

Consolidated Condensed Interim Financial Statements
(Unaudited)

AirIQ Inc.

For the Three and Nine Months Ended December 31, 2022

Notice to Reader:

The following consolidated condensed interim financial statements have been prepared by Management of AirIQ Inc. and have not been reviewed by the Company's external auditors.

AirIQ Inc.

**CONSOLIDATED CONDENSED INTERIM
STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)**

(in thousands of Canadian dollars)

	December 31, 2022	March 31, 2022
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents (note 14)	2,044	1,900
Prepaid expenses and deposits	88	82
Trade and other receivables (notes 12 and 14)	989	433
Inventory (note 5)	684	515
Total current assets	3,805	2,930
Non-current assets		
Software (note 6)	757	719
Rental units (note 6)	910	841
Property and equipment (note 6)	15	21
Right-of-use asset (note 13)	29	46
Total non-current assets	1,711	1,627
Total assets	5,516	4,557
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (notes 12, 13 and 14)	917	736
Deferred revenues (note 7)	622	522
Lease obligations (note 13)	28	26
Total current liabilities	1,567	1,284
Non-current liabilities		
Deferred revenues (note 7)	130	78
Lease obligations (note 13)	7	28
Total non-current liabilities	137	106
Total liabilities	1,704	1,390
Shareholders' equity		
Share capital (note 9(a))	91,256	91,355
Other paid-in capital (note 9(b))	4,448	4,448
Contributed surplus (note 9(c))	2,828	2,791
Deficit	(94,720)	(95,427)
Total shareholders' equity	3,812	3,167
Total liabilities and shareholders' equity	5,516	4,557
Commitments and contingencies (note 13)		

Authorized for issue on behalf of the Board:

"Vernon Lobo"
Director

"Geoffrey Rotstein"
Director

See accompanying notes

AirIQ Inc.

**CONSOLIDATED CONDENSED INTERIM STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
(UNAUDITED)**

(in thousands of Canadian dollars except per share amounts)

	Three Months Ended		Nine Months Ended	
	December 31st		December 31st	
	2022	2021	2022	2021
	\$	\$	\$	\$
Revenues				
Recurring revenue	990	903	2,900	2,564
Hardware and other revenue	363	113	854	713
Total revenues	1,353	1,016	3,754	3,277
Direct cost of sales (notes 5 and 6)	575	356	1,525	1,269
Gross profit	778	660	2,229	2,008
Expenses				
Sales and marketing	190	230	568	586
Research and development	27	34	86	91
General and administration	262	204	750	598
Total expenses (note 11 and 18)	479	468	1,404	1,275
Income before other expenses	299	192	825	733
Other expenses				
Interest expense (note 13(b))	—	1	2	3
Interest income	(12)	—	(20)	(1)
Depreciation and amortization (notes 6 and 13(a))	82	78	242	228
Foreign exchange loss (gain)	37	26	(143)	8
Stock-based compensation (note 10(a))	27	1	37	3
Total other expenses (income)	134	106	118	241
Net income and comprehensive income for the year	165	86	707	492
Net income per share (note 17)				
Basic	0.01	\$ 0.01	\$ 0.03	\$ 0.02
Diluted	0.01	\$ 0.01	\$ 0.03	\$ 0.02

See accompanying notes

AirIQ Inc.

**CONSOLIDATED CONDENSED INTERIM STATEMENTS OF
CASH FLOWS
(UNAUDITED)
(in thousands of Canadian dollars)**

	3 months ended December 31		9 months ended December 31	
	2022	2021	2022	2021
	\$	\$	\$	\$
Cash flows from operating activities				
Net income for the period	165	86	707	492
Adjustments to reconcile profit to net cash used in operating activities				
Stock-based compensation (note 10(a))	27	1	37	3
Depreciation of property, plant and equipment (note 6)	142	117	410	325
Depreciation of right-of-use asset (note 13)	6	6	17	18
Loss on disposal and impairment of fixed assets (note 6)	—	1	—	1
Interest expense	—	1	2	3
Changes in non-cash balances related to operations				
Trade and other receivables	(305)	176	(556)	263
Inventory	(242)	(234)	(169)	(261)
Prepaid expenses and deposits	29	24	(8)	1
Accounts payable and accrued liabilities	349	246	181	56
Deferred revenue	(50)	(227)	152	206
Total cash inflows from operating activities	121	197	773	1,107
Cash flows from investing activities				
Software (note 6)	(65)	(71)	(254)	(238)
Rental units (note 6)	(75)	(214)	(255)	(436)
Property, plant and equipment (note 6)	(2)	—	(2)	—
Total cash outflows from investing activities	(142)	(285)	(511)	(674)
Cash flows from financing activities				
Lease payments (note 13)	(6)	(7)	(19)	(20)
Proceeds from exercise of stock options	—	—	—	23
Repurchase of common shares under NCIB (note 9)	(40)	(34)	(99)	(119)
Total cash outflows from financing activities	(46)	(41)	(118)	(116)
Net change in cash and cash equivalents	(67)	(129)	144	317
Cash and cash equivalents at beginning of period	2,111	2,275	1,900	1,829
Cash and cash equivalents at end of period	2,044	2,146	2,044	2,146
Supplementary disclosure				
Cash	2,044	2,146	2,044	2,146

See accompanying notes

AirIQ Inc.

**CONSOLIDATED CONDENSED INTERIM
STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
(UNAUDITED)**
(in thousands of Canadian dollars)

	Share capital \$	Other paid-in capital \$	Contributed surplus \$	Deficit \$	Total \$
Balance March 31, 2021	91,461	4,448	2,805	(95,994)	2,720
Income for the period	—	—	—	492	492
Proceeds from exercise of stock options	41	—	(18)	—	23
Stock based compensation	—	—	3	—	3
Common shares repurchased under NCIB	(119)	—	—	—	(119)
Balance as at December 31, 2021	91,383	4,448	2,790	(95,502)	3,119
Income for the period	—	—	—	75	75
Proceeds from exercise of stock options	—	—	—	—	—
Stock based compensation	—	—	1	—	1
Common shares repurchased under NCIB	(28)	—	—	—	(28)
Balance as at March 31, 2022	91,355	4,448	2,791	(95,427)	3,167
Income for the period	—	—	—	707	707
Proceeds from exercise of stock options	—	—	—	—	—
Stock based compensation	—	—	37	—	37
Common shares repurchased under NCIB	(99)	—	—	—	(99)
Balance as at December 31, 2022	91,256	4,448	2,828	(94,720)	3,812

AirIQ Inc.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(in thousands of Canadian dollars except share and per share amounts)

For the three and nine months ended December 31, 2022

1. CORPORATE INFORMATION

AirIQ Inc. (“AirIQ” or the “Company”) is a public company that trades on the TSX Venture Exchange (“TSXV”), under the symbol “IQ”. The Company was formed under the *Canada Business Corporations Act*. The Company’s principal business is to develop and operate a telematics asset management system using specialized software, digitized mapping, wireless communications, the internet and the Global Positioning System (“GPS”). The Company’s head office is located at 1815 Ironstone Manor, Unit 9 in Pickering, Ontario.

These consolidated condensed interim financial statements have been authorized for issue by the Board of Directors on February 15, 2023.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (“COVID-19”) a “Public Health Emergency of International Concern” and, on March 11, 2020, declared COVID-19 a pandemic. This resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak remains unknown at this time, as is the effectiveness of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

Also see notes 8 and 18.

2. BASIS OF PREPARATION

These consolidated condensed interim financial statements of the Company for the three and nine months ended December 31, 2022, including comparatives, have been prepared in accordance with IAS 34 - Interim Financial Reporting using the accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and its interpretations, and using the same accounting policies and methods as were used for the Company’s annual financial statements and notes thereto for the years ended March 31, 2022 and 2021, except for any new accounting pronouncements which have been adopted. Changes to significant accounting policies are described in note 3.

These consolidated condensed interim financial statements do not include all of the information and disclosures required by International Financial Reporting Standards (“IFRS”) for annual financial statements. Accordingly, these consolidated condensed interim financial statements should be read in conjunction with the Company’s annual financial statements as at and for the years ended March 31, 2022 and 2021 and the accompanying notes thereto.

The preparation of consolidated condensed interim financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the consolidated condensed interim financial statements are disclosed in note 4.

**NOTES TO THE CONSOLIDATED CONDENSED
INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

(in thousands of Canadian dollars except share and per share amounts)

For the three and nine months ended December 31, 2022

2. BASIS OF PREPARATION continued

These consolidated condensed interim financial statements have been prepared on a historical cost basis. In addition, the consolidated condensed interim financial statements are prepared using the accrual basis of accounting except for cash flow information and should be read in conjunction with the Company's financial statements for the year ended March 31, 2022.

These consolidated condensed interim financial statements are presented in Canadian dollars, which is also the Company's functional currency, and all values are rounded to the nearest thousand (CAD \$'000) except per share amounts, unless otherwise indicated.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

New accounting policies

During the period ended December 31, 2022, the Company adopted the following new IFRS standards, interpretations, amendments and improvements of existing standards. These new standards and changes did not have any material impact on the Company's consolidated condensed interim financial statements, and are described as follows:

IAS 12 – In May 2021, the IASB issued 'Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction' that clarifies how entities account for deferred tax on transactions such as leases and decommissioning obligations.

IAS 16 – Property, Plant and Equipment ("IAS 16") was amended. The amendments introduce new guidance, such that the proceeds from selling items before the related property, plant and equipment is available for its intended use can no longer be deducted from the cost. Instead, such proceeds are to be recognized in profit or loss, together with the costs of producing those items.

IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets ("IAS 37") was amended. The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract – i.e., a full-cost approach. Such costs include both the incremental costs of the contract (i.e., costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g. contract management and supervision, or depreciation of equipment used in fulfilling the contract.

IFRS 3 – Business Combinations ("IFRS 3") was amended. The amendments introduce new exceptions to the recognition and measurement principles in IFRS 3 to ensure that the update in references to the revised conceptual framework does not change which assets and liabilities qualify for recognition in a business combination. An acquirer should apply the definition of a liability in IAS 37 – rather than the definition in the Conceptual Framework – to determine whether a present obligation exists at the acquisition date as a result of past events. For a levy in the scope of IFRIC 21, the acquirer should apply the criteria in IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. In addition, the amendments clarify that the acquirer should not recognize a contingent asset at the acquisition date.

**NOTES TO THE CONSOLIDATED CONDENSED
INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

(in thousands of Canadian dollars except share and per share amounts)

For the three and nine months ended December 31, 2022

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES continued

New accounting policies continued

IFRS 16 – The IASB has extended the rent concessions amendment issued May 2020 by one year. This amendment provides lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification. The practical expedient was originally available only for payments due on or before June 30, 2021, however, since the effects of COVID-19 are ongoing and significant, the IASB decided to extend the time period over which the practical expedient is available for use.

Future accounting policies

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2023. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company:

IFRS 10 – Consolidated condensed interim financial statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined; however, early adoption is permitted.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company’s right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company’s own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2023.

IAS 8 – In February 2021, the IASB issued ‘Definition of Accounting Estimates’ to help entities distinguish between accounting policies and accounting estimates. The amendments are effective for year ends beginning on or after January 1, 2023.

There are no other IFRS standards or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

**NOTES TO THE CONSOLIDATED CONDENSED
INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

(in thousands of Canadian dollars except share and per share amounts)

For the three and nine months ended December 31, 2022

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated condensed interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the consolidated condensed interim financial statements and the reported amounts of revenue and expenses during the reporting periods. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. Critical accounting estimates are reviewed quarterly by the Audit Committee of the Board of Directors. Management's judgment is applied to the following areas: income taxes, share-based payment transactions, warranty provisions, asset impairments, useful lives of depreciable assets, net realizable value of inventory, fair value of assets acquired in business combinations, revenue recognition, legal claim and contingency provisions.

5. INVENTORY

Inventory consists of finished goods. For the three and nine months ended December 31, 2022, the amount of inventory recognized as an expense in direct cost of sales was \$260 and \$631, respectively (three and nine months ended December 31, 2021 – \$303 and \$553, respectively). Inventory is valued at cost, as it is the lower of cost or net realizable value. There was a \$nil and \$nil write-down of inventory included in other expenses during the three and nine months ended December 31, 2022, respectively (three and nine months ended December 31, 2021 - \$nil and \$nil, respectively).

6. SOFTWARE, RENTAL UNITS AND PROPERTY AND EQUIPMENT

Software, rental units and property and equipment consist of the following:

	Software \$	Rental units \$	Office equipment \$	Leasehold improvements \$	Total \$
Cost					
Balance at March 31, 2022	1,628	1,106	57	24	2,815
Additions for the period	254	255	2	—	511
Disposals during the period	—	—	—	—	—
Balance at December 31, 2022	1,882	1,361	59	24	3,326
Depreciation and impairment losses					
Balance at March 31, 2022	909	265	46	14	1,234
Depreciation for the period	216	186	4	4	410
Disposals during the period	—	—	—	—	—
Balance at December 31, 2022	1,125	451	50	18	1,644
Carrying amounts					
At March 31, 2022	719	841	11	10	1,581
As at December 31, 2022	757	910	9	6	1,682

**NOTES TO THE CONSOLIDATED CONDENSED
INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

(in thousands of Canadian dollars except share and per share amounts)

For the three and nine months ended December 31, 2022

6. SOFTWARE, RENTAL UNITS AND PROPERTY AND EQUIPMENT continued

Depreciation expense for software, rental units and property and equipment for the three and nine months ended December 31, 2022 is \$142 and \$410, respectively, (three and nine months ended December 31, 2021 - \$117 and \$325, respectively) of which \$66 and \$186, respectively, (three and nine months ended December 31, 2021 - \$45 and \$115, respectively) are included in direct cost of sales relating to rental units.

During the three and nine months ended December 31, 2022, the Company disposed of \$nil and \$nil, respectively, of fixed assets (three and nine months ended December 31, 2021 - \$59 and \$114, respectively), and disposed of \$nil and \$nil, respectively, of depreciation (three and nine months ended December 31, 2021 - \$50 and \$102, respectively).

The Company continues to assess the carrying value of its software, rental units and property, plant and equipment and determines whether they are impaired. The impairment charge for the three and nine months ended December 31, 2022 is \$nil and \$nil, respectively (three and nine months ended December 31, 2021 - \$nil and \$nil, respectively).

7. DEFERRED REVENUE

	Deferred revenues
	\$
Balance, March 31, 2022	600
At March 31, 2022	
Current	522
Non-current	78
Changes during the year:	
Deferred during the period	977
Released to the consolidated statement of income	(825)
Balance as at December 31, 2022	752
As at December 31, 2022	
Current	622
Non-current	130

8. FINANCING AND GOVERNMENT LOANS

a) Credit Facility

The Company has a \$750 revolving demand facility with Royal Bank of Canada (“RBC”). The credit facility is a standard operating line with certain covenants, including a first priority general security over the Company’s assets. As at December 31, 2022, \$nil (December 31, 2021 - \$nil) has been drawn from this demand credit facility. The Company paid RBC a total of approximately \$nil and \$nil, respectively, related to interest on the credit facility during the three and nine months ended December 31, 2022 (three and nine months ended December 31, 2021 - \$nil and \$nil, respectively), which is included in interest expense in the accompanying consolidated condensed interim statement of income.

**NOTES TO THE CONSOLIDATED CONDENSED
INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

(in thousands of Canadian dollars except share and per share amounts)

For the three and nine months ended December 31, 2022

8. FINANCING AND GOVERNMENT LOANS continued

b) Government Loans

Canada Emergency Business Account

On September 2, 2020, the Company obtained \$40 in revolving credit from the Government of Canada under the *Canada Emergency Business Account* (“CEBA”) COVID-19 Economic Response Plan. The funding was granted in the form of an interest-free revolving credit line of which up to \$40 could be drawn. The balance on the revolving credit line automatically converted to a non-revolving term loan on January 20, 2022, as extended by RBC pursuant to the revised Government of Canada CEBA program. Effective January 1, 2024, any outstanding balance on the term loan would bear interest at a rate of 5% per annum.

The term loan was to mature on December 31, 2025. If 75% of the outstanding balance of the non-revolving term loan was repaid on or before December 31, 2023, the remaining 25% of the balance would be forgiven. The Company drew the full \$40 available under the CEBA program and, on January 20, 2022 the Company’s interest-free revolving credit line granted pursuant to CEBA automatically converted to a non-revolving term loan. On January 21, 2022, the Company repaid \$30 of the \$40 outstanding principal amount on the loan. Pursuant to the terms of the loan, the remaining 25%, or \$10, was forgiven.

9. SHARE CAPITAL AND RESERVES

a) Common shares

The Company is authorized to issue an unlimited number of common shares without par value. The holders of common shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company’s residual assets.

The following is a summary of changes in common share capital from December 31, 2021 to December 31, 2022:

	Number of Shares #	Price Per Share \$	Amount \$
Balance at December 31, 2021	29,827,074		91,383
Shares issued pursuant to exercise of stock options	—	—	—
Reallocation of value upon exercise	—	—	—
Repurchased for cancellation - NCIB	(99,000)	0.28	(28)
Broker fee for repurchased shares	—	—	—
Balance at March 31, 2022	29,728,074		91,355
Shares issued pursuant to exercise of stock options	—	—	—
Reallocation of value upon exercise	—	—	—
Repurchased for cancellation - NCIB	(360,500)	0.27	(98)
Broker fee for repurchased shares	—	—	(1)
Balance at December 31, 2022	29,367,574		91,256

**NOTES TO THE CONSOLIDATED CONDENSED
INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

(in thousands of Canadian dollars except share and per share amounts)

For the three and nine months ended December 31, 2022

9. SHARE CAPITAL AND RESERVES continued

a) Common shares continued

Exercise of Stock Options

On May 11, 2021, 150,000 common shares in the capital of the Company were issued from treasury pursuant to the exercise of stock options under the Company’s stock option plan. *Also see note 10.*

Normal Course Issuer Bid

On June 6, 2022, the Company filed a Notice of Intention to Make a Normal Course Issuer Bid (the “Bid”) to purchase up to 1,486,403 common shares representing 5% of the Company’s then current issued and outstanding common shares through the facilities of the TSXV during the period commencing June 6, 2022 and ending on June 5, 2023. The Company’s broker for the bid is Hampton Securities Limited.

During the three and nine months ended December 31, 2022, the Company repurchased for cancellation 146,000 and 360,500 common shares, respectively, pursuant to the Bid (three and nine months ended December 31, 2021 – 114,000 and 408,000, respectively) for a total purchase price of approximately \$38 and \$99, or \$0.26 and \$0.27, respectively, per share (three and nine months ended December 31, 2021 - \$34 and \$116, or \$0.30 and \$0.28, respectively), and paid broker fees of approximately \$1 and \$1, respectively (three and nine months ended December 31, 2021 - \$nil and \$3, respectively), for such repurchase.

b) Other paid in capital

As at December 31, 2022, the Company had no warrants outstanding. No warrants were granted during the three and nine months ended December 31, 2022 and December 31, 2021.

c) Contributed Surplus

The following is a summary of changes in contributed surplus from March 31, 2022 to December 31, 2022:

	\$
Balance at March 31, 2022	2,791
Stock-based compensation charge	37
Reallocation of value upon exercise	—
Balance at December 31, 2022	2,828

d) Nature and Purpose of Equity and Reserves

The reserves recorded in equity on the Company’s consolidated statements of financial position include:

‘Other paid-in capital’, ‘Contributed surplus’ and ‘Deficit’

‘Other paid-in capital’ is used to recognize the value of share warrants prior to exercise

‘Contributed surplus’ is used to recognize the value of share option grants prior to exercise

‘Deficit’ is used to record the Company’s change in deficit from earnings from period to period

**NOTES TO THE CONSOLIDATED CONDENSED
INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

(in thousands of Canadian dollars except share and per share amounts)

For the three and nine months ended December 31, 2022

10. SHARE-BASED PAYMENTS

a) Option Plan Details

The Company has an incentive stock option plan (the “Plan”) under which non-transferable options to purchase common shares of the Company may be granted to directors, officers, employees or consultants of the Company. Under the Plan, the Company is authorized to issue options for common shares in aggregate up to 10% of the number of common shares of the Company outstanding from time to time. Any increase in the issued and outstanding common shares will result in an increase in the available number of common shares issuable under the Plan, and any exercise of options will make new grants available under the Plan, effectively resulting in a re-loading of the number of options available to grant under the Plan. The terms of the Plan provide that the directors have the right to grant options to acquire common shares of the Company at not less than the average closing price of the shares on the trading exchange for the 10 trading days immediately preceding the date of grant of the options. Options under the Plan are typically granted by the Board of Directors for a term of 10 years, consistent with the terms of the Plan. No amounts are paid or payable by the recipient on receipt of the option, and the options granted are not dependent on any performance-based criteria.

The vesting period for options granted to employees of the Company is typically four years with 25% vesting after the first year from the date of grant, and 6.25% vesting in each quarter thereafter. Board and Committee member options typically vest over a one-year period; 25% each quarter from the date of grant. Under the Plan, in the absence of any determination by the Board of Directors, the earliest exercise date for options granted under the Plan is one year from the date of grant, at which time 25% of the options granted shall vest, following which 2.08% of options granted vest each month thereafter. Pursuant to the terms of the current Plan, unless otherwise determined by AirIQ, options granted to eligible participants terminate and are no longer exercisable upon the earlier of (a) 12 months after the death, disability or retirement of an option holder, or (b) the end of the option term, or (c) 30 days after termination or ceasing to be an eligible participant without cause, or (d) immediately in the event such participant is terminated for cause.

As at December 31, 2022, the Company has reserved 2,936,757 (December 31, 2021 – 2,982,074) common shares for issuance under the Plan, representing 10% of the issued and outstanding common shares of the Company as of such date.

On September 15, 2022, the Company granted options to key staff in the aggregate up to 850,000 common shares in the capital of the Company at an exercise price of \$0.27 per share. These options have a term of ten years, vest over four years from the date of grant; 25% the first year and 6.25% each quarter thereafter and will expire on September 15, 2032. The Company also granted options to two Board members in the aggregate up to 150,000 common shares at an exercise price of \$0.27 per share. These options have a term of ten years and vest over a one-year period with 25% being vested each quarter from the date of grant.

No options were granted during the three months ended December 31, 2021.

The Company recorded share-based compensation expense of approximately \$27 and \$37, respectively, for the three and nine months ended December 31, 2022 (three and nine months ended December 31, 2021 - \$1 and \$3, respectively), of which \$nil and \$36 are related to options granted during the three and nine months ended December 31, 2022 (three and nine months ended December 31, 2021 - \$nil and \$nil, respectively).

**NOTES TO THE CONSOLIDATED CONDENSED
INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

(in thousands of Canadian dollars except share and per share amounts)

For the three and nine months ended December 31, 2022

10. SHARE-BASED PAYMENTS continued

a) Option Plan Details continued

Stock option activity within the Plan is as follows:

	<u>Three Months Ended December 31, 2022</u>		<u>Three Months Ended December 31, 2021</u>	
	Weighted average		Weighted average	
	Number of options #	Exercise price \$	Number of options #	Exercise price \$
Outstanding options, beginning of period	1,540,000	0.10	1,540,000	0.10
Options granted during the period	1,000,000	0.27	—	—
Outstanding options, end of period	2,540,000	0.17	1,540,000	0.10
Exercisable, end of period	1,615,000	0.17	1,493,125	0.10

No shares of AirIQ were issued from treasury pursuant to the exercise of stock options under the Company's Plan during the nine months ended December 31, 2022 (nine months ended December 31, 2021 – 150,000 options were exercised for an aggregate consideration of \$23).

Outstanding and exercisable options under the Plan as at December 31, 2022 are summarized as follows:

Exercise price range \$	Number outstanding #	<u>Outstanding</u>		<u>Exercisable</u>	
		Weighted average exercise price \$	Weighted remaining contractual life (years)	Number outstanding and exercisable #	Weighted average exercise price \$
0.05 — 0.08	750,000	0.06	1.91	750,000	0.06
0.11 — 0.19	790,000	0.14	4.03	790,000	0.14
0.27	1,000,000	0.27	9.72	75,000	0.27
	2,540,000	0.17	5.64	1,615,000	0.07

b) Fair Value of Options Issued During the Period

There were 1,000,000 options granted during the nine months ended December 31, 2022. The weighted average fair value at grant date of options granted during the nine months ended December 31, 2022 was \$210 (nine months ended December 31, 2021 – \$nil).

c) Options Issued to Employees

The fair value at grant date is determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The expected price volatility is based on the historic volatility (based on the expected life of the options).

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11. NATURE OF EXPENSES

	Three months ended		Nine months ended	
	December 31st		December 31st	
	2022	2021	2022	2021
	\$	\$	\$	\$
Salaries and benefits	324	281	839	761
Consulting	15	53	120	146
Computer operating	24	22	70	69
Commercial, officer and director insurance	15	15	46	43
Rent and maintenance	14	13	39	30
Legal fees, audit and tax	17	10	56	35
Public reporting costs	9	7	44	35
Bad debt expense	22	8	82	23
Other	39	59	108	133
	479	468	1,404	1,275

The Company recognized CEWS and CERS government grants in the three and nine months ended December 31, 2021. Details are provided in *note 18* to these consolidated condensed interim financial statements.

12. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors and officers, and enterprises that are controlled by these individuals, as well as certain persons performing similar functions.

The following is a summary of the Company's related party transactions during the three months ended December 31, 2022 and December 31, 2021:

a) Key Management Compensation

Key management personnel compensation is comprised of:

	Three Months Ended	Three Months Ended
	December 31, 2022	December 31, 2021
	\$	\$
Salary, consulting fees and benefits	69	70
Directors fees	8	8
	77	78

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12. RELATED PARTY TRANSACTIONS continued

b) Related Party Transactions

During the three and nine months ended December 31, 2022, \$8 and \$26, respectively, were expensed for director fees and stock-based compensation (three and nine months ended December 31, 2021 - \$8 and \$26, respectively).

AirIQ owed a company controlled by a former director \$36 at December 31, 2022 (December 31, 2021 - \$36) which is included in accounts payable and accrued liabilities. AirIQ is also owed \$36 from the related company of the former director and/or its controlling shareholder at December 31, 2022 (December 31, 2021 - \$36) which is included in trade and other receivables. These amounts are unsecured, non-interest bearing and due on demand. *Also see note 13.*

13. COMMITMENTS AND CONTINGENCIES

- a) The Company entered into a new 60-month office contract on April 1, 2019. At inception of this contract, the Company assessed that the contract contained a lease under the new IFRS 16 standards. At commencement, the Company recognized the right-of-use asset and lease liability based on the present value of the lease payments discounted by AirIQ's incremental borrowing rate. A depreciation charge for right-of-use assets is recorded in depreciation and an interest expense on lease obligations is recorded in interest expense in the income statement.

	Right-of-use Asset	Lease Obligations
	\$	\$
Balance at March 31, 2022	46	54
Additions	—	—
Amortization	(17)	—
Payments	—	(19)
Interest	—	—
Balance as at December 31, 2022	29	35
Current	—	28
Non-current	29	7

- b) The Company is party to certain management contracts. The Company has minimum contractual commitment with an Officer of the Company of \$150, all due within one year. This contractual commitment to pay the Officer \$150 on termination of an employment agreement by the Company without cause or in the event of a "change of control" as defined in the employment agreement; provided however in no event shall the Company be required to pay more than \$150 if both events shall occur simultaneously. As a triggering event has not occurred, no provision has been made with respect to this commitment.

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13. COMMITMENTS AND CONTINGENCIES continued

- c) The Company has a profit-sharing plan to incentivize employees, officers and designated consultants of the Company to meet specific goals and objectives. The current profit-sharing plan approved by the Board includes a profit-sharing pool subject to meeting certain criteria related to recurring revenue growth and net income profit margin calculated annually commencing April 1, 2021. A prorated portion of the bonus pool has been accrued. Payments under the profit-sharing plan shall be determined annually by the Board of Directors and the Chief Executive Officer following release of the Company's March 31st fiscal year end results.
- d) The Company, in the course of its normal operations, is subject to claims, lawsuits, patent infringement claims and contingencies. Accruals are made in instances where it is probable that liabilities may be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, the Company has no reason to believe that the ultimate outcome of these matters would have a significant impact on its consolidated financial position.

14. FINANCIAL INSTRUMENTS

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Company's finance function. The Board of Directors receives quarterly reports from the Company's Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. There have been no changes in the risks, objectives, policies and procedures during the three and nine months ended December 31, 2022 and the fiscal years ended March 31, 2022 and 2021.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, currency risk, and interest rate risk.

The Company's exposure to these risks and its methods of managing the risks remain consistent.

The Company is exposed to the following risks related to financial assets and liabilities:

a) Currency risk

Currency risk is the risk that variations in exchange rates between U.S. and Canadian currencies will affect the Company's operating and financial results. The Company's consolidated activities that result in exposure to fluctuations in foreign currency exchange rates consist of the sale of products to customers in foreign currencies and the purchases of services and raw materials from suppliers invoiced in foreign currencies.

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14. FINANCIAL INSTRUMENTS continued

a) Currency risk continued

The carrying amount of the Company's U.S. currency denominated monetary assets and liabilities is as follows:

	December 31, 2022	December 31, 2021
	\$	\$
Cash	445	1,944
Trade and other receivables	292	96
Accounts payable and accrued liabilities	(339)	(315)
	398	1,725

For the three and nine months ended December 31, 2022, all else being equal, a strengthening of 1.0% of the US dollar against the Canadian dollar would have a positive impact of approximately \$4 on net income and comprehensive income. A weakening of 1.0% of the US dollar against the Canadian dollar would have the opposite impact on net income.

b) Credit risk

Credit risk refers to the potential that a customer or counterparty to a financial instrument will fail to discharge its contractual obligations, and arises principally from the Company's receivables from customers and its cash and cash equivalents. The maximum credit risk exposure for these balances is their carrying values.

The Company attempts to mitigate its credit risk over cash and cash equivalents by dealing only with large financial institutions with good credit ratings. All of the financial institutions that the Company deals with meet these qualifications.

The Company is exposed to credit risk from customers. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectability of its trade accounts receivable in order to mitigate any possible credit losses.

Allowance for doubtful accounts and past due receivables are reviewed by management regularly. The allowance for doubtful accounts balance is also updated regularly based on an impairment calculation under IFRS 9 based on the expected credit loss (ECL) model. Accounts receivable are written off once determined not to be collectible.

The following table sets forth the continuity of allowance for doubtful accounts for the periods indicated:

	\$
Closing balance, March 31, 2022	94
Provisions made during the period	75
Provisions used during the period	(168)
Closing balance, December 31, 2022	1

AirIQ Inc.

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For the three and nine months ended December 31, 2022

14. FINANCIAL INSTRUMENTS continued

(b) Credit risk continued

The following table sets forth details of the accounts receivable as at December 31, 2022 and March 31, 2022:

	December 31, 2022	March 31, 2022
	\$	\$
Trade accounts receivable, before allowances	954	489
Less allowance for doubtful accounts	(1)	(94)
Other receivables	36	38
Trade and other receivables	989	433

Pursuant to their respective terms, accounts receivable are aged as follows as at December 31, 2022 and March 31, 2022:

	December 31, 2022	March 31, 2022
	\$	\$
Current	401	255
31-60 days	294	108
61-90 days	3	34
Over 91 days	291	36
Total accounts receivables	989	433

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash and cash equivalents. The ability to do this relies on the Company collecting its accounts receivable in a timely manner and by maintaining sufficient cash in excess of anticipated needs. At December 31, 2022, the Company's accounts payable and accrued liabilities were \$917 (December 31, 2021 - \$420).

The following table details the Company's contractual maturities for its financial liabilities, including interest payments and lease commitments as at December 31, 2022 and 2021, respectively:

December 31, 2022: Payments due by year

	Total	2022	2023	2024	2025	2026
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	917	917	—	—	—	—
Operating leases	35	7	28	—	—	—
	952	924	28	—	—	—

December 31, 2021: Payments due by year

	Total	2021	2022	2023	2024	2025
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	666	666	—	—	—	—
Operating leases	65	7	29	29	—	—
	491	673	29	29	—	—

AirIQ Inc.

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14. FINANCIAL INSTRUMENTS continued

d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Management feels that the Company is not currently subject to significant interest rate risk as the Company currently does not have any interest-bearing debt with floating rates.

15. CAPITAL MANAGEMENT

The capital structure of the Company consists of equity consisting of issued share capital, other paid-in capital, contributed surplus and deficit and has total capital in the amount of \$3,812 as at December 31, 2022 (December 31, 2021 – \$3,119). The Company's objectives when managing capital is to ensure that the Company will continue as a going concern, so that it can provide products and services to its customers and returns to its shareholders.

The Company manages its capital to ensure that financial flexibility is present to increase shareholder value through organic growth, selective acquisitions and dispositions as well as allow the Company to respond to changes in economic and /or marketplace conditions. In order to maintain or adjust its capital structure, the Company may, upon approval from its Board of Directors, balance its overall capital structure through the issuance of new shares, the purchase of shares for cancellation pursuant to a normal course issuer bid, raising debt or refinancing existing debt with different characteristics or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company's capital management objectives, policies and processes have remained unchanged during the three and nine months ended December 31, 2022.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSXV which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

16. SEGMENTED INFORMATION

The Company has one reportable segment. The Company's software, rental units and property, plant and equipment are located in Canada and have a net book value of \$1,683 as at December 31, 2022 (December 31, 2021 - \$1,426).

Revenues attributed to regions based on location of customer were as follows:

	December 31, 2022	December 31, 2021
	\$	\$
Canada	1,783	1,030
United States	1,971	2,247
	3,754	3,277

AirIQ Inc.

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16. SEGMENTED INFORMATION continued

For the nine months ended December 31, 2022, one customer represented more than 10% of total revenue (nine months ended December 31, 2021: one customer). This customer accounted for 32% of total revenue for the nine months ended December 31, 2022, (43% of total revenue for the nine months ended December 31, 2021).

17. NET INCOME PER SHARE

	Three months ended December 31st		Nine months ended December 31st	
	2022	2021	2022	2021
Issued common shares outstanding at beginning of the period	29,570,074	30,085,074	29,728,074	30,085,074
Weighted average number of common shares (basic)	29,935,759	30,035,465	30,030,484	30,021,019
Weighted average number of common shares (diluted)	30,946,022	31,022,682	31,068,004	31,015,627

For the three and nine months ended December 31, 2022, diluted net income per share did not include the effect of nil and 1,000,000 stock options, respectively (three and nine months ended December 31, 2021 – nil and nil), as they are anti-dilutive.

18. OTHER INFORMATION

Government Assistance

In April 2020, the Government of Canada enacted the *Canada Emergency Wage Subsidy* (“CEWS”) to assist businesses during COVID-19 by allowing qualifying businesses to recover up to 75% of certain wages paid to employees. In addition, in September, 2020 the Government of Canada also enacted the *Canada Emergency Rent Subsidy* (“CERS”) to provide commercial rent or property expenses support for eligible businesses affected by COVID-19.

The total amount of subsidies received by the Company from the Canadian government from these two programs for the three and nine months ended December 31, 2022 were \$nil and \$nil, respectively (three and nine months ended December 31, 2021 - \$nil and \$79, respectively), and such amounts were applied to the consolidated statements of income as a reduction against the following expenses:

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	Three months ended		Nine months ended	
	December 31st		December 31st	
	2022	2021	2022	2021
	\$	\$	\$	\$
Sales and marketing	—	—	—	39
Research and development	—	—	—	16
General and administration	—	—	—	24
	—	—	—	79

In addition, as at December 31, 2022, the Company has an amount receivable related to these programs of \$nil, which is included in trade and other receivables (December 31, 2021 - \$nil).

18. OTHER INFORMATION continued

Government Assistance continued

The Company will continue to monitor its eligibility under the CEWS and CERS programs as well as any other programs offering assistance during COVID-19. Both assistance programs are based on future revenues and as a result the Company is unable to estimate any future amounts of subsidies it will qualify for under the program. *Refer to note 11.*