KIDOZ INC.

and subsidiaries

Consolidated Financial Statements

Years ended December 31, 2022, 2021 and 2020

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Years ended December 31, 2022, 2021 and 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of
Kidoz Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Kidoz Inc. (the "Company") as of December 31, 2022 and 2021, and the related consolidated statements of operations and comprehensive (loss) income, stockholders' equity, and cash flows for the years ended December 31, 2022, 2021 and 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for years ended December 31, 2022, 2021 and 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Evaluation of intangible asset and goodwill impairment analysis

As described in Notes 6 and 7 to the consolidated financial statements, the carrying amount of the Company's sole reporting unit, consisting of intangible assets, goodwill, and the associated deferred tax liability was $4,448,896 as at December 31, 2022 and is a significant portion (31%) of the Company's total assets. As discussed in notes 2(l), 2(m) and 2(n) to the consolidated financial statements, the Company performs impairment testing on an annual basis or whenever events or changes in circumstances indicate that the carrying value of a reporting unit may exceed its recoverable amount. During the year ended December 31, 2022, the Company determined that no impairment was necessary.

We identified the evaluation of the goodwill impairment analysis as a critical audit matter. The estimated recoverable amount of the reporting unit uses forward-looking estimates that involved a high degree of subjective auditor judgment, in addition to specialized skills and knowledge to evaluate. The sensitivity of reasonably possible changes to those assumptions could have a significant impact on the determination of the recoverable amount of the reporting unit and the Company's assessment of impairment.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures include, among others:

- Evaluating projected earnings before interest, taxes, depreciation, and amortization ("EBITDA") by comparing historical EBITDA forecasts to actual results and by examining the historical trend analysis of both increases and decreases in actual revenues and costs as compared to forecasted amounts;
- Involving valuation specialists to assist in testing certain significant assumptions described above, such as discount rates and long-term growth rates;
- Performing sensitivity analyses on significant assumptions to evaluate the changes in fair value that would result from changes in these assumptions; and
- Assessing the adequacy of the associated disclosures in the financial statements.

Reliability of internally-generated reports supporting revenues

The Company uses an underlying operating system to track ad tech advertising revenue and report this information to customers and suppliers. As disclosed in Note 2(c) of the consolidated financial statements, the Company records revenues when a customer obtains control of promised services, which in certain instances, is determined by the Company's underlying operating and ad tech systems.

We identified relying on internally-generated reports as a critical audit matter. Assessing the reliability of information produced by the Company as audit evidence requires significant judgment with respect to testing and evaluating the information to determine if it is sufficient and appropriate for purposes of the audit. Auditing the Company's accounting for revenue from contracts with customers was challenging and complex due to the dependency on these internally-generated reports.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures include, among others:

- Testing, on a sample basis, the completeness and accuracy of the underlying data within the Company's billing system;
- Testing, on a sample basis, credit notes issued to customers to determine if there is a history of modification;
- Comparing the Company's internally-generated reports to similar reports as provided by key customers to determine if any difference were within an acceptable range of variance; and
- Confirming, on a sample basis, revenues directly with customers.

We have served as the Company's auditor since 2010.

/s/ DAVIDSON & COMPANY LLP

Vancouver, Canada
April 19, 2023

Chartered Professional Accountants

KIDOZ INC. and subsidiaries
(Expressed in United States Dollars)

Consolidated Balance Sheets

As at December 31,		2022		2021
Assets				
Current assets:				
Cash	$	2,363,530	$	2,078,607
Accounts receivable, less allowance for doubtful accounts $53,241 (2021 - $56,605) (Note 3)		7,400,282		6,627,864
Prepaid expenses (Note 4)		71,248		105,468
Total Current Assets		9,835,060		8,811,939
Equipment (Note 5)		33,522		20,523
Goodwill (Note 7)		3,301,439		3,301,439
Intangible assets (Note 6)		1,147,457		1,694,917
Long term cash equivalent		22,310		23,624
Operating lease right-of-use assets (Note 14)		36,529		65,464
Security deposit		10,766		7,625
Total Assets	$	14,387,083	$	13,925,531
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable	$	4,826,667	$	3,693,944
Accrued liabilities		703,880		471,882
Accounts payable and accrued liabilities - related party (Note 15)		80,874		53,829
Derivative liability – warrants (Note 2i and 10)		51		23,365
Government CEBA current loan (Note 9)		44,296		-
Operating lease liabilities – current portion (Note 14)		32,116		32,068
Total Current Liabilities		5,687,884		4,275,088
Deferred tax liability (Note 13)		-		210,499
Government CEBA long term loan (Note 9)		-		47,248
Operating lease liabilities – non-current portion (Note 14)		7,440		41,999
Total Liabilities		5,695,324		4,574,834
Commitments (Note 12)				
Stockholders' Equity (Note 10):				
Common stock, no par value, unlimited shares authorized, 131,347,999 shares issued and outstanding (December 31, 2021 - 131,424,989)		50,664,887		49,964,919
Treasury shares, 41,500 shares (December 31, 2021 – nil)		(11,793)		-
Accumulated deficit		(41,985,915)		(40,638,802)
Accumulated other comprehensive income:				
Foreign currency translation adjustment		24,580		24,580
Total Stockholders' Equity		8,691,759		9,350,697
Total Liabilities and Stockholders' Equity	$	14,387,083	$	13,925,531

See accompanying notes to consolidated financial statements.

KIDOZ INC. and subsidiaries
(Expressed in United States Dollars)

Consolidated Statements of Operations and Comprehensive (Loss) Income

Years ended December 31,	2022	2021	2020
Revenue:			
Ad tech advertising revenue	$ 14,425,918	$ 12,194,518	$ 6,731,570
Programmatic advertising revenue	361,394	58,507	18,365
Content revenue	309,744	231,614	399,965
Total revenue	15,097,056	12,484,639	7,149,900
Cost of sales:	9,973,211	7,152,307	3,801,985
Total cost of sales	9,973,211	7,152,307	3,801,985
Gross profit	5,123,845	5,332,332	3,347,915
Operating expenses:			
Amortization of operating lease right-of-use assets (Note 14)	28,935	40,851	54,071
Depreciation and amortization (Notes 5 and 6)	557,267	565,540	564,628
Directors fees	8,970	8,000	8,248
General and administrative (Note 17)	760,936	604,882	528,708
Salaries, wages, consultants and benefits	751,811	693,964	470,658
Selling and marketing	1,039,713	641,393	397,948
Stock awareness program (Note 18)	161,332	402,845	-
Stock-based compensation (Note 10)	696,248	660,266	158,883
Content and software development (Note 8)	2,496,877	1,678,848	1,149,902
Total operating expenses	6,502,089	5,296,589	3,333,046
(Loss) Income before other income (expense) and income taxes	(1,378,244)	35,743	14,869
Other income (expense):			
Foreign exchange loss	(142,857)	(69,835)	32,856
Gain on derivative liability – warrants (Note 10(c))	23,314	60,207	-
Interest and other income	185	241	1,003
Net (loss) income before income taxes	(1,497,602)	26,356	48,728
Provision for income taxes (Note 13)	(60,010)	(6,178)	55,243
Deferred taxation recovery (expense) (Note 13)	210,499	(210,499)	-
Net (loss) income after tax	$ (1,347,113)	$ (190,321)	$ 103,971
Other comprehensive income (loss)	-	-	-
Comprehensive (loss) income	$ (1,347,113)	$ (190,321)	$ 103,971
Basic and diluted (loss) income per common share (Note 2)	$ (0.01)	$ (0.00)	$ 0.00
Weighted average common shares outstanding, basic (Note 2)	131,481,983	131,340,989	131,124,989
Weighted average common shares outstanding, diluted (Note 2)	131,481,983	131,340,989	131,124,989

See accompanying notes to consolidated financial statements.

KIDOZ INC. and subsidiaries

(Expressed in United States Dollars)

Consolidated Statements of Stockholders' Equity

Years ended December 31, 2022, 2021 and 2020

	Common stock				Accumulated Other Comprehensive income	
	Shares	Amount	Treasury shares	Accumulated Deficit	Foreign currency translation adjustment	Total Stockholders' Equity
Balance, December 31, 2019	131,124,989	$48,935,213	$-	($40,552,452)	$ 24,580	$8,407,341
Stock-based compensation	-	158,883	-	-	-	158,883
Net income	-	-	-	103,971	-	103,971
Balance, December 31, 2020	131,124,989	$49,094,096	$-	($40,448,481)	$ 24,580	$8,670,195
Shares issued	230,000	179,293	-	-	-	179,293
Options exercised	70,000	31,264	-	-	-	31,264
Stock-based compensation	-	660,266	-	-	-	660,266
Net loss	-	-	-	(190,321)	-	(190,321)
Balance, December 31, 2021	131,424,989	$49,964,919	$-	($40,638,802)	$ 24,580	$9,350,697
Shares issued	156,510	79,705	-	-	-	79,705
Repurchase of common shares	(233,500)	(75,985)	(11,793)	-	-	(87,778)
Stock-based compensation	-	696,248	-	-	-	696,248
Net loss	-	-	-	(1,347,113)	-	(1,347,113)
Balance, December 31, 2022	131,347,999	$50,664,887	($11,793)	($41,985,915)	$ 24,580	$8,691,759

See accompanying notes to consolidated financial statements.

KIDOZ INC. and subsidiaries

(Expressed in United States Dollars)

Consolidated Statements of Cash Flows

Years ended December 31,	2022	2021	2020
Cash flows from operating activities:			
Net (loss) income	$ (1,347,113)	$ (190,321)	103,971
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	557,267	565,540	564,628
Amortization of operating lease right-of-use assets	28,935	40,851	54,071
Gain on derivative liability – warrants	(23,314)	(60,207)	-
Shares issued for services	-	179,293	-
Stock awareness program – warrants granted for services	-	83,572	-
Deferred income tax expense	(210,499)	210,499	-
Stock-based compensation	696,248	660,266	158,883
Unrealized foreign exchange (income) loss	(1,052)	134	-
Changes in operating assets and liabilities:			
Accounts receivable	(772,418)	(2,694,324)	(1,540,762)
Prepaid expenses	34,220	(15,498)	19,944
Accounts payable and accrued liabilities	1,471,471	2,071,728	896,243
Net cash provided by operating activities	433,745	851,533	256,978
Cash flows from investing activities:			
Acquisition of equipment	(22,806)	(8,152)	(3,212)
Long-term cash equivalent	-	7,768	7,020
Payments on right-of-use assets	-	-	(25,472)
Security deposits	(3,727)	-	127
Net cash used in investing activities	(26,533)	(384)	(21,537)
Cash flows from financing activities:			
Government CEBA loan	-	-	47,089
Options exercised	-	31,264	-
Payments for repurchase of common shares	(87,778)	-	-
Proceeds of short-term loan	-	200,000	-
Repayment of short-term loan	-	(200,000)	-
Payments on operating lease liabilities	(34,511)	(29,851)	(23,697)
Net cash (used in) provided by financing activities	(122,289)	1,413	23,392
Change in cash	284,923	852,562	258,833
Cash, beginning of year	2,078,607	1,226,045	967,212
Cash, end of year	$ 2,363,530	$ 2,078,607	1,226,045
Supplementary information:			
Interest paid	$ -	$ 987	-
Income taxes paid (recovery)	$ 3,129	$ 2,989	(55,243)
Non-cash transaction			
Shares issued to settle accounts payable and accrued liabilities	$ 79,705	$ -	-

See accompanying notes to consolidated financial statements.

1. Introduction:

Nature of business

Kidoz Inc., incorporated in Anguilla, British West Indies in 2005, is a focused AdTech solution provider. Owner of the Kidoz SDK and Kidoz Connect Programmatic network, a Children's Online Privacy Protection Rule ("COPPA") & General Data Protection Regulation ("GDPR") compliant contextual mobile advertising network that reaches kids, teens, and families every month. Google certified and Apple approved, Kidoz provides a suite of advertising technology that connects brands, content publishers and families. The Company has created a network that app developers use to compliantly monetize traffic and advertisers rely on to reach their customers. Kidoz has developed contextual targeting tools to enable brands to reach their ideal customers.

Subsequent to the year ended December 31, 2022, Kidoz Inc. continued out of the jurisdiction of the Anguillian Business Companies Act, 2022, and into the jurisdiction of the Canada Business Corporations Act ("CBCA").

Continuing operations

These consolidated financial statements have been prepared assuming the realization of assets and the settlement of liabilities in the normal course of operations. The Company expects to continue to generate sufficient cash flows to fund continued operations for the next 12 months, or, in the absence of adequate cash flows from operations, obtaining additional financing.

Management continues to review operations in order to identify additional strategies designed to generate cash flow, improve the Company's financial position, and enable the timely discharge of the Company's obligations.

There have been many factors which have affected the world economies in recent years. These include global pandemics (i.e. coronavirus COVID-19), inflation, the current banking crisis (e.g. Silicon Valley Bank), the war in Ukraine and many more. These factors have adversely affected workforces, economies, and financial markets globally. It has also disrupted the normal operations of many businesses, including the Company's. These factors have affected spending, thereby affecting demand for the Company's product and the Company's business and its results of operations. It is not possible for the Company to predict the duration or magnitude of these factors at this time and the full effects on the Company's business, its future results of operations, or ability to raise funds.

2. Summary of significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") applicable to annual financial information.

(Expressed in United States Dollars)

2. Summary of significant accounting policies (Continued):

(a) Basis of presentation:

The financial statements include the accounts of the Company's subsidiaries:

Company	Registered	% Owned
Shoal Media (Canada) Inc.	British Columbia, Canada	100%
Kidoz Ltd.	Israel	100%
Prado Media Ltd. (formerly Rooplay Media Ltd.)	British Columbia, Canada	100%
Rooplay Media Kenya Limited	Kenya	100%
Shoal Media Inc.	Anguilla	100%
Shoal Games (UK) Plc	United Kingdom	99%
Shoal Media (UK) Ltd.	United Kingdom	100%

During the year ended December 31, 2022, Coral Reef Marketing Inc. merged with Kidoz Inc. and Kidoz Inc. is the surviving entity.

Subsequent to the year ended December 31, 2022, Shoal Games (UK) Plc was discontinued.

In addition, there are the following dormant subsidiaries; Bingo.com (Antigua) Inc., Bingo.com (Wyoming) Inc., and Bingo Acquisition Corp.

All inter-company balances and transactions have been eliminated in the consolidated financial statements.

(b) Use of estimates:

The preparation of consolidated financial statements in conformity with US GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and recognized revenues and expenses for the reporting periods.

Significant areas requiring the use of estimates include the collectability of accounts receivable, the valuation of stock-based compensation, the valuation of deferred tax assets and liabilities, the useful lives of intangible assets, the inputs used in assessing goodwill impairment, and the derivative liability – warrants valuation. Actual results may differ significantly from these estimates.

(c) Revenue recognition:

In accordance with ASC 606, Revenue from Contracts with Customers, revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these services.

We derive substantially all of our revenue from the sale of Ad tech advertising revenue.

2. Summary of significant accounting policies (Continued):

(c) Revenue recognition: (Continued)

To achieve this core principle, the Company applied the following five steps:

1) Identify the contract with a customer

A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights regarding the services to be transferred, whose impression count will form the basis of the revenue and identifies the payment terms related to these services, (ii) the contract has commercial substance and, (iii) the Company determines that collection of substantially all consideration for services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. The Company applies judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer.

2) Identify the performance obligations in the contract

Performance obligations promised in a contract are identified based on the services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised services, the Company must apply judgment to determine whether promised services are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised services are accounted for as a combined performance obligation.

3) Determine the transaction price

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring services to the customer. None of the Company's contracts contain financing or variable consideration components.

4) Allocate the transaction price to performance obligations in the contract

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis. The Company determines standalone selling price based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

2. Summary of significant accounting policies (Continued):

(c) Revenue recognition: (Continued)

5) Recognize revenue when or as the Company satisfies a performance obligation

The Company satisfies performance obligations at a point in time as discussed in further detail under "Disaggregation of Revenue" below. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised service to a customer.

Disaggregation of Revenue

All of the Company's performance obligations, and associated revenue, are generally transferred to customers at a point in time. The Company has the following revenue streams:

1) Ad tech advertising revenue - The pricing and terms for all our in-game advertising arrangements are mostly governed by insertion order which generally stipulates the payment terms, the duration (usually short term in nature), the number of advertising units delivered (e.g. impressions, completed views, or cost per install) and the contractually agreed upon price per advertising unit. The Company has concluded that the delivery of the Ad tech advertising is delivered at a point in time and, as such, has concluded these deliveries are a single performance obligation. The Company invoices fees which are generally variable based on the arrangement, which would typically include the number of impressions delivered at a specified price per application. For impressions delivered, revenue is recognized in the month in which the Company delivers the application to the end consumer or the month when the campaign ends.

2) Programmatic revenue - The Company generally offers these services under a programmatic bid on a Cost-per-Impression (CPM) basis. Our customers upload their advertisements into a demand side platform which then connects to our SDK through an exchange platform and on a bid system agree on the CPM rate and the impressions to be served.

The Company has concluded that the delivery of the Programmatic advertising is delivered at the earlier of month end or at a point in time and, as such, has concluded these deliveries are a single performance obligation. The Company is deemed to be the principal in the transaction and therefore recognizes the revenue on a gross basis and commissions are recognized as cost of sales. The Company invoices fees which are generally variable based on the arrangement, which would typically include the number of impressions delivered at a specified price per application. For impressions delivered, revenue is recognized in the month in which the Company delivers the application to the end consumer or the month when the campaign ends.

3) Content revenue – The Company recognizes content revenue on the following forms of revenue:

a) Carriers and OEMs - The Company generally offers these services under a customer contract per tablet device license fee model with OEMs. Monthly or quarterly license fees are based on the OEM agreement with the number of devices the Kidoz Kid Mode is installed upon.

2. Summary of significant accounting policies (Continued):

(c) Revenue recognition: (Continued)

b) Rooplay - The Company generates revenue through subscriptions or premium sales of Rooplay, (www.rooplay.com) the cloud-based EduGame system for kids to learn and play within its games on smartphones and tablet devices, such as Apple's iPhone and iPad, and mobile devices utilizing Google's Android operating system. The revenue is recognized net of platform fees.

c) Rooplay licensing - The Company licenses its branded educational games under a monthly cost per game agreement license fee model. Monthly license fees are based on the number of games licensed.

d) In App purchases - The Company generates revenue through in-application purchases ("in-app purchases") within its games; (i.e. Trophy Bingo (www.trophybingo.com)) on smartphones and tablet devices, such as Apple's iPhone and iPad, and mobile devices utilizing Google's Android operating system. Users can download the Company's free-to-play games through Android, Amazon, iOS and Facebook Messenger (this was discontinued in fiscal 2021) and pay to acquire virtual currency which can be redeemed in the game for power plays. The initial download of the mobile game from the Digital Storefront does not create a contract under ASC 606 because of the lack of commercial substance; however, the separate election by the player to make an in-application purchase satisfies the criterion thus creating a contract under ASC 606.

The Company has identified the following performance obligations in these contracts:

i. Ongoing game related services such as hosting of game play, storage of customer content, when and if available content updates, maintaining the virtual currency management engine, tracking gameplay statistics, matchmaking as it relates to multiple player gameplay, etc.

ii. Obligation to the paying player to continue displaying and providing access to the virtual items within the game.

Neither of these obligations are considered distinct since the actual mobile game and the related ongoing services are both required to purchase and benefit from the related virtual items. As such, the Company's performance obligations represent a single combined performance obligation which is to make the game and the ongoing game related services available to the players. The revenue is recognized net of platform fees.

(d) Foreign currency:

The consolidated financial statements are presented in United States dollars, the functional currency of the Company and its subsidiaries. The Company accounts for foreign currency transactions and translation of foreign currency financial statements under ASC 830, Foreign Currency Matters. Transaction amounts denominated in foreign currencies are translated at exchange rates prevailing

(Expressed in United States Dollars)

2. Summary of significant accounting policies (Continued):

(d) Foreign currency: (Continued)

at the transaction dates. Carrying values of monetary assets and liabilities are adjusted at each balance sheet date to reflect the exchange rate at that date. Non-monetary assets and liabilities are translated at the exchange rate on the original transaction date.

Gains and losses from restatement of foreign currency monetary and non-monetary assets and liabilities are included in operations. Revenues and expenses are translated at the rates of exchange prevailing on the dates such items are recognized in earnings.

(e) Cash and Cash Equivalents:

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash, collateral accounts with maturities greater than 1 year and subject to an insignificant risk of change in value.

(f) Accounts receivable:

Trade and other accounts receivable are reported at face value less any provisions for uncollectible accounts considered necessary. Accounts receivable includes receivables from online platforms and trade receivables from customers. The Company estimates doubtful accounts on an item-by-item basis and includes over-aged accounts as part of allowance for doubtful accounts, which are generally ones that are greater than ninety-days overdue. Bad debt expense, for the year ended December 31, 2022 was $nil (2021 - $945 and 2020 - $1,952). (Note 3)

(g) Equipment:

Equipment is recorded at cost less accumulated depreciation. Depreciation is provided for annually on the declining balance method over the following periods:

Equipment and computers	3 years
Furniture and fixtures	5 years

Expenditures for maintenance and repairs are charged to expenses as incurred. Major improvements are capitalized. Gains and losses on disposition of equipment are included in operations as realized.

In accordance with ASU No. 2016-02 “Leases (Topic 842), leasehold improvements are accounted as a prepayment of rental payments since they are deemed to be an asset of the lessor.

(h) Software Development Costs:

The Company expenses all software development costs as incurred for the year ended December 31, 2022 and 2021. As at December 31, 2022 and 2021, all capitalized software development costs have been fully amortized and the Company has no capitalized software development costs.

Total software development costs were $13,056,478 as at December 31, 2022 (2021 - $10,559,601 and 2020 - $8,880,753) (Note 8).

2. Summary of significant accounting policies (Continued):

(i) Derivative liability – warrants

The Company's warrants have an exercise price in Canadian dollars whilst the Company's functional currency is US Dollars. Therefore, in accordance with ASU 815 – Derivatives and Hedging, the warrants have a derivative liability value. This liability value has no effect on the cashflow of the Company and does not represent a cash payment of any kind.

(j) Stock-based compensation:

The Company accounts for stock-based compensation under the provisions of Accounting Standard Codification ("ASC") 718, "Compensation-Stock Compensation". Under the fair value recognition provisions, stock-based compensation expense is measured at the grant date for all stock-based awards to employees, directors and non-employees and is recognized as an expense over the requisite service period, which is generally the vesting period. The Black-Scholes option valuation model is used to calculate fair value.

The fair value of each option grant has been estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2022	2021	2020
Expected dividend yield	-	-	-
Volatility	90.20%	107.06%	123%
Risk-free interest rate	1.57%	0.52%	0.32%
Expected life of options	5 years	5 years	5 years
Forfeiture rate	5%	5%	5%

(k) Right-of-use assets:

The Company determines if an agreement is a lease at inception. The Company evaluates the lease terms to determine whether the lease will be accounted for as an operating or finance lease. Operating leases are included in operating lease right-of-use ("ROU") assets, operating lease liabilities, current portion, and operating lease liabilities, net of current portion in the consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease.

Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company leases do not provide an implicit rate, the Company uses the incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Company uses the implicit rate when readily determinable. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

2. Summary of significant accounting policies (Continued):

(k) Right-of-use assets: (Continued)

A lease that transfers substantially all of the benefits and risks incidental to ownership of property are accounted for as finance leases. At the inception of a finance lease, an asset and finance lease obligation is recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair market value. Finance lease obligations are classified as either current or long-term based on the due dates of future minimum lease payments, net of interest.

(l) Impairment of long-lived assets and long-lived assets to be disposed of:

If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less costs to sell.

(m) Intangible assets

The Company identified the following intangible assets in the acquisition of Kidoz Ltd. Finite life intangible assets are recorded at historical cost less accumulated amortization based on their estimated useful life and any impairment is determined in accordance with ASC 360. The Company does not have any indefinite life intangible assets. Amortization is provided for annually on the straight-line method over the following periods:

	Amortization period
Ad Tech technology	5 years
Kidoz OS technology	3 years
Customer relationships	8 years

The Company reviews intangible assets subject to amortization quarterly to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in the remaining useful life. If an impairment indicator exists, we test the intangible asset for recoverability. For purposes of the recoverability test, amortizable intangible assets are grouped with other assets and liabilities at the lowest level of identifiable cash flows if the intangible asset does not generate cash flows independent of other assets and liabilities. If the carrying value of the asset group exceeds the undiscounted cash flows expected to result from the use and eventual disposition of the asset group, the Company will write the carrying value down to the fair value in the period identified.

(n) Goodwill:

The Company accounts for goodwill in accordance with the provisions of ASC 350, Intangibles-Goodwill and Others. Goodwill is the excess of the purchase price over the fair value of identifiable assets acquired, less liabilities assumed, in a business combination. The Company reviews goodwill for impairment. Goodwill is not amortized but is evaluated for impairment at least annually or whenever events or changes in circumstances indicate that it is more likely than not that the carrying amount may not be recoverable.

2. Summary of significant accounting policies (Continued):

(n) Goodwill: (Continued)

The goodwill impairment test is used to identify both the existence of impairment and the amount of impairment loss, and compares the fair value of a reporting unit with its carrying amount and is based on discounted future cash flows, based on market multiples applied to free cash flow. The determination of the fair value of our reporting units requires management to make significant estimates and assumptions including the selection of control premiums, discount rates, terminal growth rates, forecasts of revenue and expense growth rates, income tax rates, changes in working capital, depreciation, amortization and capital expenditures. Changes in assumptions concerning future financial results, exogenous market conditions, or other underlying assumptions could have a significant impact on either the fair value of the reporting unit or the amount of the goodwill impairment charge. If the carrying value of the reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

During the year ended December 31, 2022 and 2021, there was no impairment of goodwill.

(o) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. The Company recognizes the income tax recovery from the receipt of tax credits upon receipt of funds. Deferred income taxes are provided based on the estimated future tax effects of temporary differences between financial statement carrying amounts of assets and liabilities and their respective tax bases, as well as the benefit of losses available to be carried forward to future years for tax purposes.

Deferred tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered and settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets when it is not more likely than not that such future tax assets will be realized.

(p) Net income (loss) per share:

ASC 260, “Earnings Per Share”, requires presentation of basic earnings per share (“Basic EPS”) and diluted earnings per share (“Diluted EPS”). Basic earnings (loss) per share is computed by dividing earnings (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution, using the treasury stock method, that could occur if outstanding options or warrants were exercised and converted into common stock. In computing diluted earnings per share, the treasury stock method assumes that outstanding options and warrants are exercised and the proceeds are used to purchase common stock at the average market price during the period.

(Expressed in United States Dollars)

2. Summary of significant accounting policies (Continued):

(p) Net income (loss) per share: (Continued)

Options and warrants will have a dilutive effect under the treasury stock method only when the average market price of the common stock during the period exceeds the exercise price of the options and warrants. In periods where losses are reported, the weighted average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive. A total of 8,859,000 (2021 - 7,100,150 and 2020 – 5,875,750) stock options and warrants were excluded as at December 31, 2022.

The income (loss) per share data for the year ended December 31, 2022 and 2021 are summarized as follows:

		2022		2021		2020
(Loss) Income for the year	$	(1,347,113)	$	(190,321)	$	103,971
Basic and diluted weighted average number of common shares outstanding		131,481,983		131,340,989		131,124,989
Basic and diluted (loss) income per common share outstanding	$	(0.01)	$	(0.00)		0.00

(q) New accounting pronouncements and changes in accounting policies:

The Company has evaluated all the recently issued, but not yet effective, accounting standards that have been issued or proposed by the Financial Accounting Standards Board or other standards-setting bodies through the filing date of these consolidated financial statements and does not believe the future adoption of any such pronouncements will have a material impact on its consolidated financial statements.

(r) Financial instruments and fair value measurements:

(i) Fair values:

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on measurement date. The Company classifies assets and liabilities recorded at fair value under the fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. The fair value measurements are classified under the following hierarchy:

Level 1—Observable inputs that reflect quoted market prices (unadjusted) for identical assets and liabilities in active markets;

Level 2—Observable inputs, other than quoted market prices, that are either directly or indirectly observable in the marketplace for identical or similar assets and liabilities, quoted prices in markets

2. Summary of significant accounting policies (Continued):

(r) Financial instruments and fair value measurements: (Continued)

that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities; and

Level 3—Unobservable inputs that are supported by little or no market activity that are significant to the fair value of assets or liabilities.

When available, we use quoted market prices to determine fair value, and we classify such measurements within Level 1. In some cases where market prices are not available, we make use of observable market-based inputs to calculate fair value, in which case the measurements are classified within Level 2. If quoted or observable market prices are not available, fair value is based upon valuations in which one or more significant inputs are unobservable, including internally developed models that use, where possible, current market-based parameters such as interest rates, yield curves and currency rates. These measurements are classified within Level 3.

Fair value measurements are classified according to the lowest level input or value-driver that is significant to the valuation. A measurement may therefore be classified within Level 3 even though there may be significant inputs that are readily observable.

Fair value measurement includes the consideration of nonperformance risk. Nonperformance risk refers to the risk that an obligation (either by a counterparty) will not be fulfilled. For financial assets traded in an active market (Level 1 and certain Level 2), the nonperformance risk is included in the market price. For certain other financial assets and liabilities (certain Level 2 and Level 3), our fair value calculations have been adjusted accordingly.

The fair value of accounts receivable, accounts payable, accrued liabilities, and accounts payable, accrued liabilities - related party and the government CEBA loan approximate their financial statement carrying amounts due to the short-term maturities of these instruments and are therefore carried at their historical cost basis.

Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and included situations where there is little, if any, market activity for the asset. The Company’s cash and long-term cash equivalents were measured using Level 1 inputs. Stock-based compensation and derivative liability – warrants were measured using Level 2 inputs. Goodwill impairment was measured using Level 3 inputs.

(ii) Foreign currency risk:

The Company operates internationally, which gives rise to the risk that cash flows may be adversely impacted by exchange rate fluctuations. The Company has not entered into any forward exchange contracts or other derivative instrument to hedge against foreign exchange risk.

(Expressed in United States Dollars)

3. Accounts Receivable:

The accounts receivable as at December 31, 2022, is summarized as follows:

		2022		2021
Accounts receivable	$	7,453,523	$	6,684,469
Provision for doubtful accounts		(53,241)		(56,605)
Net accounts receivable	$	7,400,282	$	6,627,864

The Company had bank accounts with the National Bank of Anguilla. During the year ended December 31, 2016, the National Bank of Anguilla filed for chapter 11 protection. The Company expensed the balance on account of $27,666 in fiscal 2016 as a doubtful debt. The Company has a doubtful debt provision of $25,575 (2021 - $28,939) for existing accounts receivable.

4. Prepaid expenses

The Company has other prepaid expenses of $71,248 (2021 - $105,468) including leasehold improvements of $8,519 (2021 - $16,499), which is recognized as prepaid rent for the year ended December 31, 2022.

5. Equipment:

2022		Cost		Accumulated depreciation		Net book Value
Equipment and computers	$	175,773	$	148,266	$	27,507
Furniture and fixtures		16,517		10,502		6,015
	$	192,290	$	158,768	$	33,522

2021		Cost		Accumulated depreciation		Net book Value
Equipment and computers	$	152,967	$	139,590	$	13,377
Furniture and fixtures		16,517		9,371		7,146
	$	169,484	$	148,961	$	20,523

Depreciation expense was $9,807 (2021 - $9,468 and 2020 - $8,555) for the year ended December 31, 2022.

(Expressed in United States Dollars)

6. Intangible assets:

2022		Cost		Accumulated amortization		Net book Value
Ad Tech technology	$	1,877,415	$	1,439,351	$	438,064
Kidoz OS technology		31,006		31,006		-
Customer relationship		1,362,035		652,642		709,393
	$	3,270,456	$	2,122,999	$	1,147,457

2021		Cost		Accumulated amortization		Net book Value
Ad Tech technology	$	1,877,415	$	1,063,869	$	813,546
Kidoz OS technology		31,006		29,283		1,723
Customer relationship		1,362,035		482,387		879,648
	$	3,270,456	$	1,575,539	$	1,694,917

Amortization expense was $547,460 (2021 - $556,072 and 2020 - $556,073) for the year ended December 31, 2022.

7. Goodwill:

The Company has a goodwill balance of $3,301,439 for year ended December 31, 2022 and 2021 from the acquisition of Kidoz Ltd.

The Company's annual goodwill impairment analysis performed during the fourth quarter of fiscal 2022 and 2021 included a quantitative analysis of the Kidoz Ltd. reporting unit (consisting of intangible assets (Note 6), deferred taxation (Note 13) and goodwill). The reporting unit has a carrying amount of $4,448,896 (2021 - $4,785,857) as at December 31, 2022. The Company performed a discounted cash flow analysis for the reporting unit. These discounted cash flow models included management assumptions for expected sales growth, margin expansion, operational leverage, capital expenditures, and overall operational forecasts. The Company classified these significant inputs and assumptions as Level 3 fair value measurements. Based on the annual impairment test described above there was no additional impairment determined for fiscal 2022 or fiscal 2021.

8. Content and software development costs:

Since the year ended December 31, 2014, the Company has been developing software technology and content for our business. This software technology and content includes the continued development of the KIDOZ Safe Ad Network, the KIDOZ Kid-Mode Operating System, and the KIDOZ publisher SDK. The development of Trophy Bingo, a social bingo game, the license, the development of the Rooplay platform and the development of the Rooplay Originals games. All new development on these products ceased in 2019 when the Company focus switched to the Kidoz Ad Tech business.

During the years ended December 31, 2022 and 2021, the Company has expensed the development costs of all products as incurred and has expensed the following development costs.

(Expressed in United States Dollars)

8. Content and software development costs: (Continued)

		2022		2021
Opening total software technology and content development costs	$	10,559,601	$	8,880,753
Software technology and content development during the year		2,496,877		1,678,848
Closing total software technology and content development costs	$	13,056,478	$	10,559,601

9. Government CEBA loan:

During the year ended December 31, 2020, the Company was granted a loan of $44,296 (CAD$60,000) under the Canada Emergency Business Account (CEBA) loan program for small businesses. The CEBA loan program is one of the many incentives the Canadian Government put in place in response to COVID-19. The loan is interest free and a third of the loan $14,766 (CAD$20,000) is eligible for complete forgiveness if $29,530 (CAD$40,000) is fully repaid on or before December 31, 2023. If the loan cannot be repaid by December 31, 2023, it can be converted into a 2-year term loan charging an interest rate of 5%.

During the year ended December 31, 2021, the Company drew $200,000 from its line of credit with the Leumi Bank in Israel. The loan was repaid in full during the year ended December 31, 2021 with interest costs of $987.

10. Stockholders' Equity:

The holders of common stock are entitled to one vote for each share held. There are no restrictions that limit the Company's ability to pay dividends on its common stock. The Company has not declared any dividends since incorporation. The Company's common stock has no par value per common stock and there is only one class of common shares. The Company has an unlimited number of common shares authorized for issue.

(a) Common stock issuances:

Fiscal 2022

During the year ended December 31, 2021, the Company engaged with Agora Internet Relations Corp. for an online marketing campaign on the AGORACOM platform. The agreement was for 12 months for a fee of $79,705 (CAD$100,000) payable in shares of the Company. During the year ended December 31, 2022, the Company issued 156,510 shares in settlement of its obligation under the contract.

Fiscal 2021

During the year ended December 31, 2021, the Company engaged Research Capital Corporation ("RCC") as a financial and capital markets advisor. As part of the compensation for its services, RCC will receive a monthly fee of $5,119 (CAD$6,500) for its trading advisory services for a minimum of 6 months with extension by mutual agreement and a financial advisory fee to be satisfied by the issuance of 230,000 common shares of the Company valued at $179,293. In addition, the Company granted 230,000 common share purchase warrants to RCC (Note 2(i)). Each warrant will entitle the holder thereof to purchase one common share in the capital of the Company

10. Stockholders' Equity: (Continued)

(a) Common stock issuances: (Continued)

at an exercise price of $0.77 (CAD$0.98) at any time up to 24 months following the date of issuance and expire on April 1, 2023. During the year ended December 31, 2021, the Company issued the shares and granted the warrants. Subsequent to the year ended December 31, 2022, the warrants expired unexercised.

During the year ended December 31, 2021, the holder of 70,000 stock options exercised their options for 70,000 shares for $31,264 at an average exercise price of $0.45 (CAD$0.54) per share.

Fiscal 2020

There were no common stock issuances for the year ended December 31, 2020.

(b) Normal Course Issuer Bid:

During the year ended December 31, 2022, the Company filed a Notice of Intention to Make a Normal Course Issuer Bid (the "Notice of Intention") with the TSX Venture Exchange ("TSX-V") on September 15, 2022. Upon receiving approval from the TSX-V, effective September 16, 2022, the Company commenced a normal course issuer bid ("NCIB"), whereby the Company may purchase for cancellation up to 6,579,074 shares, being 5% of the issued and outstanding shares as of such date. Any purchases under the NCIB will be made on the open market through the facilities of the TSX-V or alternative Canadian trading systems. Purchases will be made at market prices of the shares at the time of acquisition.

Purchases under the NCIB may commence as of September 16, 2022, and will end on the earlier of: (i) September 14, 2023; or (ii) the date on which the Company has purchased the maximum number of shares to be acquired under the NCIB. The Company may terminate the NCIB earlier if it feels it is appropriate to do so.

The normal course issuer bid will be conducted through Kidoz Inc's broker Research Capital Corporation. The purchase and payment of the common shares will be made in accordance with the requirements of the TSX-V and applicable securities laws. The actual number of common shares purchased, timing of purchases and share price will depend upon market conditions at the time and securities law requirements. All common shares acquired will be returned to treasury and cancelled.

The purchase of and payment for the shares will be made in accordance with the requirements of the TSX-V and applicable securities laws. The actual number of shares purchased, timing of purchases and share price will depend upon market conditions at the time and securities law requirements. All shares acquired pursuant to the NCIB will be returned to treasury and cancelled.

During the year ended December 31, 2022, 275,000 shares were acquired pursuant to the NCIB in effect, at an aggregate cost of $87,778. During the year ended December 31, 2022, 233,500 shares were cancelled.

Subsequent to the year ended December 31, 2022, 41,500 shares which were acquired during the year ended December 31, 2022, pursuant to the NCIB in effect, at an aggregate cost of $11,793, were cancelled.

(Expressed in United States Dollars)

Subsequent to the year ended December 31, 2022, 2,000 shares which were acquired pursuant to the NCIB in effect, were cancelled.

10. Stockholders' Equity: (Continued)

(c) Warrants:

A summary of warrant activity for the year ended December 31, 2022 and 2021 are as follows:

	Number of warrants	Exercise price	Expiry date
Outstanding, December 31, 2020 and 2019	-	$ -	
Granted	230,000	CAD$0.98	April 3, 2023
Outstanding December 31, 2022 and 2021	230,000	CAD$0.98	

A fair value of the derivative liability of $83,572 was estimated on the date of the subscription using the Binomial Lattice pricing model.

During the year ended December 31, 2022, there was a gain on derivative liability - warrants of $23,314 (2021 - $60,207) and the derivative liability – warrants value reduced to $51 (2021 - $23,365) with the following assumptions:

	December 31, 2022	December 31, 2021	April 1, 2021
Exercise price	CAD$0.98	CAD$0.98	CAD$0.98
Stock price	CAD$0.35	CAD$0.59	CAD$0.98
Expected term	0.25 years	1.25 years	2 years
Expected dividend yield	-	-	-
Expected stock price volatility	77.46%	88.33%	145.71%
Risk-free interest rate	3.55%	1.18%	0.73%

(d) Stock option plans:

2015 stock option plan

In the year ended December 31, 2015, the shareholders approved the 2015 stock option plan. The 2015 stock option plan as amended in November 2020, is intended to provide incentive to employees, directors, advisors and consultants of the Company to encourage proprietary interest in the Company, to encourage such employees to remain in the employ of the Company or such directors, advisors and consultants to remain in the service of the Company, and to attract new employees, directors, advisors and consultants with outstanding qualifications. The maximum number of shares issuable under the Plan shall not exceed 10% of the number of Shares of the Company issued and outstanding as of each Award Date unless shareholder approval is obtained in advance.

The Board of Directors determines the terms of the options granted, including the number of options granted, the exercise price and their vesting schedule. The maximum term possible is 10 years. Under the 2015 plan we have reserved 10% of the number of Shares of the Company issued and outstanding as of each Award Date. During the year ended December 31, 2020, the Rolling Stock Option plan was amended by inclusion of an Israeli Taxpayers Appendix.

(Expressed in United States Dollars)

10. Stockholders' Equity: (Continued)

(d) Stock option plans: (Continued)

During the year ended December 31, 2022, the Company granted 2,550,000 options to employees and consultants with an exercise price of CAD$0.50 ($0.37) where 2% vests per month. 900,000 of these options were granted to directors and officers of the Company.

During the year ended December 31, 2022, 285,600 options were cancelled, and 506,150 options expired unexercised.

During the year ended December 31, 2021, the Company granted to employees and consultants the following options:

- 1,040,000 options at CAD$0.50 ($0.39) where 10% vests on grant date, 15% one year following and 2% per month thereafter and expire on February 1, 2026. 400,000 of these options were granted to directors and officers of the Company.
- 35,000 options at CAD$0.50 ($0.39) which vested immediately and expire on February 1, 2026.
- 1,300,000 options at CAD$1.02 ($0.80) where 2% vests per month and expire on April 6, 2026. 400,000 of these options were granted to directors and officers of the Company.
- 300,000 options at CAD$0.66 ($0.52) where 2% vests per month and expire on July 12, 2026.

Subsequent to the year ended December 31, 2022, a further 1,885,000 options were awarded where 2% vests per month, with an exercise price of CAD$0.30 ($0.22) and 130,000 options were cancelled.

A summary of stock option activity for the stock option plans for the years ended December 31, 2022 and 2021 are as follows:

	Number of options		Weighted average exercise price
Outstanding December 31, 2020	5,875,750	$	0.39
Granted	2,675,000		0.60
Exercised	(70,000)		(0.45)
Expired	(570,000)		(0.43)
Cancelled	(1,040,600)		(0.42)
Outstanding December 31, 2021	6,870,150	$	0.48
Granted	2,550,000		0.37
Expired	(506,150)		(0.40)
Cancelled	(285,600)		(0.48)
Outstanding December 31, 2022	8,629,000	$	0.43

The aggregate intrinsic value for options as of December 31, 2022 was $nil (2021 - $334,897).

(Expressed in United States Dollars)

10. Stockholders' Equity: (Continued)

(d) Stock option plans: (Continued)

The following table summarizes information concerning outstanding and exercisable stock options at December 31, 2022:

Exercise prices per share	Number outstanding	Number exercisable	Expiry date
CAD$0.45	2,030,400	893,424	June 30, 2025
CAD$0.50	859,600	425,000	February 1, 2026
CAD$0.50	2,445,000	537,900	February 1, 2027
CAD$0.54	713,000	713,000	June 4, 2023
CAD$0.66	200,000	68,000	July 12, 2026
US$0.50	1,275,000	1,275,000	June 4, 2023
CAD$1.02	1,106,000	446,000	April 6, 2026
	8,629,000	4,358,324	

The Company recorded stock-based compensation of $696,248 on the options granted and vested (2021 – $660,266) and as per the Black-Scholes option-pricing model, with a weighted average fair value per option grant of $0.42 (2021 - $0.45).

11. Fair value measurement:

The following table sets forth the fair value of the Company's financial assets and liabilities measured at fair value on a recurring basis based on the three-tier fair value hierarchy.

	Level 1	Level 2	Level 3	Total
As at December 31, 2022				
Assets				
Cash	$2,363,530	$-	$-	$2,363,530
Long term cash equivalent	22,310	-	-	22,310
Liabilities				
Derivative liability – warrants	-	(51)	-	(51)
Total assets (liabilities) measured and recorded at fair value	$2,385,840	($51)	$-	$2,385,789

	Level 1	Level 2	Level 3	Total
As at December 31, 2021				
Assets				
Cash	$2,078,607	$-	$-	$2,078,607
Long term cash equivalent	23,624	-	-	23,624
Liabilities				
Derivative liability – warrants	-	(23,365)	-	(23,365)
Total assets measured and recorded at fair value	$2,102,231	($23,365)	$-	$2,078,866

(Expressed in United States Dollars)

12. Commitments:

The Company leases office facilities in Vancouver, British Columbia, Canada, The Valley, Anguilla, British West Indies and Netanya, Israel. These office facilities are leased under operating lease agreements.

During the year ended December 31, 2020, the Company signed a five-year lease for a facility in Vancouver, Canada, commencing April 1, 2020 and ending March 2024. This facility comprises approximately 1,459 square feet. The Company accounts for the lease in accordance with ASU 2016-02 (Topic 842) and recognizes a right-of-use asset and operating lease liability.

The Netanya, Israel operating lease expired on July 14, 2017, but unless 3 months' notice is given it automatically renews for a future 12 months until notice is given. During the year ended December 31, 2022, the lease was extended for a further 12 months. This facility comprises approximately 190 square metres. The renewal of this lease is uncertain, hence the Company has accounted for this lease as a short-term lease.

The Anguillan operating lease expired on April 1, 2011, but unless 3 months' notice is given it automatically renews for a further 3 months. Therefore, the Company accounts for the lease in accordance with ASU 2016-02 (Topic 842) and recognizes a right-of-use asset and operating lease liability.

Minimum lease payments under these leases are approximately as follows:

2023	$	81,558
2024		11,786

The Company paid rent expense totaling $130,308 for the year ended December 31, 2022 (2021 - $129,250).

The Company has the following management consulting agreements with related parties.

Company	Person	Role	Annual amount
T.M. Williams (ROW), Inc.	T. M. Williams	Chairman	$160,000
Bromley Accounting Services Ltd.	H. W. Bromley	CFO	CAD$215,000
Farcast Operations Inc.	T. H. Williams	VP Product	CAD$240,000

During the year ended December 31, 2022, Mr. J. M. Williams, the Company's CEO, became an employee of Shoal Media (Canada) Inc.

As at December 31, 2022, the Company had a number of renewable license commitments with large brands, including, Mr. Men and Little Miss and Mr. Bean. These agreements have commitments to pay royalties on the revenue from the licenses subject to the minimum guarantee payments. As at December 31, 2022, there were no further minimum guarantee payments commitments.

The Company expensed the minimum guarantee payments over the life of the agreement and recognized license expense of $14,090 (2021 - $18,512) for the year ended December 31, 2022.

(Expressed in United States Dollars)

13. Income taxes:

As at December 31, 2022, Kidoz Inc. was domiciled in the tax-free jurisdiction of Anguilla, British West Indies. However certain of the Company's subsidiaries incur income taxation. Subsequent to the year ended December 31, 2022, the Company continued out of Anguilla and into Canada and became a Canadian tax payer.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2022 and 2021, are presented below:

		2022		2021		2020
Computed "expected" tax expense	$	(314,497)	$	(5,535)	$	(10,192)
Change in statutory, foreign tax, foreign exchange rates and other		48,994		(231,545)		150,835
Permanent differences		187,044		(227)		(180,123)
Adjustment to prior years provision versus statutory tax returns		(5)		(17,161)		55,243
Change in valuation allowance		138,474		37,791		39,480
(Provision for) Recovery of current income taxes	$	(60,010)	$	(6,178)	$	55,243
Deferred income taxes		210,499		(210,499)		-
Total taxation	$	159,489	$	(216,677)	$	55,243

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2022 and 2021 are presented below:

		2022		2021
Deferred tax (liabilities) assets:				
Net operating loss carry forwards	$	208,480	$	285,045
Equipment		1,627		74
Intangible assets		(263,915)		(389,831)
Other		273,357		193,220
Valuation Allowance		(219,549)		(299,007)
Total deferred tax (liability) asset	$	-	$	(210,499)

As at December 31, 2022, the Company's had $1,023,314 of non-capital losses expiring through December 31, 2042.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those differences become deductible.

Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in assessing the realizability of deferred tax assets.

The Company recognized this tax credit as a recovery of income tax expense on the statement of operations and comprehensive (loss) income upon receipt of funds.

(Expressed in United States Dollars)

14. Right-of-use assets:

There is no discount rate implicit in the Anguilla office operating lease agreement, so the Company estimated a 5% discount rate for the incremental borrowing rate for the lease as of the adoption date, January 1, 2020. There is no discount rate implicit in the license agreement, so the Company estimated a 12% discount rate for the incremental borrowing rate for the licenses as of the adoption date, January 1, 2019.

Effective April 1, 2019, we recognized lease assets and liabilities of $125,474, in relation to the Vancouver office. We estimated a discount rate of 4.12%.

We elected the package of practical expedients permitted under the transition guidance within Topic 842, which allowed us to carry forward prior conclusions about lease identification, classification and initial direct costs for leases entered into prior to adoption of Topic 842.

Additionally, we elected to not separate lease and non-lease components for all of our leases. For leases with a term of 12 months or less, our current offices, we elected the short-term lease exemption, which allowed us to not recognize right-of-use assets or lease liabilities for qualifying leases existing at transition and new leases we may enter into in the future, as there is significant uncertainty on whether the leases will be renewed.

The right-of-use assets as at December 31, 2022, is summarized as follows:

		2022		2021		2020
Opening balance for the year	$	65,464	$	106,315	$	134,914
Capitalization of additional license leases		-		-		25,472
Amortization of operating lease right-of use assets		(28,935)		(40,851)		(54,071)
Closing balance for the year	$	36,529	$	65,464	$	106,315

The operating lease as at December 31, 2022, is summarized as follows:

As at December 31, 2022		
		Office lease
2023		33,159
2024		7,607
Total lease payments	$	40,766
Less: Interest		(1,210)
Present value of lease liabilities	$	39,556
Amounts recognized on the balance sheet		
Current lease liabilities	$	32,116
Long-term lease liabilities		7,440
Total lease payments	$	39,556

(Expressed in United States Dollars)

14. Right-of-use assets: (Continued)

	2022	2021	2020
Opening balance for the year	$ 74,067	$ 103,918	$ 127,615
Payments on operating lease liabilities	(34,511)	(29,851)	(23,697)
Closing balance for the year	39,556	74,067	103,918
Less: current portion	(32,116)	(32,068)	(30,083)
Operating lease liabilities – non-current portion as at end of year	$ 7,440	$ 41,999	$ 73,835

15. Related party transactions:

As at and for the year ended December 31, 2022, the Company has the following related party transactions:

	2022	2021	2020
Directors fees	$ 8,970	$ 8,000	$ 8,248
Salaries, wages, consultants and benefits	659,558	612,492	456,042
Selling and marketing	126,920	77,906	57,498
Stock-based compensation (Note 10)	276,207	237,348	61,701
Content and software development (Note 8)	246,016	214,843	156,522
Closing balance for the year	$ 1,317,671	$ 1,150,589	$ 740,011

The Company has liabilities of $80,874 (2021 - $53,829) as at December 31, 2022, to current directors, officers and companies owned by the current directors and officers of the Company for employment, director and consulting fees.

During the year ended December 31, 2022, the Company granted 900,000 options with an exercise price of CAD$0.50 ($0.39) per share to current directors and officers of the Company.

During the year ended December 31, 2021, the Company granted the following options to related parties: a) 400,000 options with an exercise price of CAD$0.50 ($0.39) per share
b) 400,000 options with an exercise price of CAD$1.02 ($0.80) per share

The related party transactions are in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

16. Segmented information:

The Company operates in reportable business segments, the sale of Ad tech advertising, programmatic advertising, and content revenue, including the sale of in-app purchases on Trophy Bingo and Garfield's Bingo; the premium purchase for Rooplay Originals and recurring subscription revenues from Rooplay and Kidoz OS and the sale of licenses of Kidoz OS.

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions on how to allocate resources and assess performance. The Company's chief operating decision makers are the Co-chief executive officers. The Company and the chief decision makers view the Company's operations and manage its business as three operating segments, namely Ad tech advertising, programmatic advertising, and content revenue.

(Expressed in United States Dollars)

16. Segmented information: (Continued)

The Company had the following revenue by geographical region.

		2022		2021		2020
Ad tech advertising revenue						
Western Europe	$	5,675,383	$	3,927,191	$	1,911,627
Central, Eastern and Southern Europe		297,862		193,085		-
North America		7,096,255		7,653,038		4,686,071
Other		1,356,418		421,204		133,872
Total ad tech advertising revenue	$	14,425,918	$	12,194,518	$	6,731,570
Programmatic advertising revenue						
North America	$	361,394	$	58,507	$	18,365
Total Programmatic advertising revenue	$	361,394	$	58,507	$	18,365
Content revenue						
Western Europe	$	76,572	$	84,884	$	100,625
Central, Eastern and Southern Europe		381		1,517		38,741
North America		37,766		47,390		182,676
Other		195,025		97,823		77,923
Total content revenue	$	309,744	$	231,614	$	399,965
Total revenue						
Western Europe	$	5,751,955	$	4,012,075	$	2,012,252
Central, Eastern and Southern Europe		298,243		194,602		38,741
North America		7,495,415		7,758,935		4,887,112
Other		1,551,443		519,027		211,795
Total revenue	$	15,097,056	$	12,484,639	$	7,149,900

Equipment

The Company's equipment is located as follows:

Net Book Value		2022		2021
Anguilla	$	60	$	91
Canada		20,143		8,542
Israel		9,279		11,055
United Kingdom		4,040		835
Total equipment	$	33,522	$	20,523

(Expressed in United States Dollars)

17. General and administrative:

General and administrative expenses were as follows:

	2022	2021	2020
Insurance	$ 46,765	$ 42,357	$ 34,354
Professional fees	319,016	211,873	183,475
Rental (Note 12)	130,308	129,250	119,055
Other general and administrative expenses	264,847	221,402	191,824
Total general and administrative expenses	$ 760,936	$ 604,882	$ 528,708

18. Stock awareness program

During the year ended December 31, 2021, the Company commenced a corporate stock awareness program. The Company engaged Research Capital Corporation, Agora Internet Relations Corp., Stockhouse Publishing Ltd. and Proactive for financial and capital markets advisory services and to assist with general market outreach to increase investor awareness as the Company continues to achieve important milestones and grow its investor base. Stockhouse Publishing Ltd. campaign was discontinued in the year ended December 31, 2022.

The Company incurred stock awareness expenses of $161,332 during the year ended December 31, 2022, of which $26,334 was paid in shares to Agora Internet Relations Corp.

The Company incurred stock awareness expenses of $402,845 during the year ended December 31, 2021, of which $179,293 is from the issuance of 230,000 common shares to RCC (Note 10) and a derivative liability of $83,572 (Note 10) from the warrants granted.

19 Concentrations:

Major customers

During the year ended December 31, 2022, and 2021, the Company sold Ad tech revenue; sold subscriptions on its site Rooplay; sold in-app purchases on its social bingo sites, Trophy Bingo and Garfield's Bingo and premium purchases of Rooplay Originals. During the year ended December 31, 2022, the Company had revenues of $3,528,530, $2,293,798, and $1,507,029 from three customers (December 31, 2021 - three customers for $3,373,241, $2,522,559 and $1,381,678; December 31, 2020 - two customers for $2,661,595 and $1,551,661) which was more than 10% of the total revenue. The Company is reliant on the Google App, iOS App and Amazon App Stores to provide a content platform for Rooplay, Trophy Bingo and Garfield's Bingo to be played thereon and certain advertising agencies for the Ad tech revenue.

20. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable. The Company places its cash and cash equivalents with high quality financial institutions and limits the amount of credit exposure with any one institution.

The Company currently maintains a substantial portion of its day-to-day operating cash and long-term cash equivalents balances at financial institutions. At December 31, 2022, the Company had total cash

20. Concentrations of credit risk: (Continued)

of $2,385,840 (2021 - $2,102,231) at financial institutions, where $2,150,761 (2021 - $1,793,265) is in excess of federally insured limits.

The Company has concentrations of credit risk with respect to accounts receivable, the majority of its accounts receivable are concentrated geographically in the United States amongst a small number of customers.

As of December 31, 2022, the Company had three customers, totaling $1,921,602, $1,061,177, and $920,736 respectively who accounted for greater than 10% of the total accounts receivable. As of December 31, 2021, the Company had three customers, totaling $1,952,040, $1,165,807, and $1,054,625 who accounted for greater than 10% of the total accounts receivable.

The Company controls credit risk through monitoring procedures and receiving prepayments of cash for services rendered. The Company performs credit evaluations of its customers but generally does not require collateral to secure accounts receivable.