

 

Unaudited Condensed Consolidated Interim Financial Statements

(In Canadian dollars)

**EQ INC.**

Three and six months ended June 30, 2023 and 2022

(Unaudited)

Notice of disclosure of non-audit review of unaudited condensed consolidated interim financial statements (“interim financial statements”) pursuant to National instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators.

The accompanying interim financial statements of the Company for the three and six months ended June 30, 2023 and 2022 have been prepared in accordance with the International Accounting Standard 34, interim financial reporting as issued by the International Accounting Standard Board and are the responsibility of the Company’s management. The Company’s independent auditors have not performed an audit or a review of these interim financial statements.

**Unaudited Condensed Consolidated Interim Statements of Financial Position**

**(In thousands of Canadian dollars)**

**June 30, 2023 and December 31, 2022**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2023** |  | 2022 |
| Assets |  |  |  |  |
| Current assets: |  |  |  |  |
| Cash | **$** | **458** | $ |  1,253 |
| Accounts receivable (note 10(a)) |  | **2,373** |  |  3,535 |
| Other current assets  |  | **223** |  |  234 |
|  |  | **3,054** |  | 5,022 |
| Non-current assets: |  |  |  |  |
| Property and equipment  |  | **36** |  | 55 |
| Intangible assets (note 5) |  | **2,007** |  |  2,156 |
| Goodwill  |  | **2,914** |  |  2,914 |
|  |  |  |  |  |
|  | **$** | **8,011** | $ |  10,147 |
|  |  |  |  |  |
| Liabilities and Shareholders’ Equity  |  |  |  |  |
| Current liabilities: |  |  |  |  |
| Accounts payable and accrued liabilities  | **$** | **3,125** | $ |  3,488 |
| Rewards payable |  | **1,338** |  | 1,281 |
| Loans and borrowings (note 6 (b) |  | **79** |  | 79 |
| Contract liabilities |  | **201** |  |  60 |
|  |  | **4,743** |  | 4,908 |
|  |  |  |  |  |
| Shareholders’ equity  |  | **3,268** |  | 5,239 |
|  |  |  |  |  |
|  | **$** | **8,011** | $ |  10,147 |
|  |  |  |  |  |
| Going Concern (note 2 (b)) |  |  |  |  |
|  |  |  |  |  |

**Unaudited Condensed Consolidated Interim Statements of Loss and Comprehensive Loss**

**(In thousands of Canadian dollars, except per share amounts)**

**Three and six months ended June 30, 2023 and 2022**

 Three months ended Six months ended

 June 30, June 30,

 2023 2022 2023 2022

Revenue (note 3) $ 2,541 $ 3,240 $ 4,232 $ 5,954

Expenses:

 Publishing costs 1,485 1,989 2,528 3,765

 Employee compensation and benefits 941 1,223 2,024 2,627

 Other operating expenses 543 1,246 1,111 2,450

 Depreciation of property and equipment 8 17 19 38

 Depreciation of right-of-use asset - - - 6

 Amortization of intangible assets 204 158 449 278

 Restructuring costs - - 122 -

 3,181 4,633 6,253 9,164

Loss from operations (640) (1,393) (2,021) (3,210)

Finance income (note 4) 7 22 5 18

Finance costs (note 4) (6) (10) (11) (48)

Net loss (639) (1,381) (2,027) (3,240)

Total comprehensive loss (639)(1,381) (2,027) (3,240)

Loss per share:

Basic and diluted $ (0.01) $ (0.02) $ (0.03) $ (0.05)

Weighted average number of shares

outstanding basic and diluted 69,466,759 69,435,624 69,451,192 69,435,624

**EQ INC.**

**Unaudited Condensed Consolidated Interim Statements of Changes in Shareholders' Equity**

**(In thousands of Canadian dollars, except per share amounts)**

**Six months ended June 30, 2023 and 2022**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Common shares** |  |  |  |  |  |  |  |  |  |  |
|  | **Number of shares** |  | **Amount** |  | **Contributed surplus** |  | **Warrants** |  | **Accumulated other comprehensive loss** |  | **Deficit** |  | **Total equity**  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance, January 1, 2023** | 69,435,624 | $ | 94,291 | $ | 4,481 | $ | - | $ | (2,062) | $ | (91,471) | $ | 5,239 |
| Net loss | - |  | - |  | - |  | - |  | - |  |  (2,027) |  |  (2,027) |
| Share-based payments (note 8) | - |  | - |  | 30 |  | - |  | - |  | - |  | 30 |
| Exercise of stock options | 33,333 |  | 46 |  | (20) |  | - |  | - |  | - |  | 26 |
|  (note 7 & 8)  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance, June 30, 2023** | **69,468,957** | **$** | **94,337** | **$** | **4,491** | **$** | **-** | **$** |  **(2,062)** | **$** |  **(93,453)** | **$** | **3,268** |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Common shares** |  |  |  |  |  |  |  |  |  |  |
|  | **Number of shares** |  | **Amount** |  | **Contributed surplus** |  | **Warrants** |  | **Accumulated other comprehensive loss** |  | **Deficit** |  | **Total equity**  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance, January 1, 2022** | 69,435,624 | $ | 94,291 | $ | 4,160 | $ | 91 | $ | (2,062) | $ | (85,036) | $ | 11,444 |
| Net loss | - |  | - |  | - |  | - |  | - |  | (3,240) |  | (3,240) |
| Share-based payments (note 8) | - |  | - |  | 132 |  | - |  | - |  | - |  | 132 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance, June 30, 2022** | **69,435,624** | **$** | **94,291** | **$** | **4,292** | **$** | **91** | **$** | **(2,062)** | **$** | **(88,276)** | **$** | **8,336** |

**Unaudited Condensed Consolidated Interim Statements of Cash Flows**

**(In thousands of Canadian dollars)**

**Six months ended June 30, 2023 and 2022**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2023** |  | 2022 |
|  |  |  |  |  |
| Cash flows from operating activities: |  |  |  |  |
| Net loss | **$** |  **(2,027)** | $ | (3,240) |
| Adjustments to reconcile net loss to net cash flows from operating activities: |  |  |  |  |
| Depreciation of property and equipment |  | **19** |  | 38 |
| Depreciation of right-of-use asset |  | **-** |  | 6 |
| Amortization intangible assets |  | **449** |  | 278 |
| Share-based payments (note 8) |  | **30** |  | 132 |
| Unrealized foreign exchange loss (gain) |  | **1** |  | (7) |
| Finance costs (income), net |  | **(5)** |  | 30 |
| Change in non-cash operating working capital (note 13) |  | **1,008** |  | 67 |
|  |  |  |  |  |
| Net cash used in operating activities |  | **(525)** |  | (2,696) |
|  |  |  |  |  |
| Cash flows from financing activities: |  |  |  |  |
| Repayment of obligations under property lease |  | **-** |  | (45) |
| Proceeds from exercise of stock options (note 7 & 8) |  | **26** |  | - |
|  |  |  |  |  |
| Net cash from (used) in financing activities |  | **26** |  | (45) |
|  |  |  |  |  |
| Cash flows from investing activities: |  |  |  |  |
| Interest income received (note 4) |  | **5** |  | 17 |
| Purchases of property and equipment  |  | **-** |  | (17) |
| Addition of intangible assets (note 5) |  |  **(300)** |  | (300) |
|  |  |  |  |  |
| Net cash used in investing activities |  | **(295)** |  | (300) |
|  |  |  |  |  |
| Decrease in cash |  |  **(794)** |  | (3,041) |
| Foreign exchange gain (loss) on cash held in foreign currency |  | **(1)** |  | 7 |
| Cash, beginning of the period |  | **1,253** |  | 8,763 |
|  |  |  |  |  |
| Cash, end of the period | **$** | **458** | $ | 5,729 |
|  |  |  |  |  |
|  |  |  |  |  |

**1. Corporate information:**

EQ Inc. (“EQ Works”) or (the "Company") empowers businesses to better understand, predict, and influence consumer behavior. Using unique data sets, advanced analytics, machine learning and artificial intelligence. The Company creates actionable intelligence for businesses to attract, retain, and grow their customers through its proprietary SaaS technology platforms, LOCUS and ATOM. The Company is able to ingest, enrich, analyze and action upon receipt of large quantities of data. The Company is governed by the Ontario Business Corporations Act and is domiciled in Canada. The Company is a publicly listed on the TSX Venture Exchange ("TSX-V").

**2. Basis of preparation:**

1. Statement of compliance:

These unaudited condensed consolidated interim financial statements (“interim financial statements”) have been prepared in accordance with International Accounting Standards 34, interim Financial Reporting (“IAS 34”), as issued by the International Accounting Standards Board ("IASB") and on a basis consistent with the accounting policies disclosed in the Company’s annual audited consolidated financial statements for the year ended December 31, 2022 (the “2022 financial statements”). The accounting policies applied in these interim financial statements are based on International Financial Reporting Standard (“IFRS”) issued and outstanding as of the date the Board of Directors authorized the statements for issue.

The notes presented in these interim financial statements include, in general, only significant changes and transactions occurring since the Company's last year ended December 31, 2022 and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These interim financial statements should be read in conjunction with the 2022 financial statements, including the notes thereto.

The interim financial statements were authorized for issue by the Board of Directors on August 29, 2023.

1. Basis of presentation and going concern:

These interim financial statements have been prepared mainly on a historical cost basis. Other measurement bases used are described in the applicable notes to these interim financial statements.

The interim financial statements were prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company’s ability to continue as a going concern is dependent upon the Company’s ability to successfully generate profit from operations, or to finance its cash requirements through equity financing, debt financing or rights offerings from existing shareholders. There is no assurance that the Company will be successful in generating profits or raising sufficient funds through financing.

**2. Basis of preparation (continued):**

1. Basis of presentation and going concern (continued):

The Company has incurred total comprehensive losses of $2,027 and negative cash flows from operations of $525 for the six months ended June 30, 2023, and has a working capital deficit of $1,689 as at June 30, 2023. As a result, these material uncertainties cast significant doubt regarding the Company’s ability to continue as a going concern.

These interim financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities, revenue, and expenses and the statement of financial position classification used if the Company was unable to continue operations in accordance with this assumption. Such adjustments could be material.

1. Functional and presentation currencies:

These interim financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

1. Significant accounting policies:

These interim financial statements have been using the same accounting policies and methods of computation as the annual audited consolidated financial statements of the Company for the year ended December 31, 2022.

**3. Segment information:**

The Company’s management and chief operating decision maker reviews performance of the Company on a consolidated basis and has integrated its services as one reportable segment, which provides real-time technology and advance analytics to improve performance for all web, mobile, social and video advertising initiatives and focuses on targeted advertising and incorporates the most sophisticated advertising technologies, data analytics and programmatic media buying capabilities into a single system. The chief operating decision maker evaluates the Company’s performance, makes operating decision, and allocates resources based on financial data consistent with the presentation in these interim financial statements.

The Company's assets and operations are all located in Canada; however, the Company services customers in the United States.

**3. Segment information (continued):**

The Company generates revenue across two geographical regions; customer revenue by region is as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Three months endedJune 30, |  | Six months endedJune 30, |
|  |  | 2023 |  | 2022 |  | 2023 |  | 2022 |
|  |  |  |  |  |  |  |  |  |
| Canada | **$** | **2,540** | $ | 3,236 | **$** | **4,221** | $ | 5,945 |
| U.S. |  | **1** |  | 4 |  | **11** |  | 9 |
|  |  |  |  |  |  |  |  |  |
|  | **$** | **2,541** | $ | 3,240 | **$** | **4,232** | $ | 5,954 |

For the three months ended June 30, 2023, there were three customers that comprised 26%, 21% and 14%, respectively, of the Company's total revenue from operations. No other customers exceeded 10% of revenue. For the three months ended June 30, 2022, there were three customers that comprised 34%, 14% and 14%, respectively, of the Company's total revenue from operations.

For the six months ended June 30, 2023, there were four customers that comprised 21%, 21%, 10% and 10% of the Company’s total revenue and three customers that comprised 36%, 14% and 13% of the Company’s total revenue for the same period in 2022.

The components of revenue are as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Three months endedJune 30, |  | Six months endedJune 30, |
|  |  | 2023 |  |  2022 |  | 2023 |  | 2022 |
|  |  |  |  |  |  |  |  |  |
| Advertising Services | **$** | **2,008** | $ | 2,329 | **$** | **3,221** | $ | 4,458 |
| Data Sales |  | **533** |  | 911 |  | **1,011** |  | 1,496 |
|  |  |  |  |  |  |  |  |  |
|  | **$** | **2,541** | $ | 3,240 | **$** | **4,232** | $ | 5,954 |

1. Data sales are comprised of fixed CPM data and licenses.

**4. Finance income and finance cost:**

 Three months ended Six months ended

 June 30, June 30,

 2023 2022 2023 2022

Finance income:

Interest income on cash and

 cash equivalent 3 13 5 17

Foreign exchange gain, net 4 9 – 1

Total finance income 7 22 5 18

Finance costs:

Other interest expense (6) (1) (10) (1)

Accretion on Escrow – (8) – (17)

Accretion on lease – – – (29)

Accretion on loan – (1) – (1)

Foreign exchange loss, net – – (1) –

Total finance costs (6) (10) (11) (48)

Net finance income (costs)
recognized in profit or loss $ 1 $ 12 $ (6) $ (30)

**5. Intangible assets:**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Customer relationships** | **Non-compete** | **Backlog** | **Software** | **Developed Technology** | **Paymi** **Brand** | **Total** |
| **Cost** |  |  |  |  |  |  |  |
| BalanceJanuary 1, 2022 | $ 1,141 | $ 25 | $ 71 | $ 1,550 | $ 178 | $ 120 | $ 3,085 |
| Addition | – | – | – |  460 | 140 | – |  600 |
| Disposal  | – | (25) | (71) | – | – | – | (96) |
| **Balance, December 31, 2022** |  **$ 1,141** |  **$ –** |  **$ –** | **$ 2,010** | **$ 318** | **$ 120** |  **$ 3,589** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Cost** |  |  |  |  |  |  |  |
| BalanceJanuary 1, 2023 | $ 1,141 | $ – | $ – | $ 2,010 | $ 318 | $ 120 | $ 3,589 |
| Addition | – | – | – | 300 | – | – |  300 |
| **Balance, June 30, 2023** |  **$ 1,141** |  **$ –** |  **$ –** | **$ 2,310** | **$ 318** | **$ 120** |  **$ 3,889** |

**5. Intangible assets (continued):**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Amortization**  | **Customer relationships** | **Non-compete** | **Backlog** | **Software** | **Developed Technology** | **Paymi** **Brand** | **Total** |
| Balance, January 1, 2022 |  $ 326 | $ 25 | $ 71 | $ 417 | $ 33 | $ 20 | $ 892 |
| Amortization |  91 |  – |  – | 512 | 54 | (20) | 637 |
| Disposal | – | (25) | (71) | – | – | – | (96) |
| **Balance, December 31, 2022** |  **$ 417** | **$ –** | **$ –** | **$ 929** | **$ 87** | **$ –** | **$ 1,433** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Amortization** |  |  |  |  |  |  |  |
| BalanceJanuary 1, 2023 | $ 417 | $ – | $ – | $ 929 | $ 87 | $ – | $ 1,433 |
| Amortization | 51 | – | – | 356 | 42 | – |  449 |
| **Balance, June 30, 2023** |  **$ 468** |  **$** – |  **$** – |  **$ 1,285** |  **$ 129** |  **$** – |  **$ 1,882** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Carrying amounts** |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Balance, December 31, 2022 |  $ 724 | $  **–** | $ **–** | $ 1,081 |  $ 231 | $ 120 |  $ 2,156 |
| **Balance, June 30, 2023** |  **$ 673** |  **$ –** | **$ –** |  **$ 1,025** |  **$ 189** |  **$ 120** |  **$ 2,007** |

**6. Loans and borrowings:**

1. Bank credit facility:

The Company has $1,600 revolving credit facility (the “Facility”), including credit card facility of $100, with a Canadian chartered bank. Borrowing under this Facility are secured by accounts receivable and the Facility bears interest at the bank’s prime rate plus 3.5% per annum. As at June 30, 2023, nil (2022 – nil) was outstanding under the Facility included in the loans and borrowings and $29 (2022 – $83) was outstanding under the credit card facility included in accounts payable and accrued liabilities.

1. Canada Emergency Business Loan:

The Government of Canada launched the Canada Emergency Business Loan (“CEBA”) to provide interest-free loans to business to help cover operating costs during the period of COVID-19. As at December 31, 2020, the Company received $80 from the CEBA. For the year ended December 31, 2021, the Company received an additional $40 CEBA loan, on top of the $80 received as at December 31, 2020. The loan is interest-free until December 31, 2023 and 5% starting on January 1, 2024. No principal repayment is required before December 31, 2023 and is due on December 31, 2025. Interest payments is required if the principal remains outstanding after December 31, 2023. The Company plans to repay the loan on or before December 31, 2023 and expect a loan forgiveness of $40. The loan balance is measured at the present value, discounted using 7.5%.

**7. Common shares:**

The authorized share capital of the Company comprises an unlimited number of common shares without par value. The holders of common shares are entitled to receive dividends when declared and are entitled to one vote per share at annual meetings of the Company.

During the three and six months ended June 30, 2023, 33,333 stock options were exercised into 33,333 common shares of the Company at an average exercise price of $0.76 for total proceeds of $26. During the three and six months ended June 30, 2022, no stock option was exercised

**8. Share-based payments:**

The following table summarizes the continuity of options issued under the Company’s stock option plan (the “Plan”) for the period ended:

|  |  |  |
| --- | --- | --- |
|  | **June 30, 2023** | June 30, 2022 |
|  | **Number of options** | **Weighted average exercise price** | Number of options | Weighted average exercise price |
|  |  |  |  |  |
| Outstanding, beginning of period  | 2,191,000 | $ 1.08 | 2,746,000 | $ 1.08 |
| Granted | - | - | 37,500 | 1.25 |
| Exercised |  (33,333) | 0.76 | - | - |
| Forfeited or cancelled |  (241,667) | 1.26 | (152,500) | 1.31 |
|  |  |  |  |  |
| Outstanding, end of period | 1,916,000 |  1.07 | 2,631,000 | 1.07 |
|  |  |  |  |  |
| Options exercisable, end of period | 1,830,167 | $ 1.06 | 1,779,836 | $ 1.06 |

A summary of the status of the Company's options under the Plan is as follows:

|  |  |  |
| --- | --- | --- |
|  | **June 30, 2023** | June 30, 2022 |
| **Range of exercise price** | **Number of options** | **Weighted average remaining contractual life (years)** | **Number of options exercisable** | Number of options | Weighted average remaining contractual life (years) | Number of options exercisable |
|  |  |  |  |  |  |  |
| $0.70 – 0.79 |  **250,000** | **0.7** | **250,000** |  275,000 | 1.6 | 275,000 |
| $0.80 – 0.89 | **40,000** | **1.4** | **40,000** | 55,000 | 2.2 | 40,000 |
| $0.90 – 0.99 | **1,076,000** | **1.8** | **1,076,000** | 1,513,500 | 2.7 | 1,025,670 |
| $1.10 – 1.19 | **45,000** | **4.1** | **-** | - | - | - |
| $1.20 – 1.29 | **12,500** | **3.6** | **4,167** | 267,500 | 4.4 | - |
| $1.30 – 1.39 | **157,500** | **2.4** | **155,000** | 157,500 | 3.3 | 152,500 |
| $1.40 – 1.49 | **235,000** | **2.9** | **205,000** | 262,500 | 3.9 | 186,666 |
| $1.70 – 1.79 | **100,000** | **2.9** | **100,000** | 100,000 | 3.8 | 100,000 |
|  | **1,961,000** |  | **1,830,167** | 2,631,000 |  | **1,779,836** |

During the three and six months ended June 30, 2023, no stock option was granted and 33,333 exercised. During the three and six months ended June 30, 2022, 37,500 stock options were granted and no stock option was exercised.

During the three months ended June 30, 2023, the Company recorded share-based payments of $8 (2022 - $48). During the six months ended June 30, 2023, the Company recorded a share-based payment of $30 (2022 - $132).

**9. Fair values of financial instruments:**

Classification of financial instruments:

The following table provides the allocation of financial assets and liabilities required to be measured at amortized cost or fair value and their carrying values:

|  |  |  |
| --- | --- | --- |
| **June 30, 2023** |  **Carrying value  total** |  **Fair value  total** |
|  |  |  |
| **Measurement basis** |  |  |
| **Financial assets at amortized cost:** |  |  |
| **Cash** |  **$ 458** | **$ 458** |
| **Accounts receivable** | **2,373** | **2,373** |
|  | **$ 2,831** | **$ 2,831** |
| **Financial liabilities at amortized cost:** |  |  |
| **Accounts payable and accrued liabilities** | **$ 3,125** | **$ 3,125** |
| **Rewards payable** | **1,338** | **1,338** |
| **Loans and borrowings** | **79** | **79** |
|  | **$ 4,542** | **$ 4,545** |
|  |  |  |
| December 31, 2022 |  Carrying value  total |  Fair value  total |
|  |  |  |
| Measurement basis |  |  |
| Financial assets at amortized cost: |  |  |
| Cash | $ 1,253 | $ 1,253 |
| Accounts receivable | 3,535 | 3,535 |
|  | $ 4,788 | $ 4,788 |
| Financial liabilities at amortized cost: |  |  |
| Accounts payable and accrued liabilities | $ 3,488 | $ 3,488 |
| Rewards payable | 1,281 | 1,281 |
| Loans and borrowings | 79 | 79 |
|  | $ 4,848 | $ 4,848 |

There have been no transfers of assets between levels during the three and six months ended June 30, 2023 and year ended December 31, 2022.

**10. Capital risk management:**

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to provide returns to its shareholders. The Company defines capital that it manages as the aggregate of its shareholders' equity, which comprises issued capital, contributed surplus, accumulated other comprehensive income and retained earnings (deficit). The Company manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may issue shares, repurchase shares, pay dividends or raising capital and borrowings, as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements. There has been no changes to the Company’s capital management approach as at June 30, 2023 from 2022.

**11. Financial risk management:**

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Audit Committee reviews the Company's risk management policies on an annual basis. The finance department identifies and evaluates financial risks and is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

1. Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises from the Company's accounts receivable and cash. The majority of the Company's customers are located in Canada. At June 30, 2023, three customers represented 34%, 16% and 16% of the gross accounts receivable balance of $2,535, respectively. At December 31, 2022, three customers represented 24%, 19% and 18% of the gross accounts receivable balance of $3,748, respectively. No other individual customers represented more than 10% of accounts receivable. As at June 30, 2023, the expected credit losses were $165 (December 31, 2022 - $213). The Company reviews the components of these accounts on a regular basis to evaluate and monitor this risk. The Company’s customers are generally financially established organizations, which limits the credit risk relating to the customers. In addition, credit reviews by the Company take into account the counterparty’s financial position, past experience and other factors. As at June 30, 2023, approximately 19%, $40 (December 31, 2022 – 43%, $162) of accounts receivable balances over 90 days were not impaired. The consolidated entity has a credit risk exposure with two agencies located in Canada, which as at June 30, 2023 owed the consolidated entity $1,262 (50% of trade receivables) (December 31, 2022: $1,600 (43% of trade receivables)). This balance was within its terms of trade and no impairment was made as at June 30, 2023. The Company’s payment terms range from 30 days to 60 days from the invoice date. There are no guarantees against this receivable, but management closely monitors the receivable balance on a monthly basis and is in regular contact with this customer to mitigate risk. Management believes that the expected credit loss allowance is adequate.

**11. Financial risk management (continued):**

1. Credit risk (continued):

The Company, from time to time, invests its excess cash with the objective of maintaining safety of the principal and providing adequate liquidity to meet current payment obligations and future planned capital expenditures and with the secondary objective of maximizing the overall yield of the portfolio. The Company's cash as at June 30, 2023 is not subject to external restrictions and is held with Schedule I banks in Canada.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company manages its liquidity risk by continually monitoring forecasted and actual revenue and expenditures and cash flows from operations. Management is also actively involved in the review and approval of planned expenditures. The Company's principal cash requirements are for principal and interest payments on its debt, capital expenditures and working capital needs. The Company uses its operating cash flows, operating facilities and cash balances to maintain liquidity.

The following are the undiscounted contractual maturities for the Company’s obligations:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **June 30, 2023** | **Carrying amount** | **Contractual cash flow** | **Less than 1 year** | **1-3 years** | **>3 years** |
|  |  |  |  |  |  |
| **Trade and other payables(i)** | **$ 3,125** | **$ 3,125** | **$ 3,125** | **$ -** | **$ -** |
| **Reward payable** | **1,338** | **1,338** | **1,338** | **-** | **-** |
| **Loans and borrowings** | **79** | **120** | **-** | **120** | **-** |
|  |  |  |  |  |  |
|  | **$ 4,542** | **$ 4,583** | **$ 4,463** | **$ 120** | **$ -** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| December 31, 2022 | Carrying amount | Contractual cash flow | Less than 1 year | 1-3 years | >3 years |
|  |  |  |  |  |  |
| Trade and other payables(i) | $ 3,488 | $ 3,488 | $ 3,488 | $ - | $ - |
| Reward payable | 1,281 | 1,281 | 1,281 | - | - |
| Loans and borrowings |  79 |  120 | - | 120 | - |
|  |  |  |  |  |  |
|  | $ 4,848 | $ 4,889 | $ 4,769 | $ 120 | $ - |

(i) Trade and other payables exclude other non-contractual liabilities

**11. Financial risk management (continued):**

(c) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and the Company's share price, will affect the Company's income or the value of its financial instruments.

1. Interest rate risk:

The Company’s interest rate risk arises primarily from its loans and borrowings obligations, which bore a fixed interest rate of 12%. As the Company paid off the 2019 Notes on January 19, 2021, management believes that the Company is not significantly exposed to cash flow interest rate risk in the next twelve months.

1. Currency risk:

The Company operates internationally with the Canadian dollar as its functional currency and is exposed to foreign exchange risk from purchase transactions, as well as recognized financial assets and liabilities denominated in U.S dollars. The Company’s main objective in managing its foreign exchange risk is to maintain U.S. cash on hand to support international forecasted obligations and cash flows. To achieve this objective, the Company monitors forecasted cash flows in foreign currencies and attempts to mitigate the risk by modifying the nature of cash held.

If a shift in foreign currency exchange rates of 10% were to occur, the foreign exchange gain or loss on the Company's net monetary assets could change by approximately $34 (December 31, 2022 - $17) due to the fluctuation and this would be recorded in the consolidated statements of comprehensive income (loss).

Balances held in non-Canadian dollars are as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **June 30,** **2023** |  | December 31, 2022 |
|  |  | **US**  |  | US |
|  |  |  |  |  |
| Cash  | **$** | 36 | $ | 95 |
| Accounts receivable |  | - |  | 1 |
| Accounts payable and accrued liabilities |  | 291 |  | 225 |

**12. Related party transactions and balances:**

On December 29, 2021, the corporation provided certain employees with $157 of short terms loans to cover the taxes owing in terms of the option excise. The loans were provided pursuant to promissory notes issued to the Company by each employee (collectively, the “Promissory Notes”). The Promissory Notes are fully secured by all of the options exercised. The Promissory Notes bear interest at a rate of 2.45%. All interest accrued under the Promissory Notes is to be paid at the maturity date.

During 2022, $59 was repaid and the remaining balance was extended to December 29, 2023 at an interest rate of 6.45%. All interest accrued under the Promissory Notes is to be paid at the maturity date.

**13. Consolidated statements of cash flows:**

The change in non-cash operating working capital comprises the following:

|  |  |  |
| --- | --- | --- |
|  |  | Six months ended June 30, |
|  |  | **2023** |  | 2022 |
|  |  |  |  |  |
| Accounts receivable | **$** | **1,162** | $ | 1,434 |
| Other current assets |  | **11** |  | (9) |
| Accounts payable and accrued liabilities |  | **(363)** |  | (884) |
| Rewards payable |  | **57** |  | 55 |
| Contract liabilities |  | **141** |  | (529) |
|  |  |  |  |  |
|  | **$** | **1,008** | $ | 67 |

**14. Subsequent event:**

Subsequent to the quarter end, the Company replaced its revolving line of credit facility with an accounts receivable factoring facility. Under the new arrangement, the Company can borrow up to $4,000 based on 85% of the eligible accounts receivable aged under 90 days. The borrowings bears interest at the bank’s prime rate plus 6% per annum.