | | **$ (0.01)** | $ (0.01) | **$ (0.02)** | $ (0.02) |

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

# INEO Tech Corp.

Interim Condensed Consolidated Statements of Shareholders' equity
(Unaudited - expressed in Canadian dollars)

| | Note | Share capital: Number of shares # | Share capital: Amount | Reserves | Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| **Balance, June 30, 2020** | | **40,680,740** | **$ 7,505,487** | **$ 70,150** | **$ (6,383,249)** | **$ 1,192,388** |
| Stock-based compensation | 12 | - | - | 153,610 | - | 153,610 |
| Net loss and comprehensive loss | | - | - | - | (879,373) | (879,373) |
| **Balance, Dec 31, 2020** | | **40,680,740** | **$ 7,505,487** | **$ 223,760** | **$ (7,262,622)** | **$ 466,625** |
| | | | | | | |
| **Balance, June 30, 2021** | | **60,145,768** | **$ 13,518,831** | **$ 505,918** | **$ (8,621,137)** | **$ 5,403,612** |
| Stock-based compensation | 12 | - | - | 103,878 | - | 103,878 |
| Warrants exercised | 11 | 44,370 | 16,251 | - - | | 16,251 |
| FV Warrants exercised | | - | - | (726) | - | (726) |
| Net loss and comprehensive loss | | - | - | - | (1,493,242) | (1,493,242) |
| **December 31, 2021** | | **60,190,138** | **$ 13,535,082** | **$ 609,070** | **$ (10,114,379)** | **$ 4,029,773** |

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

# INEO Tech Corp.

Interim Condensed Consolidated Statements of Cash Flow
(Unaudited - expressed in Canadian dollars)

| | For the period ended | |
|---|---|---|
| | **31-Dec-21** | **31-Dec-20** |
| Cash flows used in operating activities: | | |
| Net loss for the period | **$ (1,493,242)** | $ (879,373) |
| Items not involving cash: | | |
| Amortization of right-of-use asset | **15,526** | 15,526 |
| Amortization on equipment | **60,802** | 34,135 |
| Interest expense accrued | **20,955** | 18,453 |
| Stock based compensation | **103,152** | 153,610 |
| Lease interest | **3,486** | 8,764 |
| Bad and doubtful debt | **-** | 149 |
| Change in non-cash operating working capital: | | |
| Accounts receivable | **(13,162)** | 116,492 |
| Accounts payable and accrued liabilities | **78,902** | 24,717 |
| Due to related parties | **6,194** | - |
| GST recoverable | **(1,747)** | (4,792) |
| Inventory | **(60,916)** | 131,668 |
| Prepaid expenses | **(60,792)** | (107,612) |
| | **(1,340,842)** | (488,263) |
| Cash flows used in investing activities: | | |
| Purchase of equipment | **(201,247)** | (208,149) |
| | **(201,247)** | (208,149) |
| Cash flows used in financing activities: | | |
| Loan repayment | **-** | (28,699) |
| Proceeds from the exercise of warrants | **16,251** | - |
| Payments for lease obligations | **(20,159)** | (19,740) |
| | **(3,908)** | (48,439) |
| Change in cash during the period | **(1,545,997)** | (744,851) |
| Cash, beginning of period | **5,199,328** | 1,252,638 |
| Cash, end of period | **$ 3,653,331** | $ 507,787 |

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

## 1. NATURE AND CONTINUANCE OF OPERATIONS

INEO Tech Corp. (formerly Metron Corp.) (the "Company" or "INEO"), is a Canadian company incorporated under the laws of the Province of British Columbia on March 4, 2008. The Company's shares trade on the TSX Venture Exchange ("TSX-V") under the symbol 'INEO'. The corporate head office and records office of the Company is located at 105 – 19130 24 Avenue Surrey, BC, V3Z 3S9.

INEO is the inventor and operator of the *INEO Media Network* for retailers which provides retail analytics and targeted advertising through its cloud-based IoT (Internet of Things) and AI (Artificial Intelligence) technology. The Company operates the *INEO Media Network* using SaaS-based model to retail stores. The Company has a key patent on the underlying technology to enable this network and its had prototyped and proven-out the scalability of the technology with over 140 retailers in western Canada.

The key innovation INEO has achieved is the development of patented, proprietary technology which enables the company to put bright, bold digital signage inside of loss prevention systems located at the front entrance of retail stores. The Company's technology displaces the antiquated, legacy retail loss prevention systems used by the vast majority of retailers to prevent theft. Traditionally, retailers have had limited choices for loss-prevention systems – which typically consist of a standalone tag-detection system at the front door of the retailer. INEO has patented and developed a system that replaces these legacy systems with a combined loss-prevention, digital signage and data-capture kiosk – the key component of the INEO *Media Network.*

These interim condensed consolidated financial statements, including comparatives, (the 'Financial statements') have been prepared in accordance with International Financial Reporting Standards ("IFRS") with the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company's ability to realize its assets and discharge its liabilities is dependent upon the Company obtaining the necessary financing and ultimately upon its ability to achieve profitable operations. Management estimates that the Company will be able to meet its obligations and to sustain operations for at least the next twelve months.

For significant expenditures, the Company will depend on external capital. Such external capital will include the issuance of additional equity shares. There can be no assurance that capital will be available, as necessary, to meet the Company's operating commitments and development plans. The issuance of additional equity securities by the Company may result in dilution to the equity interests of current shareholders.

The Company's future capital requirements will depend on many factors, including the cash flows from its operating activities, costs of research and developing its products, operating costs, the current capital market environment, and global market conditions.

The continued operations of the Company are dependent on its ability to generate revenues, develop a sufficient financing plan, receive continued financial support from related parties, complete sufficient public equity financing, and ultimately generate profitable operations in the future. The Company has no assurance that it will be successful in its efforts. If the Company is unable to obtain financing in the amounts and on terms deemed acceptable, the future success of the business could be adversely affected.

## 1. NATURE AND CONTINUANCE OF OPERATIONS (CONTINUED)

The Company's business, operations and financial condition could be materially adversely affected by the outbreak of epidemics or pandemics or other health crises. In December 2019, novel coronavirus ("COVID-19") surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020 with respect to the outbreak then characterized it as a pandemic on March 11, 2020. The outbreak has spread throughout the world. The escalating cases of COVID-19 in Canada and the United States, caused companies and various international jurisdictions to impose restrictions, such as quarantines, closures, cancellations and travel restrictions. While these effects are expected to be temporary, the duration of the business disruptions internationally and related financial impact cannot be reasonably estimated at this time. Such public health crises can result in volatility and disruptions in global supply chains, business operation and financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which could affect, interest rates, credit ratings, credit risk and inflation. The risks to the Company of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in geographic locations impacted by an outbreak, labor shortages, travel and shipping disruption and shutdowns (including as a result of government regulation and prevention measures). At this point, the extent to which COVID-19 may impact the Company is uncertain; however, it is possible that COVID-19 may have a material adverse effect on the Company's business and financial condition. If the Company is unable to mitigate the impacts of the COVID-19 outbreak on its operations, they may be unable to fulfill their product delivery obligations to customers, their costs may increase, and their revenues and margins could decrease.

These Financial statements, including comparatives, have been prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

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

## 2. BASIS OF CONSOLIDATION AND PREPARATION

These Financial statements were authorized for issue by the Board of Directors on February 23, 2022.

These Financial statements are presented in Canadian dollars and include the accounts of the Company and its wholly-owned subsidiaries, each having a Canadian functional currency.

| Entity | Parent | Country of Incorporation | Effective Interest |
|---|---|---|---|
| INEO Solutions Inc. | INEO Tech Corp. | Canada | 100% |
| FG Manufacturing Inc. (“FG”) | INEO Solutions Inc. | Canada | 100% |

These Financial statements include the accounts of the Company and its subsidiaries of which it has control. All intercompany balances, transactions and any unrealized gains and losses arising from intercompany transactions, have been eliminated.

**Use of estimates and judgments**

The preparation of these Financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues and expenses. Estimates and associated assumptions applied in determining asset or liability values are based on historical experience and various other factors including other sources that are believed to be reasonable under the circumstances but are not necessarily readily apparent or recognizable at the time such estimate or assumption is made. Actual results may differ from these estimates.

The information about significant areas of estimation uncertainty considered by management in preparing the Financial statements is as follows:

*Inventories*

Inventories are valued at the lower of cost and net realizable value. Cost of inventory includes cost of purchase (purchase price, import duties, transport, handling, and other costs directly attributable to the acquisition of inventories), and other costs incurred in bringing the inventories to their present location and condition. Net realizable value for inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Provisions are made in profit or loss in the period for any difference between book value and net realizable value.

*Equipment*

The estimated useful lives of assets are reviewed by management and adjusted if necessary. To estimate equipment’s useful life, management must use its past experience with the same or similar assets and may review industry practices for similar pieces of equipment and apply statistical methods to assist in its determination of useful life.

## 2. BASIS OF CONSOLIDATION AND PREPARATION (CONTINUED)

### Use of estimates and judgments (continued)

*Income taxes*

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

The information about significant areas of judgment considered by management in preparing these Financial statements is as follows:

*Going concern*

The assessment of the Company's ability to continue as a going concern as discussed in Note 1, involves judgment regarding future funding available for its operations and working capital requirements.

*Stock options and warrants*

Management assesses the fair value of stock options granted in accordance with the accounting policy stated in Note 3. The fair value of stock options granted is measured using the Black-Scholes option pricing model, which was created for use in estimating the fair value of freely tradable, fully transferable options. The Company’s stock options have characteristics significantly different from those of traded options, and changes in the highly subjective input assumptions can materially affect the calculated values. The fair value of stock options granted using the Black-Scholes option pricing model do not necessarily provide a reliable measure of the fair value of the Company’s stock option awards.

*Business combinations*

Business combinations require management to exercise judgment in measuring the fair value of assets acquired and liabilities and contingent liabilities incurred or assumed. Judgment is also required in determining what qualifies as part of consideration paid.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Cash and cash equivalents**
Cash and cash equivalents include cash on hand and in banks. Cash and cash equivalents are held with Canadian financial institutions. As at December 31, 2021 and 2020, there were no cash equivalents.

**Inventory**
The Company values inventories at the lower of cost and net realizable value. Cost includes the costs of purchases, net of vendor allowances, plus other costs, such as transportation, that are directly incurred to bring the inventories to their present location and condition. The Company uses the FIFO method to determine the cost of inventories. The Company estimates net realizable value as the amount that inventories are expected to be sold while taking into consideration the estimated selling costs. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage, or declining market prices. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is apparent evidence of an increase in selling price then the amount of the write-down previously recorded is reversed. Storage costs, indirect administrative overhead, and certain selling costs related to inventories are expensed in the period incurred.

**Financial instruments**

Classification
The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The following table shows the classification of financial instruments:

| | |
|---|---|
| Cash | FVTPL |
| Accounts receivable | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| Government grants | Amortized cost |
| Loans payable | Amortized cost |
| Due to related parties | Amortized cost |

Measurement
*Financial assets at FVTOCI*
Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

*Financial assets and liabilities at amortized cost*
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial instruments (continued)**

*Financial assets and liabilities at FVTPL*
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of loss and comprehensive loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in the statements of loss and comprehensive loss.

<u>Impairment of financial assets at amortized cost</u>
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 on the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of loss and comprehensive loss, as an impairment gain or loss, the amount
of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

<u>Derecognition</u>
*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 of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of loss and comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

*Financial liabilities*
The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, 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 statements of loss and comprehensive loss.

**Foreign currency translation**
These Financial statements are presented in Canadian dollars, which is the Company's and its subsidiaries' functional and presentation currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are re-translated at the period-end exchange rate.

Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined. Exchange gains and losses arising on translation are recognized in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Equipment

On initial recognition, equipment is valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Equipment is subsequently measured at cost less accumulated amortization, less any accumulated impairment losses. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognized net within other income in profit or loss.

The amortization rates applicable to each category of property and equipment are as follows:

| | |
|---|---|
| Furniture and equipment | - 20-50% declining balance |
| Computer hardware | - 55% declining balance |
| Motor vehicle | - 20% declining balance |
| Installed units | - 20% declining balance |

### Share capital

The Company records proceeds from the issuance of its common shares as equity. Proceeds received on the issuance of common shares are allocated to the common share component. The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placement was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted price on the issuance date. The remaining proceeds, if any, are allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrant reserve. Management does not expect to record a value to the warrant in most equity issuances as unit private placements are commonly priced at market or at a permitted discount to market. If the warrants are issued as share issuance costs, the fair value of agent's warrants are measured using the Black-Scholes Option Pricing Model and recognized in equity as a deduction from the proceeds.

If the warrants are exercised, the related amount is reclassified as share capital. If the warrants expire unexercised, the related amount remains in warrant reserve.

Incremental costs directly attributable to the issue of new common shares are shown in equity as a deduction, net of tax, from the proceeds. Common shares issued for consideration other than cash are valued based on their market value at the date that shares are issued.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Share-based payments**

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve. The fair value of options is determined using the Black-Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting
period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

**Net loss per share**

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated using the treasury stock method. This method assumes that common shares are issued for the exercise of options, warrants and convertible securities and that the assumed proceeds from the exercise of options, warrants and convertible securities are used to purchase common shares at the average market price during the period. The difference between the number of shares assumed issued and the number of shares assumed purchased is then added to the basic weighted average number of shares outstanding to determine the fully diluted number of common shares outstanding. No exercise or conversion is assumed during the periods in which a net loss is incurred as the effect is anti-dilutive.

**Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Parties are also considered to be related if they are subject to common control and related parties may be individuals or corporate entities. A transaction is a related party transaction when there is a transfer of resources or obligations between related parties.

**Revenue recognition**

The Company derives revenues from the sales of consumable loss prevention products, electronic article surveillance systems (“EAS system”), installation services for CCTV systems, advertising and computer control router (“CNC”) cutting services. The installation services and CNC services are provided as separate services per customer request and billed by hours based on the Company’s rates. There are no service contracts attached to the sale of the consumable loss prevention products and EAS systems. All products and services are sold on a standalone basis.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company’s activities as described below.

Revenue from the sales of consumable loss prevention products and EAS system is recognized when the products are shipped and all significant contractual obligations have been satisfied and there is no unfulfilled obligation that could affect the customer’s acceptance of the products.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Revenue recognition (continued)**

Once products are delivered to the Company's customers, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales order, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Since the installation services and CNC services are provided as separate services per customer request, the revenue for these services is recognized upon the completion of the services and all significant
contractual obligations have been satisfied.

Revenue from advertising is recognized throughout the contract period based on agreed milestones for campaigns run on the INEO Welcoming Networks. Campaigns are based on negotiated agreements. Contracts are for a pre-determined period of time with a pre-agreed number of advert airings per campaign or based on number of advertisements run on the INEO Welcoming network.

**Warranties**
Costs of warranty include the cost of labor, material and related overhead necessary to repair a product during the warranty period. The warranty period is usually one to two years. The Company records actual warranty expenditures when they are incurred as warranties are usually not provided. There were minimal warranty expenditures during the periods ended December 31, 2021 and 2020.

**Income taxes**
Income tax is recognized in profit or loss except to the extent that it relates to equity items, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences do not result in deferred tax assets or liabilities: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting profit (loss) nor taxable profit (loss); and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(Unaudited - expressed in Canadian dollars)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Government assistance**

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be met. When the grant relates to an expense item, it is recognized as a deduction against the related expense over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it reduces the carrying amount of the asset. Government assistance received relating to expenses of future periods is deferred and deducted against the related expenditures as incurred.

## 4. ACCOUNTS RECEIVABLE

Accounts receivable as at December 31, 2021 amounted to $118,434 (June 30, 2021 – $108,758). The Company generally does not hold any collateral as security for accounts receivables. During the six months ended December 31, 2021 a provision of $3,486 was created towards bad and doubtful debts (December 31, 2020 - $149).

## 5. INVENTORY

Inventory of finished goods held by the Company as at December 31, 2021 was $159,824, (June 30, 2021 - $98,908). Finished goods inventory consists of Electronic Article Surveillance products held for resale. INEO has not made a provision for the write down of inventory as the Company expects to sell all inventory on hand.

## 6. PREPAID EXPENSES

| **PREPAID EXPENSES** | | **Balance as at 31-Dec-21** | | Balance as at 30-Jun-21 |
|---|---|---|---|---|
| Prepaid Insurance | **$** | **17,096** | $ | 6,823 |
| Security deposit | | **615** | | 2,480 |
| Other prepaids | | **95,657** | | 43,273 |
| **TOTAL PREPAID EXPENSES** | **$** | **113,368** | $ | 52,576 |

Other prepaids consist of vendor prepayments for goods and supplies delivered subsequent to the period ending December 31, 2021.

(Unaudited - expressed in Canadian dollars)

## 7. EQUIPMENT

| EQUIPMENT | Furniture and Equipment | Computer Hardware | Motor Vehicle | Welcoming Pedestals - Installed Units | Welcoming Pedestals - WIP | Total |
|---|---|---|---|---|---|---|
| **Costs:** | | | | | | |
| Balance, June 30, 2020 | $ 97,629 | $ 63,507 | $ 9,500 | $ 94,090 | $ - | $ 264,726 |
| Additions | 4,505 | 7,144 | - | 385,241 | 129,621 | 526,511 |
| Balance, June 30, 2021 | $ 102,134 | $ 70,651 | $ 9,500 | $ 479,331 | $ 129,621 | $ 791,237 |
| Additions | - | 7,213 | 4,300 | - | 189,734 | 201,247 |
| Transfer of WIP to Installed units | - | - | - | 105,254 | (105,254) | - |
| **Balance, December 31, 2021** | **$ 102,134** | **$ 77,864** | **$ 13,800** | **$ 584,585** | **$ 214,101** | **$ 992,484** |
| **Accumulated Depreciation:** | | | | | | |
| Balance, June 30, 2020 | $ 83,686 | $ 52,458 | $ 317 | $ 12,738 | $ - | $ 149,199 |
| Amortization | 6,014 | 3,076 | 1,703 | 69,271 | - | 80,064 |
| Balance, June 30, 2021 | $ 89,700 | $ 55,534 | $ 2,020 | $ 82,009 | $ - | $ 229,263 |
| Amortization | 2,279 | 2,080 | 1,150 | 55,294 | - | 60,802 |
| **Balance, December 31, 2021** | **$ 91,979** | **$ 57,614** | **$ 3,170** | **$ 137,303** | **$ -** | **$ 290,065** |
| **Net Book Value:** | | | | | | |
| June 30, 2021 | $ 12,434 | $ 15,117 | $ 7,480 | $ 397,322 | $ 129,621 | $ 561,974 |
| **December 31, 2021** | **$ 10,155** | **$ 20,250** | **$ 10,630** | **$ 447,282** | **$ 214,101** | **$ 702,418** |

(Unaudited - expressed in Canadian dollars)

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | | **31-Dec-21** | | 30-Jun-21 |
|---|---|---|---|---|
| Accounts payable | **$** | **231,017** | $ | 140,052 |
| Accrued liabilities | | **216,215** | | 228,279 |
| **Total** | **$** | **447,232** | $ | 368,331 |

Accounts payable are generally non-interest bearing and are settled on 30 to 60-day payment terms.

Accrued liabilities include accruals for remuneration and benefits and other expenses billed after the reporting period. Accrued liabilities are generally settled within 12 months from the end of the reporting period.

## 9. LOANS PAYABLE

On December 16, 2016, INEO received $100,000 as a loan, bearing an annual interest rate of 12.5% from a previously recognized related party. This loan is due on demand and unsecured. During the period ended December 31, 2021 the Company incurred $6,250 in interest expense (December 31, 2020 – $6,250).

On September 17, 2017, INEO received $200,000 as a loan, bearing an annual interest rate of a floating base rate ("Prime") plus a variance of 3.25% and compounded monthly. The total outstanding principal is repaid by monthly installments of $2,770. During the period ended December 31, 2021, the Company incurred $Nil interest expense (December 31, 2020 - $5,996). During the year ended June 30, 2021, the Company repaid the remaining balance of the loan and interest totaling $173,876.

On April 4, 2019, INEO received $50,000 as a loan, bearing an annual interest rate of a floating ("Prime") base rate plus a variance of 4.0% and compounded monthly. The total outstanding principal is repaid by monthly installments of $690. During the period ended December 31, 2021, the Company incurred $Nil interest expense (December 31, 2020 - $1,943). During the year ended June 30, 2021, the Company repaid the remaining balance of the loan and interest totaling $51,129.

The details of loans outstanding as at December 31, 2021 are below:

| **LOAN PAYABLE** | | | **Balance as at** | | |
|---|---|---|---|---|---|
| | | | **31-Dec-21** | | |
| | **Maturity date** | **Interest rate** | **Current portion** | **Long-term portion** | **Total** |
| **Loan - $100,000** | **on demand** | **12.50%** | **162,500** | **-** | **162,500** |
| **Total loan payable** | | | **$ 162,500** | **$ -** | **$ 162,500** |
| | | | | | |
| | | | 30-Jun-21 | | |
| | Maturity date | Interest rate | Current portion | Long-term portion | Total |
| Loan - $100,000 | on demand | 12.50% | 156,250 | - | 156,250 |
| Total loan payable | | | $ 156,250 | $ - | $ 156,250 |

The loan advances, interest accruals made during the period ended December 31, 2021 and June 30, 2021 are below:

| | | |
|---|---|---|
| Balance, June 30, 2020 | $ | 351,330 |
| Loans advanced | | 29,925 |
| Payments made | | (225,005) |
| Balance, June 30, 2021 | $ | 156,250 |
| Interest accrued | | 6,250 |
| Balance, December 31, 2021 | $ | 162,500 |

(Unaudited - expressed in Canadian dollars)

## 10. GOVERNMENT GRANTS

Due the global outbreak of Novel Coronavirus ("COVID-19"), the federal government of Canada introduced the Canada Emergency Business Account ("CEBA"). CEBA provides an interest-free loan ("CEBA Loan") of $40,000 to eligible businesses. The CEBA Loan has an initial term that expires on December 31, 2022, throughout which, the CEBA Loan remains interest free. Repayment of $30,000 by December 31, 2022, results in a $10,000 loan forgiveness. If the balance is not paid prior to December 31, 2022, the remaining balance will be converted to a 3-year term loan at 5% annual interest, paid monthly effective January 1, 2023. The full balance must be repaid by no later than December 31, 2025. On May 6, 2020, INEO Solutions and FG Manufacturing each received $40,000 loans from the Government as part of the CEBA.

On December 4, 2020 the federal government of Canada expanded CEBA and eligible businesses facing financial hardship due to the pandemic were able to access a second loan of up to $20,000. Half of this additional financing, up to $10,000 will be forgivable if the loan is repaid by December 31, 2022. If the balance is not paid prior to December 31, 2022, the remaining balance will be converted to a 3-year term loan at 5% annual interest, paid monthly effective January 1, 2023. The full balance must be repaid by no later than December 31, 2025.

The government grants received, interest accrued and income recognized during the period ended December 31, 2021 and June 30, 2021 are below:

| | | 31-Dec-21 | | 30-Jun-21 |
|---|---|---|---|---|
| Beginning balance | $ | **95,957** | $ | **55,112** |
| Government Grants received | | **-** | | 40,000 |
| Income recognized | | **-** | | (9,184) |
| Interest accrued | | **7,424** | | 10,029 |
| **Ending balance** | **$** | **103,381** | **$** | **95,957** |

On April 7, 2021, INEO Solutions and FG Manufacturing each received an additional $20,000 loans from the Government as part of CEBA.

Pursuant to IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, the benefit of a government loan at below - market rate is treated as a government grant and measured in accordance with IFRS 9, Financial Instruments. The benefit of below - market rate shall be measured as the difference between the initial carrying value of the loan (being the present value of a similar loan at market rates) and the proceeds received. The Company has estimated the initial carrying value of each initial CEBA loan at $26,880 and additional loans at $15,408, using a discount rate of 15%, which was the estimated rate for a similar loan without the interest - free component. The difference will be accreted to each CEBA loan liability over the term of the CEBA Loan and offset to other income on the statements of loss and comprehensive loss.

During the period ended December 31, 2021, total interest expense recognized for the CEBA grants amounted to $7,424 (December 31, 2020 – $4,265).

## 11. SHARE CAPITAL AND RESERVES

**Authorized share capital**

The authorized share capital of the Company consists of an unlimited number of common shares without par value.

**Shares held in escrow**

As at December 31, 2021, there were 8,273,371 common shares held in escrow (June 30, 2021 – 11,031,164). 15% of escrowed shares will be released semiannually on January 24 and June 24. Of these shares, 7,597,319 were held by directors of the Company.

**Issued share capital**

<u>During the six months ended December 31, 2021 the Company had the following capital stock transactions</u>:

On July 26, 2021 the Company granted 250,000 stock options to an employee with an exercise price of $0.26 per share. The stock options shall vest on the basis of 25% July 26, 2022, 25% on July 26, 2023, 25% on July 26, 2024 and 25% on July 26, 2025.

(Unaudited - expressed in Canadian dollars)

**11. SHARE CAPITAL AND RESERVES (CONTINUED)**

**Issued share capital (continued)**

On October 25, 2021 the Company granted 225,000 stock options to employees with an exercise price of $0.26 per share. The stock options shall vest on the basis of 25% October 25, 2022, 25% on October 25, 2023, 25% on October 25, 2024 and 25% on October 25, 2025.

On November 8, 2021, the Company issued 4,500 common shares on exercise of 4,500 broker warrants at a price of $0.35 for aggregate proceeds of $1,575. On November 10, 2021, the Company issued 39,870 common shares on exercise of 39,870 broker warrants at a price of $0.35 for aggregate proceeds of $13,955. As at December 31, 2021 the Company had, 8,273,371 shares held in escrow.

On November 22, 2021, 202,051 of the outstanding broker warrants expired and on December 10, 2021, 5,282 of the outstanding broker warrants expired.

<u>During the year ended June 30, 2021, the Company had the following capital stock transactions</u>:

On March 10, 2021, the Company completed a brokered short-form prospectus offering (the 'offering'), resulting in issuance of 19,454,550 units at a price of $0.36 per unit for aggregate proceeds of $7,003,638. Each unit consisted of one common share and one-half of one common share purchase warrant. Each warrant will entitle the holder to acquire one common share of the Company at an exercise price of $0.55 per common share for a period of 24 months from the date of issuance. The warrants were allocated a value of $nil, using the residual value allocation method.

The Company incurred a total of $803,710 in share issuance costs related to the offering. Additionally, the Company issued 1,482,233 broker warrants with a fair value of $190,421. Each broker warrants entitles the holder to acquire one common share of the Company for an exercise price of $0.36 for a period of 24 months.

On March 16, 2021, the Company issued 10,478 common shares of the Company on exercise of 10,478 broker warrants at a price of $0.35 for aggregate proceeds of $3,667.

**Stock options**

The Company has adopted a stock option plan which allows the Company to issue options to certain directors, officers, employees and consultants of the Company to acquire up to 10% of the issued and outstanding common stock. The exercise price of each option cannot be less than the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 10 years.

Stock options granted under the plan vest immediately subject to vesting terms which may be imposed at the discretion of the directors.

The summary of changes in stock options during the period ended December 31, 2021 and year ended June 30, 2021 are as follows:

| **STOCK OPTIONS** | **Period ended 31-Dec-21** | | | Year ended 30-Jun-21 | | |
|---|---|---|---|---|---|---|
| | **Number of options** | | **Weighted average exercise price** | Number of options | | Weighted average exercise price |
| Options outstanding, beginning | **4,175,863** | **$** | **0.263** | 3,425,863 | $ | 0.264 |
| Options issued | **475,000** | | **0.270** | 1,100,000 | | 0.260 |
| Options forfeited | **(75,000)** | | **0.260** | (350,000) | | 0.260 |
| Options outstanding, ending | **4,575,863** | | **0.270** | 4,175,863 | | 0.263 |
| Options exercisable, ending | **1,000,647** | **$** | **0.262** | 856,897 | $ | 0.247 |

(Unaudited - expressed in Canadian dollars)

**11. SHARE CAPITAL AND RESERVES (CONTINUED)**

**Stock options (continued)**

Details of options outstanding as at December 31, 2021 are as follows:

| Expiry date | Number of options | Weighted average exercise price | Weighted average contractual life | Number of Options exercisable |
|---|---|---|---|---|
| 23-Jan-25 | 175,863 | 0.010 | 0.12 | 131,897 |
| 14-Apr-30 | 2,400,000 | 0.136 | 4.35 | 650,000 |
| 14-Apr-30 | 500,000 | 0.038 | .91 | 125,000 |
| 18-Aug-30 | 200,000 | 0.011 | .38 | 50,000 |
| 16-Oct-30 | 175,000 | 0.010 | .34 | 43,750 |
| 16-Jun-31 | 650,000 | 0.037 | 1.34 | - |
| 26-Jul-31 | 250,000 | 0.014 | 0.52 | - |
| 25-Oct-31 | 225,000 | 0.013 | 0.48 | - |
| | **4,575,863** | **0.270** | **8.439** | **1,000,647** |

During the six months ended December 31, 2021, the Company recognized stock-based compensation related to stock options of $103,878 (December 31, 2020 $153,610). The fair value of stock options granted was determined using the Black-Scholes Option Pricing Model using the following assumptions:

| | **Period ended 31-Dec-21** | Year ended 30-Jun-21 |
|---|---|---|
| Expected life of options | **10 years** | 10 years |
| Annualized volatility | **54%** | 54% |
| Risk-free interest rate | **1.10%** | 1.10% |
| Dividend rate | **0%** | 0% |
| Weighted average fair value per option granted | **$0.18** | $0.18 |

**Warrants**

On March 10, 2021, the Company issued 1,482,233 broker warrants as finder's fee for the short-form prospectus offering. Each broker warrant entitles the holder to acquire one common share of the Company for an exercise price of $0.36 for a period of 21 months. All the broker warrants vested immediately. The broker warrants were valued at $190,421 using Black Scholes option pricing model with the following assumptions: volatility rate of 57.98%, risk-free rate of 0.19%, dividend yield of 0% and weighted average life of two years.

On March 10, 2021, the Company issued 9,727,275 common share purchase warrants pursuant to the Short-form prospectus offering. Each share purchase warrant entitles the holder to acquire one common share of the Company for an exercise price of $0.55 for a period of 24 months. All the common share purchase warrants vested immediately.  The warrants were allocated a value of $nil using the residual value allocation method.

| | **Period ended 31-Dec-21** | | | Period ended 30-Jun-21 | | |
|---|---|---|---|---|---|---|
| | **Number of warrants** | | **Weighted average exercise price** | Number of warrants | | Weighted average exercise price |
| Warrants outstanding, beginning | **11,461,211** | **$** | **0.52** | 262,181 | $ | 0.35 |
| Warrants issued | **-** | | **-** | 11,209,508 | | 0.52 |
| Warrants expired | **(196,854)** | | **-** | - | | - |
| Warrants exercised | **(54,849)** | | **0.52** | (10,478) | | 0.35 |
| Warrants outstanding, ending | **11,209,508** | | **0.36** | 11,461,211 | | 0.52 |
| Warrants exercisable, ending | **11,209,508** | **$** | **0.36** | 11,461,211 | $ | 0.52 |

(Unaudited - expressed in Canadian dollars)

**11. SHARE CAPITAL AND RESERVES (CONTINUED)**

**Warrants (continued)**

Details of warrants outstanding as at December 31, 2021 are as follows:

| Expiry date | Number of warrants | Exercise price | Number of warrants exercisable |
|---|---|---|---|
| March 10, 2023 | 1,482,233 | $ 0.36 | 1,482,233 |
| March 10,2023 | 9,727,275 | 0.36 | 9,727,275 |
| | **11,209,508** | **$ 0.36** | **11,209,508** |

**12. BREAKDOWN OF EXPENSES AND OTHER INCOME**

General and administrative expenses are composed of the following:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **31-Dec-21** | 31-Dec-20 | **31-Dec-21** | 31-Dec-20 |
| Accounting and legal (Note 13) | **$ 58,272** | $ 19,076 | **$ 136,081** | $ 33,423 |
| Management fees | **15,000** | 15,000 | **30,000** | 30,000 |
| Bad and doubtful debts (Note 4) | **-** | - | **3,486** | 149 |
| Amortization and depreciation (Note 7,17) | **39,477** | 24,586 | **76,327** | 49,661 |
| Office expenses | **76,594** | 43,489 | **110,861** | 66,009 |
| Insurance | **7,196** | 6,028 | **14,311** | 10,524 |
| Lease interest (Note 18) | **3,540** | 4,297 | **7,281** | 8,764 |
| Remuneration and benefits (Note 13) | **118,842** | 135,928 | **253,049** | 225,131 |
| Stock-based compensation (Note 11,13) | **28,840** | 76,071 | **64,187** | 125,624 |
| Rent (Note 18) | **11,307** | 7,391 | **20,505** | 10,500 |
| **TOTAL GENERAL AND ADMINISTRATIVE EXPENSES** | **$ 359,068** | $ 331,866 | **$ 716,088** | $ 559,785 |

Selling and marketing expenses are composed of the following:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **31-Dec-21** | 31-Dec-20 | **31-Dec-21** | 31-Dec-20 |
| Investor Relations and Corporate Development | **$ 32,648** | **$ -** | **$ 62,812** | **$ -** |
| Marketing and research | **80,668** | 75,326 | **137,974** | 130,383 |
| Remuneration and benefits | **181,777** | 80,804 | **358,837** | 181,137 |
| Stock-based compensation (Note 11) | **5,699** | 9,459 | **15,369** | 13,452 |
| Travel | **21,976** | **-** | **41,633** | - |
| **TOTAL SELLING AND MARKETING EXPENSES** | **$ 322,768** | $ 165,589 | **$ 616,625** | $ 324,972 |

Research and development expenses are composed of the following:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **31-Dec-21** | 31-Dec-20 | **31-Dec-21** | 31-Dec-20 |
| Consulting fees | **$ 24,293** | $ 20,879 | **$ 58,497** | $ 33,276 |
| Remuneration and benefits | **142,678** | 92,120 | **274,366** | 175,033 |
| Stock-based compensation (Note 11) | **11,143** | 9,204 | **24,322** | 14,534 |
| **TOTAL RESEARCH AND DEVELOPMENT EXPENSES** | **$ 178,114** | $ 122,203 | **$ 357,185** | $ 222,843 |

Other income is composed of the following:

| | For the six months ended | |
|---|---|---|
| | **31-Dec-21** | 31-Dec-20 |
| CEWS[(1)] | **$ -** | $ 101,463 |
| ICTC Student Funding[(2)] | **15,000** | - |
| Others | **2,873** | 12,009 |
| **TOTAL OTHER INCOME** | **$ 17,873** | $ 113,472 |

(Unaudited - expressed in Canadian dollars)

## 12. BREAKDOWN OF EXPENSES AND OTHER INCOME (CONTINUED)

(1)Due to the global outbreak of COVID-19, the federal government of Canada introduced the Canada Emergency Wage Subsidy ("CEWS"). CEWS provides wage subsidy to eligible companies who experienced a drop in revenue. The subsidy amount depends on the percentage of revenue drop. (2)INEO qualifies for student funding for new hires. The qualifying hours are recorded and submitted for reimbursement. For the period ended December 31, 2021, the total amount received by the Company for the CEWS amounted to $Nil and Student Funding $15,000 (December 31, 2020 – CEWS $101,463 and Student Funding $Nil).

## 13. RELATED PARTY TRANSACTIONS

**Key management personnel:**

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers. Related party transactions are in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. Amounts due to or from related parties are non-interest bearing and unsecured, unless specified.

As at December 31, 2021, the Company has $9,750 due to a company controlled by the Chief Financial Officer (CFO) of the Company (June 30, 2021 - $9,750).

During the periods ended December 31, 2021 and 2020, the Company had the following transactions with related parties:

| | | **31-Dec-21** | | 31-Dec-20 |
|---|---|---|---|---|
| Accounting fees | **$** | **12,541** | $ | 7,230 |
| Management fees | | **30,000** | | 30,000 |
| Remuneration and benefits | | **188,451** | | 174,990 |
| Stock-based compensation | | **49,788** | | 95,357 |
| **Total** | **$** | **280,780** | $ | 307,577 |

Of the total transactions with the related parties, the following was paid for key management personnel remuneration:

- Accounting and management fees of $42,541 (2020 – $37,230) were paid to a company controlled by the CFO.
- Remuneration and benefits consist of $94,226 paid to the President, Director and Corporate Secretary (2020 – $87,495) and $94,225 paid to the Chief Executive Officer (CEO) and Director (2020 – $87,495).
- Stock-based compensation consists of $12,150 to the CEO, $12,149 to the President, Director and Corporate Secretary, $7,689 to the CFO and a total of $17,800 to three Directors (2021 – $95,357).

Under the terms of their management agreements certain officers of the Company are entitled to 24 months of base pay in the event of their agreements being terminated without cause.

## 14. CAPITAL MANAGEMENT

The Company defines capital as consisting of shareholders' equity. The Company's objectives when managing capital are to support the further advancement of the Company's business objectives and existing product lines, as well as to ensure that the Company can meet its financial obligations as they become due.

The Company manages its capital structure to maximize its financial flexibility adjusting it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The approach to capital management has not changed since the prior year, and the Company is not subjected to externally imposed capital requirements.

(Unaudited - expressed in Canadian dollars)

## 15. SUPPLEMENTAL CASH FLOW INFORMATION

The Company incurred the following non-cash financing transactions during the period ended December 31, 2021 and June 30, 2021:

| | 31-Dec-21 | 30-Jun- 21 |
|---|---|---|
| **Non-Cash Financing activities** : | | |
| Fair value of stock options vested | 103,878 | 153,610 |
| Fair value of broker warrants issued | 16,251 | - |
| Fair value of share warrants exercised | 726 | - |

## 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### a) Fair value risk

The Company's financial instruments consist of cash, accounts receivable, accounts payable, due to related parties, loan payable and government grants.

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

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

Cash under the fair value hierarchy are based on Level 1 quoted prices in active markets for identical assets or liabilities. Accounts receivable, accounts payable and accrued liabilities, due to related parties and loans payable approximate their fair value due to their short-term maturities. Accordingly, these have been classified as level 2. The fair value of the government grants also approximates carrying value due to the fact that the loan is discounted to fair value using market rates. Therefore, government grants are also classified as level 2.

### b) Market risk

Market risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate because of changes in market prices or prevailing conditions. Market risk comprises three types of risk: currency risk, interest rate risk and price risk and are disclosed as follows:

#### (i) Currency risk

Currency risk is the risk of change in profit or loss that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. The Company has only a nominal amount of assets or liabilities denominated in foreign currencies and engaged in very few transactions denominated in a foreign currency; therefore, its exposure to currency risk is limited.

#### (ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates. The Company continues monitoring its exposure to the Prime and it is comfortable to this exposure given the relative low fluctuation of the bank interest rates in Canada.

#### (iii) Price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market.

(Unaudited - expressed in Canadian dollars)

## 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### c) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

All the Company's cash is held through Canadian chartered banks and accordingly, the Company's exposure to credit risk is limited. The Company's GST recoverable are refunds due from the Government of Canada and the exposure to credit risk on these amounts are considered to be limited.

The Company's accounts receivable consists of amounts due from various customers. The maximum exposure to credit risk is equal to the carrying value of accounts receivable. The business models of the Company's respective segments require analysis of credit risk specific to each business line. The Company's historic rate of bad debts is low.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all accounts receivable. To measure the expected credit losses, accounts receivable is assessed primarily on days past due combined with the Company's knowledge of past bad debts. During the period ended December 31, 2021, bad and doubtful debts expense for the Company was $3,486 (2020 - $149).

### d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. At December 31, 2021, the Company has a cash balance of $3,653,331 (June 30, 2021 – $5,199,328) and current liabilities balance of $758,080 (June 30, 2021 – $561,199). The Company manages its liquidity risk by attempting to maintain sufficient cash balances to enable settlement of transactions on the due date. Accounts payable and accrued liabilities and due to related parties are all current. As the Company has limited sources of revenue, it may require additional financing to accomplish its long-term strategic objectives.

## 17. RIGHT-OF-USE ASSET

On March 6, 2020, the Company entered into a 5-year lease agreement for leased premises in Surrey, British Columbia, commencing April 1, 2020, and ending on March 9, 2025. The minimum base rent per month for years 1 to 5 of the 5-year lease are respectively $3,290 for year 1, $3,360 for year 2, $3,430 for year 3, $3,500 for year 4 and $3,570 for year 5. In accordance with IFRS 16, the Company recognized right-of-use asset of $155,260 as at March 6, 2020 equal to the present value of all remaining lease payments discounted at an incremental borrowing rate of 12.5%. The Company depreciates the right-of-use assets on a straight-line basis, over the lease term.

| **Cost** | | **Warehouse Lease** |
|---|---|---|
| Balance, June 30, 2020 | $ | - |
| Additions | | 155,260 |
| Balance, June 30, 2021 | **$** | **$155,260** |
| **Balance, December 31, 2021** | **$** | **$155,260** |

| **Accumulated depreciation** | | |
|---|---|---|
| Balance, June 30, 2020 | $ | $ (10,351) |
| Additions | | (31,052) |
| Balance, June 30, 2021 | $ | (41,403) |
| Additions | | (15,526) |
| **Balance, December 31, 2021** | **$** | **$ (56,929)** |
| **Carrying value** | | |
| Balance, June 30, 2021 | $ | **$113,857** |
| **Balance, December 31, 2021** | **$** | **$ 98,331** |

(Unaudited - expressed in Canadian dollars)

## 18. LEASE LIABILITY

The lease liability is initially measured at the present value of the lease payments to be made over the lease term, using the effective interest method for the present value determination. As the rate implicit in the lease cannot be readily determined, the Company applied an average incremental borrowing rate. The Company used discount rate of 12.5% to calculate the present value of its lease payments. Total interest expense on lease liabilities for the period ended December 31, 2021, was $3,741 (September 30, 2020 - $4,467). The following table represents lease obligation for the Company:

| **LEASE OBLIGATION** | **Balance as at** | | | |
|---|---|---|---|---|
| | | **31-Dec-21** | | 30-Jun-21 |
| Current | **$** | **29,023** | $ | 26,868 |
| Non-current | | **79,901** | | 94,934 |
| **Total lease obligation** | **$** | **108,924** | $ | 121,802 |

The following table shows the roll forward of lease obligations for the period ended December 31, 2021 and year ended June 30, 2021:

| **LEASE OBLIGATION** | **Balance as at** | | | |
|---|---|---|---|---|
| | | **31-Dec-21** | | 30-Jun-21 |
| Beginning balance | **$** | **121,802** | $ | 144,742 |
| Interest expense | | **7,281** | | 16,820 |
| Lease payments | | **(20,159)** | | (39,760) |
| **Ending balance** | **$** | **108,924** | $ | 121,802 |

The following table presents the contractual undiscounted cash flows for lease obligation as at period ended December 31, 2021 and year ended June 30, 2021:

| **UNDISCOUNTED LEASE OBLIGATION** | **Balance as at** | | | |
|---|---|---|---|---|
| | | **31-Dec-21** | | 30-Jun-21 |
| Less than one year | **$** | **41,020** | $ | 40,600 |
| One to five years | | **91,700** | | 112,280 |
| **Total undiscounted lease obligation** | **$** | **132,720** | $ | 152,880 |

During the period ended December 31, 2021, the Company expensed $20,505 in short-term and low value leases (December 31, 2020 – $10,500).

## 19. SEGMENTED INFORMATION

The Company has the following reporting segments: corporate and administration, loss prevention, welcoming systems and fabrication. Reportable segments are determined based on the nature of the services provided and goods sold.

Reportable segments are defined as components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker when deciding how to allocate resources and assessing performance.

The reportable segments were determined based on the nature of the services provided and goods sold. Loss Prevention refers to sales of security technology, electronic article surveillance systems and supplies. Fabrication specializes in precision CNC cutting, routing and drilling for a variety of industries and sectors.

(Unaudited - expressed in Canadian dollars)

**19. SEGMENTED INFORMATION (CONTINUED)**

| | During the six months ended December 31, 2021 | | | | |
|---|---|---|---|---|---|
| **Consolidated statements of loss and comprehensive loss** | **Loss Prevention** | **Fabrication** | **Welcoming Systems** | **Corporate and administration** | **Total** |
| Sales to external customers | $ 434,478 | $ 50,508 | $ 10,672 | $ - | **$ 495,658** |
| Cost of Goods Sold | (268,038) | (37,372) | (1,560) | - | **(306,970)** |
| **Gross Profit** | 166,440 | 13,136 | 9,112 | - | **188,688** |
| Operating expenses | (328,563) | (85,990) | (386,185) | (812,834) | **(1,613,572)** |
| Interest expense | - | (3,713) | - | (9,963) | **(13,676)** |
| Amortization | - | (1,690) | (55,294) | (3,817) | **(60,801)** |
| Amortization Right of Use | - | - | - | (15,526) | **(15,526)** |
| Other income (expenses) | - | - | - | 17,873 | **17,873** |
| Foreign exchange loss | - | - | - | 3,771 | **3,771** |
| | (328,563) | (91,393) | (441,479) | (820,496) | **(1,681,931)** |
| **Net loss and comprehensive loss** | $ (162,123) | $ (78,257) | $ (432,367) | $ (820,496) | **$ (1,493,243)** |

| | During the six months ended December 31, 2020 | | | | |
|---|---|---|---|---|---|
| **Consolidated statements of loss and comprehensive loss** | **Loss Prevention** | **Fabrication** | **Welcoming Systems** | **Corporate and administration** | **Total** |
| Sales to external customers | $ 261,239 | $ 64,150 | $ 10,000 | $ - | $ 335,389 |
| Cost of Goods Sold | (150,478) | (45,983) | (3,000) | - | (199,461) |
| **Gross Profit** | 110,761 | 18,167 | 7,000 | - | 135,928 |
| Operating expenses | (225,718) | (28,404) | (229,212) | (574,606) | (1,057,939) |
| Interest expense | - | (2,132) | - | (16,321) | (18,453) |
| Amortization | - | (2,243) | (28,775) | (3,117) | (34,135) |
| Amortization Right of Use | | | | (15,526) | (15,526) |
| Other income (expenses) | - | 8,367 | 105,105 | - | 113,472 |
| Foreign exchange loss | - | - | (2,720) | - | (2,720) |
| | (225,718) | (24,412) | (155,602) | (609,570) | (1,015,301) |
| **Net loss and comprehensive loss** | $ (114,957) | $ (6,245) | $ (148,602) | $ (609,570) | $ (879,373) |

*Operating expenses consist of Administration, Selling, Marketing and Research and Development costs.

The Company's chief operation decision makers are the CEO, the President and Corporate Secretary, and the CFO. They review the operations and performance of the Company. All of the Company's assets are in Canada. The Company has reclassed expenses between the various segments compared to our previous presentation

Sales by geographical locations are as follows:

| **For the period ended** | **31-Dec-21** | 31-Dec-20 |
|---|---|---|
| Canada | **$ 178,853** | $ 291,115 |
| USA | **305,764** | 26,137 |
| Mexico | **11,041** | 18,137 |
| | **$ 495,658** | $ 335,389 |

**20. SUBSEQUENT EVENT**

On December 22, 2021 INEO entered into an agreement to acquire the assets of E-Commerce company, Securitytags.com from Vittage Pty Ltd., a leading Australian-based provider of Electronic Article Surveillance (EAS) anti-theft products for retailers. Under the terms of the purchase agreement, INEO paid $35,000 US dollars and acquired Securitytags.com domain name, website, inventory, customer list and social media accounts.