

KONTROL TECHNOLOGIES CORP.

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022
(Prepared in Canadian dollars)**

To the Shareholders of Kontrol Technologies Corp.:

Opinion

We have audited the consolidated financial statements of Kontrol Technologies Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and December 31, 2022, and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity (deficiency) and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition for ongoing projects

Key Audit Matter Description

The Company generates revenue by providing various energy efficiency solutions. Some of these contracts can be longer than a year in duration. For such contracts, revenue is recognized based on the percentage-of-completion method. This method is measured by reference to costs incurred to date as a percentage of the total estimated costs. The Company's policy for revenue recognition together with the related significant accounting estimates and assumptions is described in Notes 3 and 17 of the consolidated financial statements. The determination of the estimated costs to complete projects that are open at period end is a significant judgment that can have a material impact on the amount of revenue recognized in the period. These significant judgments include those related to estimated future labour, materials, and overhead costs for such contracts. Given the variation in the type of projects, these judgments related to the estimation of future costs are subjective in nature and dependent on the complexity and status of the related contract as of the year end date.

Audit Response

We responded to this matter by performing procedures in relation to long-term contracts that were open as of year end. Our audit work in relation to this included, but was not restricted to, the following:

- We obtained an understanding and evaluated the design and implementation of controls related to the Company's cost estimation processes (including the approval of the initial budget, and the monitoring and assessment of contract activities and estimated costs to complete), and the recording of revenue in the consolidated financial statements;
- We obtained an understanding and evaluated the design and implementation of controls related to the Company's cost estimation processes (including the approval of the initial budget, and the monitoring and assessment of contract activities and estimated costs to complete), and the recording of revenue in the consolidated financial statements;
- We tested the costs incurred to date on projects and assessed the reasonableness of expected costs to complete through review of the Company's budgets and a comparison of projected margin to actual historical margins on completed contracts that were similar in nature; and
- We compared prior period cost estimates to actual contract costs incurred in the current period to assess management's ability to estimate the costs to complete a contract.

Impairment analysis of goodwill and long-lived assets

Key Audit Matter Description

The Company performs impairment testing on an annual basis, or more frequently when there is an indication of impairment. An impairment is recognized if the carrying amount of an asset, or its cash generating unit (CGU), exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value-in-use and its fair value less costs of disposal. The recoverable amounts of the CGUs were determined using the value-in-use method, which included using discounted cash flow projection models. Management used key assumptions in the discounted cash flow projection models, which included forecasted operating results, long-term growth rates and discount rates. We considered this a key audit matter due to the subjectivity and complexity involved in performing procedures to test key assumptions in determining the recoverable amounts of the CGUs, which involved judgment from management. Please refer to Note 7 to the consolidated financial statements for further details.

Audit Response

We responded to this matter by performing audit procedures relating to the impairment of Goodwill & Long-Lived Assets. Our audit work in relation to this included, but was not restricted to, the following:

- We evaluated the design and implementation of relevant controls related to goodwill and intangible asset impairment;
- Obtained management's impairment test cash flows and assessed the underlying assumptions used in the discounted cash flow model;
- Recalculated the resulting recoverable amount and corresponding carrying amounts;
- Engaged our valuation specialists to review management's methodology and the discount rate;
- Assessed management's determination of CGUs and verified that each unit/group of units to which goodwill has been allocated is a) the lowest level within the entity at which goodwill is monitored for internal management purposes, and b) not larger than an operating segment determined in accordance with IFRS 8 Operating Segments before aggregation.

Going Concern

Key Audit Matter Description

In accordance with IAS 1 Presentation of Financial Statements, management makes an assessment of the Company's ability to continue as a going concern by preparing a cash flow forecast, taking into account all information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. When management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. Management estimated that the Company has, and will be able to generate, sufficient cash to allow it to continue as a going concern for the period of at least, but not limited to, twelve months from the end of the reporting period, and accordingly, assessed that there were no material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

We identified the assessment of whether there was a material uncertainty that the Company would continue as a going concern as a key audit matter. There was a high degree of auditor judgment required to evaluate the significant assumptions used in management's cash flow forecast including, but not limited to, forecasted revenues, gross margins, operating expenses, cash flows from operating activities and other factors impacting the Company's financial resources or ability to continue operations over a period of at least twelve months from the end of the reporting period.

Audit Response

We responded to this matter by performing audit procedures in relation to the assessment of whether there was a material uncertainty that the Company would continue as a going concern. Our audit work in relation to this included, but was not restricted to, the following:

- Evaluated the reasonableness of the significant assumptions used in the cash flow forecast, such as forecasted revenue, gross margin, and operating expenses and assessed whether there was adequate support for the assumptions underlying the forecast, as well as whether the assumptions were consistent with evidence obtained in other areas of the audit;
- Assessed debt covenants and their impact of the cash flow forecast;
- Obtained agreements with the Company's lender to support that repayment of Company's term loans and revolvers would not be demanded by the lender during the year ended December 31, 2024; and
- Performed a sensitivity analysis on significant assumptions to evaluate whether these changes would impact the Company's ability to continue as a going concern for the next twelve months.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Burlington, Ontario

April 1, 2024

MNP LLP

Chartered Professional Accountants

Licensed Public Accountants

MNP

KONTROL TECHNOLOGIES CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT
(in Canadian dollars)

	Notes	December 31 2023	December 31 2022
Assets			
Cash		\$3,247,795	\$1,980,728
Accounts receivable	4	9,894,700	4,207,581
Inome tax receivable	12	276,117	-
Unbilled revenue	17	276,977	388,349
Finished inventory		495,624	674,176
Prepaid expenses and deposits		132,882	169,922
Current assets		14,324,095	7,420,756
Property and equipment	5	185,004	897,398
Right-of-use assets	6	594,342	1,171,198
Goodwill	7	3,435,739	5,849,689
Intangible assets	7	4,215,065	8,076,889
Non-current assets		8,430,150	15,995,174
Total assets		\$22,754,245	\$23,415,930
Liabilities			
Revolver	8	1,739,588	3,381,342
Accounts payable and accrued liabilities		2,539,059	23,602,471
Deferred revenue	17	808,136	779,977
Holdback and advances	9	582,500	1,582,500
Vendor take back	9	3,500,000	468,148
Current portion of convertible debentures	11	-	23,793
Current portion of term loans	10	9,323,750	11,950,691
Current portion of lease liabilities	6	187,979	515,431
Current liabilities		18,681,012	42,304,353
Vendor take back	9	-	3,099,068
Convertible debentures	11	-	21,975
Term loans	10	-	101,397
Lease liabilities	6	446,895	692,323
Deferred income taxes	12	833,070	1,067,872
Non-current liabilities		1,279,965	4,982,635
Total liabilities		19,960,977	47,286,988
Equity (Deficiency)			
Common shares	13	27,782,485	25,287,349
Contributed surplus		1,340,009	1,177,411
Reserves	15	4,290,173	2,069,835
Deficit		(30,619,399)	(52,405,653)
Total equity (deficiency)		2,793,268	(23,871,058)
Total liabilities and equity (deficiency)		\$22,754,245	\$23,415,930

Contingent liabilities (Note 21)

KONTROL TECHNOLOGIES CORP.
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
For the years ended December 31
(in Canadian dollars)

	Notes	2023	2022
Revenue	17	\$18,828,380	\$16,165,126
Cost of sales		7,265,712	7,424,968
Gross profit		11,562,668	8,740,158
Advertising and promotion		79,714	90,483
Bad debt		4,156	13,747
Business fees and licenses		416,366	539,702
Consulting		366,895	337,150
Employee salaries and benefits		6,109,232	5,410,114
Impairment of assets	7	2,268,753	5,512,813
Insurance		167,902	178,962
Maintenance and repairs		150,028	238,645
Office and general		87,307	115,537
Other income	18	(526,709)	(1,720,728)
Professional fees		387,750	1,103,922
Rent and utilities		296,029	288,388
Supplies		118,053	121,946
Telecommunication		106,702	101,334
Travel		201,601	138,438
Amortization - intangibles	7	926,087	1,258,809
Depreciation - property & equip. and right-of-use	5 & 6	456,905	477,690
Share-based compensation		380,684	492,703
		11,997,455	14,699,655
Loss before undernoted		(434,787)	(5,959,496)
Amortization - financing fees		(431,390)	(1,073,019)
Finance expense		(1,670,156)	(1,255,172)
Gain on sale of assets	19	2,447,038	-
		345,492	(2,328,191)
Loss from continuing operations before tax		(89,295)	(8,287,687)
Recovery of income taxes		88,914	3,312,151
Net loss from continuing operations		(381)	(4,975,536)
Gain (loss) from discontinued operations	20	21,786,635	(39,561,423)
Net income (loss) and comprehensive income (loss) for the year		\$21,786,254	\$(44,536,959)

Earnings per common share - Continuing Operations

Basic and Diluted	\$0.00	\$(0.10)
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Earnings per common share - Discontinued Operations

Basic	\$0.39	\$(0.81)
Diluted	\$0.32	\$(0.81)

Weighted average number of common shares outstanding

Basic	55,559,117	48,601,483
Diluted	68,426,982	48,601,483

KONTROL TECHNOLOGIES CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
For the years ended December 31
(In Canadian dollars)

	Number of Shares	Common Shares	Contributed Surplus	Reserves	Deficit	Total Deficiency
As at December 31, 2021	47,883,117	\$ 24,306,961	\$ 947,832	\$ 2,141,611	\$ (7,868,694)	\$ 19,527,710
Shares to debenture holders	2,000	-	-	-	-	-
Share-based compensation	130,116	162,115	-	-	-	162,115
Stock options grant (Note 14)	-	-	317,682	-	-	317,682
Stock options exercise (Note 14)	172,000	252,438	(88,103)	-	-	164,335
Convertible debentures conversion (Note 11)	925,000	482,786	-	(4,342)	-	478,444
Warrants exercise (Note 15)	122,452	142,375	-	(67,434)	-	74,941
Repurchase of common shares	(22,000)	(30,000)	-	-	-	(30,000)
Share issuance costs	-	(209,332)	-	-	-	(209,332)
Base shelf prospectus issuance	130,000	180,006	-	-	-	180,006
Net loss	-	-	-	-	(44,536,959)	(44,536,959)
As at December 31, 2022	49,342,685	\$ 25,287,349	\$ 1,177,411	\$ 2,069,835	\$ (52,405,653)	\$ (23,871,058)

	Number of Shares	Common Shares	Contributed Surplus	Reserves	Deficit	Total Equity
As at December 31, 2022	49,342,685	\$ 25,287,349	\$ 1,177,411	\$ 2,069,835	\$ (52,405,653)	\$ (23,871,058)
Shares for debt (Note 13)	119,047	77,381	-	-	-	77,381
Share-based compensation	577,597	195,847	-	-	-	195,847
Stock options grant (Note 14)	-	-	163,962	-	-	163,962
Stock options exercise (Note 14)	2,500	1,364	(1,364)	-	-	-
Convertible debentures (Note 11)	-	-	-	(2,475)	-	(2,475)
Private placement (Note 13)	7,695,840	2,557,170	-	2,445,126	-	5,002,296
Share issuance costs (Note 13)	-	(336,626)	-	(222,313)	-	(558,939)
Net income	-	-	-	-	21,786,254	21,786,254
As at December 31, 2023	57,737,669	\$ 27,782,485	\$ 1,340,009	\$ 4,290,173	\$ (30,619,399)	\$ 2,793,268

KONTROL TECHNOLOGIES CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31
(in Canadian dollars)

	2023	2022
Operating activities		
Net (loss) from continuing operations	\$(381)	\$(4,975,536)
Non-cash items		
Amortization and depreciation	1,814,382	2,809,517
Impairment of assets	2,268,753	5,512,813
Share-based compensation	380,684	479,797
Finance expense	1,670,156	1,255,172
Gain on sale of assets	(2,447,038)	-
Tax recovery	(234,802)	(2,652,785)
Earn-out	-	(1,229,293)
Non-cash working capital items		
Accounts receivable	402,723	(751,544)
Unbilled revenue	111,372	50,219
Finished inventory	(100,049)	81,076
Prepaid expenses and deposits	(51,906)	9,450
Accounts payable and accrued liabilities	44,210	(4,304,931)
Income tax payable	(276,117)	(722,856)
Deferred revenue	71,139	582,799
Cash flows from (used in) operating activities	3,653,126	(3,856,102)
Investing activities		
Additions to property and equipment	(162,006)	(256,309)
Cash flows used in investing activities	(162,006)	(256,309)
Financing activities		
Payment of revolver	(1,531,773)	-
(Payment) Proceeds of term loan	(2,610,059)	11,184,427
Payment of term loan financing fees	(181,390)	-
Payment of debenture, net	-	(5,679,000)
Payment of lease principal	(337,272)	(365,407)
Proceeds from options exercise	-	164,335
Proceeds from warrants exercise	-	74,941
Payment of vendor take back	(434,763)	(250,000)
Payment of convertible debenture	(45,768)	-
Proceeds from base shelf prospectus issuance	-	180,006
Repurchase of common shares	-	(30,000)
Proceeds from common shares private placement	5,002,296	-
Payment of share issue costs	(558,939)	(209,332)
Payment of interest	(1,421,587)	(687,259)
Cash flows (used in) from financing activities	(2,119,255)	4,382,711
Increase in cash from continuing operations	1,371,865	270,300
Decrease in cash from discontinued operations	(104,798)	(1,552,452)
Cash at beginning of year	1,980,728	3,262,880
Cash at end of year	\$3,247,795	\$1,980,728

Additional information

Income tax paid	\$0	\$285,085
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KONTROL TECHNOLOGIES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

I. NATURE OF OPERATIONS

Kontrol Technologies Corp. (“Kontrol” or the “Company”) was incorporated under the laws of the Province of British Columbia and authorized continuance of the Company from the Business Corporations Act (British Columbia) to the Business Corporations Act (Ontario) (“OBCA”), and amendment of the Company’s current articles of incorporation and bylaws to conform to the OBCA. The Company’s common shares are listed in the NEO Exchange (NEO:KNR). The Company is a provider of energy efficiency solutions to commercial energy consumers. Through a disciplined mergers and acquisition strategy, combined with a growing technology platform, Kontrol’s market-based energy solutions are designed to reduce its customers overall cost of energy while providing a corresponding reduction in Green House Gas (GHG) emissions. Management of the Company considers there to be one operating segment being the provision of energy compliance and consulting services. All of the Company’s operations are in Canada. The address of the Company’s head office is 11 Cidermill Ave, Unit 211, Concord, ON, L4K 4B6.

2. BASIS OF PREPARATION

Statement of Compliance

The Company’s consolidated financial statements, including comparatives, have been prepared in accordance with and using accounting policies in full compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee.

These consolidated financial statements were approved by the Board of Directors and authorized for issuance on April 1, 2024.

The consolidated financial statements have been prepared on a going concern basis and based on historical cost, except where financial instruments have been designated as fair value through profit and loss.

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist.

Basis of Presentation

The consolidated financial statements are presented in Canadian dollars which is the currency of the primary economic environment in which the Company operates in.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Details of the Company’s subsidiaries are as follows:

On June 30, 2016 the Company acquired 100% of Kontrol Technologies Inc., a company incorporated in Ontario. This entity and its parent company’s activities are designed for commercial building applications and include deep energy retrofits, distributed power generation, conservation solutions, and energy audits.

On February 10, 2017 the Company acquired 100% of ORTECH Consulting Inc. (“ORTECH”), a company incorporated in Ontario. ORTECH is an engineering consulting firm specializing in Green House Gas reporting, air

KONTROL TECHNOLOGIES CORP.
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FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

quality testing, emission testing and renewable energy/power consulting. Kontrol Energy Group Inc. and ORTECH Consulting Inc. were amalgamated on December 27, 2023. The amalgamated name is Kontrol Energy Group Inc. On December 29, 2023 the ORTECH Consulting Inc. business was sold through an asset sale (see Note 19).

On August 4, 2017 the Company acquired 100% of Efficiency Engineering Inc. ("EE Inc."), a company incorporated in Ontario. EE Inc. provides engineering services to industrial, municipal and commercial building owners across Canada.

On April 30, 2018, the Company acquired assets from MCW Dimax Ltd. The purchased assets are used to manage HVAC systems in real time through ongoing monitoring and analysis. The acquisition of MCW Dimax Ltd was determined to be an acquisition of a business under IFRS 3 Business combinations.

On September 20, 2018, the Company acquired 100% of CEM Specialties Inc. ("CEMSI"), a company incorporated in Ontario. CEMSI provides the Canadian and US market with value added solutions for continuous emissions and process monitoring applications.

On August 1, 2020, the Company acquired 100% of New Found Air HVAC Services Inc. ("NFA"), a company incorporated in Ontario. NFA provides building energy services that ensures the effective operation and service of essential heating, cooling, ventilation, and utility systems. This entity has been renamed to Kontrol Buildings Inc.

On July 30, 2021, Kontrol Technologies Corp. completed the acquisition of Global HVAC & Automation Inc. ("Global"). Global provides integrated installations of complex heating, cooling, ventilation, plumbing and building automation systems to its customers. On February 14, 2023 Global made an assignment pursuant to the Bankruptcy and Insolvency Act and a trustee in bankruptcy was appointed.

All of the Company's subsidiaries have the same year end as the Company and share similar business products and services, customers, and markets in which they operate.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries after intercompany balances and transactions have been eliminated. Subsidiaries are consolidated from the date that control is obtained and deconsolidated on the date control ceases. The acquisition method is used to account for the acquisition of a subsidiary from an unrelated party at the date that control is obtained, with the difference between the consideration transferred and the fair value of the subsidiary's net identifiable assets acquired recorded as goodwill. Business acquisition related costs are recognized in profit and loss as incurred.

3. MATERIAL ACCOUNTING POLICIES

Property and Equipment

Property and Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using the declining balance or straight-line method as noted below.

The cost of an item consists of the purchase price, plus any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

An item is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive income (loss).

Where an item comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Expenditures incurred to replace a component of an item that is

KONTROL TECHNOLOGIES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Depreciation – Property and Equipment

Office equipment	Declining balance	20%
Laboratory and other equipment	Declining balance	20%
Computer equipment	Declining balance	25%
Vehicles	Declining balance	20%
Computer software	Straight-line	5 years
Leasehold improvements	Declining balance	20%

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. Research and development costs excluding those meeting the capitalization criteria are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic life on a straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit (“CGU”) level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. As at December 31, 2022 and 2021, the Company does not have any indefinite life intangible assets.

For the purposes of testing goodwill for impairment, the Company has determined that it has six CGUs – Kontrol Energy Group, CEM Specialties, ORTECH, Efficiency Engineering, and New Found Air. Annual impairment testing is performed as of December 31, 2023.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income (loss) and comprehensive (income) loss when the asset is derecognized.

Development costs are recognized as an intangible asset when the Company can demonstrate all the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

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Following initial recognition of the development costs as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Development costs are amortized on a straight-line basis over a period of 5 to 10 years or are expensed immediately if capitalized projects are not completed.

Amortization - Intangibles

Brand Names	Straight-line	10 years
Customer Relationships	Straight-line	10 years to 15 years
Intellectual Property	Straight-line	3 years to 15 years
Patents	Straight-line	3 years
Product Development	Straight-line	5 years to 10 years

Business combinations

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Where goodwill forms part of a cash-generating unit and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation and the portion of the cash-generating unit retained.

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Impairment

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired.

If such evidence exists, the Company recognizes an impairment loss for financial assets. The carrying amount of the asset is reduced by this amount either directly or indirectly using an allowance account.

The carrying amount of long-lived non-financial assets, including intangible assets and property and equipment, is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets with indefinite lives and intangible assets not yet put into use are evaluated for impairment at least annually. Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the carrying value may not be recoverable.

Impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell or its value in use. The fair value less costs to sell calculation is based on available data from observable market prices, less incremental costs. The value in use calculation is based on a discounted cash flow model. These calculations require the use of estimates and forecasts of future cash flows. Qualitative factors, including market size and market growth trends, strength of customer demand and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. A change in any of the significant assumptions of estimates used to evaluate the underlying assets could result in a material change to the results of operations. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed, to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment had been recognized. Write-downs as a result of impairment are recognized in the consolidated statement of loss and comprehensive loss.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity. Common shares issued for consideration other than cash are valued at the fair value of the good and services received except where the fair value cannot be estimated in which case they are measured at their market value at the date the shares are issued.

Warrants

Financing warrants have been issued in combination with common shares as part of a financing exercise. They are evaluated and classified under IAS 32 Financial Instruments: Presentation. Equity classification applies to instruments where a fixed amount of cash (or liability) denominated in the issuer's functional currency is exchanged for a fixed number of shares (often referred to as the "fixed-for-fixed" criteria). Warrants classified as equity are valued using the Black-Scholes Model. When the warrants are exercised, the fair value of the warrants is transferred to share capital from the warrant reserve. If a warrant expires, the value of the warrant remains in warrant reserve.

Compensation warrants are also issued in combination with debt agreements, such as the debt financing. These warrants are measured at the fair value of the good and services received except where the fair value cannot be estimated in which case they are measured at the fair value of the equity instruments granted, determined using the Black-Scholes Model. The warrants are classified as a reduction of the associated debt and amortized on a straight-line basis over the life of the debt agreement.

Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lesser of the lease term and its useful life. The right-of-use assets are subject to impairment in line with the Company's policy as described in *Impairment of non-financial assets*.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of an extension option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs. The lease term includes extension and termination options if reasonably certain to be exercised.

Discontinued Operations

On February 14, 2023, the Company's former wholly owned subsidiary, Global HVAC & Automation Inc. ("Global"), made an assignment pursuant to the Bankruptcy and Insolvency Act. The results have been presented separately from continuing operations as discontinued operations in the consolidated statements of income and comprehensive. All related information in the notes have been presented based on these reclassifications. See Note 20 for further information.

Revenue Recognition

Revenue from Contracts with Customers ("IFRS 15") encompasses a single 5-step model for revenue recognition for customer contracts. This model for revenue recognition is based on identifying the contract with the customer, identifying the performance obligations, determining the individual transaction price and allocating said price to the individual performance obligations making up the contract. Revenue is recognized when it is probable that the economic benefits associated with a transaction will flow to the Company, and when the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding trade discounts, volume rebates, and amounts collected on behalf of third parties.

The Company generates revenue from contracts in which goods or services are typically provided over time. Revenue is measured based on the consideration the Company expects to be entitled to in exchange for providing goods and services, net of discounts, duty, and taxes collected from clients that are reimbursable to government authorities.

The majority of the Company's contracts include a single performance obligation because the promise to transfer the individual goods or services is not separately identifiable from other promises in the contract and therefore is not distinct. The Company's contracts may include multiple goods or services that are accounted for as separate performance obligations if they are distinct - if a good or service is separately identifiable from other items in the contract and if a customer can benefit from it. If a contract has multiple performance obligations, the consideration in the contract is allocated to each performance obligation based on the estimated stand-alone selling price.

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The Company transfers control of the goods or services it provides to clients over time and therefore recognizes revenue progressively as the services are performed. Revenue from fixed-fee and variable-fee contracts is recognized based on the percentage of completion method where the stage of completion is measured using costs incurred to date as a percentage of total estimated costs for each contract, and the percentage of completion is applied to total estimated revenue. When the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered. Provisions for estimated losses on incomplete contracts are made in the period that the losses are determined. Revenue from time-and-material contracts without stated ceilings is recognized as costs are incurred based on the amount that the Company has a right to invoice.

The timing of revenue recognition, billings, and cash collections results in accounts receivable, unbilled revenues, contract assets, and deferred revenue (contract liabilities) in the consolidated statements of financial position. Amounts are typically invoiced as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or when contractual milestones are achieved. Receivables represent amounts due from customers: accounts receivable consist of invoiced amounts, and unbilled receivables consist of work in progress that has not yet been invoiced. Contract assets represent unbilled amounts where the right to payment is subject to more than the passage of time and includes performance-based incentives and services provided ahead of agreed contractual milestones. Contract assets are transferred to receivables when the right to consideration becomes unconditional. Deferred revenue (contract liabilities) represents amounts that have been invoiced but not yet recognized as revenue, including advance payments and billings in excess of revenue. Deferred revenue is recognized as revenue when (or as) the Company performs under the contract.

Revenue is adjusted for the effects of a significant financing component when the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Advance payments and holdbacks typically do not result in a significant financing component because the intent is to provide protection against the failure of one party to adequately complete some or all of its obligations under the contract.

Deferred contract costs

Contract costs are typically expensed as incurred. Contract costs are deferred if the costs are expected to be recoverable and if either of the following criteria is met:

- The costs of obtaining the contract are incremental or explicitly chargeable to the customer
- The fulfillment costs relate directly to the contract or an anticipated contract and generate or enhance the Company's resources that will be used in satisfying performance obligations in the future

Deferred contract costs are included in the consolidated statements of financial position and amortized over the period of which the related revenue is recorded. Amortization of deferred contract costs is included in cost of sales in the consolidated statements of income (loss) and comprehensive income (loss).

Share-based payments

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve (contributed surplus). The fair value of options is determined using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Income taxes

Income tax on the income (loss) for the periods presented comprises current and deferred tax. Income tax is recognized in net income (loss) except to the extent that it relates to items recognized directly in equity, in which

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case it is recognized in equity.

Income tax provisions are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, a provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in income in the period in which the change occurs.

Deferred tax assets or liabilities arising from temporary differences between the tax and accounting values of assets and liabilities, are recorded based on tax rates expected to be substantially enacted when these differences are reversed. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recovered. This involves an assessment of when those deferred tax assets are likely to be realized, and a judgment as to whether there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as in the amounts recognized in income in the period in which the change occurs.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income both in the period of change, which would include any impact on cumulative provisions, and in future periods.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating policy decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Earnings (Loss) per share

The Company presents basic and diluted earnings (loss) per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by dividing the earnings (loss) attributable to common shareholders by the weighted average number of common shares outstanding, adjusted for own shares held and for the effects of all potential dilutive common shares related to outstanding stock options and warrants issued by the Company.

If the Company incurs a net loss during a reporting period, the calculation of fully diluted loss per share will not include potentially dilutive equity instruments such as restricted stock units, stock option, warrants, contingently issuable shares and convertible debt.

Financial instruments

Financial assets

Recognition and initial measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Financial assets are classified as follows:

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- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of cash and accounts receivables.
- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive income.
- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss comprise of the long-term investment. The Company does not hold any financial assets measured mandatorily at fair value through profit or loss.
- Designated at fair value through profit or loss – On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. As at December 31, 2023 and December 31, 2022 the Company does not hold any financial assets designated to be measured at fair value through profit or loss.

Business model assessment

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The Company applies the simplified approach for accounts receivables. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the

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assets' contractual lifetime.

The Company assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts and breaches of borrowing contracts such as default events or breaches of borrowing covenants. For financial assets assessed as credit-impaired at the reporting date, the Company continues to recognize a loss allowance equal to lifetime expected credit losses.

For financial assets measured at amortized cost, loss allowances for expected credit losses are presented in the statement of financial position as a deduction from the gross carrying amount of the financial asset.

Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

Financial liabilities

Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Financial Liabilities at FVTPL

Liabilities in this category are derivatives or liabilities classified as held-for-trading or designated as FVTPL upon initial recognition. After initial recognition, such liabilities are measured at fair value with changes in fair value being recognized in profit or loss. As at December 31, 2023 the Company did not have any liabilities measured as FVTPL.

Other Financial Liabilities

Liabilities in this category are non-derivative financial liabilities that are not classified as held-for-trading. After initial recognition, such liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss. The Company has accounts payable and accrued liabilities, revolver, term loans, debentures, convertible debentures, holdback and advances and non-derivative vendor take backs classified as other financial liabilities.

Convertible debt

The Company evaluates whether any conversion features would meet the definition of an equity instrument or a financial liability on initial recognition. The conversion feature of the Company's convertible debt has been determined to be an equity instrument and is recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Derecognition of financial liabilities

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

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Government Grants and Assistance

The benefits of tax incentives for scientific research and experimental development expenditures, funding for Industrial Research Assistance Program, subsidy assistance through the Canada Emergency Wage Subsidy, and grants from the Ontario Together Fund are recognized in the period the qualifying claim is made providing there is reasonable assurance of recoverability. The grants and assistance are recorded based on management's estimates of amounts expected to be recovered and are subject to audit by taxation authorities.

Government grants and assistance are recognized where there is a reasonable assurance that the grants and assistance will be received, and conditions will be complied with. Government grants and assistance are recognized in other income over the periods in which the Company recognizes expenses which the grants and assistance are intended to compensate.

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of loss and comprehensive loss.

Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as at the date of the consolidated financial statements. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues, and expenses. Management uses various factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes differ from these estimates under different assumptions and conditions.

The most significant judgments applying to the Company's consolidated financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty. These consolidated financial statements have been prepared based on the going concern assumption, which assumes the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. In assessing whether this assumption is appropriate, management considers all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The assessment is based upon planned actions that may or may not occur for a number of reasons including the Company's own resources and external market conditions. The Company has considered the subsequent events in Note 23 in making this assessment;
- The classification of financial instruments. The determination of a financial instrument classification requires management to review the instrument's underlying terms and conditions and assess these against the criteria in IFRS 9 included above; and
- Leases renewal terms and incremental borrowing rate. Judgment is required at the inception of a lease as to whether payments associated with future renewal options are included or excluded from the calculation of the lease liability. Management must assess the likelihood of such options being exercised based on factors such as lease rates, improvements made and cost associate with exiting. Additionally, the Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

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The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available. The Company Union estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific risk adjustments.

Key sources of estimation uncertainty include:

- In assessing the probability of realizing income tax assets, management makes estimates related to the expectation of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that the tax positions taken will be sustained upon examination by applicable tax authorities;
- The measurement of the value of intangibles and goodwill acquired in business combinations and asset acquisitions. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques. These valuation techniques are generally based on the present value of the forecasted future net cash flows, discounted using the risk adjusted weighted average cost of capital. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied;
- Allowance for expected credit losses. The Company makes an assessment of whether accounts receivable and unbilled revenues are collectible from customers. Accordingly, the Company establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer credit-worthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected;
- Useful lives of property and equipment. The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property and equipment are based on internal technical evaluations and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the non-current assets;
- Useful lives of intangible assets. The Company estimates the useful lives of intangibles assets over the period in which it expects to obtain economic benefits from the intangible asset. The estimated useful lives of intangible assets are reviewed periodically by management for a change in circumstances which could lead to a change in the useful lives of intangible assets;
- Share-based payment transactions and warrants. The Company measures the cost of equity-settled transactions with employees and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield of the share option and forfeiture rate. Similar calculations are made in order to value warrants. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates; and
- Fair value of financial instruments. The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. The Company uses consistent valuation methodologies by third party experts to determine the fair value of financial assets and liabilities such as those acquired in business combinations.

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- Impairment of non-financial assets. Non-financial assets include property and equipment, intangible assets and goodwill. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate and cash flow projections; and
- Assessing the stage of completion on revenue contracts. This assessment requires management to make judgments on efforts and resulting costs required to complete projects as well as the potential recovery of overruns.

Change in accounting standards

The Company monitors the potential changes proposed by the IASB and analyses the effect that changes in the standards may have on operations. The interpretations of standards issued but not yet effective up to the date of issuance of these consolidated financial statements are described below and include standards that the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

Accounting Policies Adopted During the Year and Prior Year

During the year ended December 31, 2022, the Company adopted certain IFRS and amendments. The application of these amendments had not significant impact on the Company's financial position or results of operations. As required by International Accounting Standard ("IAS") 8 Accounting Policies, Changes in Accounting Estimates and Errors, the nature of these changes are disclosed below:

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets)

Reference to the Conceptual Framework (Amendments to IFRS 3, Business Combinations)

The amendments to IFRS 3 update an outdated reference in IFRS 3 without significantly changing its requirements and add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

Fees in the “10 Per Cent Test” for Derecognition of Financial Liabilities (Amendments to IFRS 9, Financial Instruments)

The amendments to IFRS 9 clarify which fees an entity includes when it applies the “10 per cent test” in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

Property, Plant and Equipment - Proceeds Before Intended Use (Amendments to IAS 16, Property, Plant and Equipment)

The amendments to IAS 16 prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1, Presentation of Financial Statements)

On January 23, 2020, an amendment was issued to IAS 1 to address inconsistencies with how entities apply the standards over classification of current and non-current liabilities. The amendment serves to address whether, in the statement of financial position, debt and other liabilities with an uncertain settlement should be classified as current or non-current.

Disclosure of Accounting Policies (Amendments to IAS 1)

The amendments to IAS 1 require an entity to disclose its material accounting policies instead of its significant accounting policies. The amendments clarify that accounting policy information is material if users of an entity's

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financial statements would need it to understand other material information in the financial statements.

Definition of Accounting Estimates (Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors)

The amendments to IAS 8 provide guidance to assist entities in distinguishing between accounting policies and accounting estimates. The amendments replace the definition of a change in accounting estimates with the definition of accounting estimates. Under the new definition, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

Deferred Tax on Assets and Liabilities Arising From Lease and Decommissioning Obligation Transactions (Amendments to IAS 12, Income Taxes)

The amendments to IAS 12 provide clarifications in accounting for deferred tax on certain transactions such as leases and decommissioning obligations. The amendments clarify that the initial recognition exemption does not apply to transactions such as leases and decommissioning obligations. As a result, entities may need to recognize both a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of leases and decommissioning obligations.

IFRS 17, Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation, and disclosure of insurance contracts to ensure that an entity provides relevant and reliable information to the users of the financial statements as a basis to assess the effect that insurance contracts have on the entity's financial statements. In certain cases, financial guarantee and performance guarantee contracts may be considered insurance contracts for the purposes of IFRS 17 if significant insurance risk is transferred from another party to the entity and the contract involves potential compensation to the other party for an adverse event. IFRS 17 will supersede IFRS 4, "Insurance Contracts" and the related interpretations.

Accounting Pronouncements Issued But Not Yet Effective

Non-current Liabilities with Covenants (Amendments to IAS 1)

The amendments to IAS 1 specify that only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and are to be applied retrospectively.

Lease Liability Measurement in a Sale and Leaseback transaction (Amendments to IFRS 16, Leases)

The amendments to IFRS 16 clarify how a seller-lessee should apply the subsequent measurement requirements in IFRS 16 to the lease liability that arises in a sale and leaseback transaction. The amendments specify that the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains when lease liabilities are subsequently measured. However, the new requirements do not prevent a seller-lessee from recognizing, in profit or loss, any gain or loss that relates to the partial or full termination of a lease. The amendments are effective for annual periods beginning on or after January 1, 2024 and are to be applied retrospectively.

The Company is still assessing the impact of adopting these amendments on its future financial statements.

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4. ACCOUNTS RECEIVABLE

Accounts receivable net carrying value reasonably approximates the fair value of the receivables.

	December 31, 2023	December 31, 2022
Net trade accounts receivable	3,804,858	4,207,581
Receivable from sale of assets (see Note 19)	5,789,842	-
Holdback (see Note 19)	300,000	-
Total accounts receivable	\$9,894,700	\$4,207,581

Allowance for expected credit losses

Accounts receivable

	December 31, 2023	December 31, 2022
Opening credit loss allowance	19,608,757	230,877
Expected credit loss allowance recognized during the year	4,156	19,391,627
Receivables written off during the year, net of recoveries	(19,539,881)	(13,747)
Ending allowance for credit losses	\$73,032	\$19,608,757

Aging of receivables and the credit loss assessed and provided for are as shown below:

December 31, 2023

Accounts receivable aging	< 30 days	31 - 60	61 -90	> 90 days	Holdbacks	Total
ECL %	0.00%	0.00%	5.25%	21.08%	0.00%	1.88%
Gross carrying amount	2,608,587	680,379	277,474	275,226	35,224	3,877,890
Lifetime expected credit loss	-	-	-	(73,032)	-	(73,032)
Net accounts receivable	\$2,609,587	\$680,379	\$277,474	\$202,194	\$35,224	\$3,804,858

December 31, 2022

Accounts receivable aging	< 30 days	31 - 60	61 -90	> 90 days	Holdbacks	Total
ECL %	0.10%	0.42%	75.8%	96.6%	99.9%	82.3%
Gross carrying amount	3,004,041	485,932	1,766,293	8,200,302	10,359,770	23,816,338
Lifetime expected credit loss	(3,150)	(2,059)	(1,338,662)	(7,920,280)	(10,344,606)	(19,608,757)
Net accounts receivable	\$3,000,891	\$483,873	\$427,631	\$280,022	\$15,164	\$4,207,581

Accounts receivable net carrying value reasonably approximates the fair value of the receivables.

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5. PROPERTY AND EQUIPMENT

Cost	Office Equipment	Lab & Other Equipment	Computer Equipment	Vehicles	Computer Software	Leasehold Improvements	Total
Balance at January 1, 2023	548,868	1,764,477	1,020,877	857,735	318,122	508,246	5,018,325
Additions	10,137	51,223	18,184	116,499	5,467	-	201,510
Disposals	(234,358)	(1,201,654)	(482,353)	(308,472)	(97,131)	(110,187)	(2,434,155)
Discontinued operations	(70,631)	(397,167)	-	(416,925)	-	(332,844)	(1,217,567)
Balance at December 31, 2023	254,016	216,879.00	556,708.00	248,837.00	226,458.00	65,215.00	1,568,113
Accumulated depreciation							
Balance at January 1, 2023	514,773	1,245,165	918,170	641,827	310,059	490,931	4,120,925
Disposals	(221,570)	(981,439)	(445,709)	(173,855)	(90,939)	(96,335)	(2,009,847)
Depreciation	7,574	48,871	35,608	34,538	5,398	3,463	135,452
Discontinued operations	(70,020)	(117,965)	-	(342,592)	-	(332,844)	(863,421)
Balance at December 31, 2023	230,757	194,632	508,069	159,918	224,518	65,215	1,383,109
Carrying value							
At December 31, 2023	\$23,259	\$22,247	\$48,639	\$88,919	\$1,940	\$-	\$185,004
At December 31, 2022	\$34,095	\$519,312	102,707	\$215,907	\$8,063	\$17,315	\$897,398

In the first quarter of 2023, the Company ceased operations of Global and the disposition of property and equipment were recorded in discontinued operations. In the fourth quarter of 2023, ORTECH business was sold, and the property and equipment were recorded in disposals (see Note 19).

Cost	Office Equipment	Lab & Other Equipment	Computer Equipment	Vehicles	Computer Software	Leasehold Improvements	Total
Balance at January 1, 2022	547,167	1,389,769	1,004,464	923,679	316,158	508,246	4,689,483
Additions	1,700	374,707	16,413	20,247	1,964	-	415,032
Disposals	-	-	-	(86,192)	-	-	(86,192)
Balance at December 31, 2022	548,867	1,764,476	1,020,877	857,735	318,122	508,246	5,018,323
Accumulated depreciation							
Balance at January 1, 2022	506,404	1,203,610	875,755	653,270	298,133	486,175	4,023,348
Disposals	-	-	-	(64,721)	-	-	(64,721)
Depreciation	8,369	41,555	42,415	53,279	11,926	4,756	162,299
Balance at December 31, 2022	514,773	1,245,165	918,170	641,827	310,059	490,931	4,120,925
Carrying value							
At December 31, 2022	\$34,095	\$519,312	\$102,707	\$215,907	\$8,063	\$17,315	\$897,398
At December 31, 2021	\$40,763	\$186,159	\$128,709	\$270,409	\$18,025	\$22,071	\$666,136

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6. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Right-of-Use Assets

Cost	Property	Vehicles	Equipment	Total
Balance at January 1, 2023	1,821,834	302,170	37,617	2,161,621
Additions/Acquisitions	93,323	48,479	-	141,802
Disposals	(836,015)	(82,897)	(37,617)	(956,529)
Discontinued operations	(339,877)	-	-	(339,877)
Balance at December 31, 2023	739,265	267,752	-	1,007,017
Accumulated depreciation				
Balance at January 1, 2023	892,532	79,083	18,808	990,423
Disposals	(651,839)	(58,163)	(31,347)	(741,349)
Depreciation	258,059	62,941	12,539	333,539
Discontinued operations	(169,938)	-	-	(169,938)
Balance at December 31, 2023	328,814	83,861	-	412,675
Carrying value				
At December 31, 2023	\$410,451	\$183,891	\$-	\$594,342
At December 31, 2022	\$929,302	\$223,087	\$18,809	\$1,171,198

Lease Liabilities

Opening balance at January 1, 2023	1,207,754
Additions/Acquisitions	141,801
Disposals	(193,875)
Principal repayment	(337,272)
Discontinued operations	(183,534)
Closing balance at December 31, 2023	<u>\$634,874</u>
Current	\$187,979
Long-term	\$446,895

Lease payments for the year ended December 31, 2023

Principal payments	337,272
Interest expense	63,536
Lease payments	<u>\$400,808</u>

Contractual lease payments by fiscal year

2024	\$230,764
2025	\$184,484
2026	\$158,538
2027	\$158,007

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In the first quarter of 2023, the Company ceased operations of Global and the disposition of right-of-use assets were recorded in discontinued operations. In the fourth quarter of 2023, ORTECH business was sold, and the right-of-use assets were recorded in disposals.

Right-of-Use Assets

Cost	Property	Vehicles	Equipment	Total
Balance at January 1, 2022	1,473,338	163,013	37,617	1,673,967
Additions/Acquisitions	606,019	173,402	-	779,421
Disposals	(257,523)	(34,244)	-	(291,767)
Balance at December 31, 2022	1,821,834	302,170	37,617	2,161,621
Accumulated depreciation				
Balance at January 1, 2022	734,255	56,056	6,269	796,581
Disposals	(243,746)	(12,245)	-	(255,991)
Depreciation	402,023	35,271	12,539	449,833
Balance at December 31, 2022	892,532	79,083	18,808	990,423
Carrying value				
At December 31, 2022	\$929,302	\$223,087	\$18,808	\$1,171,198

Lease Liabilities

Opening balance at January 1, 2022	929,003
Additions/Acquisitions	779,421
Disposals	(29,301)
Principal repayment	(471,369)
Closing balance at December 31, 2022	<u>\$1,207,754</u>

Current	\$515,431
Long-term	\$692,323

Lease payments for the period ended December 31, 2022

Principal payments	471,369
Interest expense	60,992
Lease payments	<u>\$532,361</u>

Contractual lease payments by fiscal year

2023	\$400,808
2024	\$354,013
2025	\$181,953
2026	\$152,343
2027	\$116,097

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7. GOODWILL AND INTANGIBLE ASSETS

	<u>Goodwill</u>	<u>Product</u>	<u>Brand</u>	<u>Customer</u>	<u>Intellectual</u>	<u>Patents</u>	<u>Total</u>
Cost		Development	Names	Relationships	Property		Intangible Assets
Balance at January 1, 2023	5,849,689	2,679,136	645,400	6,597,766	1,421,141	195,056	11,538,499
Additions	-	11,034	-	-	6,119	-	17,153
Disposals	(2,413,950)	-	(173,000)	(1,960,000)	-	-	(2,133,000)
Balance at Dec 31, 2023	<u>3,435,739</u>	<u>2,690,170</u>	<u>472,400</u>	<u>4,637,766</u>	<u>1,427,260</u>	<u>195,056</u>	<u>9,422,652</u>
Accumulated amortization							
Balance at January 1, 2023	-	488,797	266,820	2,064,550	473,927	167,516	3,461,610
Disposals	-	-	(116,775)	(882,333)	-	-	(999,108)
Impairment	-	1,118,124	-	346,660	354,214	-	1,818,998
Amortization	-	362,594	59,127	416,785	84,076	3,506	926,088
Balance at Dec 31, 2023	<u>-</u>	<u>1,969,515</u>	<u>209,172</u>	<u>1,945,662</u>	<u>912,217</u>	<u>171,022</u>	<u>5,207,588</u>
Carrying value							
At December 31, 2023	\$3,435,739	\$720,655	\$263,228	\$2,692,105	\$515,043	\$24,034	\$4,215,065
At December 31, 2022	\$5,849,689	\$2,190,339	\$378,580	\$4,533,216	\$947,214	\$27,540	\$8,076,889

As at December 31, 2023 the Company had determined that a full impairment of certain Product Development, Goodwill and Customer Relationships included in the Kontrol Energy Group CGU was required, due to a strategic decision to discontinue one of the Company's service lines. The Company will continue to provide energy management services through a rebranding under Kontrol Buildings Inc. (formerly NFA) in delivering a unified HVAC and real-time energy monitoring platform. In the fourth quarter of 2023, ORTECH business was sold, and the Goodwill, Customer Relationships, and Brand Names were recorded in disposals (see Note 19).

	<u>Goodwill</u>	<u>Product</u>	<u>Brand</u>	<u>Customer</u>	<u>Intellectual</u>	<u>Patents</u>	<u>Total</u>
Cost		Development	Names	Relationships	Property		Intangible Assets
Balance at January 1, 2022	8,158,397	2,537,722	645,400	10,230,766	1,421,138	195,056	15,030,082
Additions	-	141,414	-	-	-	-	141,414
Disposals	-	-	-	-	-	-	-
Balance at Dec 31, 2022	<u>8,158,397</u>	<u>2,679,136</u>	<u>645,400</u>	<u>10,230,766</u>	<u>1,421,138</u>	<u>195,056</u>	<u>15,171,496</u>
Accumulated amortization and Impairment losses							
Balance at January 1, 2022	-	96,200	207,693	1,784,608	379,184	164,010	2,631,695
Disposals	-	-	-	-	-	-	-
Impairment losses	2,308,708	-	-	3,204,105	-	-	3,204,105
Amortization	-	392,597	59,127	708,837	94,743	3,506	1,258,809
Balance at Dec 31, 2022	<u>2,308,708</u>	<u>488,797</u>	<u>266,820</u>	<u>5,697,550</u>	<u>473,927</u>	<u>167,516</u>	<u>7,094,609</u>
Carrying value							
At December 31, 2022	\$5,849,689	\$2,190,339	\$378,580	\$4,533,216	\$947,211	\$27,541	\$8,076,889
At December 31, 2021	\$8,158,397	\$2,441,522	\$437,707	\$8,446,158	\$1,041,954	\$31,046	\$12,398,387

As at December 31, 2022 the Company had determined that a full impairment of the Goodwill and Customer Relationships relating to the Global CGU was required. Global filed for voluntary bankruptcy and as a result it had not forecasted any cash flows for future periods.

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8. REVOLVER

	December 31, 2023	December 31, 2022
Revolver	\$1,739,588	\$3,381,342

The capacity of the revolving credit facility is subject to borrowing base requirements. On August 10, 2023, the Company entered into a renewed Forbearance Agreement (“FBA”) with its secured lender for a six-month term. Under the FBA the Company is required to remain current on principal and interest obligations and is subject to a minimum EBITDA and cash thresholds. The Company was in compliance as at December 31, 2023. Interest is payable on a monthly basis at Bank Prime rate plus 1.25% plus a margin (between 1.25% and 2.0% based on the Company’s ratio of senior funded debt to EBITDA) with repayments and reborrow advances on a revolving basis. The facility is secured by a general security agreement and Company guarantees.

On March 27, 2024, the Company entered into an amended Credit Agreement and exited from the Forbearance Agreement, thereby returning to regular commercial borrowing, subject to making a repayment on the term loan of \$1,300,000 and providing audited financial statements to the lender. The amended Credit Agreement is the same market standard Agreement that was in place in the third quarter of 2022, except revised to reflect new borrowing levels and other changes to the business.

9. HOLDBACK, ADVANCES & VENDOR TAKE BACK

	December 31, 2023	December 31, 2022
Holdback payable relating to CEMSI acquisition	582,500	582,500
Advances	1,000,000	1,000,000
Discontinued operations	(1,000,000)	-
	<u>\$582,500</u>	<u>\$1,582,500</u>

Holdback payable are to secure any indemnifications of Vendors in connection with acquisitions. The holdback relating to the CEMSI acquisition was due December 20, 2019, however, the amount has not been repaid as at December 31, 2023. Advances to Vendors of Global and are unsecured, and non-interest bearing and balance was deconsolidated as Global ceased operations in the first quarter of 2023.

VENDOR TAKE BACK (“VTB”)

	December 31, 2023	December 31, 2022
VTB relating to NFA acquisition	-	468,148
VTB relating to Global acquisition	3,500,000	3,099,068
	<u>\$3,500,000</u>	<u>\$3,567,216</u>

The NFA VTB maturity date was December 1, 2023 and final principal payment made. Interest payable at 3.50% compounded annually. This indebtedness is in the form of a promissory note with subordinated security. The vendor take back is measured at fair value by taking a probability-weighted average of possible outcomes, as estimated by management, and discounting the payment to a present value. Principal repayment of \$434,763 was made in connection with the NFA VTB during the year ended December 31, 2023. Shares for debt valued at fair value of \$77,381 and interest accretion of \$(43,996) was applied against the VTB during the year ended December 31, 2023. Principal repayment of \$250,000 was made in connection with the NFA VTB during the year ended December 31, 2022.

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The Global VTB shall mature on the third anniversary of the closing date and shall accrue interest at 3.0% compounded annually. The fair value determined by taking face value amount of \$3.5 million and discounting over 3-year term at market rate. A Vendor earn-out equal to 45% of adjusted 3 years cumulative earnings after-tax in excess of \$4.5 million was adjusted to zero in the fiscal year 2022, based on management's fair value calculation.

The Global VTB is classified as current based on the contractual terms of the purchase agreement. However, the Company is pursuing legal action against the vendor, as the full amount is under legal dispute.

10. TERM LOANS

	December 31, 2023	December 31, 2022
(i) Vehicle term loans, opening balance	128,338	152,870
Payments	(10,059)	(24,532)
Disposals	(22,956)	(24,532)
Discontinued operations	(95,323)	-
Closing balance	-	128,338
(ii) Term facility, opening balance	11,923,750	12,000,000
Payments	(2,600,000)	(76,250)
Closing balance	9,323,750	11,923,750
Total term loans	9,323,750	12,052,088
Less: Current portion	(9,323,750)	(11,950,691)
	\$-	\$101,397

(i) A vehicle fixed rate loan was entered into during the first quarter of 2021. Interest is payable at fixed rate of 5.89%. The term of the loan is 60 months and comprised of equal instalments of blended principal and interest. Maturity date is January 1, 2026. The loan secured by the vehicle. In the fourth quarter of 2023, ORTECH business was sold, and the term loan was recorded in disposals (see Note 19).

A vehicle fixed rate loan was entered in April 2021. Interest is payable at fixed rate of 2.70%. The term of the loan is 84 months and comprised of equal instalments of blended principal and interest. Maturity date is March 7, 2028. The loans are secured by the vehicle. In the first quarter of 2023, the Company ceased operations of Global. As a result, the Company has deconsolidated the vehicle term loan of Global.

(ii) On August 10, 2023, the Company entered into a renewed Forbearance Agreement ("FBA") with its secured lender for a six-month term. Under the FBA the Company is required to remain current on principal and interest obligations and is subject to a minimum EBITDA and cash thresholds. Interest is payable on a monthly basis at Bank Prime rate plus 1.25% plus a margin (margin is between 1.25% and 2.0% based on the Company's ratio of senior funded debt to EBITDA). Principal repayments equal to 1.25% of the drawn amount, payable in quarterly installments. The facility is secured by a general security agreement and Company guarantees. The FBA replaces a three-year maturing term facility was entered into during the third quarter of 2022. Due to the FBA, the Company's term loans have been classified as a current liability at December 31, 2023 and December 31, 2022.

On March 27, 2024, the Company entered into an amended Credit Agreement and exited from the Forbearance Agreement, thereby returning to regular commercial borrowing, subject to making a repayment on the term loan of \$1,300,000 and providing audited financial statements to the lender. The amended Credit Agreement is the same market standard Agreement that was in place in the third quarter of 2022, except revised to reflect new borrowing levels and other changes to the business.

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11. CONVERTIBLE DEBENTURES

	December 31, 2023	December 31, 2022
Opening balance	45,768	489,907
Interest accreted during the period	2,294	33,269
Value of debt converted to equity	-	(477,408)
Payment at maturity	(48,062)	
	-	45,768
Less: Current portion	-	(23,793)
	\$-	\$21,975

12. INCOME TAX

Income tax expense varies from the amount that would be computed by applying the basic federal and provincial tax rates to income (loss) from operations before income taxes, shown as follows:

	Dec 31, 2023	Dec 31, 2022
Expected Tax Rate	26.50%	26.50%
Expected tax Benefit Resulting From Loss	\$ (5,057,449)	\$ (12,505,282)
Permanent Differences	2,754,452	421,403
Effect of losses not recognized	1,535,260	9,509,788
Effect of other deductible temporary differences not recognized	212,769	28,153
True-up of prior years taxes	415,439	(260,145)
Other	50,615	153,298
Income tax recovery	\$ (88,914)	\$ (2,652,785)

Discontinued Operations

	Dec 31, 2023	Dec 31, 2022
Expected Tax Rate	26.50%	26.50%
Expected tax Benefit Resulting From Loss	\$ 10,807,244	\$ -
Permanent Differences	(8,585,617)	-
Recognition of Previously Unrecognized Losses	(2,217,597)	-
Other	(4,030)	-
Income tax expense	\$ -	\$ -

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The income tax expense (recovery) consists of the following:

	Dec 31, 2023	Dec 31, 2022
Current Tax Expense	\$ 99,300	\$ 659,366
Deferred Tax Recovery	(188,214)	(3,312,151)
Recovery of income taxes	\$ (88,914)	\$ (2,652,785)

Deferred income taxes reflect the impact of loss carry forwards and of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The following deferred tax assets and liabilities have been recognized for accounting purposes:

	Dec 31, 2023	Dec 31, 2022
Deferred tax asset	\$ 83,028	\$ 829,436
Deferred tax liability	(916,098)	(1,897,308)
Net deferred tax liability	\$ (833,070)	\$ (1,067,872)

The effect of temporary differences and loss carry forwards that give rise to significant portions of the deferred tax liability, which has been recognized during the year are as follows:

	Dec 31, 2022	Recognized in profit and loss	Recognized in equity	Dec 31, 2023
Deferred tax asset				
Loss carry forwards	\$ 662,404	\$ (526,224)	\$ -	\$ 136,180
Right of Use Asset/Liabilities	6,057	4,684	-	10,741
Scientific Research & Experimental Development Credits	160,909	-	-	(63,893)
Donations	66	-	66	-
	829,436	(746,408)	-	83,028
Deferred tax liability				
Property and equipment	(82,646)	74,161	-	(8,485)
Intangible assets	(1,790,237)	882,624	-	(907,613)
Convertible debentures net of financing fees	(24,425)	(22,162)	46,587	-
	(1,897,308)	934,623	46,587	(916,098)
Net deferred tax liability	\$ (1,067,872)	\$ 188,215	\$ 46,587	\$ (833,070)

Gross temporary differences and loss carry forwards that give rise to significant portions of the deferred tax asset, which have not been recognized, are approximately as follows:

	Dec 31, 2023	Dec 31, 2022
Property and equipment	\$ 123,394	\$ -
Intangible Assets	683,795	126,144
Deferred Financing Fees	561,358	972,816
Share Issue Costs	1,354,856	1,340,624
Non-Capital Losses	18,216,273	40,848,890
Capital Losses	10,972,196	465,076
Total	\$ 31,911,872	\$ 43,753,550

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The company has the following non-capital losses available to reduce future years' federal and provincial taxable income, which expire as follows:

2036	12,927
2037	349,891
2038	503,159
2039	919,362
2040	779,926
2041	1,575,453
2042	6,419,946
2043	7,655,609
	<u>\$ 18,216,273</u>

The net capital loss carryforwards may be carried forward indefinitely but can only be used to reduce capital gains.

13. COMMON STOCK

The Company is authorized to issue an unlimited number of common shares.

During the year ended December 31, 2023, 119,047 shares were issued in connection with partial VTB debt settlement (see Note 9).

During the year ended December 31, 2023, 577,597 shares were issued as stock-based compensation.

During the year ended December 31, 2023, the Company completed a private placement of Units. Each Unit consists of one common share in the capital of the Company, one common share equivalent and one common share purchase warrant. Common shares of 5,400,000 were issued at a price of \$0.65 per share. Common share equivalents of 2,295,840 are pre-funded and require an additional \$0.001 per common share equivalent to have it converted into a common share; these common share equivalents were then exercised and converted in the second quarter of 2023. Proceeds received in Q1 2023 from the private placement totalled \$5 million. Proceeds from the common share equivalents converted in Q2 2023 were \$2,296. Warrants of 7,695,840 were issued and exercisable immediately and entitles the holder thereof to purchase one common share at an exercise price of \$0.81 for a period of five years from the date of issuance. There were \$520,119 of share issuance costs recorded and allocated to common shares and reserves.

During the year ended December 31, 2023, 2,500 shares were issued in connection with stock options exercise.

During the year ended December 31, 2022, 2,000 shares were issued to Debenture Unit holders.

During the year ended December 31, 2022, 130,116 shares were issued as stock-based compensation.

During the year ended December 31, 2022, 172,000 shares were issued in connection with stock options exercise.

During the year ended December 31, 2022, 925,000 shares were issued in connection with convertible debentures conversion.

During the year ended December 31, 2022, 122,452 shares were issued in connection with warrants exercise.

During the year ended December 31, 2022, 22,000 shares were repurchased under the Company's normal course issuer bid.

During the year ended December 31, 2022, 130,000 shares were issued in connection with the at-the-market equity program. The distribution of common shares under the program was qualified by a prospectus supplement dated May 5, 2022 to the Company's short form base shelf prospectus dated April 22, 2022.

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14. STOCK OPTIONS

The Company has established a stock option plan for directors, employees, and consultants. The aggregate number of common shares issuable pursuant to options granted under the plan is 10% of the Company's issued common shares. The board of directors has the exclusive power over the granting of options.

The following is a summary of the changes in the Company's stock option plan for the year ended December 31, 2023 and 2022:

Options Outstanding	December 31, 2023		December 31, 2022	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Opening	1,849,736	\$1.21	1,973,236	\$1.30
Granted	2,730,000	\$0.37	348,500	\$1.60
Exercised	(2,500)	\$1.67	(172,000)	\$0.96
Expired	(1,144,736)	\$0.76	(20,000)	\$0.80
Forfeited	(235,000)	\$1.75	(280,000)	\$2.50
Closing	3,197,500	\$0.61	1,894,736	\$1.21

The fair value of stock options is determined using the Black-Scholes Model. Volatility is calculated by using the historical volatility. The expected life in years represents the time that the options granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options. The following outlines the range of assumptions used for the options issued during the year ended December 31, 2023 and 2022:

Black-Scholes assumptions	December 31, 2023	December 31, 2022
Exercise price	\$0.30 - \$0.65	\$1.14 - \$1.96
Risk-free interest rate	3.0%	1.5% - 3.5%
Expected life	3 – 5 years	3 – 5 years
Expected volatility	70%	100%
Expected dividend yield	0%	0%
Weighted average grant date fair value per option	\$0.12	\$0.90

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The following table summarizes the stock options that remain outstanding as at December 31, 2023:

Range of Exercise Prices	Number of Options Outstanding	Number of Options Vested	Weighted Average Remaining Life (Years)
\$0.30	2,150,000	268,750	4.96
\$0.60	50,000	50,000	1.06
\$0.65	550,000	550,000	2.22
\$0.70	37,500	37,500	1.08
\$0.80	50,000	50,000	0.36
\$1.14	15,000	15,000	1.85
\$1.67	140,000	140,000	3.29
\$1.95	10,000	10,000	1.67
\$1.96	18,500	18,500	1.11
\$2.15	60,000	60,000	1.68
\$2.70	10,000	10,000	0.88
\$2.82	6,500	6,500	0.71
\$3.00	50,000	50,000	2.02
\$3.74	50,000	50,000	1.96
	3,197,500	1,316,250	4.02

The following table summarizes the stock options that remain outstanding as at December 31, 2022:

Range of Exercise Prices	Number of Options Outstanding	Number of Options Vested	Weighted Average Remaining Life (Years)
\$0.47	35,000	35,000	0.69
\$0.60	50,000	50,000	2.06
\$0.68	810,500	810,500	0.75
\$0.70	67,500	67,500	1.35
\$0.76	45,000	45,000	0.30
\$0.80	85,000	85,000	1.12
\$0.90	34,236	34,236	0.00
\$1.14	40,000	3,750	4.10
\$1.15	15,000	-	2.86
\$1.50	100,000	100,000	0.07
\$1.67	262,500	132,500	4.29
\$1.95	10,000	10,000	2.67
\$1.96	18,500	9,250	2.11
\$2.15	60,000	60,000	3.68
\$2.56	100,000	33,336	1.79
\$2.70	10,000	10,000	1.88
\$2.82	6,500	6,500	1.71
\$3.00	50,000	50,000	3.02
\$3.74	50,000	50,000	2.96
	1,849,736	1,592,572	1.66

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15. RESERVES

As at December 31, 2023, the outstanding warrants may be exercised for a quantity of 10,829,006 common shares (December 31, 2022 – 3,753,745).

Warrants Outstanding	December 31, 2023		December 31, 2022	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Opening	3,753,745	\$2.06	3,881,972	\$2.01
Granted	7,729,320	\$0.81	-	\$-
Exercised	-	\$-	(122,452)	\$0.61
Expired	(654,059)	\$1.65	(5,775)	\$0.80
Closing	10,829,006	\$1.09	3,753,745	\$2.06

During the first quarter of 2023, the Company issued 7,695,840 warrants in connection with a private placement. Common share equivalents and warrants were recorded to reserves and totaled \$2,991,576. During the second quarter of 2023, the outstanding common share equivalents were exercised and converted for 2,295,840 common shares. The reserve amount in connection with the common share equivalents was \$854,451 and reallocated to common shares accordingly (see Note 13).

During the year ended December 31, 2023, the Company agreed to amend 1,211,500 warrants that were issued in June 2021. The exercise price was reduced from \$1.75 to \$0.81, and the expiry date was extended from June 1, 2024 to February 22, 2028. All the necessary approvals for the amendment were received.

During the year ended December 31, 2023, 654,059 warrants expired.

During the year ended December 31, 2022, 122,452 warrants exercised.

During the year ended December 31, 2022, 5,775 warrants expired.

Warrants issued are recorded at their fair value on the grant date which is determined using the Black-Scholes Model. Key inputs to the model include exercise price, grant-date fair value of the Company's shares, the risk-free rate of return and volatility. The inputs are adjusted on each issuance based on the prevailing rates and prices on the grant date.

16. RELATED PARTY TRANSACTIONS

Key Management Compensation

The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team and management directors. The following is a summary of the related party transactions, including key management compensation for the year ended December 31, 2023 and 2022.

	December 31, 2023	December 31, 2022
Salaries, benefits and consulting	547,500	382,500
Share-based compensation	126,100	145,500
	\$673,600	\$528,000

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17. REVENUE

The Company earns revenues from the following geographic regions:

	December 31, 2023	December 31, 2022
Canada	14,745,938	13,945,431
United States	4,082,442	2,219,695
	\$18,828,380	\$16,165,126

Contract balances

The following tables provides information about receivables, unbilled revenues and deferred revenues (contract liabilities) from contracts with customers:

	2023	2022
Trade accounts receivable	3,804,858	4,207,581
Unbilled revenue	276,977	388,349
Deferred revenue	(808,136)	(779,977)
Net contract balances	\$3,273,699	\$3,815,953

A reconciliation of the beginning and ending carrying amounts of contact balances is as follows:

	2023	2022
Opening balance, contract balances	3,815,953	4,207,581
Revenue earned during the year	18,828,380	16,165,126
Expected credit losses	(4,156)	(24,890,076)
Billings collected in the year	(19,366,478)	(15,015,271)
Net contract balances, end of year	\$3,273,699	\$3,815,953

Revenue recognized in 2023 and included in deferred revenue at December 31, 2022 was \$779,977 (2022 - \$6,454,689).

18. OTHER INCOME

During the year ended December 31, 2023, the Company recognized benefits from scientific research and experimental development and industrial research assistance program of \$380,944. Other income also includes miscellaneous income and expenses.

During the year ended December 31, 2022, the Company recognized a gain from the write down of the Global earn-out in the amount of \$1,229,293, benefits from scientific research and experimental development of \$341,455, and other miscellaneous income and expenses.

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19. GAIN ON SALE OF ASSETS

In the fourth quarter of 2023, the ORTECH business was sold. As such certain assets and liabilities of ORTECH were disposed of and a gain on sale recorded in the amount of \$2,447,038.

Proceeds	6,089,842
Carrying value of assets and liabilities	
Prepays	43,595
Unbilled revenue	21,803
Property and equipment	410,313
Right-of-use	10,987
Intangibles	1,133,892
Goodwill	2,242,799
Accruals	(142,836)
Deferred revenue	(42,980)
Vehicle term loan	(22,956)
Lease liabilities	(11,813)
Net assets sold	3,642,804
	<hr/>
Gain on sale of assets	<u>\$2,447,038</u>

20. DISCONTINUED OPERATIONS

On February 14, 2023 the Company's former wholly owned subsidiary, Global HVAC & Automation Inc. ("Global"), made an assignment pursuant to the Bankruptcy and Insolvency Act and a trustee in bankruptcy was appointed. As a result of the voluntary bankruptcy, the Company is deemed to have lost control of Global, and as such, has deconsolidated the subsidiary effective February 14, 2023.

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	January 1, 2023 to February 14, 2023	January 1, 2022 to Dec 31, 2022
Revenue	\$-	\$73,226,964
Cost of sales	-	72,255,392
Gross profit	-	971,572
Bad debt	-	28,770,666
Business fees and licenses	15	37,100
Employee salaries and benefits	18,801	9,058,567
Insurance	-	103,235
Office and general	-	61,467
Professional fees	13,431	77,740
Provision for loss on contract	-	727,268
Rent and utilities	13,365	321,496
Supplies	9,270	361,134
Telecommunication	966	5,152
Travel	4,528	43,074
Depreciation	12,085	134,442
Finance expense	32,337	172,288
Income tax	-	659,366
	104,798	40,533,444
Loss from discontinued operations	\$(104,798)	\$(39,561,423)

Gain on disposal of discontinued operations

Following the deconsolidation, the carrying amount of assets and liabilities of Global were removed from the Company's consolidated statements of financial position. The effect of the disposal was recorded in the first quarter of 2023 and is noted below.

Proceeds	\$-
Net working capital deficiency	(21,137,515)
Property and equipment	354,146
Right-of-use	169,938
Advances	(999,145)
Vehicle loan	(95,323)
Lease liabilities	(183,534)
	21,891,433
Gain on disposal of discontinued operations	\$21,891,433

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Cash flows - discontinued operations

	January 1, 2023 to February 14, 2023	January 1, 2022 to Dec 31, 2022
Cash flows used in operating activities	\$(104,798)	\$(5,540,594)
Cash flows used in investing activities	-	(272,191)
Cash flow from financing activities	-	4,260,333
Cash flows used in discontinued operations	\$(104,798)	\$(1,552,452)

21. CONTINGENT LIABILITIES

The Company's former wholly owned subsidiary, Global HVAC & Automation Inc. ("Global"), was deconsolidated effective February 14, 2023 and treated as a discontinued operation.

Global is subject to several claims from suppliers and customers of which certain claims were filed in periods before Global began to experience financial challenges; Global has counterclaimed under the Construction Lien Act of Ontario. Other claims relate to the fiscal year 2022 where Global was not able to complete projects. These claims are being addressed by the receiver for the Global bankruptcy in this fiscal year 2023. An estimate of the potential claims against the Company is not reliably determinable, and as such no provision has been recorded.

During the first quarter of 2023, Kontrol was included as a defendant on a claim filed by a bonding insurance company which relates to Global and two of its former Directors as indemnitors of the insurance claim. Kontrol has not recorded any account provisions as an outcome is not determinable at this time. An estimate of the potential claims against the Company is not reliably determinable, and as such no provision has been recorded.

22. FINANCIAL INSTRUMENTS

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

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to the liquidity of its cash and accounts receivable. The Company limits exposure to credit risk by maintaining its cash with large Canadian financial institutions. To mitigate credit risk with respect to accounts receivable the Company subjects all major customer accounts to its credit evaluation process. The Company's maximum exposure to credit risk as at December 31, 2023 is the carrying value of cash held with financial institutions and accounts receivable.

(b) 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 ensures there is sufficient capital to meet short-term business requirements after taking into account cash flows from operations, the Company's holdings of cash, available credit facilities, and by initiating new debt or equity financings. The Company manages liquidity risk through the management of its capital structure. Due to the FBA, the Company's term loans have been classified as a current liability (see Note 10). Subsequent to the year end, the Company exited from forbearance (see Note 24).

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The Company's contractual liabilities and obligations are as follows:

December 31, 2023

	Less than 1 year	Between 1 year and 5 years	More than 5 years	Total
Accounts payable	2,539,059	-	-	2,539,059
Revolver	1,739,588	-	-	1,739,588
Holdback and VTB	4,407,045	-	-	4,407,045
Term loan	9,810,720	-	-	9,810,720
Lease liabilities	173,073	558,720	-	731,793
Total	\$18,669,485	\$558,720	\$-	\$19,228,205

December 31, 2022

	Less than 1 year	Between 1 year and 5 years	More than 5 years	Total
Accounts payable	23,602,471	-	-	23,602,471
Revolver	3,381,342	-	-	3,381,342
Holdback, note payable, VTB	2,161,178	3,824,545	-	5,985,723
Term loan	12,902,575	105,970	-	13,008,545
Convertible debenture	27,600	21,072	-	48,672
Lease liabilities	558,040	804,406	-	1,362,446
Total	\$42,633,206	\$4,755,993	\$-	\$47,389,199

Included in the above are total liabilities as at December 31, 2022 of \$24,553,334 relating to Global. Global filed for voluntary bankruptcy, and as such the Company deconsolidated Global effective February 14, 2023, resulting in the liabilities being derecognized during the year ended December 31, 2023 from the obligations of the Company.

(c) Interest rate risk

As at December 31, 2023, the Company's revolver and term loans are subject to varying rates with the financial institution's prime rate and are subject to cash flow risks. The Company monitors its exposure to interest rates and has not entered into any derivative contracts to mitigate this risk. Based on the outstanding credit facilities, a 1% increase in interest rates for the Company would decrease 2023 net income before tax by approximately \$131,800 (December 31, 2022 - \$73,400).

(d) Fair Value

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities:

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at December 31, 2023 and December 31, 2022, the earn-out relating to the acquisition of Global was classified as level 3.

As at December 31, 2023 the vendor take back relating to the acquisition of NFA was settled. As at December 31, 2022 the vendor take back relating to the acquisition of NFA was classified as level 3.

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As at December 31, 2023 and December 31, 2022, both the carrying and fair value amounts of all the Company's financial instruments was approximately equivalent.

(e) Foreign currency risk

Foreign currency risk arises because of fluctuations in exchange rates. CEMSI conducts a portion of its business activities in U.S. dollars. Management of foreign exchange currency exposure is governed by the Company's foreign exchange policy. The objective of the policy is to minimize the earnings impact of foreign currency gains and losses associated with foreign exchange rate fluctuations.

The financial assets and liabilities that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and the U.S. dollar. This primarily includes cash, accounts receivable, and accounts payables and accrued liabilities which are denominated in foreign currencies. A one percent increase/decrease in the U.S. dollar/Canadian dollar exchange rate for the Company would increase/decrease 2023 net income before tax by approximately \$16,000 (December 31, 2022 - \$17,246).

	December 31, 2023	December 31, 2022
Cash	1,705,223	653,540
Accounts receivable	1,025,385	1,106,058
Accounts payable and accrued liabilities	(97,083)	(17,017)
	<u>\$2,633,525</u>	<u>\$1,742,581</u>

23. MANAGEMENT OF CAPITAL RISK

The Company considers items included in shareholders' equity as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustment to it considering changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

To facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

To maximize the ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition selected with regard to the expected timing of expenditures from continuing operations. The Company's approach to managing capital remains unchanged from the year ended December 31, 2022.

23. SUBSEQUENT EVENTS

On March 27, 2024, the Company entered into an amended Credit Agreement and exited from the Forbearance Agreement, thereby returning to regular commercial borrowing subject to making a repayment on the term loan of \$1,300,000 and providing audited financial statements to the lender. The amended Credit Agreement is the same market standard Agreement that was in place in the third quarter of 2022, except revised to reflect new borrowing levels and other changes to the business.