Condensed Interim Consolidated Financial Statements

For the three and nine months ended

June 30, 2022 and 2021

(Unaudited)

## UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, SSC Security Services Corp. discloses that its auditors have not reviewed the condensed interim consolidated financial statements for the nine months ended June 30, 2022 and 2021.

## *CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION*

*(Unaudited)*

| | Note | As at June 30, 2022 | As at September 30, 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash and cash equivalents | | $ 15,313,533 | $ 28,795,760 |
| Accounts receivable | 19 | 16,682,580 | 4,773,091 |
| Income tax recoverable | | 105,285 | 39,873 |
| Inventories | | 254,978 | - |
| Contract assets | 4 | 157,800 | 49,080 |
| Legacy contract assets | 7 | - | 27,598 |
| Other financial assets | | 747,016 | 1,487,209 |
| Assets held for sale | 6 | 800,000 | 3,669,893 |
| Prepaid expenses | | 1,145,445 | 165,737 |
| Capitalized commissions | 11 | 233,684 | - |
| Mortgages and loans receivable | 8 | 515,262 | 1,031,225 |
| | | $ 35,955,583 | $ 40,039,466 |
| **Non-current** | | | |
| Legacy contract assets | 7 | $ 8,013,701 | $ 10,442,553 |
| Property and equipment | 9 | 3,022,919 | 864,507 |
| Capitalized commissions | 11 | 347,290 | - |
| Deferred income tax assets | | 1,876,499 | 2,396,752 |
| Intangible assets | 10 | 20,171,076 | 10,257,886 |
| Goodwill | 10 | 13,928,066 | 9,416,321 |
| Mortgages and loans receivable | 8 | 3,914,077 | 11,470,181 |
| | | $ 87,229,211 | $ 84,887,666 |
| **LIABILITIES** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | 12 | $ 9,793,727 | $ 4,517,634 |
| Obligations under lease | 13 | 466,412 | 80,640 |
| Contract Liabilities | 4 | 319,179 | 22,500 |
| Long-term debt | 14 | - | 2,262,674 |
| | | $ 10,579,318 | $ 6,883,448 |
| **Non-current** | | | |
| Obligations under lease | 13 | $ 705,536 | $ 295,207 |
| Long-term debt | 14 | - | 276,993 |
| Deferred income tax liability | | 3,552,585 | 1,565,270 |
| | | $ 4,258,121 | $ 2,137,470 |
| **EQUITY** | | | |
| Share capital | 15 | $ 79,801,475 | $ 81,554,182 |
| Contributed surplus | | 4,187,054 | 4,127,230 |
| Deficit | | (11,596,757) | (9,814,664) |
| | | $ 72,391,772 | $ 75,866,748 |
| | | $ 87,229,211 | $ 84,887,666 |

**ON BEHALF OF THE BOARD**

"Douglas Emsley", Director

"David H. Laidley", FCPA, FCA, Director

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

# *CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)*

*(Unaudited)*

| | Note | Three months ended June 30, 2022 | Three months ended June 30, 2021 | Nine months ended June 30, 2022 | Nine months ended June 30, 2021 |
|---|---|---|---|---|---|
| **Revenue** | 4 | $ 11,806,498 | 3,923,883 | $ 23,190,248 | 12,809,153 |
| **Cost of sales** | 4 | 9,955,375 | 3,216,434 | 19,415,210 | 12,614,016 |
| **Gross profit** | | $ 1,851,123 | 707,449 | $ 3,775,038 | 195,137 |
| Corporate administration | 17 | 2,734,683 | 1,315,096 | 6,383,794 | 2,709,556 |
| **Loss from operations** | | $ (883,560) | (607,647) | $ (2,608,756) | (2,514,419) |
| **Financing** | | | | | |
| Interest income | | $ 117,163 | 437,898 | $ 490,693 | 1,585,576 |
| Interest expense | 13,14 | (10,296) | (43,116) | (27,112) | (208,975) |
| | | $ 106,867 | 394,782 | $ 463,581 | 1,376,601 |
| **Other income** | | | | | |
| Gain from legacy business | 4 | $ 1,662,080 | 1,812,809 | $ 1,757,628 | 3,760,790 |
| Other income | | 151,594 | 126,265 | 380,380 | 309,410 |
| | | $ 1,813,674 | 1,939,074 | $ 2,138,008 | 4,070,200 |
| **Net income (loss) before income tax** | | $ 1,036,981 | 1,726,209 | $ (7,167) | 2,932,382 |
| Income tax expense (recovery) | 18 | 276,892 | 455,942 | (5,112) | 783,419 |
| **Net income (loss) and comprehensive income (loss)** | | $ 760,089 | $ 1,270,267 | $ (2,055) | $ 2,148,963 |
| **Basic income (loss) per share** | 16 | $ 0.04 | $ 0.06 | $ (0.00) | $ 0.11 |
| **Fully diluted income (loss) per share** | 16 | 0.04 | 0.06 | (0.00) | 0.11 |

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

## *CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS*

*(Unaudited)*

| Cash flow from (applied to) | Note | Three months ended June 30, 2022 | Three months ended June 30, 2021 | Nine months ended June 30, 2022 | Nine months ended June 30, 2021 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| **Net income (loss) for the period** | | $ 760,089 | $ 1,270,267 | $ (2,055) | $ 2,148,963 |
| Adjustments | | | | | |
| Amortization of capital and intangible assets | 17 | 480,065 | 185,490 | 1,011,775 | 427,296 |
| Amortization of capitalized commissions | 17 | 44,399 | - | 44,399 | - |
| Deferred share unit expense (recovery) | 22 | (184,528) | (9,287) | 65,644 | (759,441) |
| Income tax expense (recovery) | 18 | 276,892 | 455,942 | (5,112) | 783,419 |
| Income taxes paid | | - | (3,582) | (4,776) | (36,304) |
| Interest revenue | | (117,163) | (437,898) | (490,693) | (1,585,576) |
| Interest received (paid) | | 399,982 | (227,761) | 884,269 | 2,162,881 |
| Cost of sales - legacy operations | | - | 443,668 | 6,640 | 3,430,417 |
| Share based payments | 17 | 21,672 | 26,066 | 59,824 | 65,199 |
| Gain from legacy business | | (1,662,080) | (1,812,809) | (1,757,628) | (3,760,790) |
| Other income | | (51,648) | (78,067) | (182,709) | (145,652) |
| Changes in non-cash working capital items | 20 | (1,339,400) | (58,053) | (1,022,183) | (353,503) |
| **Cash generated from (applied to) operating activities** | | $ (1,371,720) | $ (246,024) | $ (1,392,605) | $ 2,376,909 |
| **Investing activities** | | | | | |
| Legacy operations | | 4,920,303 | 2,504,591 | 7,837,822 | 3,842,876 |
| Proceeds from repayment of mortgages and loans receivable | | 2,443,515 | 5,999,924 | 7,998,137 | 10,607,070 |
| Purchase of property and equipment | 9 | (757,643) | (16,133) | (862,667) | (20,565) |
| Acquisition of subsidiary, net of cash acquired | 5 | (20,960,096) | - | (20,960,096) | (11,241,187) |
| **Cash received from (applied to) investing activities** | | $ (14,353,921) | $ 8,488,382 | $ (5,986,804) | $ 3,188,194 |
| **Financing activities** | | | | | |
| Dividends paid | | (593,440) | (608,649) | (1,797,737) | (1,665,937) |
| Interest expense | | 10,296 | 38,060 | 27,112 | 200,873 |
| Interest paid | | (1,746) | (115,134) | (39,819) | (283,509) |
| Net repayments on long-term debt | 14 | - | (2,966,045) | (2,539,667) | (4,689,461) |
| Purchase of common shares | 15 | (213,571) | - | (1,950,560) | (1,398,535) |
| Proceeds from shares issued | 15 | - | - | 197,853 | 43,789 |
| **Cash applied to financing activities** | | $ (798,461) | $ (3,651,768) | $ (6,102,818) | $ (7,792,780) |
| Increase (decrease) in cash | | (16,524,102) | 4,590,590 | (13,482,227) | (2,227,677) |
| Cash – beginning of the period | | 31,837,635 | 20,415,885 | 28,795,760 | 27,234,152 |
| Cash - end of the period | | $ 15,313,533 | $ 25,006,475 | $ 15,313,533 | $ 25,006,475 |

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

# CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

*(Unaudited)*

| | Note | Share Capital | | | Contributed Surplus | | Deficit | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | Number | | Amount | | Share Options | | | |
| At September 30, 2020 | 15 | 17,842,822 | $ | 75,799,235 | $ | 4,049,015 | $ | (8,820,300) | $ 71,027,950 |
| NCIB shares purchased for cancellation | | (534,136) | $ | (1,398,535) | $ | - | $ | - | $ (1,398,535) |
| Options exercised | | 18,289 | | 57,597 | | (13,809) | | - | 43,788 |
| Share based payment – options | | - | | - | | 65,199 | | - | 65,199 |
| Dividends | | - | | - | | - | | (2,274,584) | (2,274,584) |
| Acquisition of subsidiary | | 2,961,310 | | 7,095,885 | | | | | 7,095,885 |
| Total comprehensive loss | | - | | - | | - | | 2,148,963 | 2,148,963 |
| At June 30, 2021 | 15 | 20,288,285 | $ | 81,554,182 | $ | 4,100,405 | $ | (8,945,921) | $ 76,708,666 |
| Share based payment – options | | - | | - | | 26,825 | | - | 26,825 |
| Dividends | | - | | - | | - | | (608,650) | (608,650) |
| Total comprehensive income | | - | | - | | - | | (260,093) | (260,093) |
| At September 30, 2021 | 15 | 20,288,285 | $ | 81,554,182 | $ | 4,127,230 | $ | (9,814,664) | $ 75,866,748 |
| Adjustment due to share consolidation | | (13) | $ | - | $ | - | $ | - | $ - |
| NCIB shares purchased for cancellation | | (669,700) | | (1,950,560) | | - | | - | (1,950,560) |
| Options exercised | | 79,766 | | 197,853 | | (6,550) | | - | 191,303 |
| Share based payment – options | | - | | - | | 66,374 | | - | 66,374 |
| Dividends | | - | | - | | - | | (1,780,038) | (1,780,038) |
| Total comprehensive income | | - | | - | | - | | (2,055) | (2,055) |
| At June 30, 2022 | 15 | 19,698,338 | $ | 79,801,475 | $ | 4,187,054 | $ | (11,596,757) | $ 72,391,772 |

### *1. Nature of operations*

The predecessor corporation of SSC Security Services Corp. (the "Company" or "SSC") was incorporated under The Business Corporations Act (Saskatchewan) (the “Act”) on October 25, 2011. The existing Company was formed by an amalgamation under the Act on August 8, 2013. The Company’s common shares are publicly traded on the TSX Venture Exchange under the symbol “SECU” (OTCQX: SECUF).

On February 1, 2021, the Company acquired SRG Security Resource Group Inc. ("SRG"), which provides cyber security and physical security services to commercial, industrial and public sector clients across Canada (see Note 5).

On June 1, 2022, the Company acquired Logixx Security Inc. ("Logixx"), a Toronto-based provider of security protection for enterprise and commercial clients across Canada (see Note 5).

The head office of the Company is located at 300 – 1914 Hamilton Street, Regina, Saskatchewan, S4P 3N6. The Company’s registered and records office is located at 800 – 1801 Hamilton Street, Regina, Saskatchewan, S4P 4B4.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 16, 2022.

### *2. Basis of presentation*

A. STATEMENT OF COMPLIANCE

These condensed financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Committee ("IFRIC"). They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last audited annual financial statements as at and for the period ended September 30, 2021.

B. BASIS OF MEASUREMENT

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for the following material items in the condensed interim consolidated statement of financial position:

- Financial instruments that are accounted for according to the financial instrument categories defined in Note 19.
- Share purchase options and deferred share units that are accounted for according to the share-based payments criteria.
- Assets held for sale are held at the lower of carrying value and fair value.

C. BASIS OF CONSOLIDATION

The condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries SRG and Logixx. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases. All intercompany transactions and balances have been eliminated. All companies have a reporting date of September 30th.

D. FUNCTIONAL AND PRESENTATIONAL CURRENCY

The condensed interim consolidated financial statements are presented in Canadian dollars, the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest dollar with the exception of share and per share value.

E. USE OF ESTIMATES AND JUDGMENTS

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ materially from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

Significant areas requiring the use of management estimates are further described in the following summary of significant accounting policies and notes:

- Fair value of financial instruments;
- Expected credit losses on financial assets;
- Estimates of future taxable income; and
- Impairment of non-financial assets.

Areas of judgement in applying accounting policies that have the most significant effect on the amount recognized in the condensed interim consolidated financial statements include:

- Classification and measurement of financial instruments including the business model applied;
- Assessing staging of mortgages for purposes of estimating expected credit losses;
- Recognition of deferred tax assets;
- Identification of the fair values of assets and liabilities acquired in a business combination; and
- Assessing recoverable amounts of all significant financial and non-financial assets.

F. MEASUREMENT OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value hierarchy establishes three levels to classify the inputs of valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

- Level 1 – Fair values are determined using inputs that are quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Fair values are determined using inputs, other than quoted prices in level 1, that are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liabilities. In determining the inputs for calculating fair values, the Company looks for readily observable market inputs, primarily interest rates and forward prices based on the nature of the Company's derivative instruments.
- Level 3 – Fair values are determined based on inputs for the asset or liability that are not based on observable market data. Asset under collection values are calculated using internal discounted cash flow models that rely on forward pricing provided by independent sources and long term basis assumptions. Assets that are impaired or in the process of security realization are dependent upon fair value assessments of underlying security, primarily land.

The Company regularly reviews significant inputs and valuation assumptions. If third party information is used to measure fair values, then the Company assesses the evidence obtained from third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

## *3. Significant accounting policies*

Except as described below, the accounting policies applied by the Company in these condensed interim consolidated financial statements are the same as those applied as at and for the year ended September 30, 2021, and are detailed in note 3 of the Company's audited consolidated financial statements.

The changes in accounting policies are also expected to be reflected in the Company's consolidated financial statements as at and for the year ending September 30, 2022.

*Inventories*

The Company acquired electronic security inventories as a part of the acquisition of Logixx (see Note 5). Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in, first-out allocation method. The cost of inventories comprises costs of purchase and cost incurred bringing the inventories to their present location. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and estimated selling costs. In determining inventory valuation, any obsolete or damaged inventory is written down to net realizable value.

*Property and equipment*

Property and equipment are reported at acquisition cost less accumulated amortization and accumulated net impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the assets.

Amortization is calculated based on the depreciable amount, which is the cost of an asset less its residual value. Amortization is calculated over the estimated useful lives of the assets using the following rates and methods:

| | | |
|---|---|---|
| Furniture and fixtures | 20% | Declining balance |
| Computer hardware | 30-55% | Declining balance |
| Managed security services equipment | 1-5 years | Straight-line |
| Vehicles | 60% | Declining balance |
| Leasehold improvements | Lease term | Straight-line |
| Computer software | 3 years | Straight-line |
| Uniforms | 3 years | Straight-line |
| Right-of-use asset | Lease term | Straight-line |

*Foreign currency translation*

Transactions in foreign currencies are translated into Canadian dollars by the use of the exchange rate in effect at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction, and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into Canadian dollars at the exchange rate when the fair value was determined. Foreign currency difference are generally recognised in profit or loss and presented within other income.

*Share capital*

When a share consolidation has the effect of changing the number of shares outstanding without a corresponding change in resources, the weighted-average number of shares outstanding for the period is retrospectively adjusted as if the change had occurred at the beginning of the first period of EPS information presented.

*Revenue recognition*

The Company enters into security contracts with customers relating to protective services and cyber security services. As a result of the acquisition of Logixx (see Note 5), protective services now includes revenues from electronic installation services. These revenues include both the installation of security and home automation systems. The Company's contracts with customers require integration services which are not separately identifiable from other promises in the contracts and, therefore, not distinct. As such, the entire contract is one performance obligation recognized over time using the percentage of completion basis, where milestones are clearly defined, and performance is tied to milestones reached and costs incurred compared to total estimated costs. A contract asset is recognized for unbilled amounts on these projects during construction.

Revenues from the sale of security devices and hardware are recognized upon delivery of goods and services to customers and acceptance of such goods and services by customers net of provisions for returns and discounts.

## *4. Segment reporting*

Segment reporting is prepared on the same basis that the Company’s Chief Executive Officer, who is the Company’s Chief Operating Decision Maker, manages the business, makes operating decisions and assesses performance. As at June 30, 2022, Management has determined that the Company operates in three segments: Security, Legacy Operations, and Corporate. The security segment provides security services to primarily commercial and public sector clients. Services include cyber security services, protective services as well as security system design, sales, installations, and monitoring and alarm response. Legacy operations relate to the previous canola streaming business. Since May 2019, SSC has not deployed capital into new agriculture streams and is servicing those clients until their contracts with the Company mature.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Company accounts for intersegment sales as if they were to external customers.

Segment statements of income (loss) and comprehensive income (loss) for the three months ended June 30, 2022 are included below:

| | For the three months ended June 30, 2022 | | | | |
|---|---|---|---|---|---|
| | Security | Legacy Operations | Corporate | Intersegment eliminations | Total |
| **Revenue** | $ 11,723,856 | $ 87,829 | $ 604,702 | $ (609,889) | $ 11,806,498 |
| **Cost of sales** | 9,913,935 | 45,240 | - | (3,800) | 9,955,375 |
| **Gross profit** | $ 1,809,921 | $ 42,589 | $ 604,702 | $ (606,089) | $ 1,851,123 |
| Corporate administration | 2,411,101 | 187,716 | 774,406 | (638,540) | 2,734,683 |
| **Income (loss) from operations** | $ (601,180) | $ (145,127) | $ (169,704) | $ 32,451 | $ (883,560) |
| **Financing** | | | | | |
| Interest income | $ 2,161 | $ 115,002 | $ - | $ - | $ 117,163 |
| Interest expense | (10,296) | - | - | - | (10,296) |
| | $ (8,135) | $ 115,002 | $ - | $ - | $ 106,867 |
| **Other income** | | | | | |
| Gain from legacy business | $ - | $ 1,662,080 | $ - | $ - | $ 1,662,080 |
| Other income | 12,850 | 51,648 | 87,096 | - | 151,594 |
| | $ 12,850 | $ 1,713,728 | $ 87,096 | $ - | $ 1,813,674 |
| **Net income (loss) before income tax** | $ (596,465) | $ 1,683,603 | $ (82,608) | $ 32,451 | $ 1,036,981 |

Segment statements of income (loss) and comprehensive income (loss) for the nine month comparative period ended June 30, 2022 are included below:

For the nine months ended June 30, 2022

| | Security | Legacy Operations | Corporate | Intersegment eliminations | Total |
|---|---|---|---|---|---|
| **Revenue** | $ 22,948,970 | $ 251,584 | $ 2,132,695 | $ (2,143,001) | $ 23,190,248 |
| **Cost of sales** | 19,274,935 | 144,075 | - | (3,800) | 19,415,210 |
| **Gross profit** | $ 3,674,035 | $ 107,509 | $ 2,132,695 | $ (2,139,201) | $ 3,775,038 |
| Corporate administration | 5,636,105 | 366,315 | 2,617,926 | (2,236,552) | 6,383,794 |
| **Income (loss) from operations** | $ (1,962,070) | $ (258,806) | $ (485,231) | $ 97,351 | $ (2,608,756) |
| **Financing** | | | | | |
| Interest income | $ 2,436 | $ 488,257 | $ - | $ - | $ 490,693 |
| Interest expense | (18,224) | - | (8,888) | - | (27,112) |
| | $ (15,788) | $ 488,257 | $ (8,888) | $ - | $ 463,581 |
| **Other income** | | | | | |
| Gain from legacy business | $ - | $ 1,757,628 | $ - | $ - | $ 1,757,628 |
| Other income | 12,850 | 182,707 | 184,823 | - | 380,380 |
| | $ 12,850 | $ 1,940,335 | $ 184,823 | $ - | $ 2,138,008 |
| **Net income (loss) before income tax** | $ (1,965,008) | $ 2,169,786 | $ (309,296) | $ 97,351 | $ (7,167) |

Segment statements of income (loss) and comprehensive income (loss) for the three months ended June 30, 2021 are included below:

For the three months ended June 30, 2021

| | Security | Legacy Operations | Corporate | Intersegment eliminations | Total |
|---|---|---|---|---|---|
| **Revenue** | $ 3,911,383 | $ 14,520 | $ - | $ (2,020) | $ 3,923,883 |
| **Cost of sales** | 3,220,218 | (3,784) | - | - | 3,216,434 |
| **Gross profit** | $ 691,165 | $ 18,304 | $ - | $ (2,020) | $ 707,449 |
| Corporate administration | 625,818 | 144,825 | 578,924 | (34,471) | 1,315,096 |
| **Income (loss) from operations** | $ 65,347 | $ (126,521) | $ (578,924) | $ 32,451 | $ (607,647) |
| **Financing** | | | | | |
| Interest income | $ - | $ 437,898 | $ - | $ - | $ 437,898 |
| Interest expense | (5,056) | - | (38,060) | - | (43,116) |
| | $ (5,056) | $ 437,898 | $ (38,060) | $ - | $ 394,782 |
| **Other income** | | | | | |
| Gain from legacy business | $ - | $ 1,812,809 | $ - | $ - | $ 1,812,809 |
| Other income | - | 78,067 | 48,198 | - | 126,265 |
| | $ - | $ 1,890,876 | $ 48,198 | $ - | $ 1,939,074 |
| **Net income (loss) before income tax** | $ 60,291 | $ 2,202,253 | $ (568,786) | $ 32,451 | $ 1,726,209 |

Segment statements of income (loss) and comprehensive income (loss) for the nine month comparative period ended June 30, 2021 are included below:

For the nine months ended June 30, 2021

| | Security | Legacy Operations | Corporate | Intersegment eliminations | Total |
|---|---|---|---|---|---|
| **Revenue** | $ 6,406,613 | $ 6,407,116 | $ - | $ (4,576) | $ 12,809,153 |
| **Cost of sales** | 5,166,150 | 7,447,866 | - | - | 12,614,016 |
| **Gross profit** | $ 1,240,463 | $ (1,040,750) | $ - | $ (4,576) | $ 195,137 |
| Corporate administration | 1,030,569 | 508,331 | 1,229,316 | (58,660) | 2,709,556 |
| **Income (loss) from operations** | $ 209,894 | $ (1,549,081) | $ (1,229,316) | $ 54,084 | $ (2,514,419) |
| **Financing** | | | | | |
| Interest income | $ - | $ 1,585,576 | $ - | $ - | $ 1,585,576 |
| Interest expense | (8,102) | - | (200,873) | - | (208,975) |
| | $ (8,102) | $ 1,585,576 | $ (200,873) | $ - | $ 1,376,601 |
| **Other income** | | | | | |
| Gain from legacy business | $ - | $ 3,760,790 | $ - | $ - | $ 3,760,790 |
| Other income | - | 145,652 | 163,758 | - | 309,410 |
| | $ - | $ 3,906,442 | $ 163,758 | $ - | $ 4,070,200 |
| **Net income (loss) before income tax** | $ 201,792 | $ 3,942,937 | $ (1,266,431) | $ 54,084 | $ 2,932,382 |

Segment information as at September 30, 2021 and June 30, 2022 are as follows:

| | | Security | | Legacy Operations | | Corporate | | Intersegment eliminations | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Segment assets:** | | | | | | | | | | |
| As at June 30, 2022 | $ | 59,844,854 | $ | 14,069,241 | $ | 63,694,299 | $ | (50,379,183) | $ | 87,229,211 |
| As at September 30, 2021 | $ | 26,275,293 | $ | 28,056,109 | $ | 54,194,722 | $ | (23,638,458) | $ | 84,887,666 |
| **Segment liabilities:** | | | | | | | | | | |
| As at June 30, 2022 | $ | 27,573,923 | $ | 13,729 | $ | 2,523,555 | $ | (15,273,768) | $ | 14,837,439 |
| As at September 30, 2021 | $ | 8,495,893 | $ | 2,539,667 | $ | 2,352,223 | $ | (4,366,865) | $ | 9,020,918 |

The table below provides a disaggregation of the Company's overall revenues for the three and nine months ended June 30, 2022 and 2021:

| | | Three months ended June 30, 2022 | | Three months ended June 30, 2021 | | Nine months ended June 30, 2022 | | Nine months ended June 30, 2021 |
|---|---|---|---|---|---|---|---|---|
| Security services | | | | | | | | |
| Physical protective security services | $ | 10,455,509 | $ | 2,627,323 | $ | 18,983,562 | $ | 4,313,971 |
| Cyber security services | | 1,268,347 | | 1,284,061 | | 3,965,408 | | 2,092,642 |
| | $ | 11,723,856 | $ | 3,911,384 | $ | 22,948,970 | $ | 6,406,613 |
| Legacy operations | $ | 87,829 | $ | 14,519 | $ | 251,584 | $ | 6,407,116 |
| Corporate and intersegment eliminations | | (5,187) | | (2,020) | | (10,306) | | (4,576) |
| | $ | 11,806,498 | $ | 3,923,883 | $ | 23,190,248 | $ | 12,809,153 |

The following table provides information about contract assets and contract liabilities from contracts with customers:

| | | June 30, 2022 | | September 30, 2021 |
|---|---|---|---|---|
| Contract assets | $ | 157,800 | $ | 49,080 |
| Contract liabilities | $ | 319,179 | $ | 22,500 |

The contract assets primarily relate to the Company's rights to consideration for work completed but not billed at the reporting date. The acquisition of Logixx (see note 5) added $157,800 of contract assets to the condensed interim consolidated statements of financial position at June 30, 2022. Amounts are billed in accordance with the terms of each customer contract, generally subsequent to the performance of obligations and related revenue recognition, resulting in accounts receivable with standard payment terms.

The contract liabilities primarily relate to customer payments prior to satisfying contracted obligations and recognizing revenue. The acquisition of Logixx (see note 5) added $299,579 of contract liabilities to the condensed interim consolidated statements of financial position at June 30, 2022.

The gain from legacy business is made up of the following components:

| | | Three months ended June 30, 2022 | | Three months ended June 30, 2021 | | Nine months ended June 30, 2022 | | Nine months ended June 30, 2021 |
|---|---|---|---|---|---|---|---|---|
| Gain on sale of assets held for sale | $ | 182,623 | $ | 645,211 | $ | 273,579 | $ | 1,021,082 |
| Net gains on legacy contract assets | | 1,486,222 | | 1,173,506 | | 1,504,344 | | 2,715,620 |
| Expected credit (loss) recovery | | (6,765) | | (5,908) | | (20,295) | | 24,088 |
| Gain from legacy business | $ | 1,662,080 | $ | 1,812,809 | $ | 1,757,628 | $ | 3,760,790 |

The Company does not have revenues from any customers that represents a greater than 10% share of consolidated revenue.

## 5. *Business Acquisition*

A. ACQUISITION OF LOGIXX SECURITY INC.

On June 1, 2022, the Company acquired Logixx Security Inc. for an aggregate cash consideration of $23,733,247. There were no finders' fees payable in connection with this transaction. Acquisition costs in the amount of $273,122 were incurred on this transaction and expensed. This includes professional fees incurred towards financial, tax and legal due diligence.

Logixx is a Toronto, Ontario-based provider of physical protective security services as well as security system design, sales, installations, monitoring and alarm response.

This transaction qualifies as a business combination and was accounted for in accordance with IFRS 3 Business Combinations using the acquisition method of accounting. To account for the transaction, the Company has performed a business valuation of Logixx at the date of acquisition and a purchase price allocation.

The following table summarizes the consideration and closing date fair values of the net identifiable assets acquired pursuant to the Logixx acquisition:

| | | June 1, 2022 |
|---|---|---|
| Cash and cash equivalents | $ | 2,773,151 |
| Accounts receivable | | 13,718,124 |
| Inventories | | 240,340 |
| Contract assets | | 119,593 |
| Prepaid expenses | | 62,941 |
| Right-of-use asset | | 765,383 |
| Property and equipment | | 909,327 |
| Capitalized commissions | | 577,759 |
| Tradename (Note 10) | | 3,500,000 |
| Customer relationships (Note 10) | | 7,046,000 |
| Goodwill (Note 10) | | 4,511,743 |
| Total assets | $ | 34,224,361 |
| Accounts payable and accrued liabilities | $ | 6,960,846 |
| Lease liability | | 765,383 |
| Contract liabilities | | 312,840 |
| Deferred tax liability | | 2,452,045 |
| Total liabilities | $ | 10,491,114 |
| Net assets acquired | $ | 23,733,247 |
| Total consideration | | |
| Cash | $ | 23,733,247 |
| | $ | 23,733,247 |

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

| Assets Acquired | Valuation technique |
|---|---|
| Customer relationships | Multi-period excess earnings method: The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets. |
| Tradename | Relief-from-royalty method: The relief-from-royalty method is based on the premise that the fair value of the tradename is equal to the net present value of the future expected foregone royalties paid due to ownership of the tradename. |

For the one month period ended June 30, 2022 following its acquisition, Logixx contributed $6,064,687 to consolidated revenues and $228,812 of net loss before income taxes. As of June 30, 2022 the purchase price allocation is still being finalized and is subject to change.

B. ACQUISITION OF SRG SECURITY RESOURCE GROUP INC.

On February 1, 2021, the Company acquired all the outstanding shares of SRG pursuant to a share purchase agreement between the Company and the individual and entity shareholders ("Sellers") of SRG, for an aggregate purchase price of $19,358,128, $12,262,243 paid in cash and the issuance of 8,883,930 common shares in the capital of the Company to the Sellers. Such shares had a fair value of $7,095,885 as at the date of acquisition. There were no finders' fees payable in connection with this transaction. Acquisition costs in the amount of $287,368 were incurred on this transaction and expensed. This includes professional fees incurred towards financial, tax and legal due diligence.

SRG is a Regina, Saskatchewan-based provider of cyber security and physical protective security services that provides solutions and services to commercial, industrial and public sector clients across Canada.

This transaction qualifies as a business combination and was accounted for in accordance with IFRS 3 Business Combinations using the acquisition method of accounting. To account for the transaction, the Company has performed a business valuation of SRG at the date of acquisition and a purchase price allocation.

The following table summarizes the consideration and closing date fair values of the net identifiable assets acquired pursuant to the SRG acquisition:

| | | February 1, 2021 |
|---|---|---|
| Cash and cash equivalents | $ | 1,021,056 |
| Accounts receivable | | 2,139,011 |
| Prepaid expenses | | 108,637 |
| Inventory | | 72,352 |
| Right-of-use asset | | 308,630 |
| Property and equipment | | 582,366 |
| Tradename (Note 10) | | 2,310,000 |
| Customer relationships (Note 10) | | 6,900,000 |
| Goodwill (Note 10) | | 9,416,321 |
| Total assets | $ | 22,858,373 |

| | | |
|---|---|---|
| Accounts payable and accrued liabilities | $ | 1,042,589 |
| Lease liability | | 308,630 |
| Deferred tax liability | | 2,149,026 |
| Total liabilities | $ | 3,500,245 |
| Net assets acquired | $ | 19,358,128 |
| | | |
| Total consideration | | |
| Cash | $ | 12,262,243 |
| Issuance of common shares | | 7,095,885 |
| | $ | 19,358,128 |

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

| Assets Acquired | Valuation technique |
|---|---|
| Customer relationships | Multi-period excess earnings method: The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets. |
| Tradename | Relief-from-royalty method: The relief-from-royalty method is based on the premise that the fair value of the tradename is equal to the net present value of the future expected foregone royalties paid due to ownership of the tradename. |

For the eight month period ended September 30, 2021 following its acquisition, SRG contributed $11,839,402 to consolidated revenues and $172,451 of earnings before income taxes.

## 6. *Assets held for sale*

Assets held for sale result from the Company taking ownership of land and associated fixtures as a result of enforcing security on contracts or as a result of contract buy backs. These assets are expected to be sold in the near term. A continuity schedule of the assets held for sale is presented below:

| | | |
|---|---|---|
| At September 30, 2020 | $ | 5,890,454 |
| Increase as a result of assuming ownership of properties underlying a mortgage | | 800,000 |
| Remeasurement of carrying value of assets held for sale | | (2,129,049) |
| At June 30, 2021 | $ | 4,561,405 |
| Remeasurement of carrying value of assets held for sale | | 2,560,417 |
| Sale of assets held for sale | | (3,451,929) |
| At September 30, 2021 | $ | 3,669,893 |
| Sale of assets held for sale | | (2,869,893) |
| At June 30, 2022 | $ | 800,000 |

| | Three months ended June 30, 2022 | Three months ended June 30, 2021 | Nine months ended June 30, 2022 | Nine months ended June 30, 2021 |
|---|---|---|---|---|
| Assets held for sale | | | | |
| Proceeds received on sale of assets held for sale | $ 681,830 | $ - | $ 1,845,590 | $ 548,624 |
| Write-up of carrying value of assets held for sale | - | 645,211 | - | 645,211 |
| Carrying value of assets held for sale | (499,207) | - | (1,572,011) | (172,753) |
| Gain realized on sale of assets | $ 182,623 | $ 645,211 | $ 273,579 | $ 1,021,082 |

### 7. *Legacy contract assets*

Legacy contract assets were agreements for which settlements were called for in tonnes of crop, the amount of which was determined based on terms in the crop purchase agreements which were capitalized on a contract by contract basis and were recorded at fair value. All active marketing and capital streaming contracts have now been settled, and the remaining balance relates to legacy contract assets. A continuity schedule of legacy contract assets is presented below:

| | | |
|---|---|---|
| At September 30, 2020 | $ | 14,396,180 |
| Realization of crop interests | | (3,392,086) |
| Settlement or buy back of contracts | | 305,049 |
| Market value adjustment | | (25,044) |
| At June 30, 2021 | $ | 11,284,099 |
| Realization of crop interests | | (133,917) |
| Settlement or buy back of contracts | | (980,419) |
| Market value adjustment | | 300,388 |
| At September 30, 2021 | $ | 10,470,151 |
| Settlement or buy back of contracts | | (2,460,734) |
| Market value adjustment | | 4,284 |
| At June 30, 2022 | $ | 8,013,701 |

### 8. *Mortgages and loans receivable*

Mortgages and loans receivable consist of conventional first mortgages and loans secured by land and equipment.

| | June 30, 2022 | September 30, 2021 |
|---|---|---|
| Mortgages and loans receivable | | |
| Current | $ 515,262 | $ 1,031,225 |
| Non-current | 3,914,077 | 11,470,181 |
| | $ 4,429,339 | $ 12,501,406 |

Interest revenue on mortgages and loans receivable for the nine months ended June 30, 2022 was $465,119 (nine months ended June 30, 2021 - $1,499,701).

Details regarding the expected mortgage credit losses are outlined below:

| | Performing (stage 1) | Significant increase in credit risk since inception (stage 2) | Expected credit losses on impaired mortgages (stage 3) | Total |
|---|---|---|---|---|
| Mortgages and loans receivable - gross carrying value as at September 30, 2021 | $ - | $ 12,202,729 | $ 855,599 | $ 13,058,328 |
| Expected credit loss balance on mortgages and loans receivable as at September 30, 2020 | - | (707) | (1,223,416) | (1,224,123) |
| Re-measurement | - | 707 | (96,995) | (96,288) |
| Recoveries | - | - | 69,133 | 69,133 |
| Transfers to assets held for sale | - | - | 694,356 | 694,356 |
| Expected credit loss balance on mortgages and loans receivable for the year ended September 30, 2021 | - | - | (556,922) | (556,922) |
| Mortgages and loans receivable - net carrying value as at September 30, 2021 | - | 12,202,729 | 298,677 | 12,501,406 |

| | Performing (stage 1) | Significant increase in credit risk since inception (stage 2) | Expected credit losses on impaired mortgages (stage 3) | Total |
|---|---|---|---|---|
| Mortgages and loans receivable - gross carrying value as at June 30, 2022 | $ - | $ 4,130,663 | $ 913,448 | $ 5,044,111 |
| Expected credit loss balance on mortgages and loans receivable as at September 30, 2021 | - | - | (556,922) | (556,922) |
| Re-measurement | - | - | (57,850) | (57,850) |
| Expected credit loss balance on mortgages and loans receivable as at June 30, 2022 | - | - | (614,772) | (614,772) |
| Mortgages and loans receivable - net carrying value as at June 30, 2022 | - | 4,130,663 | 298,676 | 4,429,339 |

Mortgages and loans receivable principal and interest past due are as follows:

| | 1 to 30 days | 31 to 60 days | 61 to 90 days | Over 90 days | Total |
|---|---|---|---|---|---|
| As at June 30, 2022 | $ - | $ - | $ 8,500 | $ 226,215 | $ 234,715 |

## 9. *Property and equipment*

The Company's property and equipment are comprised of the following:

| | June 30, 2022 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Carrying Amount |
| Furniture and fixtures | $ 59,253 | $ 15,810 | $ 43,443 |
| Computers | 153,777 | 27,118 | 126,659 |
| Managed security services equipment | 675,134 | 182,855 | 492,279 |
| Vehicles | 223,755 | 96,845 | 126,910 |
| Leasehold improvements | 131,300 | 48,099 | 83,201 |
| Uniforms | 1,165,190 | 179,263 | 985,927 |
| Property and equipment | $ 2,408,409 | $ 549,990 | $ 1,858,419 |
| Right-of-use asset | 1,707,064 | 542,564 | 1,164,500 |
| Total | $ 4,115,473 | $ 1,092,554 | $ 3,022,919 |

| | September 30, 2021 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Carrying Amount |
| Furniture and fixtures | $ 33,170 | $ 4,526 | $ 28,644 |
| Computers | 36,783 | 9,088 | 27,695 |
| Managed security services equipment | 350,811 | 117,155 | 233,656 |
| Vehicles | 91,277 | 36,557 | 54,720 |
| Leasehold improvements | 109,116 | 22,198 | 86,918 |
| Uniforms | 144,951 | 83,577 | 61,374 |
| Property and equipment | $ 766,108 | $ 273,101 | $ 493,007 |
| Right-of-use asset | 814,827 | 443,327 | 371,500 |
| Total | $ 1,580,935 | $ 716,428 | $ 864,507 |

The following table summarizes the changes in the net carrying amounts of property and equipment during the quarter ended June 30, 2022:

| | September 30, 2021 | | | | June 30, 2022 |
|---|---|---|---|---|---|
| | Net carrying Amount | Acquisitions from business combination | Net additions | Depreciation | Net carrying amount |
| Furniture and fixtures | $ 28,644 | $ 22,181 | $ 3,142 | $ 10,524 | $ 43,443 |
| Computers | 27,695 | 70,298 | 46,696 | 18,030 | 126,659 |
| Managed security services equipment | 233,656 | - | 324,227 | 65,604 | 492,279 |
| Vehicles | 54,720 | - | 135,807 | 63,617 | 126,910 |
| Leasehold improvements | 86,918 | 11,438 | 10,600 | 25,755 | 83,201 |
| Uniforms | 61,374 | 805,410 | 214,829 | 95,686 | 985,927 |
| Property and equipment | $ 493,007 | $ 909,327 | $ 735,301 | $ 279,216 | $ 1,858,419 |
| Right-of-use asset | 371,500 | 765,383 | 127,366 | 99,749 | 1,164,500 |
| Total | $ 864,507 | $ 1,674,710 | $ 862,667 | $ 378,965 | $ 3,022,919 |

Depreciation expense relating to property and equipment included in the consolidated statement of loss and comprehensive loss is $152,716 and $279,216 for the three and nine-month periods ending June 30, 2022 ($79,698 and $247,609 for the three and nine-month periods ending June 30, 2021).

The Company currently has two categories of right-of-use assets relating to vehicles and property leases. At June 30, 2022, the carrying amount of vehicles under lease was $744,255 (September 30, 2021: $nil), with $30,471 of depreciation included in the consolidated statement of income (loss) for the three and nine-month periods ended June 30, 2022 (June 30, 2021: $nil).

At June 30, 2022, the property leases relating to office space had a carrying amount of $420,245 (September 30, 2021: $371,500), with $25,442 and $69,278 of depreciation included in the consolidated statement of income (loss) for the three and nine-month periods ended June 30, 2022 respectively, (June 30, 2021: $8,653 and $135,497 respectively).

## *10. Goodwill and intangible assets*

A. RECONCILIATION OF CARRYING AMOUNT

| | Goodwill | Customer relationships | Tradename | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **Balance at October 1, 2021** | $ 9,416,321 | $ 8,266,442 | $ 2,310,000 | $ 19,992,763 |
| Acquisitions | - | - | - | - |
| Acquired through business combination (Note 5) | 4,511,743 | 7,046,000 | 3,500,000 | 15,057,743 |
| Retirements, disposals, and adjustments | - | - | - | - |
| **Balance at June 30, 2022** | $ 13,928,064 | $ 15,312,442 | $ 5,810,000 | $ 35,050,506 |
| Balance at October 1, 2020 | $ - | $ - | $ - | $ - |
| Acquisitions | - | 1,366,442 | | 1,366,442 |
| Acquired through business combination (Note 5) | 9,416,321 | 6,900,000 | 2,310,000 | 18,626,321 |
| Retirements, disposals, and adjustments | - | - | - | - |
| Balance at September 30, 2021 | $ 9,416,321 | $ 8,266,442 | $ 2,310,000 | $ 19,992,763 |
| **Accumulated amortization** | | | | |
| **Balance at October 1, 2021** | $ - | $ 318,556 | $ - | $ 318,556 |
| Amortization | - | 632,808 | - | 632,808 |
| Retirements, disposals, and adjustments | - | - | - | - |
| **Balance at June 30, 2022** | $ - | $ 951,364 | $ - | $ 951,364 |
| Balance at October 1, 2020 | $ - | $ - | $ - | $ - |
| Amortization | - | 318,556 | - | 318,556 |
| Retirements, disposals, and adjustments | - | - | - | - |
| Balance at September 30, 2021 | $ - | $ 318,556 | $ - | $ 318,556 |
| **Carrying amounts** | | | | |
| **At June 30, 2022** | $ 13,928,064 | $ 14,361,078 | $ 5,810,000 | $ 34,099,142 |
| At September 30, 2021 | $ 9,416,321 | $ 7,947,886 | $ 2,310,000 | $ 19,674,207 |

The amortization of customer relationships is included in corporate administration expense on the condensed interim consolidated statements of income (loss) and comprehensive income (loss). The useful lives over which these intangible assets are amortized are stated in Note 3 - Significant Accounting Policies.

B. CHANGE IN ESTIMATE

During the quarter ended March 31, 2022, the Company conducted a review of the useful lives of depreciable intangible assets which resulted in changes in the expected useful life of certain customer relationships. The review utilized new information that resulted in customer relationships being amortized over an 8 - 12 year period (previously 11 - 16 years). The effect of these changes on actual and expected amortization expense, included in 'corporate administration', was as follows:

| | **2022** | **2023** | **2024** | **2025** | **2026** |
|---|---|---|---|---|---|
| Increase in amortization expense | $ 250,913 | $ 334,551 | $ 334,551 | $ 334,551 | $ 334,551 |

## 11. *Capitalized commissions*

Commissions on long-term contracts (12 months in length or longer) are capitalized at the initiation of the contract and amortized over the length of the contract as revenue is recognized. The unamortized amount of commission on long-term contracts as of June 30, 2022 was $580,974 (September 30, 2021 - $nil) with $44,399 amortized included in corporate administration for the three-month period ended June 30, 2022 ($nil for the three month period ending June 30, 2021).

## 12. *Accounts payable and accrued liabilities*

| | June 30, 2022 | September 30, 2021 |
|---|---|---|
| Current liabilities: | | |
| Accounts payable | $ 2,042,429 | $ 869,663 |
| Payroll tax and other statutory liabilities | 1,564,848 | 237,638 |
| Dividends payable | 590,950 | 608,649 |
| Deferred share units payable | 1,276,928 | 1,197,032 |
| Other payables | 4,318,572 | 1,604,652 |
| | $ 9,793,727 | $ 4,517,634 |

Account payable and accrued liabilities are unsecured and are usually paid within 30 days of recognition. The carrying amount of accounts payable and accrued liabilities are considered to be the same as their fair values, due to their short-term nature.

## 13. *Obligations under lease*

The lease payments are discounted using the interest rate implicit in the lease, or if that cannot be determined, the Company's incremental borrowing rate.

| | Vehicle lease liability | Property lease liability | Total lease liability |
|---|---|---|---|
| Balance at September 30, 2021 | $ - | $ 375,847 | $ 375,847 |
| Additions during the period | 771,455 | 118,023 | 889,478 |
| Principal payments on lease liabilities | (34,827) | (76,768) | (111,595) |
| Interest payments on lease liabilities | 5,750 | 12,468 | 18,218 |
| Balance at June 30, 2022 | $ 742,378 | $ 429,570 | $ 1,171,948 |
| Current portion | 342,232 | 124,180 | 466,412 |
| Long-term portion | 400,146 | 305,390 | 705,536 |
| Total balance at June 30, 2022 | $ 742,378 | $ 429,570 | $ 1,171,948 |

## 14. *Long-term debt*

The Company had up to $10 million in five year term debt available from Concentra Bank. The term debt bears a fixed interest rate of 4.33% and interest was payable semi-annually. The debt was secured by mortgages underlying mortgage streams with SSC clients, and had no principal repayment obligations except when a mortgage was repaid. On February 16, 2022, this term debt was fully repaid. A continuity schedule of the Company's term debt with Concentra is presented below:

| | |
|---|---|
| At September 30, 2020 | $ 7,747,545 |
| Repayments | (4,689,461) |
| At June 30, 2021 | 3,058,084 |
| Repayments | (518,417) |
| At September 30, 2021 | 2,539,667 |
| Repayments | (2,539,667) |
| At June 30, 2022 | $ - |

Interest expense relating to the long-term debt for the three months ended June 30, 2022 was $nil (three months ended June 30, 2021 - $38,060) and for the nine months ended June 30, 2022 was $8,887 (nine months ended June 30, 2021 - $199,184). The fair value of the Concentra term debt as at June 30, 2022 is $nil (as at September 30, 2021 - $2,708,442).

On June 1, 2022, the Company entered into a credit facility agreement with the Canadian Imperial Bank of Commerce ("CIBC"). Under this agreement, the CIBC provided a revolving credit facility of up to $5 million of which $nil has been drawn as at June 30, 2022, along with a $150,000 credit card facility. The revolving credit facility is repayable on demand, and bears interest at a rate equal to 1.0% per annum over the bank prime rate. This facility is secured by the Company's accounts receivable, inventory, equipment and machinery.

As a part of the acquisition of Logixx (see Note 5), the Company entered into a $200,000 performance bond letter of credit with the Bank of Nova Scotia.

## 15. *Share capital, contributed surplus and retained earnings*

A. SHARES AUTHORIZED

The Company's authorized share capital consists of an unlimited number of Class "A" common voting shares ("common shares") without par value.

B. SHARES CONSOLIDATION

On October 1, 2021, the Company consolidated its shares on the basis of one post-consolidation common share for three pre-consolidation common shares. Per share and option information has been restated to give effect to this consolidation.

C. SHARES ISSUED AND PURCHASED

| | Number of Shares | | Share Capital |
|---|---|---|---|
| Common shares - September 30, 2020 | 17,842,822 | $ | 75,799,235 |
| Shares purchased for cancellation under the normal course issuer bid | (534,136) | | (1,398,535) |
| Options exercised | 18,289 | | 57,597 |
| Acquisition of subsidiary | 2,961,310 | | 7,095,885 |
| Common shares - June 30, 2021 and September 30, 2021 | 20,288,285 | $ | 81,554,182 |
| Adjustment due to share consolidation | (13) | | - |
| Shares purchased for cancellation under the normal course issuer bid | (669,700) | | (1,950,560) |
| Options exercised | 79,766 | | 197,853 |
| Common shares - June 30, 2022 | 19,698,338 | | 79,801,475 |

The Company has a normal course issuer bid for the repurchase of approximately ten percent of the company's public float in a given year. The normal course issuer bid was renewed on January 4, 2022 and will be active until the earlier of January 3, 2023 and the date by which SSC has acquired the maximum shares which may be purchased.

During the nine months ended June 30, 2022, the Company bought back 669,700 shares under its normal course issuer bid at an average price of $2.91 per share (nine months ended June 30, 2021 - 1,602,409 shares at an average price of $2.61). During the nine months ended June 30, 2022, the Company cancelled 669,700 shares (nine months ended June 30, 2021 - 1,602,409).

D. SHARE PURCHASE OPTIONS

The Company has an incentive share purchase option plan (the "Option Plan") whereby the Company may grant share options to eligible employees, officers, directors and consultants at an exercise price, expiry date, and vest over a three year period. Each share option converts into one common share of the Company on exercise. Refer to Note 17 for share-based payment compensation.

The following table summarizes stock options vested and outstanding at June 30, 2022:

| Option series | Number | Expiry date | | Exercise price | | Fair value at date of grant |
|---|---|---|---|---|---|---|
| (1) granted on December 15, 2017 | 593,667 | December 15, 2022 | $ | 4.62 | $ | 4.62 |
| (2) granted on December 21, 2018 | 313,833 | December 21, 2023 | $ | 2.40 | $ | 2.40 |
| (3) granted on February 18, 2021 | 143,333 | February 18, 2026 | $ | 2.85 | $ | 2.85 |
| (4) granted on March 1, 2021 | 6,667 | March 1, 2026 | $ | 2.82 | $ | 2.82 |
| (5) granted on June 3, 2022 | 250,000 | June 3, 2027 | $ | 2.44 | $ | 2.44 |

The fair value of the stock options is estimated at the grant date based on the Black-Scholes pricing model using the assumptions below. The assumptions below are for options issued since September 30, 2020 and are based on management's best estimates at the time of issuance.

| | Option Series | | |
|---|---|---|---|
| Inputs into the model | Series 3 | Series 4 | Series 5 |
| Grant date share price | $ 2.85 | $ 2.82 | $ 2.44 |
| Exercise price | $ 2.85 | $ 2.82 | $ 2.44 |
| Average vesting period from grant date | 3.00 years | 3.00 years | 3.00 years |
| Volatility | 60.04% | 60.04% | 60.74% |
| Expected life | 5.00 years | 5.00 years | 5.00 years |
| Dividend yield | 4.21% | 4.00% | 4.00% |
| Risk free interest rate | 0.59% | 0.81% | 2.94% |

Volatility above is calculated based on the daily historical share price volatility over the expected life of the option.

At June 30, 2022, the following options to purchase common shares were outstanding:

| | | Options outstanding | | | | |
|---|---|---|---|---|---|---|
| Option series | Average remaining life (in years) | Vested | Unvested | Exercised | Expired or cancelled | Total |
| Series 1 | 0.46 | 593,667 | - | - | 142,002 | 451,665 |
| Series 2 | 1.48 | 313,833 | - | 98,055 | 143,647 | 72,131 |
| Series 3 | 3.64 | 47,778 | 95,554 | - | - | 143,332 |
| Series 4 | 3.67 | 2,222 | 4,444 | - | - | 6,666 |
| Series 5 | 4.93 | - | 250,000 | - | - | 250,000 |
| Weighted average | 2.26 | 957,500 | 349,998 | 98,055 | 285,649 | 923,793 |

A continuity schedule of the total number of options is presented below:

| | |
|---|---|
| Options outstanding at September 30, 2020 (weighted average exercise price of $4.95) | 1,139,700 |
| Issued | 150,000 |
| Exercised | (18,289) |
| Expired or cancelled | (296,444) |
| Options outstanding at June 30, 2021 and September 30, 2021 (weighted average exercise price of $4.26) | 974,967 |
| Issued | 250,000 |
| Exercised | (79,766) |
| Expired or cancelled | (221,408) |
| Options outstanding at June 30, 2022 (weighted average exercise price of $3.57) | 923,793 |

E. DIVIDENDS

The Company declared the following dividends since October 1, 2020 to the shareholders of record on the following dates.

| Record date | Dividend per share | Shares outstanding | Total Dividend |
|---|---|---|---|
| November 9, 2020 | $ 0.03 | 17,842,822 | $ 535,284 |
| December 31, 2020 | $ 0.03 | 17,400,119 | $ 522,003 |
| March 31, 2021 | $ 0.03 | 20,288,285 | $ 608,649 |
| June 30, 2021 | $ 0.03 | 20,288,285 | $ 608,649 |
| September 30, 2021 | $ 0.03 | 20,288,285 | $ 608,649 |
| December 31, 2021 | $ 0.03 | 19,854,938 | $ 595,648 |
| March 31, 2022 | $ 0.03 | 19,781,338 | $ 593,440 |
| June 30, 2022 | $ 0.03 | 19,698,338 | $ 590,950 |

## 16. Basic and diluted weighted average number of common shares

Diluted weighted average number of common shares is based on the following:

| | Three months ended June 30, 2022 | Three months ended June 30, 2021 | Nine months ended June 30, 2022 | Nine months ended June 30, 2021 |
|---|---|---|---|---|
| Basic weighted average number of shares | 19,781,338 | 20,288,285 | 19,926,136 | 18,812,641 |
| Dilutive securities: | | | | |
| Share options | 869,580 | 1,188,001 | - | 1,175,365 |

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices for the year during which the options were outstanding. Due to the net loss in the nine month period ended June 30, 2022, share options were anti-dilutive.

## 17. Corporate administration

| | Three months ended June 30, 2022 | Three months ended June 30, 2021 | Nine months ended June 30, 2022 | Nine months ended June 30, 2021 |
|---|---|---|---|---|
| Amortization of capital and intangible assets | $ 480,065 | $ 185,490 | $ 1,011,775 | $ 427,296 |
| Amortization of capitalized commissions | $ 44,399 | - | $ 44,399 | - |
| Contracted services | 172,458 | 170,581 | 510,871 | 471,637 |
| Director compensation - DSU's (Note 21) | (184,528) | (9,287) | 65,644 | (759,441) |
| Office | 421,977 | 219,492 | 1,004,627 | 408,069 |
| Other administration | 337,897 | 64,104 | 630,563 | 170,745 |
| Professional fees | 487,305 | 197,559 | 781,838 | 972,610 |
| Salaries, wages and benefits | 953,438 | 461,091 | 2,274,253 | 953,441 |
| Share option based compensation | 21,672 | 26,066 | 59,824 | 65,199 |
| Total expense | $ 2,734,683 | $ 1,315,096 | $ 6,383,794 | $ 2,709,556 |

## 18. Income taxes

The income tax expense differs from the amounts that would result from applying the federal and provincial income tax rate to the net income (loss) before income taxes. These differences result from the following items:

| | Three months ended June 30, 2022 | Three months ended June 30, 2021 | Nine months ended June 30, 2022 | Nine months ended June 30, 2021 |
|---|---|---|---|---|
| Net income (loss) before income tax | $ 1,036,981 | $ 1,726,209 | $ (7,167) | $ 2,932,382 |
| Canadian federal and provincial tax rates | 27.0% | 27.0% | 27.0% | 27.0% |
| Income tax expense (recovery) based on the above rates | 279,985 | 466,076 | (1,935) | 791,743 |
| Non-deductible expenses | 5,851 | 27,258 | 17,921 | 51,547 |
| Other | (8,944) | (37,392) | (21,098) | (59,871) |
| Income tax expense (recovery) | $ 276,892 | $ 455,942 | $ (5,112) | $ 783,419 |

## 19. Financial instruments

CAPITAL RISK MANAGEMENT - The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the capital structure. The Company's capital consists of $72,391,772 (June 30, 2021 - $76,708,666) of equity attributable to common shareholders, comprised of issued capital (Note 15), contributed surplus (Note 15), and accumulated deficit.

CREDIT RISK MANAGEMENT - The Company's assets subject to credit risk include cash, accounts receivable in the ordinary course of business, mortgages and loans receivable and legacy contract assets. Management's view is that the carrying amounts of these assets represent the maximum credit exposure.

The carrying amount of these assets is:

| | June 30, 2022 | September 30, 2021 |
|---|---|---|
| Cash | $ 15,313,533 | $ 28,795,760 |
| Accounts receivable | 16,682,580 | 4,773,091 |
| Legacy contract assets (Note 7) | 8,013,701 | 10,470,151 |
| Mortgages and loans receivable (Note 8) | 4,429,339 | 12,501,406 |
| | $ 44,439,153 | $ 56,540,408 |

Management has implemented a number of policies and procedures to manage credit risk. These include: continuously monitoring counterparties' creditworthiness, assignments of collateral and security, and assignment of insurance. For the remaining legacy business contracts, management also monitors the industry environment to ensure that policies, activities and prices are appropriate and relevant.

The aging of trade and other receivables and allowance for doubtful accounts are as follows:

| | June 30, 2022 | September 30, 2021 |
|---|---|---|
| Not past due | $ 12,638,606 | $ 3,506,148 |
| Past due 0-90 days | 2,997,224 | 944,167 |
| More than 90 days past due | 2,335,227 | 345,216 |
| Total trade and other receivables | 17,971,057 | 4,795,531 |
| Allowance for doubtful accounts | (1,288,477) | (22,440) |
| Total trade and other receivables net of allowance | $ 16,682,580 | $ 4,773,091 |

LIQUIDITY RISK - The Company manages liquidity risk through ongoing management and forecasting of cash flows, budgeting, and equity financings. Cash flow forecasting is performed to monitor cash requirements and to manage capital management decisions. Such forecasting takes into account current customers, mortgage amortization schedules, contractual obligations and the Company's expectations. The term and payment dates of the Company's borrowings are generally matched with the timing at which it is expected to receive payments from customers. However, should the timing of payments differ from what is contracted, this does not change the requirement to repay loans from the bank, potentially affecting liquidity. It is due to these timing uncertainties that the Company maintains a high level of cash liquidity on an ongoing basis.

Legacy agreements contain obligations in that the Company agrees to purchases at a specified price at a future date. A summary of the payments due by period is summarized below:

| | Payment due by period | | | | |
|---|---|---|---|---|---|
| | < 1 year | 1 - 3 years | 4 - 5 years | > 5 years | Total |
| Purchase obligations | $ 599,535 | $ 37,459 | $ - | $ - | $ 636,994 |

Financial liabilities and other contractual obligations at June 30, 2022, and their maturities are summarized below:

| | Payment due by period | | | | |
|---|---|---|---|---|---|
| | < 1 year | 1 - 3 years | 4 - 5 years | > 5 years | Total |
| Accounts payable and accrued liabilities | $ 9,793,727 | $ - | $ - | $ - | $ 9,793,727 |
| Lease obligations | 533,206 | 622,445 | 86,304 | 64,728 | 1,306,683 |
| | $ 10,326,933 | $ 622,445 | $ 86,304 | $ 64,728 | $ 11,100,410 |

INTEREST RATE RISK - The company has mortgages and loans receivable that are measured at amortized cost and contain a fixed interest rate. There is no variability in cash flow amounts or timing of cash flows with changes in interest rates, however, there are changes in the fair value of these financial assets.

At each reporting date the fair value of each legacy contract is calculated using internal discounted cash flow models that rely on forward commodity pricing provided by independent sources. Changes in interest rates impact the fair value of these legacy contracts.

FOREIGN CURRENCY RISK - Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and other foreign currencies will affect the Company's operations and financial results. During the nine-month period ended June 30, 2022, approximately 2.3% of the Company's revenues were received or receivable in U.S. dollars, while a smaller percentage of its total costs were paid or payable in U.S dollars. A significant change in the currency exchange rates of the U.S. dollar relative to the Canadian dollar could have an adverse effect on the Company's results of operations, financial position, and cash flows.

OTHER RISKS - The Company is not subject to other significant foreign currency, or other price risks.

The ongoing effect of the COVID-19 pandemic and uncertainty within international markets did not materially impact the Company's financial performance for the nine months ended June 30, 2022 but may in the future. The financial impact will be dependent on the spread and duration of the pandemic and on related restrictions and government advisories. Given this uncertainty, the financial impact on the Company, if any, cannot be determined at this time.

FAIR VALUE - The following sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy. As required by IFRS 9, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| | Classification | Level | June 30, 2022 | September 30, 2021 |
|---|---|---|---|---|
| Cash | Amortized cost | 1 | $ 15,313,533 | $ 28,795,760 |
| Accounts receivable | Amortized cost | 2 | 16,682,580 | 4,822,171 |
| Other financial assets | Fair value through profit or loss | 2 | 747,016 | 1,487,209 |
| Legacy contract assets | Fair value through profit or loss | 3 | 8,013,701 | 10,470,151 |
| Mortgages and loans receivable | Amortized cost | 2 | 4,429,339 | 12,501,406 |
| Accounts payable and accrued liabilities | Other financial liabilities | 2 | 9,793,727 | 4,517,634 |
| Long-term debt | Other financial liabilities | 2 | - | 2,708,442 |

The fair value of short-term financial instruments approximates their carrying amounts due to the relatively short period to maturity. These include cash, accounts receivable, and accounts payable and accrued liabilities.

The following table represents expected credit recoveries (impairments) recognized in the statement of income (loss) and comprehensive income (loss).

| | Three months ended June 30, 2022 | Three months ended June 30, 2021 | Nine months ended June 30, 2022 | Nine months ended June 30, 2021 |
|---|---|---|---|---|
| Accounts receivable | $ - | $ 857 | $ - | $ 81,591 |
| Mortgages and loans receivable | (6,765) | (6,765) | (20,295) | (57,503) |
| Expected credit (loss) recovery | $ (6,765) | $ (5,908) | $ (20,295) | $ 24,088 |

Certain liabilities and obligations of the Company are secured by property of the Company including an assignment of the rights of the Company under the legacy contracts and any collateral security granted in favour of the Company in connection with each contract.

## 20. Supplemental cash flow information

| | Three months ended June 30, 2022 | Three months ended June 30, 2021 | Nine months ended June 30, 2022 | Nine months ended June 30, 2021 |
|---|---|---|---|---|
| Change in non-cash working capital items | | | | |
| Accounts receivable | $ 322,192 | $ (695,900) | $ 1,511,009 | $ 63,435 |
| Inventory | 101,753 | 14,890 | (14,638) | 26,282 |
| Contract assets | (38,206) | - | (38,206) | - |
| Prepaid expenses | (854,732) | 62,576 | (855,393) | 63,401 |
| Capitalization of commissions | (47,614) | - | (47,614) | - |
| Contract liabilities | (13,261) | - | (13,261) | - |
| Accounts payable and accrued liabilities | (809,532) | 560,381 | (1,564,080) | (506,621) |
| Net increase (decrease) in cash | $ (1,339,400) | $ (58,053) | $ (1,022,183) | $ (353,503) |

## 21. Key management personnel compensation

Members of the key management team include the Board of Directors, the President and Chief Executive Officer, the Executive Vice-President and Chief Financial Officer, the Chief Operating Officer, and the Executive Vice President and General Manager (Logixx).

| | Three months ended June 30, 2022 | Three months ended June 30, 2021 | Nine months ended June 30, 2022 | Nine months ended June 30, 2021 |
|---|---|---|---|---|
| Contractors, employee salaries and benefits | $ 263,325 | $ 246,639 | $ 706,173 | $ 613,813 |
| Deferred share unit (recovery) expense (see Note 21) | (184,528) | (9,287) | 65,644 | (759,441) |
| Share based payments | 21,672 | 26,066 | 59,824 | 65,199 |
| Total key management compensation expense (recovery) | $ 100,469 | $ 263,418 | $ 831,641 | $ (80,429) |

## *22. Board compensation*

The Company has a Deferred Share Unit Plan (the "DSU Plan") whereby the Company grants deferred share units ("DSUs") to eligible directors. Each eligible director is given the opportunity to elect, in lieu of cash, to receive all, or a portion of, their annual board retainer or board meeting fees in the form of DSUs. The DSUs are cash-settled payment transactions and are valued at the fair value of the rights based on the closing stock price at the end of the reporting period. At June 30, 2022 there were 549,817 DSUs granted and outstanding (September 30, 2021 - 475,013). Included in accounts payable and accrued liabilities at June 30, 2022 is $1,276,928 (September 30, 2021 - $1,197,033) relating to the valuation of the DSUs. Included in Board and executive expenses under corporate administration expense for the three months ended June 30, 2022 is a recovery of $184,528 (three months ended June 30, 2021 - recovery of $9,287) and an expense of $65,644 for the nine months ended June 30, 2022 (recovery of $759,441 for the nine months ended June 30, 2021) relating to the valuation of the DSUs. During the nine months ended June 30, 2022 and June 30, 2021, $nil was paid out for DSUs being cash-settled.

## *23. Related party transactions*

The Company enters into certain transactions with private companies controlled by key management of SSC. These transactions are in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Related party expenses totalled $266,431 for the three months ended June 30, 2022 ($267,332 for the three months ended June 30, 2021) and $791,821 for the nine months ended June 30, 2022 ($734,646 for the nine months ended June 30, 2021) and are included within the expense categories detailed in Note 17.

## *24. Commitments and contingencies*

Lawsuits and claims that have arisen in the normal course of business are pending for and against the Company and provisions have been recorded where appropriate. It is the opinion of management that the final determination of these claims will not have a material adverse effect on the financial position or the results of the Company.

## *25. Comparative figures*

Due to changes in business operations, certain prior period figures have been reclassified.