

A2Z Smart Technologies Corp.

**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2023**

**(Unaudited)
(Expressed in US Dollars)**

A2Z SMART TECHNOLOGIES CORP.

A2Z SMART TECHNOLOGIES CORP.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023

(Unaudited)
(Expressed in US Dollars)

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A2Z SMART TECHNOLOGIES CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)
(Expressed in Thousands of US Dollars)

	<u>As at</u> <u>September 30, 2023</u>	<u>As at</u> <u>December 31, 2022</u>
ASSETS		
Current assets		
Cash and cash equivalents	1,656	2,616
Restricted cash	72	8
Inventories	340	375
Trade receivables, net	1,466	1,373
Other accounts receivable	1,504	2,570
Total current assets	5,038	6,942
Intangible asset - patent, net	2,070	2,207
Goodwill	1,188	1,188
Property, plant and equipment, net	1,891	2,357
Total non-current assets	5,149	5,752
Total Assets	10,187	12,694
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short term loan and current portion of long-term loans	1,115	1,403
Lease liability	257	281
Trade payables	2,641	2,224
Deferred revenues	-	1,373
Other accounts payable	856	956
Total current liabilities	4,869	6,237
Lease liability	279	605
Long term loans	273	341
Provisions	1,339	1,447
Warrant Liability (note 3)	3,858	1,142
Severance payment, net	30	33
Total non-current liabilities	5,779	3,568
Total liabilities	10,648	9,805
Shareholders' equity (deficit) (note 4)		
Share capital and additional paid in capital	53,814	43,452
Warrant Reserve	30,863	30,863
Accumulated other comprehensive income	(1,493)	(1,634)
Accumulated deficit	(79,841)	(67,395)
	3,343	5,286
Non-controlling interest	(3,804)	(2,397)
Total shareholders' equity (deficit)	(461)	2,889
Total liabilities and shareholders' equity (deficit)	10,187	12,694

November 14, 2023
Date of approval of the financial
statements

"Yonathan De Yonge"
Yonathan De Yonge - Director

"Joseph Bentsur"
Joseph Bentsur
President and
Chief Executive Officer

The accompanying notes are an integral part of these Condensed Interim Consolidated financial statements.

A2Z SMART TECHNOLOGIES CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Unaudited)

(Expressed in Thousands of US Dollars, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues (note 7):				
Sale of products	2,223	2,223	8,536	4,302
Services	365	427	1,520	1,224
	<u>2,558</u>	<u>2,650</u>	<u>10,056</u>	<u>5,526</u>
Cost of revenues				
Sale of products	1,903	1,860	7,031	3,556
Services	317	360	998	1,053
	<u>2,220</u>	<u>2,220</u>	<u>8,029</u>	<u>4,609</u>
Gross profit	<u>368</u>	<u>430</u>	<u>2,027</u>	<u>917</u>
Expenses:				
Research and development costs	1,201	1,208	3,444	3,379
Sales and marketing costs	275	69	757	351
General and administration expenses	3,844	5,296	11,546	9,418
Operating loss	<u>(4,952)</u>	<u>(6,143)</u>	<u>(13,720)</u>	<u>(12,231)</u>
Loss (gain) on revaluation of warrant liability (note 4)	(2,260)	-	84	-
Loss on sale of property, plant and equipment	-	11	-	27
Financial (income) expense	(104)	139	49	132
Loss before taxes on income	<u>(2,588)</u>	<u>(6,293)</u>	<u>(13,853)</u>	<u>(12,390)</u>
Income tax expense	-	-	-	-
Net loss for the period	<u>(2,588)</u>	<u>(6,293)</u>	<u>(13,853)</u>	<u>(12,390)</u>
Less: Net loss attributable to non-controlling interests	<u>(682)</u>	<u>(338)</u>	<u>(1,407)</u>	<u>(1,133)</u>
Net loss attributable to controlling shareholders	<u>(1,906)</u>	<u>(5,955)</u>	<u>(12,446)</u>	<u>(11,257)</u>
	<u>(2,588)</u>	<u>(6,293)</u>	<u>(13,853)</u>	<u>(12,390)</u>
Other comprehensive income (loss)				
Item that will not be reclassified to profit or loss:				
Adjustments arising from translating of financial statements to presentation currency	(84)	(54)	141	(1,051)
Other comprehensive income (loss)	<u>(84)</u>	<u>(54)</u>	<u>141</u>	<u>(1,051)</u>
Total comprehensive loss for the period	<u>(2,672)</u>	<u>(6,347)</u>	<u>(13,712)</u>	<u>(13,441)</u>

Less: Comprehensive loss attributable to non-controlling interests	(682)	(338)	(1,407)	(1,133)
Comprehensive loss attributable to controlling shareholders	(1,990)	(6,009)	(12,305)	(12,308)
Basic and diluted loss per share	(0.05)	(0.22)	(0.41)	(0.45)
Weighted average number of shares outstanding	36,852,911	27,359,230	33,833,953	27,154,021

The accompanying notes are an integral part of these Condensed Interim Consolidated financial statements.

A2Z SMART TECHNOLOGIES CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

(Unaudited)

(Expressed in Thousands of US Dollars)

	<u>Ordinary share capital</u>		<u>Warrant reserve</u>	<u>Accumulated</u>		<u>Non-controlling interest</u>	<u>Total Equity</u>
	<u>Number of shares</u>	<u>Additional paid in capital</u>		<u>Other Comprehensive Income</u>	<u>Accumulated deficit</u>		
Balance - January 1, 2023	30,945,322	\$ 43,452	\$ 30,863	\$ (1,634)	\$ (67,395)	\$ (2,397)	\$ 2,889
Net loss for the period	-	-	-	-	(12,446)	(1,407)	(13,853)
Adjustments arising from translating financial statements of foreign operations	-	-	-	141	-	-	141
Net comprehensive loss for the period	-	-	-	141	(12,446)	(1,407)	(13,712)
Issuance of shares in respect of private placement	1,783,561	1,933	-	-	-	-	1,933
Issuance of shares in respect of registered direct offering	3,818,275	4,193	-	-	-	-	4,193
Exercise of RSUs	325,833	-	-	-	-	-	-
Exercise of warrants	92,000	140	-	-	-	-	140
Share based compensation	-	4,096	-	-	-	-	4,096
Balance - September 30, 2023	36,964,991	53,814	30,863	(1,493)	(79,841)	(3,804)	(461)
	<u>Ordinary share capital</u>		<u>Warrant reserve</u>	<u>Accumulated</u>		<u>Non-controlling interest</u>	<u>Total Equity</u>
	<u>Number of shares</u>	<u>Additional paid in capital</u>		<u>Other Comprehensive Income</u>	<u>Accumulated deficit</u>		
Balance - January 1, 2022	26,326,488	\$ 28,297	\$ 34,763	\$ (708)	\$ (50,838)	\$ (607)	\$ 10,907
Net loss for the period	-	-	-	-	(11,257)	(1,133)	(12,390)
Adjustments arising from translating financial statements of foreign operations	-	-	-	(1,051)	-	-	(1,051)
Net comprehensive loss for the period	-	-	-	(1,051)	(11,257)	(1,133)	(13,441)
Issuance of shares in respect of crowd funding	74,895	-	-	-	-	-	-
Exercise of warrants	630,161	5,277	(3,900)	-	-	-	1,377
Issuance of shares in respect of Isramat deal (note 3)	273,774	2,089	-	-	-	-	2,089
Exercise of options	116,667	207	-	-	-	-	207
Expiration of warrants	-	51	-	-	-	-	51
Share based compensation	-	4,046	-	-	-	-	4,046
Balance - September 30, 2022	27,421,985	39,967	30,863	(1,759)	(62,095)	(1,740)	5,236

The accompanying notes are an integral part of these Condensed Interim Consolidated financial statements.

A2Z SMART TECHNOLOGIES CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Expressed in Thousands of US Dollars)

	Nine months ended September 30	
	2023	2022
Cash flows from operating activities		
Net loss for the period	(13,853)	(12,390)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization and depreciation	794	423
Share based compensation	4,096	4,046
Loss on revaluation of warrant liability	84	-
Loss on revaluation of contingent liability	(108)	143
Change in severance liability	(3)	(23)
Change in inventory	35	(2)
Change in trade receivables	(93)	361
Change in other account receivables	1,066	(1,981)
Accrued interest on loans and leases	(95)	-
Loss from sale of property, plant and equipment	-	27
Change in accounts payable	417	668
Changes in deferred revenues	(1,373)	139
Change in other accounts payable	(100)	520
	<u>(9,133)</u>	<u>(8,069)</u>
Cash flows from investing activities		
Restricted deposits	(64)	(14)
Newly consolidated subsidiary (see Appendix B)	-	(879)
Purchase of property, plant and equipment	(191)	(517)
	<u>(255)</u>	<u>(1,410)</u>
Cash flows from financing activities		
Issuance of shares and warrants, net	8,758	-
Exercise of options	-	207
Exercise of warrants	140	1,377
Lease payments	(255)	(48)
Repayment of loans	(519)	(394)
Proceeds from receipt of loans	163	1,094
	<u>8,287</u>	<u>2,236</u>
Decrease in cash and cash equivalents	(1,101)	(7,241)
Effect of changes in foreign exchange rates	141	(664)
Cash and cash equivalents at beginning of period	<u>2,616</u>	<u>8,470</u>
Cash and cash equivalents at end of period	<u>1,656</u>	<u>565</u>
Interest paid during the period	78	10
APPENDIX A: NON-CASH ACTIVITIES		
Sale of fixed asset	-	394
Issuance of shares in respect of Isramat deal	<u>-</u>	<u>2,089</u>

A2Z SMART TECHNOLOGIES CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Expressed in Thousands of US Dollars)

APPENDIX B: INVESTMENT IN NEWLY CONSOLIDATED SUBSIDIARIES

	Nine months ended September 30	
	2023	2022
Issuance of the Company's ordinary shares	-	2,089
Working capital other than cash and cash equivalents	-	(878)
Liability for severance pay fund, net	-	35
Provision for vacation leave	-	49
Property, plant and equipment	-	(636)
Goodwill	-	(1,538)
Total cash and cash equivalents paid	-	(879)

The accompanying notes are an integral part of these Condensed Interim Consolidated financial statements.

A2Z SMART TECHNOLOGIES CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Expressed in thousands of US Dollars)

NOTE 1 – NATURE AND CONTINUANCE OF OPERATIONS

A2Z SMART TECHNOLOGIES CORP. (the “Company” or “A2ZST”) was incorporated on January 15, 2018 under the laws of British Columbia. The head office is located at 1600 – 609 Granville Street, Vancouver, British Columbia V7Y 1C3, and the records and registered office is located at 2200 HSBC Building 885 West Georgia Street, British Columbia, V6C 3E8.

The Company was listed on the NASDAQ Stock Market LLC (“Nasdaq”) starting January 22, 2022, and trades under the symbol “AZ” and on the TSX Venture Exchange (“TSX Venture”) and trades under the symbol “AZ.V”.

The Company owns 76.78% of the common shares of Cust2Mate Ltd (“Cust2Mate”), a technology company focused on providing retail automation solutions, in particular for large grocery stores and supermarkets. The Company’s primary product is the Cust2Mate system which incorporates a “smart cart” which automatically calculates the value of the customers purchases in their smart cart, without having to unload and reload their purchases at a customer checkout point.

The Cust2Mate system offers various features for shoppers and retailers such as product information and location, an on-cart scale to weigh items and automatically calculate costs, bar-code scanner and on-board payment system to bypass checkout lines. In addition, the product includes big data smart algorithms and computer vision capabilities, allowing for customer specific targeted advertising. (“The Cust2Mate Platform”).

The Cust2Mate Platform is being rolled out in Israel and is being marketed throughout the world, with pilot programs in North and South America, Europe and in the Middle East.

The Company’s other activities include the provision of services in the field of services to the military and security markets as well as the development of related products for the civilian markets. Such services include providing maintenance services and container leasing. The Company also provides maintenance services for complex electronic systems and products.

The Company, through its 80% owned subsidiary, Advanced Automotive Innovations Inc., (“AAI”) continues the development of a product for the automotive market - the FTICS or Fuel Tank Inertia Capsule System which activates automatically in the event of a vehicle collision. This eliminates the danger of fuel tank combustion thereby saving lives and reducing damage.

As of September 30, 2023, the Company had four key subsidiaries, all of which are companies incorporated under the laws of Israel: (1) Cust2mate Ltd. (“Cust2mate”); (2) A2Z Advanced Military Solutions Ltd (“A2Z MS”); (3) A2Z Advanced Solutions Ltd. (“A2Z AS”); and (4) Isramat Ltd., the “Subsidiaries”). On August 10, 2023, Cust2mate announced the launch of Cust2mate USA Inc. (Cust2mate USA”), a subsidiary incorporated on July 12, 2023, under the laws of Delaware.

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred recurring losses and negative cash flows from operating activities since inception, such that as of September 30, 2023, the Company had accumulated losses of \$79,841 and a net loss in the amount of \$13,853 for the nine months ended September 30, 2023. As of the date of the issuance of these financial statements, the Company has not yet commenced generating sufficient revenues to fund its operations, and therefore depends on fundraising from new and existing investors to finance its activities.

Considering the above, the Company’s dependency on external funding for its operations raises a substantial doubt about the Company’s ability to continue as a going concern. The condensed consolidated financial statements for the nine months ended September 30, 2023 do not include any adjustments that might result from the outcome of these uncertainties.

After the balance sheet date, on October 7, 2023, an attack was launched against Israel by Hamas (a terror organization) which thrust Israel into a state of war (hereinafter: “The state of war”) in Israel and in the Gaza strip. Revenues in the Company’s Isramat division have decreased in October 2023, but the Company has not yet determined if this is due to the effects of the state of war. The Company is continuing with its operations both in Israel and globally. The Company continues to assess the effects of the state of war on its financial statements and business.

These Condensed Interim Consolidated financial statements were authorized for issue by the Board of Directors on November 14, 2023.

A2Z SMART TECHNOLOGIES CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Expressed in thousands of US Dollars)

NOTE 2 – BASIS OF PREPARATION

1. Significant accounting policy

Statement of Compliance

These unaudited Condensed Interim Consolidated financial statements of the Company are as of September 30, 2023, and presented in US dollars, which is not the functional currency. The functional currency is the NIS. These unaudited interim condensed consolidated financial statements have been prepared in accordance with the requirements of International Accounting Standard IAS 34 “Interim Financial Reporting” as issued by the IASB. They do not include all the information required in annual financial statements in accordance with IFRS and should be read in conjunction with the financial statements of the Company for the year ended December 31, 2022.

The policies applied in these Condensed Interim Consolidated financial statements are based on IFRS effective as of September 30, 2023, and are consistent with those included in the Company’s annual financial statements for the year ended December 31, 2022.

Basis of Consolidation

The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intercompany balances and transactions and any unrealized income and expenses arising from such transactions are eliminated upon consolidation.

Basis of measurement

These consolidated financial statements have been prepared on a going concern basis, under the historical cost basis, except for financial instruments which have been measured at fair value.

2. Critical Estimates and Assumptions

The preparation of the Company’s financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The Company’s financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the Company’s financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods when the revision affects both current and future periods.

A2Z SMART TECHNOLOGIES CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Expressed in thousands of US Dollars)

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the respective entity operates; the Company has determined the functional currency of each entity to be the New Israeli Shekel. Such determination involves certain judgements to identify the primary economic environment. The Company reconsiders the functional currency of its subsidiaries if there is a change in events and/or conditions which determine the primary economic environment. During the three and nine months ended September 30, 2023, there have been no such changes. The Company's presentation currency is the U.S. dollar.

The critical judgments and significant estimates in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are the same as at December 31, 2022:

a) *The useful life of property and equipment*

Property and equipment are amortized or depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the amounts charged to the consolidated statement of comprehensive income in specific periods.

b) *Determining the fair value of share-based payment transactions*

The fair value of share-based payment transactions is determined upon initial recognition by the Binomial model. The Binomial model is based on share price and exercise price and assumptions regarding expected volatility, term of share option, dividend yield and risk-free interest rate.

c) *Intangible assets and goodwill*

Intangible assets and goodwill are tested for impairment annually or more frequently if there is an indication of impairment. The carrying value of intangibles with definite lives is reviewed each reporting period to determine whether there is any indication of impairment. If there are indications of impairment the impairment analysis is completed and if the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and impairment loss is recognized.

d) *Derivative liability – Warrants*

The Company uses the Black-Scholes option-pricing model to estimate fair value at each reporting date. The key assumptions used in the model are the expected future volatility in the price of the Company's common shares, no par value per share (the "Common Shares") and the expected life of the warrants.

e) *Going concern*

In order to assess whether it is appropriate for the Company to continue as going concern, management is required to apply judgements and make estimates with regards to future cash flow projections. In arriving at this judgement there were several assumptions and estimates involved in calculating the future cash flow projections. These includes making estimates regarding the timing and amounts of future expenditures and the ability and timing to raising additional financing.

3. New Accounting Standards

A number of amended standards became applicable for the current reporting period. The Company and its subsidiaries did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amended standards:

1. Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2
2. Definition of Accounting Estimates – Amendments to IAS 8
3. Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

A2Z SMART TECHNOLOGIES CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

(Expressed in thousands of US Dollars)

NOTE 3 – WARRANT LIABILITY**a) June 2023 Warrants**

On June 15 and on June 20, 2023, the Company issued an aggregate of 1,909,134 June 2023 Registered Direct Offerings Warrants (as defined below) as part of registered direct offerings (see also note 5(g)). The warrants were issued with an exercise price denominated in Canadian Dollars (CAD2.93) rather than the functional currency of the Company – New Israeli Shekels (NIS). The June 2023 Registered Direct Offerings Warrants are exercisable for a period of 2 years from the issue date. The Black-Scholes option pricing model was used to measure the warrant liability with the following assumptions: volatility of 99% using the historical prices of the Company, risk-free interest rate of 4.45%, expected life of 2.00 years and share price of CAD2.99.

Level 3 for the period ended on September 30, 2023:

Balance at January 1, 2023	\$	-
Issuance of June 2023 Registered Direct Offerings Warrants		2,333
Balance at June 30, 2023	\$	2,333
Revaluation at September 30, 2023		(410)
Effect of changes in foreign exchange rates		(33)
Balance at September 30, 2023	\$	1,890

For the three- and nine-month period ended September 30, 2023, the Company recorded a gain on the revaluation of the June 2023 warrant liability in the amount of \$410 and \$410, respectively (for the three- and nine-month period ended September 30, 2022 - \$nil and \$nil, respectively).

b) March 2023 Warrants

On March 20, 2023, the Company issued an aggregate of 891,778 March 2023 Warrants (as defined below) as part of a private placement (see also note 5(f)). The warrants were issued with an exercise price denominated in Canadian Dollars (CAD2.35) rather than the functional currency of the Company – New Israeli Shekels (NIS). The warrants are exercisable for a period of 2 years from the issue date. The Black-Scholes option pricing model was used to measure the warrant liability with the following assumptions: volatility of 93% using the historical prices of the Company, risk-free interest rate of 3.62%, expected life of 2.00 years and share price of CAD1.74.

Level 3 for the period ended on September 30, 2023:

Balance at January 1, 2023	\$	-
Issuance of March 2023 Warrants		496
Balance at March 31, 2023	\$	496
Revaluation at June 30, 2023		1,004
Balance at June 30, 2023	\$	1,500
Revaluation at September 30, 2023		(688)
Effect of changes in foreign exchange rates		(21)
Balance at September 30, 2023	\$	791

A2Z SMART TECHNOLOGIES CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

(Expressed in thousands of US Dollars)

NOTE 3 – WARRANT LIABILITY (CONTINUED)

For the three-month period ended September 30, 2023, the Company recorded a gain on the revaluation of the March 2023 warrant liability in the amount of \$688. For the nine-month period ended September 30, 2023, the Company recorded a loss on the revaluation of the March 2023 warrant liability in the amount of \$316, (for the three and nine-month period ended September 30, 2022 - \$nil and \$nil, respectively).

c) November 2022 Warrants

On November 2, 2022, the Company issued an aggregate of 1,489,166 warrants (November 2022 Warrants) as part of a private placement. The warrants were issued with an exercise price denominated in Canadian Dollars (CAD2.35) rather than the functional currency of the Company – New Israeli Shekels (NIS). The warrants are exercisable for a period of 2 years from the issue date. The Black-Scholes option pricing model was used to measure the warrant liability with the following assumptions: volatility of 110% using the historical prices of the Company, risk-free interest rate of 3.94%, expected life of 2.00 years and share price of CAD1.56.

Level 3 for the period ended on September 30, 2023:

Balance at January 1, 2022	\$	-
Issuance of November 2022 Warrants		894
Revaluation at December 31, 2022		<u>248</u>
Balance at December 31, 2022	\$	1,142
Revaluation at March 31, 2023	\$	<u>(405)</u>
Balance at March 31, 2023	\$	737
Warrant exercises (note 4(d))	\$	(66)
Revaluation at June 30, 2023		<u>1,745</u>
Balance at June 30, 2023	\$	<u>2,416</u>
Warrant exercises (note 4(d))		(39)
Revaluation at September 30, 2023		(1,175)
Effect of changes in foreign exchange rates		<u>(25)</u>
Balance at September 30, 2023	\$	<u><u>1,177</u></u>

For the three-month period ended September 30, 2023, the Company recorded a gain on the revaluation of the November 2022 warrant liability in the amount of \$1,175. For the nine-month period ended September 30, 2023, the Company recorded a loss on the revaluation of the November 2022 warrant liability in the amount of \$165, (for the three and nine-month period ended September 30, 2022 - \$nil and \$nil, respectively).

A2Z SMART TECHNOLOGIES CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Expressed in thousands of US Dollars)

NOTE 4 - SHAREHOLDERS EQUITY

The Company's Authorized share capital is unlimited common shares without par value, or the Common Shares.

As of September 30, 2023, the number of shares issued and outstanding are 36,964,991 (December 31, 2022 – 30,945,322).

- a) During the nine months ended September 30, 2022, the Company issued 630,161 shares in respect of 630,161 warrants that were exercised for gross proceeds of \$1,377 (note 5 (a)).
- b) On February 3, 2022, the Company issued the shareholders of Isramat 273,774 Common Shares in the capital of the Company in respect of the acquisition of Isramat. Total value of the shares issued was \$2,089.
- c) On February 11, 2022, the Company issued 74,985 Common Shares to a trustee in respect of a crowd funding transaction that was completed in 2019, for which shares were not immediately issued until the completion of an Israeli tax ruling which was only finalized in late 2021.
- d) During the nine months ended September 30, 2023, the Company issued 92,000 Common Shares in respect of 92,000 warrants that were exercised for gross proceeds of \$140 (note 3 (c) and note 5 (a)).
- e) During the nine months ended September 30, 2023, the Company issued 325,833 Common Shares in respect of 325,833 RSUs that were exercised (note 5 (c)).
- f) On March 20, 2023, the Company closed a private placement for gross proceeds of \$2,604 through the issuance of 1,783,561 units ("March 2023 Units") at a price per March 2023 Unit of US\$1.46 (CAD\$1.95). Each March 2023 Unit consists of one Common Share and one half of one Common Share purchase warrant (each whole such warrant a "Warrant"). An aggregate of 891,778 Warrants were issued with an exercise price of CAD\$2.35 (US\$1.75) The Warrants have a term of two years and if fully exercised, will result in the issuance of an additional 891,778 Common Shares ("March 2023 Private Placement Warrants"). A finder's fee of \$208 (CAD\$290) was paid and 142,685 March 2023 Private Placement Warrants were issued in connection with the private placement.
- g) On June 15 and on June 20, 2023, the Company closed registered direct offerings for gross proceeds of \$6,873 through the issuance of 3,818,275 units ("June 2023 Units") at a price per Unit of US\$1.80 (CAD\$2.41). Each June 2023 Unit consists of one Common Share and one half of one Common Share purchase warrant (each whole such warrant a "Warrant"). An aggregate of 1,909,134 Warrants were issued with an exercise price of CAD\$2.93 (US\$2.20) The Warrants have a term of two years and if fully exercised, will result in the issuance of an additional 1,909,134 Common Shares ("June 2023 Registered Direct Offerings Warrants"). A finder's fee of \$550 (CAD\$733) was paid and 305,462 non-registered warrants were issued in connection with the Registered Direct Offerings.

A2Z SMART TECHNOLOGIES CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

(Expressed in thousands of US Dollars)

NOTE 5 - WARRANTS AND OPTIONS**a) Warrants**

- (i) Warrant transactions for the nine months ended September 30, 2023, and for the year ended December 31, 2022, are as follows:

	Number	Weighted Average Exercise Price
Balance, January 1, 2022	5,966,204	\$ 3.55
Expiration of warrants	(5,437)	
Exercise of warrants	(630,161)	
Warrants issued in the November 2022 Private Placement	1,726,366	
Balance, December 31, 2022	7,056,972	\$ 3.07
Warrants issued in the March 2023 Private Placement	1,034,463	
Exercise of warrants (*)	(92,000)	
Warrants issued in the June 2023 Registered Direct Offerings	2,214,596	
Balance, September 30, 2023	10,214,031	\$ 2.62

- (*) During the nine months ended September 30, 2023, the Company issued 92,000 Common Shares in respect of 92,000 warrants that were exercised for gross proceeds of \$140. All exercised warrants were warrants classified as a liability prior to their exercise.

A2Z SMART TECHNOLOGIES CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

(Expressed in thousands of US Dollars)

NOTE 5 - WARRANTS AND OPTIONS (CONTINUED)**a) Warrants (continued)**

As at September 30, 2023, the Company had outstanding warrants, enabling the holders to acquire Common Shares as follows:

September 30, 2023	Expiry date	Exercise price		Exercise price (USD)	
2,658,313	November 10, 2025	ILS	7.1418 ⁽¹⁾	\$	1.87
1,366,631	December 24, 2025	ILS	7.1418 ⁽¹⁾	\$	1.87
221,100	April 22, 2026	ILS	29.025 ⁽²⁾	\$	7.59
1,084,562	May 6, 2026	ILS	29.025 ⁽²⁾	\$	7.59
1,634,366	November 8, 2024	CAD	2.04	\$	1.60
1,034,463	March 13, 2025	CAD	2.35	\$	1.75
2,214,596	June 15, 2025	CAD	2.93	\$	2.20
10,214,031					

1. On March 31, 2021, warrant holders and the Company, agreed that the exercise price of CAD\$2.70 would be payable in New Israeli Shekels. The exercise price is NIS 7.1418 per warrant.
2. On June 30, 2021, warrant holders and the Company, agreed that the exercise price of CAD\$11.04 would be payable in New Israeli Shekels. The exercise price is NIS 29.025 per warrant. On March 27, 2023, the expiry dates of a total of 221,100 share purchase warrants were extended by three years to April 26, 2026, and the expiry dates of a total of 1,084,562 share purchase warrants were extended by three years to May 6, 2026.

b) Stock Options

Stock option transactions for the nine months ended September 30, 2023, and for the year ending December 31, 2022, are as follows:

	Number	Weighted Average Exercise Price (CAD)	Weighted Average Exercise Price (USD)
Balance January 1, 2022	820,010	\$ 2.26	\$ 1.78
Options granted	1,200,000	3.67	
Exercise of options	(116,667)	2.27	
Expiry of options	(20,000)	1.50	
Balance December 31, 2022	1,883,343	\$ 3.17	\$ 2.45
Options granted (i-iv)	1,585,250	1.78	1.34
Cancelation of options	(52,375)	2.11	1.57
Balance September 30, 2023	3,416,218	\$ 2.54	\$ 1.89

- (i) On January 4, 2023, 816,500 stock options were issued to directors and consultants with an exercise price of CAD\$1.65. The options expire on January 4, 2033. The fair value of the options granted was estimated at \$1,017 using the Black-Scholes option pricing model, using the following assumptions: Share Price: CAD\$1.80; Expected option life 10 years; Volatility 112%; Risk-free interest rate 3.28%; Dividend yield 0%.
- (ii) On February 8, 2023, 100,000 stock options were issued to a consultant with an exercise price of CAD\$1.50. The options expire on November 25, 2027. The fair value of the options granted was estimated at \$135 using the

Black-Scholes option pricing model, using the following assumptions: Share Price: CAD\$2.18; Expected option life 4.8 years; Volatility 112%; Risk-free interest rate 3.16%; Dividend yield 0%.

(iii) On April 18, 2023, 423,750 stock options were issued to employees with an exercise price of CAD\$1.60. The options expire on April 18, 2033. The fair value of the options granted was estimated at \$420 using the Black-Scholes option pricing model, using the following assumptions: Share Price: CAD\$1.42; Expected option life 10 years; Volatility 111%; Risk-free interest rate 3.57%; Dividend yield 0%.

(iii) On June 28, 2023, 245,000 stock options were issued to officers with an exercise price of CAD\$2.45. The options expire on June 28, 2028. The fair value of the options granted was estimated at \$443 using the Black-Scholes option pricing model, using the following assumptions: Share Price: CAD\$2.92; Expected option life 5 years; Volatility 111%; Risk-free interest rate 4.14%; Dividend yield 0%.

A2Z SMART TECHNOLOGIES CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

(Expressed in thousands of US Dollars)

NOTE 5 - WARRANTS AND OPTIONS (CONTINUED)**b) Stock Options (continued)**

As at September 30, 2023, the Company had outstanding stock options, enabling the holders to acquire Common Shares as follows:

Outstanding as of September 30, 2023	Exercisable as of September 30, 2023	Expiry date	Exercise price (CAD)		Exercise price (USD)
543,333	543,333	August 20, 2025	CAD	1.50	\$ 1.11
33,333	33,333	January 28, 2025	CAD	3.00	\$ 2.23
50,000	33,333	June 3, 2026	CAD	8.40	\$ 6.24
16,677	11,118	October 28, 2026	CAD	8.00	\$ 5.95
900,000	450,000	August 2, 2032	CAD	3.56	\$ 2.65
300,000	300,000	August 21, 2032	CAD	4.00	\$ 2.97
804,125	804,125	January 4, 2033	CAD	1.65	\$ 1.23
100,000	75,000	November 25, 2027	CAD	2.01	\$ 1.49
423,750	-	April 18, 2033	CAD	1.60	\$ 1.19
245,000	-	June 28, 2028	CAD	2.45	\$ 1.82
3,416,218	2,250,242				

Share-based compensation expense is recognized over the vesting period of options. During the nine months ended September 30, 2023, share-based compensation of \$3,299 was recognized and charged to the Consolidated Statement of Comprehensive Loss (September 30, 2022 – \$2,034).

c) RSUs

On August 4, 2022, the Company granted 1,265,000 Restricted Share Units (“RSUs”) to directors, officers and advisers, of which 590,000 RSUs are to executives and directors, pursuant to the Company’s RSU Plan and in acknowledgment of the Company’s management recent success and increased future workload. The RSUs will vest at each recipient’s discretion into 1,265,000 Common Shares.

On January 4, 2023, the Company granted 1,027,000 Restricted Share Units (“RSUs”) to directors, officers and advisers, of which 260,000 RSUs are to executives and directors, pursuant to the Company’s RSU Plan and in acknowledgment of the Company’s management recent success and increased future workload. The RSUs will vest at each recipient’s discretion and taking into account personal tax implications and convert into 1,027,000 Common Shares .

On April 18, 2023, the Company granted 116,250 RSUs to employees, pursuant to the Company’s RSU Plan. The RSUs will vest at each recipient’s discretion and taking into account personal tax implications and convert into 116,250 Common Shares of no-par value in the Company.

On June 28, 2023, the Company granted 165,000 Restricted Share Units (“RSUs”) to officers pursuant to the Company’s RSU Plan. The RSUs will vest at each recipient’s discretion and taking into account personal tax implications and convert into 165,000 Common Shares.

RSUs transactions for the nine months ended September 30, 2023, and for the year ending December 31, 2022, are as follows:

	Number
Balance, January 1, 2022	-
RSUs granted	1,265,000
Exercise of RSUs	(545,000)
Balance, December 31, 2022	720,000
RSUs granted	1,308,250
Exercise of RSUs	(325,833)
Expiry of RSUs	(84,167)
Balance, September 30, 2023	1,618,250

Total exercisable RSUs as at September 30, 2023, are 449,499 (December 31, 2022 – 225,832). During the nine months ended September 30, 2023, share-based compensation of \$797 was recognized and charged to the Consolidated Statement of Comprehensive Loss (September 30, 2022 – \$2,012).

A2Z SMART TECHNOLOGIES CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

(Expressed in thousands of US Dollars)

NOTE 6 - REVENUES:**Revenue streams:**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues from services:				
Revenues from services	292	341	1,216	979
Revenues from leasing	73	85	304	245
Precision metal parts:				
Revenues from sales of precision metal parts	781	1,015	2,394	2,887
Smart Carts:				
Revenues from smart carts project	1,442	1,208	6,142	1,415
	2,588	2,650	10,056	5,526

NOTE 7 – OPERATING SEGMENTS:

The Company and its subsidiaries are engaged in the following three segments:

- a. Services to the military/security markets as well as development of related products for the civilian and retail markets. (“Services”)
- b. Retail automation solutions – Smart Carts (“Smart Carts”)
- c. Manufacturing and selling of precision metal parts – “Precision Metal Parts”

	Nine Months Ended September 30, 2023			
	Precision Metal Parts	Advanced Engineering	Smart Carts	Total
<i>Revenues</i>				
External	\$ 2,394	\$ 1,949	\$ 6,142	\$ 10,485
Inter-segment	-	(429)	-	(429)
<i>Total</i>	<u>2,394</u>	<u>1,520</u>	<u>6,142</u>	<u>10,056</u>
<i>Segment loss (gain)</i>				
Loss on revaluation of warrant liability	743	131	12,846	13,720
Finance expense, net				84
Tax expenses				49
Loss				<u>-</u>
				<u>\$ 13,853</u>

A2Z SMART TECHNOLOGIES CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

(Expressed in thousands of US Dollars)

Nine Months Ended September 30, 2022

	Precision Metal Parts	Advanced Engineering	Smart Carts	Total
<i>Revenues</i>				
External	\$ 2,887	\$ 1,224	\$ 1,415	\$ 5,526
Inter-segment	-	-	-	-
<i>Total</i>	<u>2,887</u>	<u>1,224</u>	<u>1,415</u>	<u>5,526</u>
<i>Segment loss</i>				
	445	628	11,158	12,231
Loss on sale of fixed asset				27
Finance income, net				(11)
Tax expenses				-
Loss				<u>\$ 12,247</u>

Three Months Ended September 30, 2023

	Precision Metal Parts	Advanced Engineering	Smart Carts	Total
<i>Revenues</i>				
External	\$ 781	\$ 513	\$ 1,442	\$ 2,736
Inter-segment	-	(148)	-	(148)
<i>Total</i>	<u>781</u>	<u>365</u>	<u>1,442</u>	<u>2,588</u>
<i>Segment loss (gain)</i>				
	195	187	4,570	4,952
Gain on revaluation of warrant liability				(2,260)
Finance income, net				(104)
Tax expenses				-
Loss				<u>\$ 2,588</u>

Three Months Ended September 30, 2022

	Precision Metal Parts	Advanced Engineering	Smart Carts	Total
<i>Revenues</i>				
External	\$ 1,015	\$ 427	\$ 1,208	\$ 2,650
Inter-segment	-	-	-	-
<i>Total</i>	<u>1,015</u>	<u>427</u>	<u>1,208</u>	<u>2,650</u>
<i>Segment loss</i>				
	246	136	5,761	6,143
Loss on sale of fixed asset				11
Finance income, net				(4)
Tax expenses				-
Loss				<u>\$ 6,150</u>

A2Z SMART TECHNOLOGIES CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Expressed in thousands of US Dollars)

NOTE 8 - FINANCIAL RISK FACTORS:

ECL and their measurement

ECL are measured as the unbiased probability-weighted present value of all cash shortfalls over the expected life of each financial asset. For receivables from financial services, ECL are mainly calculated with a statistical model using three major risk parameters: probability of default, loss given default and exposure at default. The estimation of these risk parameters incorporates all available relevant information, not only historical and current loss data, but also reasonable and supportable forward-looking information reflected by the future expectation factors. This information includes macroeconomic factors (e.g., gross domestic product growth, unemployment rate, cost performance index) and forecasts of future economic conditions. For receivables from financial services, these forecasts are performed using a scenario analysis (base case, adverse and optimistic scenarios).

As of September 30, 2023, and December 31, 2022, ECL for trade and other account receivables are not material, and as such are not disclosed, in accordance IFRS 9.

NOTE 9 – SUBSEQUENT EVENTS

- a) During October 2023, the Company issued 121,666 Common Shares in respect of 121,666 RSUs that were exercised.
- b) After the balance sheet date, on October 7, 2023, an attack was launched against Israel by Hamas (a terror organization) which thrust Israel into a state of war (hereinafter: “The state of war”) in Israel and in the Gaza strip. The Company is continuing with its operations both in Israel and globally. The Company continues to assess the effects of the state of war on its financial statements and business.
- c) On November 9, 2023, the Company announced the approval of a plan by its Board of Directors (“Board”) to spin off its 80% interest in AAI.

As part of the restructuring, AAI is expected to become a publicly traded company, such that all shareholders in A2Z will receive an equivalent pro-rata shareholding in AAI. The Board has authorized the engagement of experienced legal, financial, tax, securities, and other consultants and auditors to oversee the entire restructuring process. The restructuring is subject to receipt of all corporate and shareholder approvals as well as receipt of all regulatory approvals including that of the TSX Venture Exchange. The Company anticipates that the restructuring will be completed by June 30, 2024.

AAI specializes in the automotive safety sector and is currently developing a groundbreaking “Fuel Tank Inertia Capsule System” (“FTICS”) designed to prevent fuel combustion in the event of a vehicle collision. AAI holds a patent with the U.S. Department of Commerce for FTICS and is actively working towards the commercialization of a product that can be seamlessly integrated into automobile gasoline tanks.