

SPARQ SYSTEMS INC. (FORMERLY SPARQ CORP.)

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(Expressed in Canadian dollars)

The accompanying unaudited Condensed Interim Consolidated Financial Statements for the three and six months ended June 30, 2023 and 2022 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company. In accordance with National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators, the Company herewith discloses that the accompanying unaudited Condensed Interim Consolidated Financial Statements have not been reviewed by an auditor.

SPARQ SYSTEMS INC. (FORMERLY, SPARQ CORP.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)

(Expressed in Canadian dollars)

As at:	Note	June 30, 2023	December 31, 2022
		\$	\$
Assets			
Current Assets			
Cash and cash equivalents		1,647,106	4,587,527
Accounts and other amounts receivable		274,426	293,977
Investment tax credits recoverable	11	-	330,000
Inventory	4	3,171,758	1,711,641
Prepaid expenses and deposits		132,781	323,615
Total current assets		5,226,071	7,246,760
Property and equipment	5	411,069	158,477
Total assets		5,637,140	7,405,237
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		889,457	916,156
Total current liabilities		889,457	916,156
CEBA Term Loan	6	38,196	38,196
Total liabilities		927,653	954,352
Shareholders' Equity			
Share Capital	7	26,462,308	26,462,308
Contributed Surplus	9	2,447,410	2,298,658
Warrants	7	3,946,176	3,946,176
Deficit		(28,146,407)	(26,256,257)
Total shareholders' equity		4,709,487	6,450,885
Total liabilities and shareholders' equity		5,637,140	7,405,237

Going concern (Note 2(e))
Commitments and contingencies (Note 12)
Subsequent events (Note 15)

Approved on behalf of the Board of Directors:

"Praveen Jain", Director

"Nishith Goel", Director

SPARQ SYSTEMS INC. (FORMERLY, SPARQ CORP.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE
LOSS (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023 AND JUNE 30, 2022

(Expressed in Canadian dollars)

		Three Months ended June 30,		Six months ended June 30,	
	Note	2023	2022	2023	2022
		\$	\$	\$	\$
Revenue		207,763	-	207,763	-
Cost of sales	4	186,843	-	186,843	-
Inventory write down	4	53,498	13,758	89,978	48,538
Gross loss		(32,578)	(13,758)	(69,058)	(48,538)
Expenses					
Research and development		309,689	381,518	621,763	657,160
Sales and marketing		3,829	1,541	23,135	2,592
General and administration		529,917	300,195	1,039,158	650,978
Depreciation of property and equipment	5	24,902	5,909	40,097	11,209
Stock-based compensation	9	74,376	185,670	148,752	412,843
Total expenses		(942,713)	(874,833)	(1,872,905)	(1,734,782)
Loss before the undernoted items		(975,291)	(888,591)	(1,941,963)	(1,783,320)
Other income (expense)					
Investment tax credits	11	(5,325)	24,000	(5,325)	48,000
Interest income		20,244	9,083	49,378	13,239
Foreign exchange gain (loss)		9,468	(3,356)	7,760	(2,510)
		24,387	29,727	51,813	58,729
Net loss and comprehensive loss for the period		(950,904)	(858,864)	(1,890,150)	(1,724,591)
Basic and diluted loss per share		(0.01)	(0.01)	(0.01)	(0.02)
Weighted average shares outstanding	8	82,444,752	82,444,752	82,444,752	82,444,752

SPARQ SYSTEMS INC. (FORMERLY, SPARQ CORP.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND JUNE 30, 2022

(Expressed in Canadian dollars)

	Note	Number of Shares	Common Shares \$	Contributed Surplus \$	Warrants \$	Deficit \$	Total \$
Balance, December 31, 2021		82,444,752	26,462,308	1,560,658	3,946,176	(22,327,943)	9,641,199
Stock-based compensation	9	-	-	412,843	-	-	412,843
Net loss for the period		-	-	-	-	(1,724,591)	(1,724,591)
Balance, June 30, 2022		82,444,752	26,462,308	1,787,831	3,946,176	(24,052,534)	8,329,451
Balance, December 31, 2022		82,444,752	26,462,308	2,298,658	3,946,176	(26,256,257)	6,450,885
Stock-based compensation	9	-	-	148,752	-	-	148,752
Net loss for the period		-	-	-	-	(1,890,150)	(1,890,150)
Balance, June 30, 2023		82,444,752	26,462,308	2,447,410	3,946,176	(28,146,407)	4,709,487

The accompanying notes are an integral part of these consolidated financial statements

SPARQ SYSTEMS INC. (FORMERLY, SPARQ CORP.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND JUNE 30, 2022

(Expressed in Canadian dollars)

	Note	2023	2022
		\$	\$
Operating activities:			
Net loss for the period		(1,890,150)	(1,724,591)
Items not involving cash			
Depreciation expense	5	40,097	11,209
Stock-based compensation	9	148,752	412,843
Changes in non-cash working capital:			
Accounts and other amounts receivable		19,551	7,799
Investment tax credits recoverable		330,000	(48,000)
Inventory		(1,460,117)	(215,891)
Prepaid expenses and deposits		190,834	(290,920)
Accounts payable and accrued liabilities		(26,699)	(398,624)
Cash flow used in operating activities		(2,647,732)	(2,246,175)
Investing activities			
Acquisition of equipment	5	(292,689)	(37,762)
Cash flow from (used in) investing activities		(292,689)	(37,762)
Net decrease in cash and cash equivalents		(2,940,421)	(2,283,937)
Cash and cash equivalents at beginning of the period		4,587,527	9,297,999
Cash and cash equivalents at end of the period		1,647,106	7,014,062

SPARQ SYSTEMS INC. (FORMERLY, SPARQ CORP.)
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND JUNE 30, 2022

(Expressed in Canadian dollars)

1. Nature of business

SPARQ Systems Inc. (formerly SPARQ Corp.) (the “**Company**”) was incorporated under the *Business Corporations Act* (Ontario) on November 13, 2018. On December 31, 2021, the Company completed its qualifying transaction pursuant to the rules of the TSX Venture Exchange (the “**Qualifying Transaction**”), resulting in a reverse takeover of the Company by SPARQ Systems Inc. (“**SPARQ**”). The Qualifying Transaction was completed by way of a three-cornered amalgamation (the “**Amalgamation**”) pursuant to which, among other things, (i) SPARQ amalgamated with a wholly-owned subsidiary of the Company, incorporated for the purposes of the Amalgamation, pursuant to the provisions of the *Business Corporations Act* (Ontario), and (ii) all of the outstanding common shares in the capital of SPARQ (the “**SPARQ Shares**”) were cancelled and, in consideration therefor, the holders thereof received post-consolidation common shares in the capital of the Company on a 1:1 basis.

On January 1, 2023, the Company completed a short-form vertical amalgamation with SPARQ pursuant to the *Business Corporations Act* (Ontario) (the “**Vertical Amalgamation**”). Upon completion of the Vertical Amalgamation, the Company changed its name from “SPARQ Corp.” to “SPARQ Systems Inc.”

The Company designs and manufactures next generation single-phase microinverters for residential and commercial solar electric applications. The Company has developed a proprietary photovoltaic (“**PV**”) solution called the Quad; the Quad inverter optimizes four PV modules with a single microinverter, simplifying design and installation, and lowering cost for solar power installations when compared to existing market offerings.

The address of the Company’s registered and head office is 945 Princess Street, Box 212, Kingston, Ontario, K7L 0E9. The common shares are listed for trading on the TSX Venture Exchange under the symbol “SPRQ” and the Warrants are listed for trading under the symbol “SPRQ.WT”.

The common shares are also quoted for trading on the OTCQX Best Market under the symbol “SPRQF”.

2. Basis of presentation, measurement, and consolidation

a) Statement of compliance

These Condensed Interim Consolidated Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards (“**IFRS**”) and its interpretations adopted by the International Accounting Standards Board and in accordance with IAS 34, Interim Financial Reporting. These Condensed Interim Consolidated Financial Statements were authorized for issue by the Board of Directors of the Company on August 22, 2023.

b) Basis of presentation

These Condensed Interim Consolidated Financial Statements have been prepared on a historical cost basis except for certain financial instruments and share-based compensation transactions which have been measured at fair value.

c) Basis of consolidation

These Condensed Interim Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiary, Sparq Systems (USA) Inc., which was incorporated under the laws of the State of Delaware. Inter-company transactions and balances between the Company and its subsidiary have been eliminated on consolidation. The Company’s wholly-owned subsidiary has a reporting date of December 31. As previously disclosed, SPARQ amalgamated with the Company pursuant to the Vertical Amalgamation, resulting in the Company only having one wholly-owned subsidiary as of January 1, 2023.

Profit or loss and other comprehensive loss of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable

SPARQ SYSTEMS INC. (FORMERLY, SPARQ CORP.)
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND JUNE 30, 2022

(Expressed in Canadian dollars)

d) Functional and presentation currency

The functional currency of the Company and its subsidiaries is determined using the currency of the primary economic environment in which each entity operates. The functional and presentation currency of the Company and its wholly-owned subsidiary is the Canadian dollar.

e) Going concern assumption

These Condensed Interim Consolidated Financial Statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at June 30, 2023, the Company had a deficit of \$28,146,407 (December 31, 2022 - \$26,256,257) and for the six months ended June 30, 2023, incurred a net loss of \$1,890,150 (June 30, 2022 - \$1,724,591) and negative cash flows from operating activities of \$2,647,732 (June 30, 2022 - \$2,246,175). The Company has used debt and equity financing from both related and unrelated sources to supplement its operations and will continue to be reliant on additional debt and/or equity financing in order to fully develop its business plan.

Although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding will be available in the future or available under terms acceptable to the Company, or that the Company will be able to generate sufficient returns from operations.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities and commitments when due is dependent on the Company generating revenue and debt and/or equity financing sufficient to fund its cash flow needs.

3. Significant accounting policies

These Condensed Interim Consolidated Financial Statements reflect the accounting policies described in Note 3 to the audited consolidated financial statements for the year ended December 31, 2022 and accordingly, should be read in conjunction with such audited consolidated financial statements and the notes thereto.

4. Inventory

	June 30, 2023	December 31, 2022
Finished goods	\$ 646,275	\$ 153,262
Raw materials	2,772,421	1,805,317
	3,418,696	1,958,579
Provision	(246,938)	(246,938)
	\$ 3,171,758	\$ 1,711,641

Inventory expensed in cost of sales during the six months ended June 30, 2023 was \$186,843 (June 30, 2022 - \$Nil). During the six months ended June 30, 2023, inventory provision related to obsolescence of \$89,978 has been expensed within cost of sales (June 30, 2022 - \$48,538).

SPARQ SYSTEMS INC. (FORMERLY, SPARQ CORP.)
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND JUNE 30, 2022

(Expressed in Canadian dollars)

5. Property and equipment

	Equipment	Furniture and fixtures	Computer equipment	Computer software	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$
Cost						
Balance, December 31, 2021	405,938	24,826	58,278	6,350	-	495,392
Additions	110,504	2,201	12,756	2,500	23,154	151,115
Balance, December 31, 2022	516,442	27,027	71,034	8,850	23,154	646,507
Additions	278,069	-	2,880	11,740	-	292,689
Balance, June 30, 2023	794,511	27,027	73,914	20,590	23,154	939,196
Accumulated depreciation						
Balance, December 31, 2021	368,555	24,826	56,716	5,291	-	455,388
Depreciation	25,455	37	2,866	3,142	1,142	32,642
Balance, December 31, 2022	394,010	24,863	59,582	8,433	1,142	488,030
Depreciation	27,861	220	3,008	2,152	6,856	40,097
Balance, June 30, 2023	421,871	25,083	62,590	10,585	7,998	528,127
Net book value						
At December 31, 2022	122,432	2,164	11,452	417	22,012	158,477
At June 30, 2023	372,640	1,944	11,324	10,005	15,156	411,069

6. Term loan

During the year ended December 31, 2020, the Company obtained an unsecured loan of \$40,000 in respect of the Canada Emergency Business Account (the “CEBA”). The loan bears interest at a rate of 0% per annum during the initial term. An additional loan of \$20,000 was obtained in 2021 under the same terms and conditions. No principal repayments are required during the initial term. If the Company has repaid 75% of the loans amount prior to December 31, 2023, the lender will forgive the remaining outstanding balance of the loans (on January 12, 2022, the Government of Canada announced an extension of the forgiveness repayment date for eligible CEBA loan holders in good standing from December 31, 2022 to December 31, 2023). If a balance still exists at January 1, 2024, interest will commence at a rate of 5% per annum, payable monthly. Any balance remaining on the loans will be repayable in full on December 31, 2025. As at December 31, 2022, management had determined that it is likely that the non-forgivable portion of the loan will be repaid by December 31, 2023 and had recognized the \$10,000 forgivable portion of the arrangement in income during the year ended December 31, 2020.

7. Share capital

Authorized

An unlimited number of common shares

Issued

As at June 30, 2023, there were 82,444,752 common shares issued and outstanding. In addition, the following warrants were issued and outstanding:

SPARQ SYSTEMS INC. (FORMERLY, SPARQ CORP.)
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND JUNE 30, 2022

(Expressed in Canadian dollars)

Number of Warrants Outstanding	Exercise Price (\$'s)	Expiry Date	Number of Warrants Exercisable	Weighted Average Remaining Life (years)
20,000,000	0.75	12/31/2023	20,000	0.50

In connection with the Qualifying Transaction, on December 22, 2021, SPARQ completed a brokered private placement of subscription receipts (each, a “**Subscription Receipt**”) at a price of \$0.50 per Subscription Receipt, pursuant to which SPARQ issued an aggregate of 20,000,000 Subscription Receipts for aggregate gross proceeds of \$10,000,000 (the “**Offering**”). Concurrent with closing of the Qualifying Transaction, each Subscription Receipt was converted into units of the Company consisting of one common share and one common share purchase warrant (the “**Warrants**”) with each such Warrant entitling the holder thereof to acquire one common share at an exercise price of \$0.75 per share for a period of 24 months from the date of issuance, pursuant to the provisions of a subscription receipt agreement entered into among the Company, SPARQ, Echelon Capital Markets, as agent, and TSX Trust Company dated December 22, 2021. In connection with the Offering, 1,258,250 compensation options (the “**Compensation Options**”) were issued to members of the selling group, with each such Compensation Option being exercisable for one common share and one Warrant on the same terms as those issued pursuant to the Offering. As at June 30, 2023, there were 1,258,250 Compensation Options issued and outstanding.

8. Loss per share

Loss per share is calculated by dividing loss by the weighted average number of common shares outstanding during the period. In computing diluted earnings per share, an adjustment is made for the dilutive effect of outstanding share options, warrants and other convertible instruments. In periods where a net loss is reported, all outstanding options, warrants and other convertible instruments are excluded from the calculation of diluted loss per share, as they are all anti-dilutive.

9. Stock-based compensation

The Company has an omnibus equity incentive plan (the “**Omnibus Plan**”) which provides for a wide range of incentive awards, including stock options (“**Options**”), deferred share units (“**DSUs**”), restricted share units (“**RSUs**”), performance share units (“**PSUs**”) and other share-based awards (“**Other Share-Based Awards**”, and together with Options, DSUs, RSUs, PSUs, “**Awards**”) to attract, retain and motivate Employees, Directors, Officers and Consultants of the Company (as such terms are defined in the Omnibus Plan). The Omnibus Plan is a “rolling up to 10% and fixed up to 10%” Security Based Compensation Plan, as defined in Policy 4.4 - *Security Based Compensation* of the TSXV. The Omnibus Plan is a: (a) “rolling” plan pursuant to which the number of common shares that are issuable pursuant to the exercise of Options granted under the Omnibus Plan shall not exceed 10% of the issued and outstanding common shares as at the date of any Option grant; and (b) “fixed” plan under which the number of common shares that are issuable pursuant to all Awards other than Options granted under the Omnibus Plan and under any other security based compensation arrangement, in aggregate is a maximum of 8,244,475 common shares, in each case, subject to adjustment as provided in the Omnibus Plan and any subsequent amendment to the Omnibus Plan. Shareholders approved the adoption of the Omnibus Plan at the Company’s annual and special meeting held on June 12, 2023. The Omnibus Plan replaced the Company’s rolling stock option plan (the “**Legacy Plan**”).

The table below details all Options granted under the Omnibus Plan during the six months ended June 30, 2023. No DSUs, RSUs, PSUs or Other Share-Based Awards have been issued as of the date hereof.

SPARQ SYSTEMS INC. (FORMERLY, SPARQ CORP.)
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND JUNE 30, 2022

(Expressed in Canadian dollars)

	Number of Options #	Weighted average exercise price \$
Balance, December 31, 2021	5,269,000	0.49
Expired	(132,000)	(0.25)
Granted	1,175,000	0.37
Balance, December 31, 2022	6,312,000	0.47
Granted	180,000	0.18
Balance, June 30, 2023	6,492,000	0.46

- (i) On February 24, 2022, 275,000 Options were granted to a director under the Legacy Plan with an exercise price of \$0.50 for five years. Options issued were allocated an estimated fair value of \$53,224 using the Black-Scholes option pricing model to estimate the fair value using the same weighted average assumptions in (ii) above.
- (ii) On November 22, 2022, 400,000 Options were granted to a VP with an exercise price of \$0.385 for a period of five years from the date of grant. Options issued were allocated an estimated fair value of \$133,889 using the Black-Scholes option pricing model to estimate the fair value using the weighted average assumptions of an expected forfeiture rate of 0%, a risk-free interest rate of 3.05%, an expected dividend yield of 0%, an expected stock price volatility of 132%, and an expected life of five years.
- (iii) On December 1, 2022, 500,000 Options were granted to the Company's Country Manager of India with an exercise price of \$0.285 for a period of five years from the date of grant. Options issued were allocated an estimated fair value of \$123,891 using the Black-Scholes option pricing model to estimate the fair value using the weighted average assumptions of an expected forfeiture rate of 0%, a risk-free interest rate of 3.05%, an expected dividend yield of 0%, an expected stock price volatility of 132%, and an expected life of five years.
- (iv) On April 20, 2023, 180,000 Options were granted to certain employees of the Company with an exercise price of \$0.18 for a period of five years from the date of grant. Options issued were allocated an estimated fair value of \$28,180 using the Black-Scholes option pricing model to estimate the fair value using the weighted average assumptions of an expected forfeiture rate of 0%, a risk-free interest rate of 3.15%, an expected dividend yield of 0%, an expected stock price volatility of 132%, and an expected life of five years.

The underlying expected stock price volatility for the calculation of the fair value of the Options is based on historical data of similar companies, as the Company has limited historical data itself on which it could be based. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the options.

The Options have various vesting terms. In total, \$148,752 (2022 – \$412,843) of stock-based compensation expense relating to Options was included in the consolidated statements of loss and comprehensive loss for the six months ended June 30, 2023 and credited to contributed surplus. As at June 30, 2023 the Company had the following Options outstanding:

Number of Options Outstanding	Exercise Price (\$'s)	Expiry Date	Number of Options Exercisable	Weighted Average Remaining Life (years)
112,000	0.25	8/9/2029	112,000	6.12
5,025,000	0.50	12/31/2026	3,533,334	3.50
275,000	0.50	02/24/2027	275,000	3.66
400,000	0.385	11/22/2027	-	4.40
500,000	0.285	12/01/2027	-	4.42
30,000	0.18	04/20/2027	7,500	4.81
150,000	0.18	04/20/2028	-	4.81
6,492,000			3,927,834	3.61

SPARQ SYSTEMS INC. (FORMERLY, SPARQ CORP.)
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND JUNE 30, 2022

(Expressed in Canadian dollars)

The weighted average exercise of the Options is \$0.46 per common share (June 30, 2022 - \$0.47).

10. Related party transactions

- (a) As at June 30, 2023, accounts payable and accrued liabilities included \$19,765 was payable to a law firm, of which a partner is the Corporate Secretary of the Company, which are non-interest bearing, unsecured and due on demand.
- (b) During the three and six months ended June 30, 2023, the Company was charged \$75,000 and \$150,000 respectively (three and six months ended June 30, 2022 - \$75,000 and \$150,000 respectively) for consulting services provided by PE Consultants Inc., an entity which is controlled by Praveen Jain, the Chief Executive Officer of the Company. These expenses have been recorded in research and development and general and administrative expenses.
- (c) During the three and six months ended June 30, 2023, the Company was charged \$9,000 and \$18,000 respectively (three and six months ended June 30, 2022 - \$9,000 and \$18,000 respectively) for consulting services provided by CFO Advantage Inc., an entity which is controlled by Kyle Appleby, the Chief Financial Officer of the Company. These expenses have been recorded in general and administrative expenses.
- (d) On June 16, 2022, the Company signed a manufacturing agreement (the “**Manufacturing Agreement**”) with Ti-Lane Precision Electronic Company Limited (“**Ti-Lane**”) to manufacture turn-key Q1200 microinverters for the Company on a high volume basis at Ti-Lane’s facility based in Guangdong Province, China. The Manufacturing Agreement has an initial term of three years and will automatically renew for additional one-year terms after expiration of the initial term unless terminated earlier by either the Company or Ti-Lane. Ti-Lane is a shareholder in the Company and is controlled by Baojun (Robbie) Luo, one of the Company’s directors. During the six months ended June 30, 2023, the Company was charged \$589,909 (June 30, 2022 - \$Nil) by Ti-Lane.
- (e) Transactions with related parties are incurred during the course of normal operations and initially recorded at fair value. Key management includes directors and officers of the Company. Compensation awarded to key management was comprised of the following for the three and six months ended June 30, 2023 and 2022:

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Short-term compensation	\$ 84,000	\$ 84,000	\$ 168,000	\$ 168,000
Share-based payments	46,902	185,670	93,804	412,843
Total	\$ 130,902	\$ 269,670	\$ 261,804	\$ 580,843

11. Government assistance

- (a) During the six months ended June 30, 2023, the Company accrued \$Nil (June 30, 2022 - \$48,000) SR&ED tax credits on eligible expenditures incurred.

12. Commitments and contingencies

Commitments

On July 31, 2013, the Company entered into a licensing agreement with PARTEQ Research and Development Innovations (“**PARTEQ Agreement**”) for commercial rights to certain power generation, conversion, and switching technologies used in its products. Pursuant to the terms of the PARTEQ Agreement, the Company is obligated to pay 1% of specified net sales generated from the sale of products using the licensed technology. During the six months ended June 30, 2023, the Company paid licensing fees of \$Nil (June 30, 2022 - \$Nil).

SPARQ SYSTEMS INC. (FORMERLY, SPARQ CORP.)
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND JUNE 30, 2022

(Expressed in Canadian dollars)

Contingencies

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As at June 30, 2023 and December 31, 2022, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

13. Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Company mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

a) Credit risk

Credit risk is the risk of a potential loss to the Company if one party of a financial instrument fails to meet its contractual obligations. The maximum credit exposure as at June 30, 2023 and December 2022 relates to the carrying amount of cash and cash equivalents, accounts receivable, investment tax credit recoverable, and government assistance receivable. To reduce credit risk, all significant cash balances are placed with major financial institutions and accounts receivable, investment tax credit receivable and government assistance receivable is due from the Government of Canada and therefore credit risk is low.

The Company provides credit to its customers in the normal course of its operations. It carries out, on a continuing basis, credit checks on its clients and maintains provisions for contingent credit losses which, once they materialize, are consistent with management's forecasts. The maximum exposure to credit risk is the carrying value of the accounts receivable. The Company does not normally require a guarantee. As at June 30, 2023, 0% of the Company's accounts receivables were comprised of overdue balances from customers (December 31, 2022- 0%).

The Company's expected credit loss allowance is estimated using historical loss information, current industry conditions and payment practices, as well as reasonable and supportable forecasts of future economic conditions. Credit risk is assessed based on days outstanding and utilizes both internal credit assessments and publicly available credit information. As a result, the allowance reflects anticipated effects caused by recent market deterioration. As at June 30, 2023, the current expected credit loss allowance was \$Nil (December 31, 2022 - \$Nil).

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the effective management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity at all times to settle obligations and liabilities when due. The Company has the following contractual obligations:

	Less than 1 year	1 to 3 years	3 to 5 years	Greater than 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	916,156	-	-	-	916,156
CEBA Term Loan	-	38,196	-	-	38,196
December 31, 2022	916,156	38,196	-	-	954,352

SPARQ SYSTEMS INC. (FORMERLY, SPARQ CORP.)
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND JUNE 30, 2022

(Expressed in Canadian dollars)

	Less than 1 year \$	1 to 3 years \$	3 to 5 years \$	Greater than 5 years \$	Total \$
Accounts payable and accrued liabilities	889,457	-	-	-	889,457
CEBA Term Loan	-	38,196	-	-	38,196
June 30, 2023	889,457	38,196	-	-	927,653

c) Interest rate risk

Interest rate risk relates to 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's financial liabilities are non-interest bearing as at June 30, 2023 and December 31, 2022, and therefore the Company is not exposed to interest rate risk.

d) Foreign exchange risk

The Company is exposed to foreign exchange risk from various currencies, primarily the US dollar. Foreign exchange risk arises from sales and purchase transactions as well as recognized financial assets and liabilities that are denominated in a currency other than the Canadian dollar, which is the functional currency of the Company.

The Company's primary objective in managing its foreign exchange risk is to preserve sales values and cash flows and reduce variations in performance. Although management monitors exposure to such fluctuations, it does not employ any external hedging strategies to counteract the foreign currency fluctuations.

The following amounts were denominated in foreign currency:

	Currency	June 30, 2023	December 31, 2022
Cash	US Dollar	\$ 16,966	\$ 20,089
Accounts Receivable	US Dollar	\$ 214,778	\$ 5,685
Accounts Payable	US Dollar	\$ 433,440	\$ 516,824

On June 30, 2023, an increase of 1% in the value of US dollar will result in a gain of \$169 (December 31, 2022 - \$272) in the value of cash, \$2,147 (December 31, 2022 - \$56) in accounts receivable and loss of \$4,334 (December 31, 2022 - \$5,160) in accounts payable. Similarly, a decrease of 1% in the value of US dollar will have similar effects but in opposite direction.

14. Capital management

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders. The Company considers the items included in shareholders' equity of \$4,709,487 as capital, as at June 30, 2023 (December 31, 2022 - \$6,450,885). The Company manages the capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the Company's business. To secure the additional capital necessary to pursue these plans, the Company intends to raise additional funds through equity or debt financing. The Company is not subject to any capital requirements imposed by a regulator.