INEO Tech Corp.

Consolidated Financial Statements

As at and for the years ended June 30, 2022 and 2021

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
INEO Tech Corp.

Opinion

We have audited the accompanying consolidated financial statements of INEO Tech Corp. (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2022 and 2021 and the consolidated statements of loss and comprehensive 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, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes 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 audit 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 audit, 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, 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 IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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.

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

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

October 25, 2022

INEO Tech Corp.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars)
As at

	Note		June 30, 2022		June 30, 2021
Assets					
Current assets					
Cash		**$**	**1,706,048**	$	5,199,328
Accounts receivable	5		**205,068**		108,758
GST recoverable			**16,769**		20,301
Inventory	6		**155,013**		98,908
Prepaid expenses	7		**254,456**		52,576
			2,337,354		5,479,871
Non-current assets					
Equipment	8		**780,709**		561,974
Intangible assets	4		**5,423**		-
Right-of-use asset	18		**82,805**		113,857
			868,937		675,831
Total assets		**$**	**3,206,291**	$	6,155,702
Liabilities and Shareholders' Equity					
Current liabilities					
Accounts payable and accrued liabilities	9	**$**	**481,269**	$	368,331
Government grant	11		**111,382**		-
Due to related parties	14		**1,595**		9,750
Current portion of lease liability	19		**31,316**		26,868
Loans payable	10		**168,750**		156,250
			794,312		561,199
Non-current liabilities					
Non-current portion of lease liability	19		**63,618**		94,934
Government grant	11		**-**		95,957
			63,618		190,891
Total liabilities			**857,930**		752,090
Shareholders' equity					
Share capital	12		**13,535,082**		13,518,831
Reserves	12		**727,115**		505,918
Deficit			**(11,913,836)**		(8,621,137)
			2,348,361		5,403,612
Total liabilities and shareholders' equity		**$**	**3,206,291**	$	6,155,702

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

Nature and continuance of operations (Note 1)

Approved on behalf of the Board on October 24, 2022:

Steve Matyas - Director

Serge Gattesco – Director

INEO Tech Corp.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

	Note	For the years ended June 30, 2022	June 30, 2021
Sales	20	$ **1,245,095**	$ 745,160
Cost of Sales	20	**(741,163)**	(454,964)
Gross Profit		**503,932**	290,196
Expenses			
General and administrative expenses	13, 14	**1,559,820**	1,319,173
Selling	13	**1,511,101**	743,684
Research and development	13	**718,513**	546,426
		(3,789,434)	(2,609,283)
Net loss before other income (expenses)		$ **(3,285,502)**	$ (2,319,087)
Other Income (Expenses)			
Other income	13	**25,053**	127,799
Foreign exchange loss		**(4,324)**	(7,032)
Interest expense	10, 11	**(27,926)**	(39,568)
		(7,197)	81,199
Loss and comprehensive loss		$ **(3,292,699)**	$ (2,237,888)
Weighted average number of common shares outstanding - basic and diluted		**60,190,138**	46,653,398
Basic and diluted loss per share		$ **(0.05)**	$ (0.05)

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

INEO Tech Corp.

Consolidated Statements of Shareholders' equity
(Expressed in Canadian dollars)
For the years ended June 30,

	Share capital				
	Number of shares	Amount	Reserves	Deficit	Total Shareholders' Equity
Balance, June 30, 2020	**40,680,740**	**$ 7,505,487**	**$ 70,150**	**$ (6,383,249)**	**$ 1,192,388**
Private placement	19,454,550	7,003,638	-	-	7,003,638
Share issuance costs - cash	-	(803,710)	-	-	(803,710)
Share issuances costs - warrants	-	(190,421)	190,421	-	-
Exercise of warrants	10,478	3,837	(170)	-	3,667
Stock-based compensation	-	-	245,517	-	245,517
Loss and comprehensive loss	-	-	-	(2,237,888)	(2,237,888)
Balance, June 30, 2021	**60,145,768**	**$ 13,518,831**	**$ 505,918**	**$ (8,621,137)**	**$ 5,403,612**
Stock-based compensation	-	-	221,923	-	221,923
Warrants exercised	44,370	16,251	(726)	-	15,525
Loss and comprehensive loss	-	-	-	(3,292,699)	(3,292,699)
Balance, June 30, 2022	**60,190,138**	**$ 13,535,082**	**$ 727,115**	**$(11,913,836)**	**$ 2,348,361**

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

INEO Tech Corp.

Consolidated Statements of Cash Flow
(Expressed in Canadian dollars)

	For the years ended	
	June 30, 2022	**June 30, 2021**
Cash flows used in operating activities:		
Loss for the year	**$ (3,292,699)**	$ (2,237,888)
Items not involving cash:		
Amortization of right-of-use asset	**31,052**	31,052
Amortization on equipment	**127,314**	80,064
Amortization of intangibles	**1,085**	-
Interest expense	**41,657**	56,774
Stock based compensation	**221,923**	245,517
Allowance	**8,937**	2,511
Other Income from Government grant	**-**	(9,184)
Change in non-cash operating working capital:		
Accounts receivable	**(105,247)**	110,286
Accounts payable and accrued liabilities	**112,938**	131,608
Due from related parties	**(8,155)**	-
GST recoverable	**3,532**	(6,186)
Inventory	**(18,674)**	23,713
Prepaid expenses	**(201,880)**	(47,539)
	(3,078,217)	(1,619,272)
Cash flows used in investing activities:		
Purchase of equipment	**(346,049)**	(414,803)
Acquisition of Vittage assets	**(43,939)**	-
	(389,988)	(414,803)
Cash flows from (used in) financing activities:		
Loan repayment	**-**	(225,005)
Government grant received	**-**	40,000
Share issuance costs	**-**	(801,775)
Proceeds from the exercise of warrants	**15,525**	3,667
Proceeds from the issuance of shares	**-**	7,003,638
Payments for lease obligations	**(40,600)**	(39,760)
	(25,075)	5,980,765
Change in cash during the year	**(3,493,280)**	3,946,690
Cash, beginning year	**5,199,328**	1,252,638
Cash, end of year	**$ 1,706,048**	$5,199,328
Supplemental cash flow information (Note 16)		
Cash paid for interest	**$ 13,732**	$ 56,774
Cash paid for taxes	**$ -**	$ -

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

1. NATURE AND CONTINUANCE OF OPERATIONS

INEO Tech 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.

These 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 operations 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.

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. These matters result in material uncertainties which may cast significant doubt on whether the Company will continue as a going concern.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

BASIS OF CONSOLIDATION AND PREPARATION

The 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, these Financial Statements have been prepared using the accrual basis of accounting, except for the cash flow information.

These Financial Statements were authorized for issue by the Board of Directors on October 24, 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 year 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 determining whether a group of assets constitutes a business and 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.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and deposits which are readily converted to cash with original maturities of 3 months or less. Cash and cash equivalents are held with Canadian financial institutions. As at June 30, 2022 and 2021, 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 first in first out ("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 grant	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.

Impairment of financial assets at amortized cost
The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk 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.

Derecognition
Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all 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 year-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	- 5 year straight line

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)

Stock-based payments

Stock-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Stock-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 stock-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 s 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 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. The warranty is usually one to two years. There were $6,200 warranty expenditures during the years ended June 30, 2022 and 2021.

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 year 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.

(expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government assistance

Government grant 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 period 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 s is deferred and deducted against the related expenditures as incurred.

New accounting standards adopted during the year:

The Company did not adopt any new accounting standards during the year ended June 30, 2022.

4. VITTAGE ASSET ACQUISITION

On December 22, 2021, the Company acquired all of the the assets of Vittage Ltd. in exchange for $35,000 USD in cash. The purpose of the acquisition was primarily to acquire inventory for resale and the Securitytags.com domain name.

In accordance with IFRS 3, using the asset concentration test, the acquisition has met the definition of an asset acquisition as substantially all of the fair value is in the inventory.

The following table summarizes the fair value of the consideration transferred and the fair values assigned to each asset acquired on the acquisition date:

Consideration transferred	
Cash	**$43,939**
Identifiable assets required	
Inventories	$37,431
Intangible assets	$ 6,508
Total identifiable assets acquired	**$43,939**

Intangible assets acquired include domain names, website, social media account and customer listings, which are amortized over their estimated useful life of 3 years. During the year ended June 30, 2022 the Company recognized $1,085 in amortization related to the intangible assets.

(expressed in Canadian dollars)

5. ACCOUNTS RECEIVABLE

Accounts receivable as at June 30, 2022 amounted to $205,068 (June 30, 2021 – $108,758). The Company generally does not hold any collateral as security for accounts receivables. During the year ended June 30, 2022 an allowance of $8,937 was created towards bad debts (June 30, 2021 - $2,511). As of June 30, 2022, the allowance for doubtful accounts totalled $10,448 (2021 - $2,511).

6. INVENTORY

Inventory of finished goods held by the Company as at June 30, 2022 was $155,013, (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.

During the year ended June 30, 2022, the Company recognized $473,520 of inventory in cost of sales ($2021 - $227,972).

7. PREPAID EXPENSES

PREPAID EXPENSES		Balance as at 30-Jun-22		Balance as at 30-Jun-21
Prepaid Insurance	**$**	**8,983**	$	6,823
Security deposit		**615**		2,480
Other prepaids		**244,858**		43,273
TOTAL PREPAID EXPENSES	**$**	**254,456**	$	52,576

Other prepaids consist of vendor prepayments for goods and supplies delivered subsequent to the year ending June 30, 2022.

(expressed in Canadian dollars)

8. EQUIPMENT

EQUIPMENT	Furniture and Equipment	Computer Hardware	Motor Vehicle	Welcoming Pedestals - Installed Units	WIP Installed Units	Total
Costs:						
Balance, June 30, 2020	$ 97,629	$ 63,507	$ 9,500	$ 94,090	$ -	$ 264,726
Transfer from Inventory to PPE	-	-	-	-	111,708	$ 111,708
Additions	4,505	7,144	-	-	403,154	$ 414,803
Transfer of WIP to Installed units	$ -	$ -	$ -	$ 385,241	$ (385,241)	$ -
Balance, June 30, 2021	$ 102,134	$ 70,651	$ 9,500	$ 479,331	$ 129,621	$ 791,237
Additions	6,000	8,605	4,300	-	327,144	346,049
Transfer of WIP to Installed units	-	-	-	142,336	(142,336)	-
Balance, June 30, 2022	**$ 108,134**	**$ 79,256**	**$ 13,800**	**$ 621,667**	**$ 314,429**	**$ 1,137,286**
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	5,436	4,338	2,185	115,355	-	127,314
Balance, June 30, 2022	**$ 95,136**	**$ 59,872**	**$ 4,205**	**$ 197,364**	**$ -**	**$ 356,577**
Net Book Value:						
June 30, 2021	$ 12,434	$ 15,117	$ 7,480	$ 397,322	$ 129,621	$ 561,974
June 30, 2022	**$ 12,998**	**$ 19,384**	**$ 9,595**	**$ 424,303**	**$ 314,429**	**$ 780,709**

(expressed in Canadian dollars)

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		30-Jun-22		30-Jun-21
Accounts payable	$	**228,137**	$	140,052
Accrued liabilities		**253,132**		228,279
Total	**$**	**481,269**	$	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. Accrued liabilities are generally settled within 12 months from the end of the reporting.

10. LOANS PAYABLE

On December 16, 2016, INEO received $100,000 as a loan, bearing an annual interest rate of 12.5% from a related party. This loan is due on demand and unsecured. During the year ended June 30, 2022 the Company incurred $12,500 in interest expense (June 30, 2021 – $12,500).

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 year ended June 30, 2022, the Company incurred $Nil interest expense (June 30, 2021 - $13,216). 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 year ended June 30, 2022, the Company incurred $Nil interest expense (June 30, 2021 - $4,782). During the year ended June 30, 2021, the Company repaid the remaining balance of the loan and interest totaling $51,129.

The details of the outstanding loan as at June 30, 2022 are below:

LOANS PAYABLE			**Balance as at**		
				30-Jun-22	
	Maturity date	**Interest rate**	**Current portion**	**Long-term portion**	**Total**
Loan - $100,000	**on demand**	**12.50%**	**168,750**	**-**	**168,750**
Total loan payable			**$ 168,750**	**$ -**	**$ 168,750**
				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 year ended June 30, 2022 and June 30, 2021 are below:

(expressed in Canadian dollars)

10. LOANS PAYABLE (CONTINUED)

Balance, June 30, 2020	$	351,330
Loans advanced		29,925
Payments made		(225,005)
Balance, June 30, 2021	$	156,250
Interest accrued		12,500
Balance, June 30, 2022	$	168,750

11. GOVERNMENT GRANT

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 grant received, interest accrued and income recognized during the years ended June 30, 2022 and June 30, 2021 are below:

		31-Jun-22		30-Jun-21
Beginning balance	**$**	**95,957**	$	55,112
Government grant received		**-**		40,000
Income recognized		**-**		(9,184)
Interest accrued		**15,425**		10,029
Ending balance	**$**	**111,382**	$	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 grant 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

11. GOVERNMENT GRANT (CONTINUED)

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 year ended June 30, 2022, total interest expense recognized for the CEBA grants amounted to $15,425 (June 30, 2021 – $10,029).

12. 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 June 30, 2022, there were 5,515,578 common shares held in escrow (June 30, 2021 – 11,031,164). 15% of escrowed shares will be released semiannually on January 24 and July 24.

Issued share capital

<u>During the year ended June 30, 2022 the Company had the following capital stock transactions</u>:
The Company issued 44,370 common shares on exercise of 44,370 broker warrants at a price of $0.35 for aggregate proceeds of $15,525. In connection with the exercise, a total of $726 was transferred from reserves to share capital.

<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.

(expressed in Canadian dollars)

12. SHARE CAPITAL AND RESERVES (CONTINUED)

Stock options (continued)

The summary of changes in stock options during the year ended June 30, 2022 and year ended June 30, 2021 are as follows:

STOCK OPTIONS	**Year ended 30-Jun-22**			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 granted	**475,000**		**0.260**	1,100,000		0.260
Options forfeited	**(300,000)**		**0.283**	(350,000)		0.260
Options outstanding, ending	**4,350,863**		**0.262**	4,175,863		0.263
Options exercisable, ending	**1,807,113**	**$**	**0.254**	856,897	$	0.247

Details of options outstanding as at June 30, 2022 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	0.089	2.57	175,863
14-Apr-30	2,400,000	0.26	7.80	1,200,000
14-Apr-30	425,000	0.35	7.80	212,500
18-Aug-30	200,000	0.26	8.14	50,000
16-Oct-30	175,000	0.26	8.31	43,750
16-Jun-31	500,000	0.26	8.97	125,000
26-Jul-31	250,000	0.26	9.08	-
25-Oct-31	225,000	0.26	9.33	-
	4,350,863	**0.26**	**7.91**	**1,807,113**

During the year ended June 30, 2022, the Company recognized stock-based compensation related to stock options of $221,923 (June 30, 2021 $245,517). The fair value of stock options granted was determined using the Black-Scholes Option Pricing Model using the following assumptions:

	Year ended 30-Jun-22	Year ended 30-Jun-21
Expected life of options	**10 years**	10 years
Annualized volatility	**106%**	54%
Risk-free interest rate	**1.22%**	1.10%
Dividend rate	**0%**	0%
Weighted average fair value per option granted	**$0.28**	$0.18
Stock Price	**$0.31**	$0.28

(expressed in Canadian dollars)

12. SHARE CAPITAL AND RESERVES (CONTINUED)

Warrants

On January 24, 2020, the Company issued 262,181 warrants valued at $4,262. The warrants have an exercise price of $0.35 and expire on January 23, 2022. The fair value of the warrants granted were estimated on their dates of issue using the Black-Scholes option pricing model and the following assumptions: volatility rate of 100%, risk-free rate of 1.49%, dividend yield of 0% and weighted average life of two years. The fair value of the share warrants is recorded as share issuance costs charged against share capital.

On February 15, 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 24 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.

	For the years ended					
	30-Jun-22			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	**(207,333)**		**0.35**	-		-
Warrants exercised	**(44,370)**		**0.35**	(10,478)		0.35
Warrants outstanding, ending	**11,209,508**		**0.52**	11,461,211		0.52
Warrants exercisable, ending	**11,209,508**	**$**	**0.52**	11,461,211	$	0.52

Details of warrants outstanding as at June 30, 2022 are as follows:

Expiry date	**Number of warrants**	**Exercise price**	**Number of warrants exercisable**
February 15, 2023	1,482,233	$ 0.36	1,482,233
March 10, 2023	9,727,275	$ 0.55	9,727,275
	11,209,508		**11,209,508**

(expressed in Canadian dollars)

13. BREAKDOWN OF EXPENSES AND OTHER INCOME

General and administrative expenses are composed of the following:

	For the years ended	
	30-Jun-22	30-Jun-21
Accounting and legal (Note 14)	**$ 251,252**	$ 124,064
Management fees (Note 14)	**40,000**	60,000
Bad debt (Note 5)	**8,937**	2,511
Amortization and depreciation (Note 4, 8,18)	**159,451**	111,116
Office expenses	**243,651**	144,000
Insurance	**33,858**	24,573
Lease interest (Note 19)	**13,732**	16,820
Remuneration and benefits (Note 14)	**629,304**	617,085
Stock-based compensation (Note 12,14)	**139,264**	189,730
Rent (Note 19)	**40,371**	29,274
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	**$ 1,559,820**	$ 1,319,173

Selling and marketing expenses are composed of the following:

	For the years ended	
	30-Jun-22	30-Jun-21
Investor Relations and Corporate Development	**$ 274,114**	$ -
Marketing and research	**240,325**	329,992
Remuneration and benefits (Note 14)	**858,938**	397,260
Stock-based compensation (Note 12)	**44,602**	16,432
Travel	**93,122**	-
TOTAL SELLING EXPENSES	**$ 1,511,101**	$ 743,684

Research and development expenses are composed of the following:

	For the years ended	
	30-Jun-22	30-Jun-21
Consulting fees	**$ 114,971**	$ 91,387
Remuneration and benefits (Note 14)	**565,485**	415,684
Stock-based compensation (Note 12)	**38,057**	39,355
TOTAL RESEARCH & DEVELOPMENT EXPENSES	**$ 718,513**	$ 546,426

(expressed in Canadian dollars)

13. BREAKDOWN OF EXPENSES AND OTHER INCOME (CONTINUED)

Other income is composed of the following:

		For the years ended		
		30-Jun-22		30-Jun-21
CEWS[1]	**$**	**-**	$	116,725
Government grant		**-**		9,185
ICTC student funding[2]		**22,500**		-
Others		**2,553**		1,889
TOTAL OTHER INCOME	**$**	**25,053**	$	127,799

[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 year ended June 30, 2022, the total amount received by the Company for the CEWS amounted to $Nil and Student Funding $22,500 (June 30, 2021 – CEWS $109,226 and Student Funding $Nil).

14. 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 June 30, 2022, the Company has $1,595 due to an officer of the Company (June 30, 2021 - $9,750).

During the years ended June 30, 2022 and 2021, the Company incurred the following key management compensation:

		30-Jun-22		30-Jun-21
Accounting fees	**$**	**10,150**	$	25,685
Management fees		**40,000**		60,000
Remuneration and benefits		**396,309**		449,981
Stock-based compensation		**105,953**		141,173
Total	**$**	**552,412**	$	676,839

(expressed in Canadian dollars)

15. 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.

16. SUPPLEMENTAL CASH FLOW INFORMATION

The Company incurred the following non-cash financing transactions during the years ended June 30, 2022 and June 30, 2021:

	30-Jun-22	**30-Jun- 21**
Non-Cash Financing activities :		
Transfer of reserves on exercise of warrants	$ 726	$ 170
Finders' warrants issued	-	$190,421
Share issue cost in accounts payable	-	$1,935
Transfer of Inventory to PPE	-	$111,707

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value risk

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, due to related parties, loans payable and government grant.

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. The fair value of the government grant also approximates carrying value due to its current nature and the fact that the loan is discounted to fair value using market rates.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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.

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 year ended June 30, 2022, bad and doubtful debts expense for the Company was $8,937 (2021 - $2,511).

(expressed in Canadian dollars)

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 June 30, 2022, the Company has a cash balance of $1,706,048 (June 30, 2021 – $5,199,328) and current liabilities balance of $794,312 (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. As the Company has limited sources of revenue, it may require additional financing to accomplish its long-term strategic objectives.

18. 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	$	155,260
Additions		-
Balance, June 30, 2021 and 2022	**$**	155,260

Accumulated depreciation		
Balance, June 30, 2020	$	(10,351)
Additions		(31,052)
Balance, June 30, 2021	$	(41,403)
Additions		**(31,052)**
Balance, June 30, 2022	**$**	**(72,455)**
Carrying value		**-**
Balance, June 30, 2021	$	113,857
Balance, June 30, 2022	**$**	**82,805**

(expressed in Canadian dollars)

19. 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 year ended June 30, 2022, was $13,732 (June 30, 2021 - $16,820). The following table represents lease obligation for the Company:

LEASE OBLIGATION	Balance as at			
		30-Jun-22		30-Jun-21
Current	**$**	**31,316**	$	26,868
Non-current		**63,618**		94,934
Total lease obligation	**$**	**94,934**	$	121,802

The following table shows the roll forward of lease obligations for the year ended June 30, 2022 and year ended June 30, 2021:

LEASE OBLIGATION	Balance as at		
		30-Jun-22	30-Jun-21
Beginning balance	**$**	**121,802**	$ 144,742
Interest expense		**13,732**	16,820
Lease payments		**(40,600)**	(39,760)
Ending balance	**$**	**94,934**	$ 121,802

The following table presents the contractual undiscounted cash flows for lease obligation as at year ended June 30, 2022 and year ended June 30, 2021:

UNDISCOUNTED LEASE OBLIGATION	Balance as at			
		30-Jun-22		30-Jun-21
Less than one year	**$**	**41,440**	$	40,600
One to five years		**70,840**		112,280
Total undiscounted lease obligation	**$**	**112,280**	$	152,880

During the year ended June 30, 2022, the Company expensed $40,371 in short-term and low value leases (June 30, 2021 – $29,274).

20. SEGMENTED INFORMATION

The Company has the following reporting segments: corporate and administration, loss prevention, welcoming systems and fabrication.

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.

(expressed in Canadian dollars)

20. SEGMENTED INFORMATION (CONTINUED)

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.

	During the year ended June 30, 2022				
Consolidated statements of loss and comprehensive loss	**Loss Prevention**	**Fabrication**	**Welcoming Systems**	**Corporate and administration**	**Total**
Sales to external customers	$ 1,107,944	$ 109,120	$ 28,031	$ -	**$ 1,245,095**
Cost of Goods Sold	(665,875)	(72,280)	(3,008)	-	**(741,163)**
Gross Profit	442,069	36,840	25,023	-	**503,932**
Operating expenses	(362,136)	(14,384)	(1,448,544)	(1,804,919)	**(3,629,983)**
Interest expense	(20,213)	(7,713)	-	-	**(27,926)**
Amortization	(8,622)	(4,389)	(115,355)	(33)	**(128,399)**
Amortization Right of Use	(3,105)	-	(3,105)	(24,842)	**(31,052)**
Other income	-	-	-	25,053	**25,053**
Foreign exchange loss	(4,324)	-	-	-	**(4,324)**
	(398,400)	(26,486)	(1,567,004)	(1,804,741)	**(3,796,631)**
Income (loss) and comprehensive income (loss)	$ 43,669	$ 10,354	$ (1,541,981)	$ (1,804,741)	**$ (3,292,699)**

	During the year ended June 30, 2021				
Consolidated statements of loss and comprehensive loss	**Loss Prevention**	**Fabrication**	**Welcoming Systems**	**Corporate and administration**	**Total**
Sales to external customers	$ 586,408	$ 131,585	$ 27,167	$ -	$ 745,160
Cost of Goods Sold	(349,027)	(99,299)	(6,638)	-	(454,964)
Gross Profit	237,381	32,286	20,529	-	290,196
Operating expenses	(1,307,046)	(61,284)	-	(1,129,837)	(2,498,167)
Interest expense	(34,553)	(5,015)	-	-	(39,568)
Amortization	(6,342)	(4,451)	(69,271)	-	(80,064)
Amortization Right of Use	(31,052)	-	-	-	(31,052)
Other income	100,779	26,629	-	391	127,799
Foreign exchange loss	(7,032)	-	-	-	(7,032)
	(1,285,246)	(44,121)	(69,271)	(1,129,446)	(2,528,084)
Loss and comprehensive loss	$(1,047,865)	$ (11,835)	$ (48,742)	$ (1,129,446)	$(2,237,888)

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

(expressed in Canadian dollars)

20. SEGMENTED INFORMATION (CONTINUED)

Loss Prevention has four customers which account for 33% of revenue (2021 – 4 customers accounting for 26%). Fabrication Operations has one customer which accounts for 60% of revenue (2021 – one customer accounting for 58%).

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 ended		**30-Jun-22**		30-Jun-21
Canada	**$**	**500,197**	$	539,644
USA		**718,046**		177,390
Mexico		**26,852**		28,126
	$	**1,245,095**	$	745,160

21. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

For the year ended		**June 30, 2022**		June 30, 2021
Net loss before income tax	**$**	**(3,292,699)**	$	(2,237,888)
Expected income tax (recovery)		**(889,000)**		(604,000)
Permanent differences		**63,000**		68,000
Share issue costs		**-**		(217,000)
Adjustments to prior years' provision versus statutory tax returns and other		**157,000**		100,000
Change in unrecognized deductible temporary differences		**669,000**		653,000
Total income tax expense (recovery)	**$**	**-**	$	-

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

As at		**2022**		**2021**
Deferred tax assets				
Property and equipment	$	16,000	$	88,000
Share issue costs		130,000		174,000
Debt with accretion		8,000		4,000
SRED pool		22,000		-
Non-capital losses available for future period		1,574,000		815,000
		1,750,000		1,081,000
Unrecognized deferred tax assets		(1,750,000)		(1,081,000)
Net deferred tax assets	**$**	**-**	**$**	**-**

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

(expressed in Canadian dollars)

21. INCOME TAXES (CONTINUED)

	2022	Expiry Date Range	2021	Expiry Date Range
Temporary Differences				
Property and equipment	$ 60,000	No expiry date	$325,000	No expiry date
Share issue costs	482,000	2043 to 2045	643,000	2042 to 2045
Debt with accretion	31,000	No expiry date	16,000	No expiry date
SRED pool	81,000	No expiry date	-	No expiry date
Non-capital losses available for future periods	$5,830,000	2035 to 2042	$3,021,000	2035 to 2041

Tax attributes are subject to review, and potential adjustment, by tax authorities.