

Condensed Consolidated Interim Financial Statements  
(Unaudited)

**Eddy Smart Home Solutions Ltd.** (formerly Aumento Capital VIII Corp.)

For the three and nine months ended September 30, 2022 and 2021

# **Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)**

## Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

(Unaudited)

The accompanying unaudited condensed consolidated interim financial statements of Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.) for the three and nine months ended September 30, 2022 have been prepared by and are the responsibility of management. These unaudited condensed consolidated interim financial statements, together with the accompanying notes, have been reviewed and approved by members of Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.) audit committee. In accordance with National Instrument 51 – 102, Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.) discloses that these unaudited condensed consolidated interim financial statements have not been reviewed by Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.) auditors.

# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Condensed Consolidated Interim Statements of Financial Position

(Unaudited)

(in Canadian dollars)

|   | September 30,<br>2022 | December 31,<br>2021     |
|---|-----------------------|--------------------------|
| <b>Assets</b>   | <b>\$</b>             | <b>\$</b>                |
|   |                       | As restated<br>(note 21) |
| <b>Current assets</b>                                   |                       |                          |
| Cash  | 375,887               | 111,225                  |
| Restricted cash   | 57,034                | 56,491                   |
| Accounts receivable (note 4)                            | 1,379,553             | 699,156                  |
| Prepaid expenses (note 5, 22)                           | 3,008,075             | 2,084,348                |
| Inventory (note 6)                                      | 2,547,048             | 1,648,619                |
|   | <b>7,367,597</b>      | <b>4,599,839</b>         |
| <b>Costs to obtain and fulfill a contract</b> (note 11) | 1,853,679             | 958,011                  |
| <b>Right-of-use assets</b>                              | 389,427               | 470,036                  |
| <b>Property and equipment</b>                           | 263,925               | 279,825                  |
| <b>Goodwill</b> (note 21)                               | 3,258,472             | -                        |
| <b>Intangible assets</b> (note 8, 21)                   | 958,347               | -                        |
|   | 6,723,850             | 1,707,872                |
| <b>Total Assets</b>                                     | <b>14,091,447</b>     | <b>6,307,711</b>         |
| <b>Liabilities</b>                                      |                       |                          |
| <b>Current liabilities</b>                              |                       |                          |
| Accounts payable and accrued liabilities (note 12)      | 3,819,246             | 3,344,384                |
| Deferred revenue (note 7)                               | 765,208               | 365,284                  |
| Current portion of lease liabilities                    | 136,189               | 134,227                  |
| Conversion derivative of term loan (note 13)            | -                     | 778,680                  |
| Term loans (note 13)                                    | -                     | 2,556,125                |
| Demand loans (note 13)                                  | -                     | 3,102,666                |
| <b>Total Current Liabilities</b>                        | <b>4,720,643</b>      | <b>10,281,366</b>        |
| <b>Lease liabilities</b>                                | 482,305               | 583,541                  |
| <b>Deferred revenue</b> (note 7)                        | 1,730,823             | 830,167                  |
| <b>Loan payable</b> (note 13)                           | 80,000                | 40,000                   |
| <b>Total Liabilities</b>                                | <b>7,013,771</b>      | <b>11,735,074</b>        |
| <b>Shareholders' Equity/(Deficiency)</b>                |                       |                          |
| Share capital (note 18)                                 | 53,485,043            | 33,306,141               |
| Contributed surplus (note 14, 22)                       | 1,916,939             | 1,278,134                |
| Deficit   | (48,370,841)          | (40,028,753)             |
| Accumulated other comprehensive income                  | 46,534                | 17,115                   |
| <b>Total Shareholders' Equity/(Deficiency)</b>          | <b>7,077,675</b>      | <b>(5,427,363)</b>       |
| <b>Contingencies</b> (note 17)                          |                       |                          |
| <b>Going concern</b> (note 2)                           |                       |                          |
| <b>Total Liabilities &amp; Shareholders' Equity</b>     | <b>14,091,447</b>     | <b>6,307,711</b>         |

See accompanying notes to consolidated financial statements

Approved on behalf of the board of directors:

"signature"

Mark Silver

Director

# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

## Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Unaudited)

For the three and nine months ended September 30, 2022 and 2021

(in Canadian dollars)

|  | Three months ended    |                       | Nine months ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2022 | September 30,<br>2021 | September 30,<br>2022 | September 30,<br>2021 |
|  | \$                    | \$                    | \$                    | \$                    |
| <b>Revenue</b> (note 7)  | 653,545               | 280,315               | 1,542,396             | 968,645               |
| <b>Expenses</b>  |                       |                       |                       |                       |
| Cost of Sales (note 9)   | 314,871               | 73,960                | 739,817               | 612,229               |
| Selling (note 10)  | 437,790               | 242,668               | 1,281,280             | 581,574               |
| General and administrative (note 8)                                      | 2,404,846             | 3,028,375             | 7,634,327             | 5,338,977             |
|  | 3,157,507             | 3,345,003             | 9,655,424             | 6,532,780             |
| <b>Operating loss</b>  | <b>(2,503,962)</b>    | <b>(3,064,688)</b>    | <b>(8,113,028)</b>    | <b>(5,564,135)</b>    |
| Interest income  | 1,785                 | 92                    | 21,232                | 939                   |
| Gain/(Loss) on foreign exchange  | (68,056)              | (30,198)              | (102,587)             | (22,215)              |
| Finance cost (note 13)   | (15,616)              | (120,828)             | (147,705)             | (564,620)             |
| Net loss before income taxes   | <b>(2,585,849)</b>    | <b>(3,215,622)</b>    | <b>(8,342,088)</b>    | <b>(6,150,031)</b>    |
| Income taxes   | -                     | -                     | -                     | -                     |
| <b>Net loss</b>  | <b>(2,585,849)</b>    | <b>(3,215,622)</b>    | <b>(8,342,088)</b>    | <b>(6,150,031)</b>    |
| <b>Other comprehensive loss:</b>   |                       |                       |                       |                       |
| <b>Items that may subsequently be reclassified to income</b>             |                       |                       |                       |                       |
| Loss on foreign currency translation, of foreign operation               | 25,203                | (3,236)               | 29,419                | (9,710)               |
| <b>Total comprehensive loss</b>  | <b>(2,560,646)</b>    | <b>(3,218,858)</b>    | <b>(8,312,669)</b>    | <b>(6,159,741)</b>    |
| <b>Net loss per share - basic and diluted</b> (note 16)                  | <b>(\$0.03)</b>       | <b>(\$0.05)</b>       | <b>(\$0.12)</b>       | <b>(\$0.10)</b>       |
| <b>Weighted average number of common shares outstanding</b><br>(note 16) |                       |                       |                       |                       |
| - <b>Basic and diluted</b>   | 79,528,619            | 61,169,428            | 72,364,777            | 61,169,428            |

See accompanying notes to consolidated financial statements

# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Condensed Consolidated Interim Statements of Changes in Shareholders' equity/(deficiency)

(Unaudited)

For the three and nine months ended September 30, 2022 and 2021

(in Canadian dollars)

|  | ESHSI common and class B preferred shares |                      |  |                                | Common Shares           |                      |                     |                  | Contributed Surplus    | Accumulated OCI  | Accumulated Deficit | Shareholder's Equity |
|--|---|----------------------|--|--------------------------------|-------------------------|----------------------|---------------------|------------------|------------------------|------------------|---------------------|----------------------|
|  | Number of ESHSI common shares             | ESHSI common shares  | Number of ESHSI class B preferred shares | ESHSI class B preferred shares | Number of Common Shares | Common Shares        | Common Shares       | Common Shares    |                        |                  |                     |                      |
| <b>Balance, January 1, 2022</b>  | <b>61,469,428</b>                         | <b>\$ 29,401,826</b> | <b>12,594,566</b>                        | <b>\$ 3,904,316</b>            | -                       | \$ -                 | \$ 1,278,133        | \$ 17,115        | \$ (40,028,753)        | \$ (5,427,363)   |                     |                      |
| Conversion of ESHSI common shares to Common Shares (note 1, 18)                        | (61,469,428)                              | (29,401,826)         | -  | -                              | 31,033,886              | 29,401,826           | -                   | -                | -                      | -                |                     |                      |
| Conversion of ESHSI class B pref shares to Common Shares (note 1, 18)                  | -   | -                    | (12,594,566)                             | (3,904,316)                    | 6,358,581               | 3,904,316            | -                   | -                | -                      | -                |                     |                      |
| Private placement (note 1, 18)   | -   | -                    | -  | -                              | 20,713,449              | 12,308,260           | -                   | -                | -                      | 12,308,260       |                     |                      |
| Share issue costs (note 1, 18)   | -   | -                    | -  | -                              | -                       | (1,281,203)          | -                   | -                | -                      | (1,281,203)      |                     |                      |
| Agent warrants (note 14)   | -   | -                    | -  | -                              | -                       | (478,832)            | 478,832             | -                | -                      | -                |                     |                      |
| Conversion of Term Loan to Common Shares (note 13, 18)                                 | -   | -                    | -  | -                              | 5,702,936               | 3,421,759            | -                   | -                | -                      | 3,421,759        |                     |                      |
| Issuance of Common Shares to a developer and customer (note 14)                        | -   | -                    | -  | -                              | 1,453,767               | 470,497              | (470,497)           | -                | -                      | -                |                     |                      |
| Common shares issued in reverse takeover (note 1, 18)                                  | -   | -                    | -  | -                              | 2,000,000               | 1,200,000            | -                   | -                | -                      | 1,200,000        |                     |                      |
| Stock options assumed in reverse takeover (note 14)                                    | -   | -                    | -  | -                              | -                       | -                    | 25,640              | -                | -                      | 25,640           |                     |                      |
| Warrants assumed in reverse takeover (note 14)   | -   | -                    | -  | -                              | -                       | -                    | 51,280              | -                | -                      | 51,280           |                     |                      |
| Employee and director share-based comp (note 14)                                       | -   | -                    | -  | -                              | -                       | -                    | 552,028             | -                | -                      | 552,028          |                     |                      |
| Share-based compensation to a developer and customer                                   | -   | -                    | -  | -                              | -                       | -                    | 1,523               | -                | -                      | 1,523            |                     |                      |
| Cumulative translation adjustment  | -   | -                    | -  | -                              | -                       | -                    | -                   | 29,419           | -                      | 29,419           |                     |                      |
| Issuance of Common Shares as consideration for Reed Controls acquisition (note 18, 21) | -   | -                    | -  | -                              | 12,266,000              | 4,538,420            | -                   | -                | -                      | 4,538,420        |                     |                      |
| Net loss for the period  | -   | -                    | -  | -                              | -                       | -                    | -                   | -                | (8,342,088)            | (8,342,088)      |                     |                      |
| <b>Balance, September 30, 2022</b>   | <b>-</b>                                  | <b>-</b>             | <b>-</b>                                 | <b>-</b>                       | <b>79,528,619</b>       | <b>\$ 53,485,043</b> | <b>\$ 1,916,939</b> | <b>\$ 46,534</b> | <b>\$ (48,370,841)</b> | <b>7,077,675</b> |                     |                      |

|  | ESHSI common and class B preferred shares |                      |  |                                | Common Shares           |               |                   |                  | Contributed Surplus    | Accumulated OCI       | Accumulated Deficit | Shareholder's (deficiency) |
|--|---|----------------------|--|--------------------------------|-------------------------|---------------|-------------------|------------------|------------------------|-----------------------|---------------------|----------------------------|
|  | Number of ESHSI common shares             | ESHSI common shares  | Number of ESHSI class B preferred shares | ESHSI class B preferred shares | Number of Common Shares | Common Shares | Common Shares     | Common Shares    |                        |                       |                     |                            |
| <b>Balance, January 1, 2021</b>                    | <b>61,169,428</b>                         | <b>\$ 29,397,086</b> | <b>10,519,566</b>                        | <b>\$ 3,261,066</b>            | -                       | -             | \$ 13,774         | \$ 29,348        | \$ (32,018,250)        | \$ 683,025            |                     |                            |
| Class B Preferred shares issued (note 18)          | -   | -                    | 2,075,002                                | 643,250                        | -                       | -             | -                 | -                | -                      | 643,250               |                     |                            |
| Employee share-based comp (note 14)                | -   | -                    | -  | -                              | -                       | -             | 209,968           | -                | -                      | 209,968               |                     |                            |
| Developer and customer, share-based comp (note 14) | -   | -                    | -  | -                              | -                       | -             | 4,262             | -                | -                      | 4,262                 |                     |                            |
| Cumulative translation adjustment                  | -   | -                    | -  | -                              | -                       | -             | -                 | (9,710)          | -                      | (9,710)               |                     |                            |
| Net loss for the period                            | -   | -                    | -  | -                              | -                       | -             | -                 | -                | (6,150,031)            | (6,150,031)           |                     |                            |
| <b>Balance, September 30, 2021</b>                 | <b>61,169,428</b>                         | <b>\$ 29,397,086</b> | <b>12,594,568</b>                        | <b>\$ 3,904,316</b>            | <b>-</b>                | <b>-</b>      | <b>\$ 228,004</b> | <b>\$ 19,638</b> | <b>\$ (38,168,281)</b> | <b>\$ (4,619,237)</b> |                     |                            |

See accompanying notes to consolidated financial statements

# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Condensed Consolidated Interim Statements of Cash Flows  
(Unaudited)

For the three and nine months ended September 30, 2022 and 2021

(in Canadian dollars)

|  | Three months ended    |                       | Nine months ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2022 | September 30,<br>2021 | September 30,<br>2022 | September 30,<br>2021 |
|  | \$                    |                       |                       | \$                    |
| <b>Cash provided by (used in)</b>                              |                       |                       |                       |                       |
| <b>Operating activities</b>                                    |                       |                       |                       |                       |
| Net loss for the period  | (2,585,849)           | (3,215,622)           | (8,342,088)           | (6,150,031)           |
| Add items not affecting cash                                   |                       |                       |                       |                       |
| Depreciation of property and equipment                         | 20,246                | 18,020                | 58,108                | 52,273                |
| Depreciation of fulfillment assets (note 11)                   | 72,702                | 30,942                | 189,474               | 97,740                |
| Amortization of intangible assets (note 8, 21)                 | 76,113                | -                     | 123,657               | -                     |
| Amortization of right-of-use assets                            | 26,870                | 26,870                | 80,609                | 80,609                |
| Interest paid on lease liabilities                             | (15,616)              | (18,842)              | (49,314)              | (58,691)              |
| Financial instruments (note 13)                                | -                     | (45,306)              | -                     | 155,463               |
| Interest expense (note 13)                                     | 15,616                | 166,134               | 147,705               | 409,157               |
| Interest income  | (1,785)               | (92)                  | (21,232)              | (939)                 |
| Non cash component of listing expense (note 1)                 | -                     | -                     | 858,118               | -                     |
| Stock-based compensation (note 14)                             | 130,026               | 73,763                | 552,028               | 209,790               |
|  | (2,261,677)           | (2,964,133)           | (6,402,935)           | (5,204,629)           |
| <b>Changes in non-cash working capital</b>                     |                       |                       |                       |                       |
| Restricted cash  | (437)                 | (6,347)               | (543)                 | (6,347)               |
| Accounts receivable (note 4)                                   | 8,727                 | (71,171)              | (680,398)             | (201,274)             |
| Prepaid expenses (note 5)                                      | (615,837)             | (525,105)             | (923,730)             | (578,682)             |
| Cost to obtain and fulfill a contract (note 11)                | (146,209)             | (49,921)              | (1,085,141)           | (537,633)             |
| Inventory (note 6)   | (308,149)             | (271,986)             | (898,429)             | (101,741)             |
| Deferred revenue (note 7)                                      | 457,643               | 73,412                | 1,300,581             | 544,013               |
| Accounts payable and accrued liabilities (note 12)             | 1,287,852             | 1,826,987             | 603,968               | 2,088,298             |
|  | 683,590               | 975,869               | (1,683,692)           | 1,206,634             |
| <b>Net cash flow (used in) operating activities</b>            | <b>(1,578,087)</b>    | <b>(1,988,264)</b>    | <b>(8,086,627)</b>    | <b>(3,997,995)</b>    |
| <b>Investing activities</b>                                    |                       |                       |                       |                       |
| Purchase of property and equipment                             | (24,881)              | 7,172                 | (50,827)              | (34,253)              |
| Cash acquired through a Reverse Takeover (note 1)              | -                     | -                     | 418,802               | -                     |
| Cash acquired through a acquisition of Reed Controls (note 21) | -                     | -                     | 114,616               | -                     |
| <b>Net cash flow from/(used in) investing activities</b>       | <b>(24,881)</b>       | <b>7,172)</b>         | <b>482,591)</b>       | <b>(34,253)</b>       |
| <b>Financing activities</b>                                    |                       |                       |                       |                       |
| Proceeds from equity offering (note 1, 18)                     | -                     | -                     | 12,308,260            | 643,250               |
| Share issuance cost (note 1, 18)                               | -                     | -                     | (1,281,203)           | -                     |
| Contributed surplus  | -                     | -                     | -                     | -                     |
| Lease payments   | (33,912)              | (30,432)              | (99,273)              | (87,122)              |
| Proceeds from loan payable (note 13)                           | -                     | -                     | 40,000                | -                     |
| Payment of interest on demand loan (note 13)                   | -                     | -                     | (99,087)              | -                     |
| Proceeds from term loans (note 13)                             | -                     | 1,500,000             | -                     | 3,750,000             |
| Repayment of demand loans (note 13)                            | -                     | -                     | (3,000,000)           | -                     |
| <b>Net cash flow from financing activities</b>                 | <b>(33,912)</b>       | <b>1,469,568)</b>     | <b>7,868,697)</b>     | <b>4,306,128)</b>     |
| <b>(Decrease)/increase in cash during the period</b>           | <b>(1,636,880)</b>    | <b>(511,524)</b>      | <b>264,661)</b>       | <b>273,880)</b>       |
| <b>Cash, beginning of period</b>                               | <b>2,012,767)</b>     | <b>977,922)</b>       | <b>111,225)</b>       | <b>192,518)</b>       |
| <b>Cash, end of period</b>                                     | <b>375,887)</b>       | <b>466,398)</b>       | <b>375,887)</b>       | <b>466,398)</b>       |

# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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## 1. General business description and reverse takeover

Eddy Smart Home Solutions Ltd. ("Eddy" or the "Company") formerly Aumento Capital VIII Corp. ("Aumento"), was incorporated under the Ontario Business Corporations Act on November 20, 2020 and was a Capital Pool Company ("CPC") as defined in the Policy 2.4 of the TSX Venture Exchange (the "Exchange"). Upon the closing of the Reverse Takeover (the "RTO Transaction"), Aumento changed its name to Eddy Smart Home Solutions Ltd.

As described below, the Company completed the acquisition of Eddy Smart Home Solutions Inc. ("ESHSI") through an acquisition agreement ("RTO Transaction") whereby the Company acquired all of the issued and outstanding shares of Aumento on January 12, 2022, with the former shareholders of ESHSI obtaining control of the Company.

ESHSI was incorporated under the Ontario Business Corporation Act of Ontario on January 27, 2015. ESHSI is a North American provider and developer of residential and commercial smart water metering products and monitoring services, helping property owners protect, control and conserve water usage by combining water sensing devices with behavioural learning software. ESHSI operates in three segments: Single-Family Residential ("SFR"), Multi-Family Residential ("MFR") and Commercial and Institutional ("C&I").

Following the RTO Transaction, the Company is controlled by ESHSI, and as such, the transaction is accounted for as a reverse takeover of the Company by ESHSI for accounting purposes.

The historical figures presented in these condensed consolidated interim financial statements represent those of ESHSI and its subsidiaries. The acquired assets and liabilities and results of operations and cash flows of Aumento are reflected only for periods from the acquisition date of January 12, 2022.

The wholly owned operating subsidiaries of the Company are Eddy Smart Home Solutions Inc., Eddy Home Inc., Eddy Home Distribution Inc. (formerly Municipal Water Savings Corp.), Municipal Water Savings California Corp and Reed Controls Inc.

The Company's shares are listed on the TSX Venture Exchange under the symbol "EDY". The Company's corporate office is 5255 Yonge Street, Suite 900, Toronto, Ontario M2N 6P4.

### RTO Transaction

On January 12, 2022, the Company (Aumento at the time) acquired all of the issued and outstanding securities of ESHSI in exchange for the issuance of securities of Aumento, which resulted in ESHSI becoming a wholly owned subsidiary of Aumento.

As consideration for the acquisition, each issued and outstanding common share and class B preferred share of ESHSI was cancelled and replaced by 0.504867 Common Shares of Aumento (the "Exchange Ratio"). Further, each option or warrant issued by ESHSI was exchanged for a corresponding option or warrant of Aumento on substantially the same economic terms and conditions as the original option or warrant based on the Exchange Ratio.

Following completion of the RTO Transaction, the Company had 67,262,619 Common Shares issued and outstanding on a non-diluted basis with existing shareholders of Aumento holding approximately 2.97% and ESHSI shareholders holding approximately 97.03% of the outstanding Common Shares of the Company. As a result, the transaction is considered a reverse takeover of Aumento by ESHSI. For accounting purposes ESHSI is considered the acquirer and Aumento the acquiree.

Aumento's activities prior to the acquisition were limited to management of cash resources and the maintenance of its listing, and accordingly, did not constitute a business. As a result, the RTO Transaction is considered to be outside the scope of IFRS 3 Business Combinations, and has been accounted for as an asset acquisition. Since ESHSI granted equity instruments as consideration for the acquisition, the arrangement has been accounted for under IFRS 2, Share-based Payments. Accordingly, the transaction has been accounted for at the fair value of the equity instruments granted by ESHSI to Aumento. The share capital, reserves, and deficit of Aumento at the time of the RTO Transaction have been eliminated against the fair value of the consideration and the difference has been recognized as a listing expense in the statement of loss and comprehensive loss during the first quarter of 2022. The capital structure recognized in the condensed consolidated interim statement of financial position is that of the Company, but the dollar amount of the issued share capital prior to the RTO transaction is that of ESHSI, including the value of the Common Shares issued prior to the RTO Transaction.

# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

In the accounting for the reverse takeover, the RTO Transaction consideration was determined by reference to the fair value of equity the legal subsidiary, being ESHSI, would have issued to the legal parent entity, being Aumento, for the shareholders of Aumento to obtain the same percentage ownership interest of approximately 2.97% in the combined entity. The fair value of the issued equity was determined based on the most reliable and observable fair value measure being the market price per share from a recent ESHSI private placement to third party market participants (\$0.60 per share).

The excess of the fair value of the RTO Transaction consideration to Aumento over the fair value of the assets and liabilities of Aumento acquired by ESHSI at January 12, 2022 are as follows:

Fair value of consideration issued:

|  |                |
|--|----------------|
|  | \$             |
| ESHSI issued 2,000,000 common shares at \$0.60 | 1,200,000      |
| Aumento common shares                          | 630,988        |
| Aumento surplus                                | 111,037        |
| Aumento deficit                                | (323,223)      |
| Net assets acquired                            | 418,802        |
| Aumento options assumed (note 14)              | 51,280         |
| Aumento agent warrants assumed (note 14)       | 25,640         |
| <b>Reverse takeover listing expense</b>        | <b>858,118</b> |

## 2. Basis of presentation

### Statement of compliance

The Company prepares its condensed consolidated interim financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements including International Accounting Standard ("IAS") 34 "Interim Financial Reporting". The condensed consolidated interim financial statements do not include all the information and disclosures required in the Company's annual consolidated financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2021. The accounting policies that are set out in Note 2, "Significant Accounting Policies" to the Company's annual consolidated financial statements for the year ended December 31, 2021 were consistently applied to all periods presented. Accounting judgements, estimates and assumptions set out in note 3 to the Company's annual consolidated financial statements for the year ended December 31, 2021, remains consistent except for the items described below in note 3.

The consolidated financial statements of the Company were approved by the Board of Directors on November 23, 2022.

### Going concern basis of accounting

These consolidated financial statements have been prepared on a going concern basis which contemplates that the Company will continue in operation and be able to realize its assets and discharge its liabilities and commitments in the normal course of business for the foreseeable future. In assessing whether this going concern assumption is appropriate and whether there are material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern, management considers all available information and actions within its control with respect to the future which is at least, but not limited to, twelve months from the end of the reporting period.

For the nine months ended September 30, 2022, the Company generated a net loss of \$8,342,088 and negative cash flows from operating activities of \$8,086,627. As at September 30, 2022, the Company has an accumulated deficit of \$48,370,841. The overall events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The continuation of the Company is dependent on its ability to achieve positive cash flow from operations, to obtain the necessary equity or debt financing (see subsequent event note) to continue with expansion in the water monitoring services market, and to ultimately attain and maintain profitable operations.

While management has a high degree of confidence that this trend of capital raising will continue, there is no assurance that it will be successful in closing additional financings in the future or that the Company will achieve profitable operations. These consolidated financial statements do not give effect to any adjustments to the carrying value of recorded assets and liabilities, revenue and expenses, the statement of financial position classifications used and disclosures that might be necessary should the Company be unable to continue its operations. Such adjustments could be material.



# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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## Seasonality

The Company has exposure to the construction industry, particularly condominium construction, which in Canada is seasonal in nature. As a result, less work is performed in the winter and early spring months than in the summer and fall months. Accordingly, the Company will experience a seasonal pattern in its operating results, with the first half of the year, and particularly the first quarter, typically generating lower revenue and profits than the second half of the year. Therefore, results in any one quarter are not necessarily indicative of results in any other quarter, or for the year as a whole.

## Business combination

Business combinations are accounted for using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Company. In determining whether a particular set of activities and assets is a business, the Company assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The consideration transferred in the acquisition is generally measured at the aggregate of the fair values, at the date of acquisition, of assets transferred, liabilities assumed, and equity instruments issued by the Company. The acquiree's identifiable assets and liabilities assumed are recognized at their fair value at the acquisition date. Acquisition-related costs are expensed as incurred. The excess of the consideration over the fair value of the net identifiable assets and liabilities acquired is recorded as goodwill.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date. The measurement period is the period from the date of acquisition to the date that the Company obtains complete information about the facts and circumstances that existed as of the acquisition date and is subject to a maximum period of one year.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

## Goodwill and intangible assets

The Company has certain externally acquired intangible assets through a business combination (note 21) that are recognized at their fair values, using appropriate valuation techniques, and subsequently amortized on a straight-line basis over their useful economic lives when they have a finite useful life.

Intangible assets are recognized on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights.

The estimated useful lives of the finite life intangible assets are as follows:

| <b>Assets</b>          | <b>Useful life</b> |
|------------------------|--------------------|
| Computer equipment     | 5 years            |
| Office equipment       | 5 years            |
| Furniture and fixtures | 5 years            |
| Leasehold improvements | Lease term         |

Amortization methods and useful lives and are reviewed at each reporting date and adjusted if appropriate.

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment of goodwill is determined by assessing the recoverable amount of each cash generating unit ("CGU") (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Impairment losses relating to goodwill cannot be reversed in future periods.

# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

## 3. Accounting judgements, estimates and assumptions

Management makes judgments, estimates and assumptions in the application of the Company's accounting policies. These may affect the carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the periods presented. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, the results of which form the basis of the valuation of assets and liabilities that are not readily apparent from other sources. The estimates and the underlying assumptions are reviewed on an ongoing basis.

### Reverse takeover transaction

Determination of the accounting acquirer, whether the acquired entity is a business, and the fair value of the consideration transferred (see note 1).

### Business combination

Significant estimates and assumptions are required to determine the purchase price allocation of business combinations including determination and valuation of intangible assets upon acquisition.

## 4. Accounts receivable

|                        | September 30,<br>2022 | December 31,<br>2021 |
|------------------------|-----------------------|----------------------|
|                        | \$                    | \$                   |
| Accounts receivable    | 1,597,555             | 797,318              |
| Expected credit losses | (218,002)             | (98,162)             |
|                        | <b>1,379,553</b>      | <b>699,156</b>       |

## 5. Prepaid expenses

|   | September 30,<br>2022 | December 31,<br>2021 |
|---|-----------------------|----------------------|
|   | \$                    | \$                   |
| Deposits on inventory purchases                       | 1,756,008             | 933,006              |
| Prepaid expenses                                      | 273,704               | 168,797              |
| Supplier agreement amendment (notes 7, 14, 18 and 21) | 978,363               | 982,545              |
|   | <b>3,008,075</b>      | <b>2,084,348</b>     |

## 6. Inventory

|                            | September 30,<br>2022 | December 31,<br>2021 |
|----------------------------|-----------------------|----------------------|
|                            | \$                    | \$                   |
| Installation supplies      | 274,485               | 235,395              |
| Water monitoring equipment | 2,628,047             | 1,758,104            |
| Provision for inventory    | (355,484)             | (344,880)            |
|                            | <b>2,547,048</b>      | <b>1,648,619</b>     |

### Inventory provision

|  | September 30,<br>2022 | December 31,<br>2021 |
|--|-----------------------|----------------------|
|  | \$                    | \$                   |
| Beginning of year balance                | (344,880)             | (579,610)            |
| Inventory write-off                      | 432                   | 333,940              |
| Increase in inventory provision (note 6) | (11,036)              | (99,210)             |
| End of year balance                      | <b>(355,484)</b>      | <b>(344,880)</b>     |

# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

## 7. Revenue

The Company's main revenue stream is water leak detection monitoring services designed to detect and prevent water leaks in multi-unit residential buildings, single family homes and commercial properties. The Company has contracts with owners as well as developers. Revenue is recorded monthly on a straight-line basis in accordance with the Company's revenue recognition policy.

Deferred revenue is comprised of upfront prepayments received for the water leak detection monitoring services, which are recognized over the contract term (which averages five years). As at September 30, 2022, deferred revenue amounted to \$2,496,031 (December 31, 2021 - \$1,195,451). For the nine months ended September 30, 2022, deferred revenue addition was \$1,893,502 (2021 - \$1,391,205) and recognition was \$592,922 (2021 - \$847,193). For the three months ended September 30, 2022 the deferred revenue addition was \$539,333 (2021 - \$120,235) and recognition was \$81,690 (2021 - \$46,823).

During January 2019, the Company entered into an exclusive supplier agreement with a developer and customer of the Company which committed the Company to issue 2,879,505 Eddy Common Shares to the customer upon installation of 5,000 leak detection equipment units. On December 15, 2021, the Company entered into an addendum (the "Addendum") to amend the exclusive supplier agreement. Pursuant to the Addendum, the Company agreed to issue, or cause to be issued, 750,000 Common Shares which are contingent on the developer permitting the Company to install equipment in at least 12,500 units (5,000 units prior to the Addendum) of its condominium projects. As each unit is install, the Company recognized a reduction to revenue based on the relative proportion of the share consideration expected to be provided to the developer. For the three and nine months ended September 30, 2022, the Company installed 322 units and 1,061 units, respectively. For the three and nine months ended September 30, 2022, the Company recognized common shares earned based on units installed in the amount of \$1,167 and \$3,195, respectively. This was recorded as a reduction to revenue and an increase to contributed surplus.

The Addendum also provided upfront consideration in the form of shares and warrants. The incremental value assigned to the upfront share and warrant consideration provided by the Addendum amounted to \$982,545 (notes 14, 18 and 22) and was initially recognized in prepaid expenses. The prepaid balance amortized against revenue as units are installed under the terms of the Addendum. For the three and nine months ended September 30, 2022, amortization of the prepaid amounted to \$3,651 and \$6,975, respectively based on the installed units. This was recorded as an amortization of the prepaid item and a reduction to revenue. Total units installed as at September 30, 2022 amounted to \$3,364 units (December 31, 2021 - 2,303 units).

## 8. General and administrative

|  | Three months ended |                    | Nine months ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
|  | \$                 | \$                 | \$                 | \$                 |
| Wages and benefits                             | 1,020,827          | 934,069            | 2,955,022          | 2,345,423          |
| Consulting expense                             | 364,018            | 261,626            | 1,108,923          | 698,516            |
| Professional fees                              | 118,889            | 1,523,480          | 361,924            | 1,599,996          |
| Provision for expected credit losses (note 19) | 14,356             | 67,374             | 119,840            | 74,888             |
| Stock-based compensation (note 14)             | 130,026            | 73,763             | 552,028            | 110,790            |
| Depreciation on property and equipment         | 20,246             | 18,020             | 58,108             | 52,273             |
| Amortization of intangible assets              | 76,113             | -                  | 123,657            | -                  |
| Amortization on right-of-use assets            | 26,870             | 26,870             | 80,609             | 80,609             |
| Listing expense (note 1)                       | -                  | -                  | 858,118            | -                  |
| Administrative                                 | 633,501            | 123,173            | 1,416,098          | 376,482            |
|  | <b>2,404,846</b>   | <b>3,028,375</b>   | <b>7,634,327</b>   | <b>5,338,977</b>   |

For the three and nine months ended September 30, 2022, the Company received a subsidy of \$nil (2021 - \$nil), and \$nil (2021 - \$36,152), respectively. During the COVID-19 pandemic to cover part of the employee wages, this was allocated to general and administrative expenses.

## 9. Cost of sales

|  | Three months ended |                    | Nine months ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
|  | \$                 | \$                 | \$                 | \$                 |
| Stock-based compensation (note 14)                               | -                  | -                  | -                  | 55,000             |
| Materials  | 141,511            | 4,393              | 238,359            | 64,748             |
| Provision for inventory (note 6)                                 | -                  | -                  | 11,036             | 151,585            |
| Warehouse rent   | 16,500             | 16,500             | 49,500             | 49,500             |
| Monitoring service   | 27,645             | 5,909              | 85,066             | 56,408             |
| Depreciation on costs to obtain and fulfill a contract (note 11) | 72,703             | 30,942             | 189,474            | 97,740             |
| Licensing and network fees                                       | 56,512             | 16,216             | 166,382            | 137,248            |
|  | <b>314,871</b>     | <b>73,960</b>      | <b>739,817</b>     | <b>612,229</b>     |

The Company leases warehouse space on a month-to-month basis, for the three and nine months ended September 30, 2022 the lease expense was \$16,500 (2021 - \$16,500) and \$49,500 (\$49,500), respectively. Included in accounts payable on September 30, 2022 is an amount owing of \$5,500.

# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

## 10. Selling

|                                    | Three months ended |                    | Nine months ended  |                    |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                    | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
|                                    | \$                 | \$                 | \$                 | \$                 |
| Salaries                           | 327,836            | 158,855            | 914,679            | 320,670            |
| Marketing                          | 19,131             | 7,150              | 35,315             | 25,506             |
| Stock-based compensation (note 14) | -                  | -                  | -                  | 44,000             |
| Commission expense                 | 20,371             | 45,513             | 90,998             | 95,815             |
| Warranty reserve                   | 26,427             | 26,597             | 164,921            | 88,692             |
| General                            | 44,025             | 4,553              | 75,367             | 6,891              |
|                                    | <b>437,790</b>     | <b>242,668</b>     | <b>1,281,280</b>   | <b>581,574</b>     |

## 11. Costs to obtain and fulfill a contract

Cost to obtain and fulfill a contract consisted of the following:

|   | September 30, 2022                           |
|---|--|
|   | <b>Cost to obtain and fulfill a contract</b> |
|   | \$   |
| <b>Cost</b>                                 |  |
| Balance at December 31, 2021                | 2,325,545                                    |
| Additions                                   | 1,085,141                                    |
| Disposals                                   | -  |
| <b>Balance at September 30, 2022</b>        | <b>3,410,686</b>                             |
|   | <b>Cost to obtain and fulfill a contract</b> |
|   | \$   |
| <b>Accumulated depreciation</b>             |  |
| Balance at December 31, 2021                | (1,367,534)                                  |
| Depreciation                                | (189,474)                                    |
| Balance at September 30, 2022               | (1,557,008)                                  |
| <b>Net book value at September 30, 2022</b> | <b>1,853,679</b>                             |
|   | <b>December 31, 2021</b>                     |
|   | <b>Cost to obtain and fulfill a contract</b> |
|   | \$   |
| <b>Cost</b>                                 |  |
| Balance at December 31, 2020                | 1,502,495                                    |
| Additions                                   | 823,050                                      |
| Disposals                                   | -  |
| <b>Balance at December 31, 2021</b>         | <b>2,325,545</b>                             |
|   | <b>Cost to obtain and fulfill a contract</b> |
|   | \$   |
| <b>Accumulated depreciation</b>             |  |
| Balance at December 31, 2020                | (1,224,864)                                  |
| Depreciation                                | (142,670)                                    |
| Balance at December 31, 2021                | (1,367,534)                                  |
| <b>Net book value at December 31, 2021</b>  | <b>958,011</b>                               |

Disposals relate to non recoverable equipment costs.

## 12. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

|                             | September 30, 2022 | December 31, 2021 |
|-----------------------------|--------------------|-------------------|
|                             | \$                 | \$                |
| Accounts payables           | 3,252,859          | 2,697,667         |
| Accruals and other payables | 566,387            | 646,716           |
|                             | <b>3,819,246</b>   | <b>3,344,384</b>  |

# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

## 13. Term loans, demand loans, convertible debentures and loan payable

|                            |      | September 30,<br>2022 | December 31,<br>2021 |
|----------------------------|------|-----------------------|----------------------|
|                            | Note | \$                    | \$                   |
| Term loans - current       | A    | -                     | 2,556,125            |
| Demand loans - current     | B    | -                     | 3,102,666            |
| Loan payable - non current | C    | 80,000                | 40,000               |
|                            |      | <b>80,000</b>         | <b>5,698,791</b>     |

### A - Term loans

Prior to the RTO Qualifying Transaction closing on January 12, 2022, the term loan principal of \$2,500,000 and accrued interest of \$211,018 was converted into 11,295,908 ESHSI common shares, which were subsequently exchanged into 5,702,936 Common Shares (on the exchange basis of 0.504867 Common Shares for every one ESHSI common share held). Upon conversion an accounting loss of \$68,883 was recognized. The term loan had conversion rights, in the event the Company completes a raise of equity prior to the termination date, the lenders have the right, at their option, to have their share of the loan converted into ESHSI common shares at a twenty percent discount to the amount paid for the shares by the other participants in the equity raise.

On January 6, 2021, the Company issued a convertible loan, to several shareholders, for interim financing in the amount of \$2,000,000 (the funding received in December 4, 2020 was \$250,000 and the funding received on January 6, 2021 was \$1,750,000), maturing on September 30, 2021 (amended to mature on February 28, 2022) and bears interest at 9% per annum, payable at maturity. The loan has conversion rights, in the event the Company completes a raise of equity prior to the termination date, the lenders have the right, at their option, to have their share of the loan converted into shares of the borrower at a twenty percent discount to the amount paid for the shares by the other participants in the equity raise. The conversion feature is considered a derivative as it is not on a fixed-for-fixed basis and has been recorded at fair value using the effective interest method and subsequently measured at amortized cost. The embedded derivative associated with the conversion feature is a Level 3 (see note 18) on the fair value hierarchy and amounts to \$778,680. The fair value of the conversion derivative of the term loan was determined by discounting the accrued interest of the convertible loan held to maturity by the estimated market yield on a straight debt (non-convertible) for an issuance of similar term and credit quality.

On June 4, 2021, the convertible loan was further increased by \$500,000 (for a total of \$2,500,000), with the same terms as stated for the January 6, 2021 loan. The modification associated with this transaction resulted in recognizing a gain of \$19,840.

On September 14, 2021, the convertible loan was amended to extend the maturity date to February 28, 2022 (from September 30, 2021). The modification associated with this transaction resulted in recognizing a gain of \$221,337.

During 2021, the accrued interest of the 9% per annum lending rate amounted to \$205,257 (2020 - \$1,721) on the term loans of \$2,500,000 (2020 - \$250,000) and is reflected in the carrying value of the term loans.

On Jan 12, 2022, the term loan principal of \$2,500,000 and accrued interest of \$211,018 was converted into 11,295,908 ESHSI common shares, which were subsequently exchanged into 5,702,936 Common Shares (on the exchange basis of 0.504867 Common Shares for every one ESHSI common share held).

The carrying value of the term loan on December 31, 2021:

|  | December 31,<br>2021 |
|--|----------------------|
|  | \$                   |
| Opening balance, beginning of period               | 250,000              |
| Proceeds from issuance - January 6, 2021           | 1,750,000            |
| Conversion derivative on term loan                 | (177,835)            |
| Proceeds from issuance - June 4, 2021              | 500,000              |
| Gain on modification                               | (19,840)             |
| Gain on modification, on amendment                 | (221,337)            |
| Accrued interest                                   | 475,137              |
| Conversion of the Term Loan to ESHSI common shares | -                    |
| Carrying value, end of period                      | <b>2,556,125</b>     |

## Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

### B - Demand loans

On September 3, 2021, the Company established a demand loan with several shareholders, in the amount of \$1,500,000 at 9% per annum, payable at the demand date.

On October 7, 2021, the Company entered into a loan agreement with an arm's length private lender for \$1,500,000, interest at 1% per month (minimum three months of interest payments), with principal and interest due on demand. The fee in consideration for this loan was \$15,000 (reflected in accounts payable and accrued liabilities and finance costs).

On January 13, 2022, following the completion of the RTO Transaction the Company repaid the September 3, 2021 tranche of the Demand Loan of \$1,500,000 in principal plus accrued interest of \$50,129.

On January 13, 2022, following the completion of the RTO Transaction the Company repaid the October 7, 2021 tranche of the Demand Loan of \$1,500,000 in principal plus accrued interest of \$48,958.

### C - Loan payable

During 2021, the Company received the Canada Emergency Business Account ("CEBA") loan in the amount of \$20,000 (2020 - \$40,000, which was provided interest free with 33% of the amount forgivable if repaid on or before December 31, 2023. With the completion of the acquisition (see note 21), the CEBA loan amount increased by \$40,000. The Company will fully repay the outstanding balance of \$80,000 on or before December 31, 2023, and \$40,000 will be forgiven.

Finance cost includes:

|   | Note | Three months ended    |                       | Nine months ended     |                       |
|---|------|-----------------------|-----------------------|-----------------------|-----------------------|
|   |      | September 30,<br>2022 | September 30,<br>2021 | September 30,<br>2022 | September 30,<br>2021 |
| Loss on conversion, term loan to ESHSI shares   | A    | \$ -                  | \$ -                  | \$ -                  | \$ -                  |
| Remeasurement, conversion derivative, term loan | A    | -                     | (45,306)              | -                     | 155,463               |
| Interest on term loan                           | A    | -                     | 147,312               | 98,375                | 350,495               |
| Accretion on lease obligations                  |      | 15,616                | 18,822                | 49,330                | 58,662                |
|   |      | <b>15,616</b>         | <b>120,828</b>        | <b>147,705</b>        | <b>564,620</b>        |

# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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## 14. Share-based compensation

### Stock options

On August 4, 2022, the Company granted options to a director of the Company to purchase up to 80,000 Common Shares at a price of \$0.60 per share with the expiry date of August 4, 2032. These options vested 33% upon issuance, 33% one year after issuance and 33% two years after issuance. The fair value of these options was estimated at \$35,112 using the Black-Scholes options pricing model (with the following assumptions: dividend yield 0%, risk-free rate 2.79%, volatility 95%, term of 5-years).

On May 26, 2022, the company granted options to a number of employees of the Company to purchase up to 425,587 Common Shares at a price of \$0.60 per share with the expiry date of May 26, 2032. These options vested 33% upon issuance, 33% one years after issuance and 33% two years after issuance. The fair value of these options was estimated at \$83,262 using the Black-Scholes options pricing model (with the following assumptions: dividend yield 0%, risk-free rate 2.62%, volatility 95%, term of 5-years).

On May 4, 2022, the company granted options to two employees of the Company to purchase up to 1,000,000 Common Shares at a price of \$0.60 per share with the expiry date of May 4, 2031. These options vested 33% upon issuance, 33% one years after issuance and 33% two years after issuance. The fair value of these options was estimated at \$227,900 using the Black-Scholes options pricing model (with the following assumptions: dividend yield 0%, risk-free rate 2.74%, volatility 95%, term of 5-years).

On May 4, 2022, the company granted options to an employee of the Company to purchase up to 380,000 Common Shares at a price of \$0.60 per share with the expiry date of May 4, 2031. These options vested 48% upon issuance, 26% one years after issuance and 26% two years after issuance. The fair value of these options was estimated at \$86,602 using the Black-Scholes options pricing model (with the following assumptions: dividend yield 0%, risk-free rate 2.74%, volatility 95%, term of 5-years).

On January 12, 2022, the company granted options to the directors of the Company to purchase up to 420,000 Common Shares at a price of \$0.60 per share with the expiry date of January 12, 2027. These options vested 33% upon issuance, 33% one years after issuance and 33% two years after issuance. The fair value of these options was estimated at \$182,112 using the Black-Scholes options pricing model (with the following assumptions: dividend yield 0%, risk-free rate 1.52%, volatility 95%, term of 5-years).

On February 10, 2022, the company granted options to a director of the Company to purchase up to 80,000 Common Shares at a price of \$0.60 per share with the expiry date of February 10, 2027. These options vested 33% upon issuance, 33% one years after issuance and 33% two years after issuance. The fair value of these options was estimated at \$25,920 using the Black-Scholes options pricing model (with the following assumptions: dividend yield 0%, risk-free rate 1.81%, volatility 95%, term of 5-years).

On February 10, 2022, the company granted options to certain employees of the Company to purchase up to 227,190 Common Shares at a price of \$0.60 per share with the expiry date of February 10, 2032. These options vested 33% upon issuance, 33% one years after issuance and 33% two years after issuance. The fair value of these options was estimated at \$73,610 using the Black-Scholes options pricing model (with the following assumptions: dividend yield 0%, risk-free rate 1.81%, volatility 95%, term of 5-years).

Following the closing of the RTO Transaction each ESHSI option outstanding immediately before the effective date was exchanged for a number of the Company options equal to the number of ESHSI common shares subject to such ESHSI option multiplied by 0.504867. The exercise price of the Company options so granted shall be the quotient of the existing exercise price of such ESHSI options divided by 0.504867. The Company options shall be governed by the Company's Option Plan and have the same terms and conditions with respect to vesting, expiry date and otherwise as were applicable in respect of such ESHSI options.

On June 1, 2021, the company granted ESHSI options to an officer of the Company to purchase up to 250,000 ESHSI common shares at a price of \$0.33 per share with the expiry date of June 30, 2031. These options vested 33% one year after issuance, 33% two years after issuance and 33% three years after issuance. The fair value of these options was estimated at \$59,675 using the Black-Scholes options pricing model (the with following assumptions: exercise price \$0.65, volatility 0.96%, risk free rate 0.91% and 5-year term).

On May 28, 2021, the company granted ESHSI options to an officer of the Company to purchase up to 750,000 ESHSI common shares at a price of \$0.33 per share with the expiry date of May 28, 2031. These options vested 33% one year after issuance, 33% two years after issuance and 33% three years after issuance. The fair value of these options was estimated at \$179,025 using the Black-Scholes options pricing model (with the following assumptions: exercise price \$0.65, volatility 96%, risk free rate ).92, and 5-year term).

On April 30, 2021, the company granted ESHSI options to an employee of the Company to purchase up to 1,000,000 ESHSI common shares at a price of \$0.33 per share with the expiry date of April 30, 2031. These options vested 33% one year after issuance, 33% two years after issuance and 33% three years after issuance. The fair value of these options was estimated at \$238,700 using the Black-Scholes options pricing model (with the following assumptions: exercise price \$0.63, volatility 96%, risk free rate 0.93% and term of 5-years).

In January 4, 2021, the company granted ESHSI options to certain officers and employees of the Company to purchase up to 450,000 ESHSI common shares at a price of \$0.31 per share with the expiry date of January 4, 2031. These options vested on issuance and the fair value of these options was estimated at \$99,000 using the Black-Scholes options pricing model (with the following assumptions: exercise price \$0.61, volatility 95%, risk free rate 0.30% and five year term).

# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

The following assumptions were used in arriving at the grant-date fair value associated with the stock options:

|                     | September 30, 2022 | Prior years    |
|---------------------|--------------------|----------------|
| Exercise price      | \$0.60             | 0.01 to \$0.33 |
| Risk-free rate      | 1.52% to 2.74%     | 0.39% to 1.46% |
| Expected life       | 5 years            | 5 years        |
| Expected volatility | 95%                | 70% to 96%     |
| Expected dividends  | Nil                | Nil            |

|                                      | September 30, 2022 |                                 | December 31, 2021       |                   |                                 |
|--------------------------------------|--------------------|---------------------------------|-------------------------|-------------------|---------------------------------|
|                                      | Number of options  | Weighted average exercise price | Number of ESHSI options | Number of options | Weighted average exercise price |
| Outstanding, beginning of year       | 1,706,449          | \$0.47                          | 1,350,000               | 681,570           | \$0.02                          |
| Options Granted                      | 2,612,777          | \$0.60                          | 450,000                 | 227,190           | \$0.61                          |
| Options issued, reverse takeover     | 200,000            | \$0.50                          | 2,000,000               | 1,009,733         | \$0.65                          |
| Exercised                            | -                  | -                               | (300,000)               | (151,460)         | \$0.02                          |
| Forfeiture                           | -                  | -                               | (120,000)               | (60,584)          | \$0.02                          |
| Expired                              | -                  | -                               | -                       | -                 | -                               |
| <b>Outstanding, end of period</b>    | <b>4,519,226</b>   | <b>\$0.55</b>                   | <b>3,380,000</b>        | <b>1,706,449</b>  | <b>\$0.47</b>                   |
| <b>Number of options exercisable</b> | <b>2,045,529</b>   | <b>\$0.48</b>                   | <b>1,147,500</b>        | <b>579,335</b>    | <b>\$0.26</b>                   |

The following options were issued and outstanding as at September 30, 2022:

| Expiry date                          | Number of options outstanding | Number of options exercisable | Exercise price |
|--------------------------------------|-------------------------------|-------------------------------|----------------|
| May 4, 2031                          | 1,380,000                     | 460,000                       | \$0.60         |
| May 26, 2031                         | 425,587                       | 141,862                       | \$0.60         |
| February 10, 2023                    | 227,190                       | 75,730                        | \$0.60         |
| June 1, 2031                         | 126,217                       | 42,072                        | \$0.65         |
| May 28, 2031                         | 378,650                       | 126,217                       | \$0.65         |
| April 30, 2031                       | 504,867                       | 168,289                       | \$0.65         |
| January 4, 2031                      | 227,190                       | 227,190                       | \$0.61         |
| September 29, 2029                   | 469,526                       | 410,835                       | \$0.02         |
| August 4, 2027                       | 80,000                        | 26,667                        | \$0.60         |
| February 10, 2027                    | 80,000                        | 26,667                        | \$0.60         |
| January 12, 2027                     | 420,000                       | 140,000                       | \$0.60         |
| February 16, 2026                    | 200,000                       | 200,000                       | \$0.50         |
| <b>Number of options exercisable</b> | <b>4,519,226</b>              | <b>2,045,529</b>              | <b>\$0.48</b>  |

As at September 30, 2022, the Company had 4,519,226 options outstanding (December 31, 2021 – 1,706,449), of which 2,045,529 options are exercisable (December 31, 2021 - 579,335 stock options are exercisable).

For the three months ended September 30, 2022, the Company issued 80,000 options (2021 - 2,000,000 ESHSI options) under the stock options plan. For the nine months ended September 30, 2022, the Company issued 2,812,777 options (2021 - 2,450,000 ESHSI options) under the stock options plan. During the first quarter of 2022, stock options issued in a reverse takeover amounted to 200,000.

During 2021, 300,000 ESHSI options (151,460 options) were exercised under the stock options plan.

During 2021, 120,000 ESHSI options (60,584 options) were forfeited.

For the three months ended September 30, 2022, employee and directors stock based compensation expense amounted to \$130,026 (2021 - \$73,763). The employee and director stock base compensation expense was allocated to general and administrative expense amounted to \$130,026 (2021 - \$73,763), to cost of sales \$nil (2021 - \$nil) and selling expense \$nil (2021 - \$nil).

For the nine months ended September 30, 2022, employee and directors stock based compensation expense amounted to \$552,018 (2021 - \$209,790). The employee and director stock base compensation expense was allocated to general and administrative expense amounted to \$552,028 (2021 - \$110,790), to cost of sales \$nil (2021 - \$55,000) and selling expense \$nil (2021 - \$44,000).



# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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## Warrants

ESHSI warrants outstanding immediately prior to the effective time shall be exchanged for 0.504867 warrants exercisable to purchase one Common Share at a purchase price equal to the exercise price of the ESHSI warrant divided by 0.504867. The warrants shall have the same terms and conditions with respect to the expiry time and otherwise as were applicable in respect of such ESHSI warrants.

The Company had issued 113,000 ESHSI warrants (with an exercise price of \$1.30) as partial compensation for its equity raises. These warrants expire as follows: 35,000 on June 25, 2022, 21,000 on October 30, 2022 and 57,000 on May 23, 2023.

On December 15, 2021, the Company entered into an addendum (the "Addendum") to amend an exclusive supplier agreement (see note 7, 18 and 22). As part of the Addendum, the company issued warrants to purchase 1,900,000 Common Shares upon consummation of the RTO Transaction. The warrants have an exercise price of \$0.61 and are exercisable for a period of three years from the date of issuance. The Addendum is accounted for as a modification to a customer contract and based on the terms of the Addendum, is required to be accounted for as a termination of the existing contract and creation of a new contract. IFRS 15 requires the increase in consideration promised by the contract modification to be applied prospectively over the remaining performance obligation. To determine the incremental value of the warrants provided by the Addendum, the fair value of the amended warrants was first determined to be \$567,802 using the Black-Scholes options pricing model (with the following assumptions: exercise price of \$0.61, volatility of 77%, risk free rate of 1.02% and term of 3 -years). The fair value of the original warrants as at December 15, 2021 was then determined to be \$55,754 using the Black-Scholes options pricing model (with the following assumptions: exercise price of \$1.98, weighted average volatility of 70%, risk free rate of 0.94% and a term of 1.5 years). The difference between the amended warrants and the original warrants of \$512,048 represents the incremental value provided by the Addendum was reflected in prepaid expense at the date of the amendment. The prepaid balance is amortized against revenue as, as units are installed under the terms of the Addendum (see note 22).

Pursuant to the terms of the Agency Agreement, (the "Agency Agreement") the ESHSI paid to the Agents: (i) a cash commission equal to 7.0% of the aggregate gross proceeds of the Private Placement, other than in respect of any Subscription Receipts sold to members of a president's list provided by ESHSI (the President's List Purchases"), which commission is 3.5% of the gross proceeds from President's List Purchasers; and (ii) such number of warrants (the "Agents Warrants") as is equal to 7.0% of the number of Subscription Receipts sold pursuant to the Private Placement, other than any Subscription Receipts sold to President's List Purchasers, which commission is 3.5% of the number of Subscription Receipts sold to the President's List Purchasers. Each Agents' warrant is exercisable for two ESHSI common shares at a price of \$0.60 until the date that is 36 months from the date of satisfaction or waiver, as applicable, of certain conditions (the "Escrow Release Conditions"). Upon the completion of the RTO Transaction, each Agent received warrants that were exchanged for 0.504867 agents' warrants exercisable to purchase Common Shares at a purchase price equal to the issue price divided by 0.504867 for a period of 36 months following the date of Escrow Release Conditions were satisfied (January 12, 2022).

The Agent received 1,337,145 warrants, which have a fair value of \$478,832 using the Black-Scholes options pricing model (with the following assumptions: exercise price \$0.60, expected term of 3-years, volatility of 95% and risk-free rate of 1.2%).

The warrants issued to the Aumento shareholders have the same terms as in the concurrent private placement. In addition, Aumento has issued 100,000 stock options to officers and directors and 200,000 warrants to agents. The exercise of these options and warrants is \$0.50 and upon completion of the RTO Transaction the exercise period will be one year.

On February 17, 2021, Aumento granted 200,000 stock options under its incentive plan entitling their holders to purchase 200,000 Aumento common shares at a price of \$0.50 for a period of five years from their date of issuance. Upon the closing of the RTO Transaction, these options were assumed by the Company and valued using the Black-Scholes option pricing model (with the following assumptions: dividend yield 0%, risk-free rate 1.11%, volatility of 95%, expected term of 2-years), the fair value attributed to these options was \$51,280. These options vested immediately.

On February 17, 2021, Aumento granted 100,000 warrants to the Agents, exercisable within 60 months at an exercise price of \$0.50 per share. Upon the closing of the RTO Qualifying Transaction, these warrants were assumed by the Company and valued using the Black-Scholes option pricing model (with the following assumptions: dividend yield 0%, risk-free rate 1.11%, volatility of 95%, term of 2-years), the fair value attributed to these warrants was \$25,640. These warrants vested immediately.

# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

## 15. Related party transactions and balances

During the three and nine months ended September 30, 2022, Eddy incurred expenses amounting to \$15,014 (2021 - \$nil) and \$25,880 (2021 - \$nil), respectively, for installation and plumbing work from a company related to a key management person and shareholder of Eddy. Included in accounts payable as at September 30, 2022 is an amount owing of \$24,860 (2021 - \$nil).

### Key management personnel compensation

The compensation awarded to key management personnel is as follows:

|  | Three months ended |                    | Nine months ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
|  | \$                 | \$                 | \$                 | \$                 |
| Salaries, fees and other short-term benefits | 305,208            | 197,365            | 1,079,020          | 631,250            |
| Stock-based compensation (note 14)           | 99,103             | 0                  | 466,847            | 70,161             |
|  | 404,311            | 197,365            | 1,545,867          | 701,411            |

Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company defines key management personnel as being the directors and key employees.

## 16. Net loss per share

### Basic

|  | Three months ended |                    | Nine months ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
|  | \$                 | \$                 | \$                 | \$                 |
| Net loss for the period                              | (2,585,849)        | (3,215,622)        | (8,342,088)        | (6,150,031)        |
| Weighted average number of Common Shares outstanding | 79,528,619         | 61,169,428         | 72,364,777         | 61,169,428         |
| <b>Basic and diluted loss per share</b>              | <b>(\$0.03)</b>    | <b>(\$0.05)</b>    | <b>(\$0.12)</b>    | <b>(\$0.10)</b>    |

On January 12, 2022, the Company completed the RTO Transaction and a share exchange from ESHSI common shares and class B preferred shares to Common Shares (see note 1 and 18). As at September 30, 2022, 79,528,619 Common Shares were outstanding.

Following the closing of the RTO Transaction each ESHSI common share outstanding immediately before the effective date was exchanged for a number of Common Shares equal to the number of ESHSI common shares multiplied by 0.504867.

### Diluted

Diluted income per share is calculated by adjusting the weighted average number of Common Shares outstanding to assume conversion of all dilutive potential Common Shares. For the three and nine months ended September 30, 2022 and 2021, the Company's source of potential dilution to the Common Shares are stock options and warrants (see note 14). For the three and nine months ended September 30, 2022, an adjustment related to 410,835 (2021 - 511,177) in-the-money stock options have been excluded from the calculation of diluted earnings per share as they were anti-dilutive. As a result, diluted earnings per share is equal to basic earnings per share for the three and nine months ended September 30, 2022 and 2021.

## 17. Contingencies

The Company, from time to time, may be subject to various legal proceedings and complaints arising in the normal course of business. These proceedings primarily include matters related to employment laws, various provincial regulations governing debt collection and contractual obligations. The Company has liability insurance coverage in excess of certain limits from various insurance carriers, which cover in part many of these matters. It is the Company's policy to accrue for amounts related to these legal matters when it is probable a liability has been incurred and an amount is reasonably estimable.

On September 14, 2021, a former employee filed a \$267,000 claim relating to wrongful dismissal by the Company. This claim was settled on March 24, 2022, for an amount of \$48,000.

On March 3, 2022, a claim was filed in the amount of \$175,000 against the Company, relating to an employee breaching post-employment obligation and fiduciary obligations. The Company believes that there is no merit to this claim.

On April 12, 2022, the Company initiated a claim against a former service provider seeking damages of approximately \$1,300,000. On April 29, 2022, the Company received a statement of defense and counterclaim in the amount of \$1,526,817, which is provided for in accounts payable and accrued liabilities.

On May 10, 2022, a claim was filed in the amount of \$250,000 against the Company, relating to wrongful dismissal of an employee. The Company believes that there is no merit to this claim and will defend its position and has not included an accrual in its provision for this claim.

# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

## 18. Share capital

The following Common Shares were issued and outstanding as at September 30, 2022

|  | ESHSI common and class B preferred shares |                      |  |                                | Common Shares           |                      |
|--|---|----------------------|--|--------------------------------|-------------------------|----------------------|
|  | Number of ESHSI common shares             | ESHSI common shares  | Number of ESHSI class B preferred shares | ESHSI class B preferred shares | Number of Common Shares | Common Shares        |
| <b>Balance, January 1, 2022</b>                          | <b>61,469,428</b>                         | <b>\$ 29,401,826</b> | <b>12,594,566</b>                        | <b>\$ 3,904,316</b>            | -                       | \$ -                 |
| Conversion of ESHSI common shares to Common Shares       | (61,469,428)                              | (29,401,826)         | -  | -                              | 31,033,886              | 29,401,826           |
| Conversion of ESHSI class B pref shares to Common Shares | -   | -                    | (12,594,566)                             | (3,904,316)                    | 6,358,581               | 3,904,316            |
| Private placement  | -   | -                    | -  | -                              | 20,713,449              | 12,308,260           |
| Share issue costs  | -   | -                    | -  | -                              | -                       | (1,281,203)          |
| Agent warrants   | -   | -                    | -  | -                              | -                       | (478,832)            |
| Conversion of Term Loan to Common Shares (note 12)       | -   | -                    | -  | -                              | 5,702,936               | 3,421,759            |
| Issuance of Common Shares to a developer and customer    | -   | -                    | -  | -                              | 1,453,767               | 470,497              |
| Common shares issued in reverse takeover                 | -   | -                    | -  | -                              | 2,000,000               | 1,200,000            |
| Acquisition of Reed (note 24)                            | -   | -                    | -  | -                              | 12,266,000              | 4,538,420            |
| <b>Balance, September 30, 2022</b>                       | <b>-</b>                                  | <b>-</b>             | <b>-</b>                                 | <b>-</b>                       | <b>79,528,619</b>       | <b>\$ 53,485,043</b> |

On May 4, 2022, the Company acquired 100% of Reed Controls Inc. ("Reed"). The total purchase price for the transaction was \$4,538,420. The purchase price was paid in common shares of the Company with 12,266,000 common shares being issued (see note 21).

On October 12, 2021, ESHSI completed the second tranche of a private placement, issuing an additional 2,898,499 subscription receipts for additional aggregate gross proceeds of \$1,739,099. Including the subscription receipts sold under the First Tranche, the Company issued an aggregate of 20,513,768 subscription receipts for aggregate gross proceeds of \$12,308,260 under the private placement, which resulted in the issuance of 20,713,449 Common Shares in connection with the RTO Transaction.

On September 14, 2021, ESHSI completed the first tranche of a private placement of an aggregate of 17,615,269 subscription receipts for aggregate gross proceeds of \$10,569,161 (the "First Tranche"), which were exchanged for Common Shares at a ratio of 0.504867 for each Common Share (resulting in the issuance of 17,786,736 Common Shares) in connection with the RTO Transaction.

Upon the Amalgamation (structured as a three-cornered amalgamation) of ESHSI and the Subco (2865357 Ontario Inc.) of Aumento each issued ESHSI common share was exchanged for 0.504867 Common Shares (which are economically equivalent). The Amalgamation was completed at closing on January 12, 2022.

The term loan principal of \$2,500,000 and accrued interest of \$211,018 was converted into 11,295,908 ESHSI common shares, which were subsequently exchanged into 5,702,936 Common Shares (on the exchange basis of 0.504867 Common Shares for every one ESHSI common share held). (See note 13).

Prior to the completion of the RTO Transaction 61,469,428 ESHSI common shares were issued and outstanding and 12,594,569 ESHSI class B preferred shares were issued and outstanding. Upon closing of the RTO Transaction, on January 12, 2022, the issued and outstanding ESHSI common shares and class B preferred shares were exchanged for 0.504867 Common Shares.

On December 15, 2021, the Company entered into an addendum (the "Addendum") to amend an exclusive supplier agreement (see note 6, 13 and 21). Pursuant to the Addendum, the Company agreed to issue, or cause to be issued, 1,453,767 Common Shares upon the consummation of the RTO Transaction to a developer and customer of the Company. The Addendum is accounted for as a modification to a customer contract and based on the terms of the Addendum, is required to be accounted for as a termination of the existing contract and creation of a new contract. IFRS 15 requires the increase in consideration promised by the contract modification to be applied prospectively over the remaining performance obligation. To determine the incremental value of the share consideration provided by the Addendum, the fair value of the new shares to be issued was first determined to be \$872,260 based on a fair value per share of \$0.60 as at December 15, 2021. The fair value of the original share consideration, which was contingent on achieving 5,000 unit installs, was determined to be \$401,763 as at December 15, 2021 based on a fair value per share of \$0.60. The difference between the amended share consideration and the original share consideration earned of \$470,497 represents the incremental value provided by the Addendum and was reflected in prepaid expenses at the date of amendment. The prepaid balance is amortized against revenue as units are installed under the terms of the Addendum (see note 22).

Aumento had 2,000,000 common shares issued and outstanding prior to the completion of the RTO Transaction.

During the fourth quarter of 2021, an aggregate of 300,000 ESHSI options were exercised at a price of \$0.01 per ESHSI common share, and were exchanged for 0.504867 Common Shares.

Upon completion of the RTO transaction, approximately 71% of the Common Shares calculated on a non-dilutive basis, are subject to a contractual restriction on transfer pursuant to the terms of a lock-up agreement entered into by certain holders of ESHSI securities and ESHSI. The Common Shares subject to such a lock-up agreement may not be transferred until the day that is 24-months following the effective date of the RTO Transaction, provided that 12.5% of the Common Shares will be released on transfer on the first business day following each of the three, six, nine, twelve, fifteen, eighteen, twenty-first and twenty-four month anniversaries of the effective date of the RTO Transaction. As at September 30, 2022, approximately 54% of these shares are subject to lock-up.

# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

Upon the completion of the acquisition of Reed, the Share Consideration was subject to a twenty-four (24) month lock-up period, provided that the Share Consideration will be released from the lock-up requirements on the first business day following each of the four, six, nine, twelve, fifteen, eighteen and twenty-one month anniversaries of the closing date. As at September 30, 2022, approximately 88% of the Share Consideration is subject to lock-up (see note 21).

The following ESHSI common shares were issued and outstanding as at December 31, 2021

| ESHSI common and class B preferred shares |                                  |                        |  |                                   |           |                   |
|---|----------------------------------|------------------------|--|-----------------------------------|-----------|-------------------|
|   | Number of ESHSI<br>common shares | ESHSI common<br>shares | Number of ESHSI<br>class B preferred<br>shares | ESHSI class B<br>preferred shares | Amount    |                   |
| <b>Balance, January 1, 2021</b>           | <b>61,169,428</b>                | <b>\$ 29,397,086</b>   | <b>10,519,566</b>                              | <b>\$ 3,261,066</b>               | <b>\$</b> | <b>32,658,152</b> |
| Exercise of stock options                 | 300,000                          | 4,740                  | -  | -                                 |           | 4,740             |
| Class B preferred shares issued           | -                                | -                      | 2,075,000                                      | 643,250                           |           | 643,250           |
| <b>Balance, December 31, 2021</b>         | <b>61,469,428</b>                | <b>\$ 29,401,826</b>   | <b>12,594,566</b>                              | <b>\$ 3,904,316</b>               |           | <b>33,306,141</b> |

During 2021, 2,075,000 ESHSI class B preferred shares for \$643,250 were issued.

## 19. Risk management

The Company is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition, and operating results. Many of the risk factors are beyond the Company's direct control. The Company's management and Board of Directors plan an active role in monitoring the Company's key risks and in determining the polices that are best suited to manage these risk.

### Covid

Public health crises, such as COVID-19, may have a material adverse impact on the Company's operations. The Company has experienced business and operational interruptions relating to COVID-19 and other such events outside of the Company's control, which reduced the ability to commence new revenue contracts. The COVID-19 pandemic and the resulting government measures have impacted the Company's business and operations and may have a material adverse impact on the Company's business.

The Company received a subsidy (see note 8). The Company received the CEBA interest free loans (see note 13). The full extent of the impact of the COVID-19 outbreak on the Company's business is not known at this time.

### Capital and risk management

The Company's objective and polices for managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company manages its capital structure and makes changes based on economic conditions, risks that impact the consolidated operations and future significant capital investment opportunities. In order to maintain or adjust its capital structure, the Company may issue new equity instruments or considers other financing opportunities.

The Company is exposed to a variety of financial risks by virtue of its activities: market risk, credit risk, interest rate risk, liquidity risk and foreign currency risk. The Board of Directors has overall responsibility for the determination of the Company's capital and risk management objectives and policies while retaining ultimate responsibility for them. The Company's overall capital and risk management program has not changed throughout the year. It focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance. Risk management is carried out by the finance department under policies approved by the Board of Directors. The finance department identifies and evaluates financial risks in close cooperation with management.

### Credit risk

Credit risk is the risk one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's main credit risks relate to its trade accounts receivable. The Company installs residential and commercial water leak mitigation technology at its customers locations in the normal course of its operations.

Credit risk is the risk of a financial loss to the Company if a customer fails to meet its contractual obligation of the monthly equipment rental and monitoring payments. Management of the Company monitors the creditworthiness of its customers by performing background checks on all new customers focusing on publicity, reputation in the market, and relationships with customers and other vendors. Further, management monitors the frequency of payments from ongoing customers and performs frequent reviews of outstanding balances.

Provisions for outstanding balances are established based on forward-looking information and revised when there are changes in circumstances that would create doubt over the receipt of funds. Such reviews are conducted on a continued basis through the monitoring of outstanding balances as well as the frequency of payments received. Accounts receivables are completely written off once management determines the probability of collection to be remote. For the three months ended September 30, 2022, \$7,794 receivables were written off (2021 - \$55,459 in receivables were written off). For the nine months ended September 30, 2022, \$28,799 receivables were written off (2021 - \$56,347) in receivables were written off). The amounts that were written off are still subject to collection enforcement activity. Payment terms are usually 30 days after the invoice is issued.

The following tables present the provision for credit losses in the accounts receivable based on the Company's operating sectors: Single-Family Residence ("SFR"), Multi-Family Residence ("MFR") and Commercial & Institutional ("C&I").

## Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

The provision for credit losses on accounts receivable as at September 30, 2022:

| <b>Accounts receivable</b>         | <b>Current</b>      | <b>60 - 120 days</b> | <b>Over 120 days</b> | <b>Total</b>        |
|------------------------------------|---------------------|----------------------|----------------------|---------------------|
| SFR                                | \$ 345,893          | \$ 24,145            | \$ 1,522             | \$ 371,560          |
| MFR                                | 925,460             | 70,299               | 105,349              | 1,101,108           |
| C&I                                | 124,583             | 305                  | -                    | 124,888             |
|                                    | <b>\$ 1,395,936</b> | <b>\$ 94,749</b>     | <b>\$ 106,871</b>    | <b>\$ 1,597,556</b> |
| <b>Provision for credit losses</b> | <b>Current</b>      | <b>60 - 120 days</b> | <b>Over 120 days</b> | <b>Total</b>        |
| SFR                                | \$ 69,179           | \$ 12,072            | \$ 1,141             | \$ 82,392           |
| MFR                                | 92,546              | 10,545               | 26,337               | 129,428             |
| C&I                                | 6,153               | 30                   | -                    | 6,183               |
|                                    | <b>\$ 167,878</b>   | <b>\$ 22,647</b>     | <b>\$ 27,478</b>     | <b>\$ 218,003</b>   |
| <b>Accounts receivable, net</b>    |                     |                      |                      | <b>\$ 1,379,553</b> |

The provision for credit losses on accounts receivable as at December 31, 2021:

| <b>Accounts receivable</b>         | <b>Current</b>    | <b>60 - 120 days</b> | <b>Over 120 days</b> | <b>Total</b>      |
|------------------------------------|-------------------|----------------------|----------------------|-------------------|
| SFR                                | \$ 200,854        | \$ 1,526             | \$ 1,428             | \$ 203,808        |
| MFR                                | 332,282           | 18,492               | 41,236               | 392,010           |
| C&I                                | 201,500           | -                    | -                    | 201,500           |
|                                    | <b>\$ 734,636</b> | <b>\$ 20,018</b>     | <b>\$ 42,664</b>     | <b>\$ 797,318</b> |
| <b>Provision for credit losses</b> | <b>Current</b>    | <b>60 - 120 days</b> | <b>Over 120 days</b> | <b>Total</b>      |
| SFR                                | \$ 39,643         | \$ 763               | \$ 1,071             | \$ 41,477         |
| MFR                                | 33,635            | 2,774                | 10,201               | 46,610            |
| C&I                                | 10,075            | -                    | -                    | 10,075            |
| Expected credit losses             | <b>\$ 83,353</b>  | <b>\$ 3,537</b>      | <b>\$ 11,272</b>     | <b>\$ 98,162</b>  |
| <b>Accounts receivable, net</b>    |                   |                      |                      | <b>\$ 699,156</b> |

Changes in the provision for expected credit losses result from the following:

|  |           |
|--|-----------|
| Balance - December 31, 2021            | \$98,162  |
| Net allowance recognized as an expense | 148,640   |
| Receivable written off                 | (28,799)  |
| Balance - September 30, 2022           | \$218,003 |

### Currency risk

A portion of the Company's income is generated in US dollars and is subject to currency fluctuations, the performance of the Canadian dollar relative to the US dollar could positively or negatively affect the Company's income. Thus, the Company may from time to time, experience losses resulting from fluctuations in the value of its foreign currency translations, which could adversely affect its operating results. Translation risk is not hedged.

Regarding translation exposure, if the Canadian dollar had been 5% stronger/weaker versus the US dollar for the nine months ended September 30, 2022, with all other variables held constant, income for the period would have been \$1,432 higher/lower (2021 – \$612).

Currency risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. For the three months ended September 30, 2022, approximately 11% (2021 – 18%) of the Company's total sales were in US dollars. For the nine months ended September 30, 2022, approximately 14% (2021 – 27%) of the Company's total sales were in US dollars. Consequently, some assets are exposed to foreign exchange fluctuations.

As at September 30, 2022, operating cash was \$95,295 (US \$68,929) and accounts receivable of \$6,020 (US \$8,252). As at December 31, 2021, operating cash was \$80,282 (US \$58,625) and accounts receivable of \$2,296 (US \$1,890).

## Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is subject to interest rate risk with respect to its cash and cash equivalent; however, the risk is minimal because of their short-term maturity. All of the Company's interest-bearing debt instruments have fixed interest rates and are not subject to interest rate cash flow risk.

### Liquidity risk

Liquidity risk is the risk the Company will encounter difficulty in meeting the obligations associated with its financial liabilities. The Company is exposed to this risk mainly in respect of its accounts payable, due to related parties and accruals. The Company prepares cash flow forecasts to monitor its cash flow needs in order to manage its liquidity risk. The Company mitigates this risk through financing activities, such as raising cash through the issuances of shares; see subsequent events note. The Company has received a commitment from a shareholder to provide additional financing should the need arise, in order for the company to meet its obligational and fulfill its financial commitments.

### Contractual obligations as at September 30, 2022 are due as follows:

|   | Total            | Less than 6<br>months | 6 - 12 months    | 1 - 3 years      | 4 - 5 years |
|---|------------------|-----------------------|------------------|------------------|-------------|
| Accounts payable and accrued liabilities<br>(note 12) | 3,819,246        | 1,881,775             | 1,526,817        | 410,654          | -           |
| Lease obligation, office                              | 730,826          | 98,006                | 101,273          | 531,547          | -           |
| Lease obligation, equipment                           | 2,026            | 1,105                 | 921              | -                | -           |
| Loan payable (note 13)                                | 80,000           | -                     | -                | 80,000           | -           |
|   | <b>4,632,098</b> | <b>1,980,886</b>      | <b>1,629,011</b> | <b>1,022,201</b> | -           |

Accounts payable and accrued liabilities includes a warranty provision of \$85,108 (December 31, 2021 - \$27,887), related to water monitoring equipment.

# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

## Fair value of financial instruments

The fair value of cash, restricted cash, accounts receivable, accounts payable and accrued liabilities, and demand loans approximate their carrying amounts largely due to the short-term maturities of these instruments and are considered to be Level 1 fair value estimates.

The fair value of the term loans (host liability) and loan payable are estimated at a specific point in time, based on relevant market information. This estimate is based on quoted market prices for the same or similar issues or on the current rates offered to the Entity for similar financial instruments subject to similar risk and maturities. Fair value measurements of these instruments were estimated using Level 2 inputs.

The fair value of the Company's conversion derivative of term loan was determined using a probability weighted expected return method as quoted market prices or third-party consensus pricing information is not available. In applying this method, an expected payment was determined under two potential scenarios, each payment was then weighted by an estimated probability of the corresponding scenario occurring, and then the probability weighted payments were discounted to the valuation date and summed. The probability of a liquidity event occurring and discount rate represents Level 3 inputs. The scenarios probability ranged from 80%-100% as at December 31, 2021, the annual discount rate ranged from 22% - 26%, the timing of liquidity event was considered to be at maturity date given the instrument has a short life.

The following table summarizes the sensitivity impact to the embedded derivative fair value from a change in certain assumptions:

| Input                | Relationship between the key unobservable inputs and fair  |
|----------------------|--|
| Scenario probability | Depending on the scenario the probability is applied to, a change in this input can either increase or decrease the estimated fair value |
| Discount rate        | Increase (decrease) of the discount rate would decrease (increase) the estimated fair value respectively.                                |

| September 30, 2022                 | Level 1 | Level 2 | Level 3      | Total        |
|------------------------------------|---------|---------|--------------|--------------|
| Conversion derivative of term loan | -       | -       | -            | -            |
|                                    | \$ -    | \$ -    | \$ -         | \$ -         |
| December 31, 2021                  | Level 1 | Level 2 | Level 3      | Total        |
| Conversion derivative of term loan | -       | -       | (\$ 778,680) | (\$ 778,680) |
|                                    | \$ -    | \$ -    | (\$ 778,680) | (\$ 778,680) |

Prior to the RTO Qualifying Transaction closing on January 12, 2022, the term loan principal of \$2,500,000 and accrued interest of \$211,018 was converted into 11,295,908 ESHSI common shares, which were subsequently exchanged into 5,702,936 Common Shares (on the exchange basis of 0.504867 Common Shares for every one ESHSI common share held). See note 13.

During the nine months ended September 30, 2022 and year ended December 31, 2021, there were no transfers between Level 1, Level 2 or Level 3 fair value measurements

## Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

### 20. Segment reporting

Operating segments are defined as components of an enterprise for which separate financial information is available that is regularly evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance. For the purpose of segment reporting, the Company's Chief Executive Officer (CEO) is the Chief Operating Decision Maker (CODM).

The Company operates in three operating segments, which are based on the Company's organizational structure and how the information is reported internally on a regular basis. These operating segments are managed separately because they require different sales and marketing strategies. The Company's revenue is generated from its customers in the following market sectors: Single-Family Residence ("SFR"), Multi-Family Residence ("MFR") and Commercial & Institutional ("C&I"). The Company's revenue is generated from customers in Canada and the USA.

Information related to each reportable segment is set out below. Segment profit and loss information is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries.

The Company's results by operating segments are as follows:

| Three months ended September 30, 2022 | SFR             | MFR             | C&I            | Corporate          | Total              |
|---------------------------------------|-----------------|-----------------|----------------|--------------------|--------------------|
|                                       | \$              | \$              | \$             | \$                 | \$                 |
| Revenue                               | 160,366         | 432,045         | 61,134         | -                  | 653,545            |
| Cost of sales (note 8)                | 77,263          | 208,155         | 29,454         | -                  | 314,871            |
| Selling (note 9)                      | 107,424         | 289,414         | 40,952         | -                  | 437,790            |
| General and administrative (note 7)   | -               | -               | -              | 2,404,846          | 2,404,846          |
| Interest income                       | -               | -               | -              | (1,785)            | (1,785)            |
| Loss/(gain) on foreign exchange       | -               | -               | -              | 68,056             | 68,056             |
| Finance costs (note 12)               | -               | -               | -              | 15,616             | 15,616             |
| Income taxes                          | -               | -               | -              | -                  | -                  |
| <b>Net loss</b>                       | <b>(24,321)</b> | <b>(65,524)</b> | <b>(9,272)</b> | <b>(2,486,733)</b> | <b>(2,585,849)</b> |
| Three months ended September 30, 2021 | SFR             | MFR             | C&I            | Corporate          | Total              |
|                                       | \$              | \$              | \$             | \$                 | \$                 |
| Revenue                               | 131,432         | 147,534         | 1,349          | -                  | 280,315            |
| Cost of sales (note 8)                | 34,678          | 38,926          | 356            | -                  | 73,960             |
| Selling (note 9)                      | 113,780         | 127,720         | 1,168          | -                  | 242,668            |
| General and administrative (note 7)   | -               | -               | -              | 3,028,375          | 3,028,375          |
| Interest income                       | -               | -               | -              | (92)               | (92)               |
| Loss/(gain) on foreign exchange       | -               | -               | -              | 30,198             | 30,198             |
| Finance costs (note 12)               | -               | -               | -              | 120,828            | 120,828            |
| Income taxes                          | -               | -               | -              | -                  | -                  |
| <b>Net loss</b>                       | <b>(17,026)</b> | <b>(19,112)</b> | <b>(175)</b>   | <b>(3,179,309)</b> | <b>(3,215,622)</b> |



## Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

| Nine months ended September 30, 2022 | SFR              | MFR              | C&I             | Corporate          | Total              |
|--------------------------------------|------------------|------------------|-----------------|--------------------|--------------------|
|                                      | \$               | \$               | \$              | \$                 | \$                 |
| Revenue                              | 436,678          | 1,036,856        | 68,862          | -                  | 1,542,396          |
| Cost of sales (note 8)               | 209,455          | 497,333          | 33,030          | -                  | 739,817            |
| Selling (note 9)                     | 362,752          | 861,324          | 57,204          | -                  | 1,281,280          |
| General and administrative (note 7)  | -                | -                | -               | 7,634,327          | 7,634,327          |
| Interest income                      | -                | -                | -               | (21,232)           | (21,232)           |
| Loss/(gain) on foreign exchange      | -                | -                | -               | 102,587            | 102,587            |
| Finance costs (note 12)              | -                | -                | -               | 147,705            | 147,705            |
| Income taxes                         | -                | -                | -               | -                  | -                  |
| <b>Net loss</b>                      | <b>(135,528)</b> | <b>(321,801)</b> | <b>(21,372)</b> | <b>(7,863,387)</b> | <b>(8,342,088)</b> |

| Nine months ended September 30, 2021 | SFR              | MFR             | C&I          | Corporate          | Total              |
|--------------------------------------|------------------|-----------------|--------------|--------------------|--------------------|
|                                      | \$               | \$              | \$           | \$                 | \$                 |
| Revenue                              | 564,608          | 399,957         | 4,080        | -                  | 968,645            |
| Cost of sales (note 8)               | 356,859          | 252,792         | 2,579        | -                  | 612,229            |
| Selling (note 9)                     | 338,990          | 240,134         | 2,450        | -                  | 581,574            |
| General and administrative (note 7)  | -                | -               | -            | 5,338,977          | 5,338,977          |
| Interest income                      | -                | -               | -            | (939)              | (939)              |
| Loss/(gain) on foreign exchange      | -                | -               | -            | 22,215             | 22,215             |
| Finance costs (note 12)              | -                | -               | -            | 564,620            | 564,620            |
| Income taxes                         | -                | -               | -            | -                  | -                  |
| <b>Net loss</b>                      | <b>(131,241)</b> | <b>(92,969)</b> | <b>(948)</b> | <b>(5,924,873)</b> | <b>(6,150,031)</b> |

The Company's revenue by geography are as follows:

|              | Three months ended |                    | Nine months ended  |                    |
|--------------|--------------------|--------------------|--------------------|--------------------|
|              | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Canada       | \$ 584,659         | \$ 230,255         | \$ 1,332,033       | \$ 703,696         |
| USA          | 68,886             | 50,060             | 210,363            | 264,947            |
| <b>Total</b> | <b>653,545</b>     | <b>280,315</b>     | <b>1,542,396</b>   | <b>968,643</b>     |

The Company's total assets by geography are as follows

|              | September 30, 2022 | December 31, 2021 |
|--------------|--------------------|-------------------|
| Canada       | \$ 14,012,226      | \$ 6,260,435      |
| USA          | 79,221             | 47,276            |
| <b>Total</b> | <b>14,091,447</b>  | <b>6,307,711</b>  |

# Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

## 21. Acquisition of Reed Controls Inc.

On May 4, 2022, the Company acquired a 100% ownership interest in Reed Controls Inc. ("Reed"). Reed develops a robust water management technology platform of hardware and cloud software to manage water related risk, converge water and accelerate Internet of Things ("IoT") adoption among global plumbing manufacturers. The primary reason of the acquisition is to allow the Company to expand the product offering with a greater focus on commercial solutions for smart water metering products and monitoring services. The total purchase price for the transaction was \$4,538,420 which was paid through the issuance of 12,266,000 common shares ("Share Consideration"). The Share Consideration is subject to a twenty-four (24) month lock-up period, provided that the Share Consideration will be released from the lock-up requirements on the first business day following each of the four, six, nine, twelve, fifteen, eighteen and twenty-one month anniversaries of the closing date.

The acquisition was accounted for under the acquisition method and Reed's operating results have been included in these condensed consolidated interim financial statements since the acquisition date. Since the acquisition date, \$191,870 in revenue and \$134,241 in losses were included in the condensed consolidated interim statement of loss and comprehensive loss. The Company recorded \$78,765 of transaction costs in general and administrative expenses.

Due to the complexity, the fair value assigned to the intangible assets, goodwill and net assets acquired are based on management's best estimate using the information currently available and may be revised by the Company as the final closing statement is accepted and additional information is received, but no later than one year from the acquisition date.

The provisional allocation of the purchase price is as follows:

|  | \$               |
|--|------------------|
| Cash                                     | 114,616          |
| Accounts receivable                      | 105,989          |
| Inventory                                | 185,041          |
| Property and equipment                   | 2,745            |
| Intangible assets                        | 1,082,000        |
| Goodwill                                 | 3,258,472        |
| Accounts payable and accrued liabilities | (170,443)        |
| Loans payable                            | (40,000)         |
|  | <u>4,538,420</u> |

Intangible assets includes the estimated fair values of:

|                        | \$               |
|------------------------|------------------|
| Customer relationships | 215,000          |
| Order backlog          | 401,000          |
| Technology             | 301,000          |
| Brand                  | 165,000          |
|                        | <u>1,082,000</u> |

Goodwill is primarily attributed to the expected synergies arising from the acquisition, the expertise and reputation of the assembled management and workforce, and sales growth potential. Intangible assets amortization for the period amounted to \$47,544.

## 22. Restatement of financial statements

During the quarter ended June 30, 2022, Management of the Company determined that its interpretation and application of certain technical accounting standards related to non-cash consideration provided to a developer and customer (the "Developer") through an amended exclusive supplier agreement dated December 15, 2021 (the "Addendum") was not in accordance with International Financial Reporting Standards. The Addendum represents the modification of a customer contract and based on the terms of the Addendum, is required to be accounted for as a termination of the existing contract and creation of a new contract. IFRS 15 requires the increase or decrease in consideration promised by the contract modification to be applied prospectively over the remaining performance obligations. Previously, the Company had allocated a portion of the change in the consideration to performance obligations that were completely or partially satisfied on or before the date of the contract modification and had incorrectly determined the value of the increase in consideration promised by the contract modification. The Company restated and refiled its consolidated financial statements for the year ended December 31, 2021, which were originally filed on SEDAR on May 6, 2022, on September 30, 2022. (See note 7, 14, and 18).

The Company restated and amended its previous reported Consolidated Financial Statements for the year ended December 31, 2021. The impact was isolated to the consolidated statement of financial position and consolidated statement of changes in shareholders' (deficiency)/equity for the year ended December 31, 2021, increasing prepaid expenses and contributed surplus by \$944,030 respectively.

## **Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)**

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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### **23. Subsequent event**

On October 17, 2022, the Company entered into a loan agreement with an arm's length private lender (the "Lender") for a \$1,500,000 million revolving credit facility (the "Facility"). This Facility bears interest at a rate of 8% (increasing to 14% upon any default) per annum and will mature in two years. The Company has also agreed to enter into security agreements (which are subject to TSX Venture Exchange approval) providing for a first charge security against its assets for the Facility. There were no fees paid in connection with the Facility. The Company intends to use the net proceeds from the Financing largely for working capital purposes, to deploy its contracted revenue backlog and general corporate expenses. The company made a draw in the amount of \$750,000 on this credit facility.