



Legible Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2023 and 2022

(Expressed in Canadian dollars)



NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

The Company's independent auditors have not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of condensed interim consolidated financial statements by an entity's auditors.

Legible Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at September 30, 2023

(Expressed in Canadian dollars)

| | | September 30, 2023 \$ | (Audited) December 31, 2022 \$ |
|---|------|-----------------------------|---|
| Assets | | | |
| | Note | | |
| Current assets | | | |
| Cash and cash equivalents | | 79,444 | 150,439 |
| Amounts receivable | 3 | 13,942 | 58,433 |
| Prepaid expenses | 4 | 150,539 | 110,000 |
| Total current assets | | 243,925 | 318,872 |
| Non-current assets | | | |
| Computer equipment | 5 | 607 | 12,302 |
| Total non-current assets | | 607 | 12,302 |
| Total assets | | 244,532 | 331,174 |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | 1,895,756 | 2,044,667 |
| Credit facility | 6 | 425,155 | 418,244 |
| Loans payable | 7 | 184,602 | 232,264 |
| Due to related parties | 10 | 36,767 | 29,130 |
| Total current liabilities | | 2,542,280 | 2,724,305 |
| Non-current liabilities | | | |
| Convertible debentures | 8 | 94,264 | 1,266,719 |
| Total non-current liabilities | | 94,264 | 1,266,719 |
| Total liabilities | | 2,636,544 | 3,991,024 |
| Shareholders' equity (deficiency) | | | |
| Share capital | 9 | 20,396,462 | 15,881,125 |
| Shares to be issued | | 179,755 | 263,000 |
| Reserves | 9 | 3,050,224 | 2,282,529 |
| Equity component of convertible debentures | | 24,511 | 480,903 |
| Deficit | | (26,042,964) | (22,567,407) |
| Total shareholders' equity (deficiency) | | (2,392,012) | (3,659,850) |
| Total liabilities and shareholders' equity | | 244,532 | 331,174 |

Basis of preparation and going concern (note 2)

Contingencies (note 13)

Subsequent events (note 14)

Approved and authorized for issue by the Board of Directors on November 27, 2023:

"David Van Seters"
Director

"Shannon Kaustinen"
Director

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

Legible Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

For the Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

| | | Three months ended September 30, 2023 \$ | Three months ended September 30, 2022 \$ | Nine months ended September 30, 2023 \$ | Nine months ended, September 30, 2022 \$ |
|--|-------|---|---|--|---|
| Revenue | Note | 10,356 | 11,612 | 39,291 | 13,575 |
| Cost of sales | | 7,495 | 5,112 | 27,689 | 6,532 |
| Gross margin | | 2,861 | 6,500 | 11,602 | 7,043 |
| Operating expenses | | | | | |
| Amortization | 5 | 1,773 | 153,811 | 11,695 | 465,929 |
| Consultants | | 245,239 | 25,000 | 517,006 | 180,204 |
| Directors' fees | 10 | 18,000 | 18,000 | 54,000 | 49,000 |
| General and administrative | | 93,873 | 38,846 | 225,669 | 203,066 |
| Interest | 6,7,8 | 74,566 | 1,039,959 | 318,359 | 2,087,376 |
| Investor relations | | 62,142 | 349,153 | 200,249 | 571,866 |
| Marketing | | 74,536 | - | 142,873 | 403,624 |
| Professional fees | | 98,645 | 50,927 | 309,016 | 400,418 |
| Salaries, wages, and benefits | | 346,422 | 369,999 | 1,123,956 | 2,631,223 |
| Share-based compensation | 9 | 393,320 | 235,190 | 682,437 | 1,122,440 |
| Software development | | 98,299 | - | 166,005 | - |
| Software subscriptions and hosting fees | | 78,538 | 63,780 | 196,525 | 228,877 |
| Transfer agent and filing fees | | 6,248 | 8,985 | 23,678 | 23,205 |
| Total operating expenses | | 1,591,601 | 2,353,650 | 3,971,468 | 8,367,228 |
| Loss from operations | | 1,588,740 | 2,347,150 | 3,959,866 | 8,360,185 |
| Other items | | | | | |
| Debt waived by related parties | | - | - | - | (267,000) |
| Loss on disposition of computer equipment | | - | 9,069 | - | 10,223 |
| R&D tax recovery | | - | - | (484,309) | - |
| Total other items (gain) | | - | 9,069 | (484,309) | (256,777) |
| Net loss and comprehensive loss | | 1,588,740 | 2,356,219 | 3,475,557 | 8,103,408 |
| Basic and diluted loss per share | | | | | |
| | | 0.01 | 0.04 | 0.03 | 0.12 |
| Weighted average shares outstanding | | 122,538,951 | 66,455,658 | 102,957,009 | 65,012,475 |

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

Legible Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Nine Months Ended September 30, 2023, and 2022
(Expressed in Canadian dollars)

| | Share capital | | | Reserves | | Equity component of convertible debentures | Deficit | Total |
|--|-------------------------|-------------------|------------------------|--|----------------|--|--------------------|-------|
| | Number of common shares | Share capital \$ | Shares to be issued \$ | Share options and compensatory warrants \$ | | | | |
| Balance - December 31, 2021 | 62,948,000 | 14,552,581 | 120,500 | 1,775,995 | - | (13,785,197) | 2,663,879 | |
| Warrants exercised (\$0.10 - \$0.20) | 1,230,000 | 241,000 | (500) | - | - | - | 240,500 | |
| Issuance of shares (\$0.15) | 4,451,130 | 667,670 | - | - | - | - | 301,890 | |
| Less: share-issuance costs | - | (31,259) | - | 13,659 | - | - | (12,000) | |
| Debt settled with related parties | - | - | (120,000) | - | - | - | (120,000) | |
| Share-based compensation | - | - | - | 1,066,177 | - | - | 887,250 | |
| Warrants issued at fair value | - | - | - | 733,321 | - | - | 363,274 | |
| Warrants repriced at fair value | - | - | - | 56,263 | - | - | 56,263 | |
| Equity component of convertible debentures | - | - | - | - | 630,335 | - | 630,335 | |
| Net loss and comprehensive loss for the period | - | - | - | - | - | (5,747,189) | (5,747,189) | |
| Balance - June 30, 2022 | 68,629,130 | 15,429,992 | - | 3,645,415 | 630,335 | (21,888,605) | (2,182,863) | |
| Balance - December 31, 2022 | 77,774,786 | 15,881,125 | 263,000 | 2,282,529 | 480,903 | (22,567,407) | (3,659,850) | |
| Issuance of shares (\$0.11) | 3,982,727 | 438,100 | (143,000) | - | - | - | 295,100 | |
| Issuance of shares (\$0.09) | 26,348,696 | 2,371,383 | - | - | - | - | 2,371,383 | |
| Less: share-issuance costs | - | (178,332) | - | 85,744 | - | - | (92,588) | |
| Warrants exercised (\$0.10) | 8,000 | 1,286 | - | (486) | - | - | 800 | |
| Obligation to issue shares | - | - | 59,755 | - | - | - | 59,755 | |
| Issuance of shares regarding debt conversions | 18,829,000 | 1,882,900 | - | - | (456,392) | - | 1,426,508 | |
| Share-based compensation | - | - | - | 682,437 | - | - | 682,437 | |
| Net loss and comprehensive loss for the period | - | - | - | - | - | (3,475,557) | (3,475,557) | |
| Balance - September 30, 2023 | 126,943,209 | 20,396,462 | 179,755 | 3,050,224 | 24,511 | (26,042,964) | (2,392,012) | |

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

Legible Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the Nine Months Ended September 30, 2023, and 2022

(Expressed in Canadian dollars)

| | | Nine months ended September 30, 2023 \$ | Nine months ended September 30, 2022 \$ |
|--|-------|---|---|
| | Notes | | |
| Cash flows from operating activities | | | |
| Net loss and comprehensive loss | | (3,475,557) | (8,103,408) |
| Adjustments for non-cash items: | | | |
| Amortization | 5 | 11,695 | 465,929 |
| Interest | 6,7,8 | 296,456 | 2,074,690 |
| R&D tax recovery | | (484,309) | - |
| Shares issued for services | | 343,478 | 379,265 |
| Share-based compensation | 9 | 682,437 | 1,122,440 |
| Loss on disposition of computer equipment | | - | 10,223 |
| Changes in working capital | | | |
| Decrease (increase) in prepaid expenses | | (40,539) | 207,756 |
| Decrease (increase) in amounts receivable | | 9,878 | 70,538 |
| Increase (decrease) in due to related parties | | 7,637 | (114,685) |
| Increase (decrease) in accounts payable | | 471,853 | 851,751 |
| Net cash used in operating activities | | (2,176,971) | (3,035,501) |
| Investing activities | | | |
| Proceeds from disposition of computer equipment | | - | 39,205 |
| Purchase of equipment | | - | (22,544) |
| Purchase of intangible assets | | - | (295,632) |
| Net cash used in investing activities | | - | (278,971) |
| Financing activities | | | |
| Proceeds from share issuances | 9 | 1,946,694 | 240,500 |
| Proceeds from exercise of warrants | | 800 | - |
| Proceeds from loans | 7 | 568,373 | 852,436 |
| Reduction of loans | 7 | (267,303) | (20,000) |
| Proceeds (repayments) from/(to) credit facility | 6 | (50,000) | 308,000 |
| Proceeds from convertible debentures | | - | 1,278,500 |
| Share issuance costs | 9 | (92,588) | (17,600) |
| Net cash provided from financing activities | | 2,105,976 | 2,641,836 |
| Net change in cash during the period | | (70,995) | (672,636) |
| Cash - beginning of period | | 150,439 | 832,668 |
| Cash - September 30, 2023 | | 79,444 | 160,032 |
| Non-cash investing & financing activities: | | | |
| Fair value of broker warrants | 9 | 85,744 | 13,659 |

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

Legible Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Nine Months Ended September 30, 2023, and 2022
(Expressed in Canadian Dollars)

1. CORPORATE INFORMATION

Legible Inc. (“Legible”) is an eBook entertainment and media company that has developed a browser-first, globally distributed reading and publishing platform that offers a sophisticated and immersive reading experience to anyone with an internet-enabled device anywhere in the world, while solving key challenges faced by readers, publishers, and authors. This includes providing planned global access to literature without the need for e-readers and apps, improving the capacity to showcase marginalized voices, opening new device-agnostic markets, and innovating new digital publishing formats.

Legible and its wholly-owned subsidiary, Legible Media Inc. (“Legible Media”), were incorporated under the Alberta Business Corporations Act and the British Columbia Business Corporations Act, respectively. The head office is located at 2230 Ontario Street, Vancouver, B.C. V5T 2X2. Legible’s common shares are listed on the Canadian Securities Exchange (CSE) under the symbol “READ” and trading commenced on December 1, 2021. On January 10, 2022, the Legible’s common shares commenced trading on the Frankfurt Stock Exchange (FSE) under the trading symbol DOT (D/zero/T). On January 25, 2023, Legible began trading on the U.S. based OTCQB Venture Market under the symbol LEBGF.

2. BASIS of PREPARATION and GOING CONCERN

Statement of compliance

These consolidated financial statements, including comparatives, of the Company and its subsidiaries are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (IASB). Certain comparative figures have been reclassified to conform to the presentation used in the current period.

Going concern

These condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. To date, the Company has not achieved scalable commercialization of its products.

As of September 30, 2023, the Company has limited revenue and generated negative cash flows from operating activities. The continued operations of the Company depends on its ability to generate future cash flows or obtain additional financing. The Company has a working capital deficit of \$2,298,355 (December 31, 2022 - \$2,405,433) and an accumulated deficit of \$26,042,964 (December 31, 2022 - \$22,567,407) since inception. Management has determined, in making its assessment, that these events or conditions create a material uncertainty that cast significant doubt upon the Company's ability to continue as a going concern.

The Company’s ability to continue as a going concern depends on its ability to generate product sales, complete additional financings, and ultimately, attain and maintain profitable operations. While the Company is striving to act on these initiatives, there is no assurance that these and other strategies will be successful or sufficient to permit the Company to continue as a going concern.

Legible Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Nine Months Ended September 30, 2023, and 2022
(Expressed in Canadian Dollars)

Basis of preparation and going concern: (continued)

Going concern (continued)

These condensed interim consolidated financial statements do not reflect adjustments to the carrying values of the Company's assets and liabilities, revenue and expenses, and the statement of financial position that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at their fair value as explained in the accounting policies set out below. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Use of estimates and judgments

The preparation of these condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue, and expenses.

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Significant judgments made by management in the process of applying accounting policies that have the most significant effect on the amounts recognized in the financial statements include the application of the going concern assumption and the discount rates used in valuing the liability component of convertible debentures.

The application of the Company's accounting policy for intangible assets requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the consolidated statement of loss and comprehensive loss in the period the new information becomes available.

Principles of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Legible Media. A subsidiary is an entity controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiary are included in the condensed interim consolidated financial statements from the date that control commences until the date that control ceases. All significant inter-company balances and transactions between the Company and its subsidiary have been eliminated in preparing the condensed interim consolidated financial statements.

Legible Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Nine Months Ended September 30, 2023, and 2022
(Expressed in Canadian Dollars)

Basis of preparation and going concern: (continued)

Functional and presentation currency

These condensed interim financial statements are presented in Canadian dollars, which is the functional and reporting currency of the Company and its subsidiary.

Accounting standards issued but not yet effective

Accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's condensed interim consolidated financial statements.

3. AMOUNTS RECEIVABLE

A breakdown of amounts receivable for the nine months ended September 30, 2023, and the year ended December 31, 2022, follows:

| | September 30, 2023 | December 31, 2022 |
|---------------------------------|-----------------------|----------------------|
| Goods and services tax | \$ 12,514 | \$ 57,960 |
| Trade accounts | 1,428 | 473 |
| Total amounts receivable | \$ 13,942 | \$ 58,433 |

4. PREPAID EXPENSES

A breakdown of prepaid expenses for the nine months ended September 30, 2023, and the year ended December 31, 2022, follows:

| | September 30, 2023 | December 31, 2022 |
|-------------------------------|-----------------------|----------------------|
| Insurance | \$ 62,500 | \$ - |
| Investor relations events | 35,632 | 110,000 |
| Legal fees | 45,000 | - |
| Software licensing | 7,407 | - |
| Total prepaid expenses | \$ 150,539 | \$ 110,000 |

Legible Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Nine Months Ended September 30, 2023, and 2022
(Expressed in Canadian Dollars)

5. COMPUTER EQUIPMENT

A continuity schedule for computer equipment for the nine months ended September 30, 2023, and the year ended December 31, 2022, follows:

| | | |
|--|-----------|---------------|
| Net book value - December 31, 2022 | \$ | 12,302 |
| Additions for the period | | - |
| Amortization for the period | | (11,695) |
| Net book value - September 30, 2023 | \$ | 607 |
| Consisting of: | | |
| Cost | \$ | 70,951 |
| Accumulated amortization | | (70,344) |
| Net book value - September 30, 2023 | \$ | 607 |

6. CREDIT FACILITY

On March 29, 2022, the Company entered into a credit facility arrangement, secured by a general security agreement, for principal of \$308,000, for a term of 12 months with a monthly interest rate of 1.5% per month compounded monthly. Since the Company was in breach of the loan agreement, additional interest of 2.0% per month compounded monthly along with monitoring fees of \$1,000 per month were charged from April 2022. During the nine months ended September 30, 2023, total repayments of \$122,148 were made to the outstanding obligation. As of September 30, 2023, the Company accrued \$50,380 in interest, \$1,332 in administration costs, and \$77,348 in monitoring fees for a total of \$129,060. The total amount outstanding, as at September 30, 2023, was \$425,155.

7. LOANS PAYABLE

A continuity schedule for loans payable for the nine months ended September 30, 2023, and the year ended December 31, 2022, follows:

| | | |
|---|-----------|----------------|
| Loans Payable - December 31, 2022 | \$ | 232,264 |
| Additions | | 568,373 |
| Commitment fees | | 62,026 |
| Reduction of loans | | (267,303) |
| Conversion of loans to equity financing | | (436,065) |
| Accrued interest | | 25,307 |
| Loans Payable - September 30, 2023 | \$ | 184,602 |

During the nine months ended September 30, 2023, the Company received bridge loans for \$568,373, of which \$21,000 pertained to a director, with a \$nil commitment fee and interest of 10% per annum; the balance of \$547,373, with commitment fees ranging from nil to 20% and annual interest rates ranging from 0% to 15%. An aggregate of \$267,303 of loans were repaid for the period ended September 30, 2023.

Legible Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Nine Months Ended September 30, 2023, and 2022
(Expressed in Canadian Dollars)

8. CONVERTIBLE DEBENTURES

A continuity schedule for convertible debentures for the nine months ended September 30, 2023, and the year ended December 31, 2022, follows:

| | | |
|--|-----------|------------------|
| Convertible debentures - December 31, 2022 | \$ | 1,266,719 |
| Conversion to shares at \$0.10 | | (1,253,850) |
| Interest accretion | | 81,395 |
| Convertible debentures - September 30, 2023 | \$ | 94,264 |

9. SHARE CAPITAL

Authorized:

Common shares (class A voting) unlimited without par value

Issued and outstanding:

As at September 30, 2023, the Company had 126,943,209 issued and outstanding (2022 - 77,774,786) class A common shares. No class B common shares or preferred shares have been issued.

On February 2, 2023, the Company issued 3,982,727 units at a price of \$0.11 per unit with each unit including one common share and one purchase warrant, for gross proceeds of \$438,100, less a finder's fee of \$2,420 for net proceeds of \$435,680; \$18,000 of which was the settlement of outstanding indebtedness. Each purchase warrant entitles the holder to purchase one common share at a price of \$0.15 for a period of one year from closing. The Company paid a finder's fee of \$2,420 and issued 22,000 warrants with an exercise price of \$0.11, expiring in one year.

On June 6, 2023, the Company closed the first tranche of a private placement for gross proceeds of \$758,603, \$481,553 of which was the settlement of outstanding indebtedness. Legible issued 8,428,921 units at \$0.09 per unit, with each unit consisting of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.12, expiring in one year.

On July 14, and 28, 2023, the Company closed the second and third tranches, respectively, of its non-brokered private placement for aggregate gross proceeds of \$1,612,780, \$279,990 of which was for the settlement of outstanding indebtedness. Legible issued 17,919,775 units at \$0.09 per unit, with each unit consisting of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.12, expiring in one year. Finders acting in connection with the private placement received fees in the aggregate amount of \$90,168 in cash and 1,001,867 finders warrants; each finder's warrant entitles the holder to purchase one common share at a price of \$0.12.

Legible Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Nine Months Ended September 30, 2023, and 2022
(Expressed in Canadian Dollars)

Share capital: (continued)

Issued and outstanding: (continued)

In July 2023, an aggregate of 8,000 common shares were issued regarding the exercise of broker warrants for proceeds of \$800 at an exercise price of \$0.10 per share.

For the nine months ended September 30, 2023, an aggregate of 18,829,000 common shares were issued regarding convertible debenture conversions that totaled \$1,882,900 at a conversion price of \$0.10 per share.

WARRANTS AND STOCK OPTIONS

Warrants

A continuity schedule of the Company's share purchase warrants issued and outstanding for the nine months ended September 30, 2023, and the year ended December 31, 2022, follows:

| | Number of warrants | Weighted average exercise price \$ |
|---|-----------------------|--|
| Outstanding - December 31, 2022 | 19,783,953 | 0.22 |
| Exercised | (8,000) | 0.10 |
| Issued | 31,355,290 | 0.12 |
| Outstanding - September 30, 2023 | 51,131,243 | 0.16 |

Legible Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Nine Months Ended September 30, 2023, and 2022
(Expressed in Canadian Dollars)

Share capital: (continued)

Warrants and stock options (continued)

Warrants (continued)

As at September 30, 2023, the following warrants were outstanding, and the weighted average remaining life of warrants outstanding was 0.69 years (December 31, 2022 - 1.37 years).

| Exercise price \$ | Expiry date | September 30, 2023 |
|----------------------|--------------------|---------------------------|
| 0.15 | November 21, 2023 | 6,945,656 ⁽¹⁾ |
| 0.10 | November 21, 2023 | 34,472 ⁽¹⁾ |
| 0.10 | June 9, 2024 | 120,000 ⁽¹⁾ |
| 0.15 | June 9, 2024 | 5,031,500 ⁽¹⁾ |
| 0.10 | September 21, 2024 | 48,000 ⁽¹⁾ |
| 0.15 | September 21, 2024 | 6,096,325 ⁽¹⁾ |
| 1.00 | December 1, 2024 | 1,000,000 ⁽²⁾ |
| 1.25 | December 1, 2024 | 500,000 ⁽²⁾ |
| 0.15 | February 2, 2024 | 3,982,727 ⁽³⁾ |
| 0.11 | February 2, 2024 | 22,000 ⁽³⁾ |
| 0.12 | June 5, 2024 | 8,428,921 ⁽⁴⁾ |
| 0.12 | July 13, 2024 | 7,088,753 ⁽⁴⁾ |
| 0.12 | July 28, 2024 | 11,832,889 ⁽⁴⁾ |
| 0.16 | | 51,131,243 |

- (1) The purchase and broker warrants have a term of 2 years. If the volume weighted average trading price of the common shares is at least \$0.40 per share for a period of 5 consecutive trading days, the expiry date of the warrants may be accelerated by the Company to a date that is not less than 21 days after the date that notice of such acceleration is provided to the warrant holders.
- (2) Compensation warrants have a term of three years expiring on December 1, 2024. If the closing price of the common shares is \$1.80 or higher per share for a period of 10 consecutive trading days, the expiry date of the compensation warrants may be accelerated by the issuer to a date that is not less than 30 days after the date that notice of such acceleration is provided to warrant holders, which notice may be by way of general press release.
- (3) The purchase and broker warrants have a term of 1 year. If the volume weighted average trading price of the common shares is at least \$0.45 per share for a period of 5 consecutive trading days, the expiry date of the warrants may be accelerated by the Company to a date that is not less than 21 days after the date that notice of such acceleration is provided to the warrant holders.
- (4) The purchase and broker warrants have a term of 1 year. If the volume weighted average trading price of the common shares is at least \$0.25 per share for a period of 5 consecutive trading days, the expiry date of the warrants may be accelerated by the Company to a date that is not less than 21 days after the date that notice of such acceleration is provided to the warrant holders.

Legible Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Nine Months Ended September 30, 2023, and 2022
(Expressed in Canadian Dollars)

Broker Warrants

The following assumptions were used for the Black-Scholes valuation of warrants issued during the nine months ended September 30, 2023, and the year ended December 31, 2022:

| | September 30, 2023 | December 31, 2022 |
|--|-----------------------|----------------------|
| Average risk-free interest rate | 5.11% | 3.77% |
| Average expected life of warrants | 1 year | 1.6 years |
| Average share price | \$0.13 | \$0.13 |
| Average exercise price | \$0.12 | \$0.10 |
| Average expected stock price volatility | 131% | 102% |
| Dividend rate | 0.00% | 0.00% |
| Average fair value per broker warrant issued | \$0.07 | \$0.07 |

For the nine months ended September 30, 2023, a total of 1,023,897 (2022 - 176,000) broker warrants were issued. The Company recorded share issuance costs of \$85,744 during the nine months ended September 30, 2023 (2022 - \$13,659). The expected stock price volatility was developed using management's best estimate and analyzing industry comparables.

Stock Options

A continuity schedule of the Company's stock options warrants issued and outstanding for the nine months ended September 30, 2023, and the year ended December 31, 2022, follows:

| | Number of options | Weighted average exercise price \$ |
|---|----------------------|--|
| Outstanding - December 31, 2022 | 4,053,750 | 0.75 |
| Granted | 3,975,000 | 0.20 |
| Forfeited | (300,000) | 0.38 |
| Outstanding - September 30, 2023 | 7,728,750 | 0.48 |

Legible Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Nine Months Ended September 30, 2023, and 2022
(Expressed in Canadian Dollars)

Share capital: (continued)

Warrants and stock options (continued)

Stock options (continued)

As at September 30, 2023, the following stock options were outstanding and exercisable with an average remaining life of 8.99 years (December 31, 2022 - 9.06 years):

| Exercise price per share (option) \$ | Expiry date | Weighted average remaining life (years) | Number of options outstanding | Number of options exercisable |
|--------------------------------------|--------------------|---|-------------------------------|-------------------------------|
| 0.50 | December 30, 2030 | 7.25 | 125,000 | 106,250 |
| 1.00 | June 29, 2031 | 7.75 | 475,000 | 342,500 |
| 1.25 | September 30, 2031 | 8.00 | 50,000 | 35,000 |
| 1.25 | October 29, 2031 | 8.08 | 1,450,000 | 872,500 |
| 0.40 | February 28, 2032 | 8.42 | 703,750 | 685,688 |
| 0.27 | March 31, 2032 | 8.50 | 50,000 | 27,500 |
| 0.20 | November 3, 2032 | 9.10 | 1,000,000 | 1,000,000 |
| 0.20 | January 25, 2033 | 9.33 | 1,450,000 | 1,416,000 |
| 0.20 | July 19, 2033 | 9.80 | 2,425,000 | 2,200,000 |
| | | 8.99 | 7,728,750 | 6,685,438 |

The fair value of options recognized for the nine months ended September 30, 2023, and the year ended December 31, 2022, has been estimated using the Black-Scholes valuation of stock options with the following assumptions:

| | September 30, 2023 | December 31, 2022 |
|---|--------------------|-------------------|
| Average risk-free interest rate | 3.06% | 2.28% |
| Average expected life of options | 6.5 years | 6.5 years |
| Average share price | \$0.13 | \$0.32 |
| Average exercise price | \$0.20 | \$0.34 |
| Average expected stock price volatility | 123% | 102% |
| Dividend rate | 0.00% | 0.00% |
| Fair value per option granted | \$0.06 | \$0.256 |

For the nine months ended September 30, 2023, a total of 3,975,000 (2022 - 3,203,750) stock options were issued. The Company recorded share-based compensation of \$682,437 during the nine months ended September 30, 2023 (2022 - \$1,122,440). The expected stock price volatility was developed using management's best estimate and analyzing industry comparables.

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10. RELATED PARTY TRANSACTIONS

The Company had the following related party transactions:

Key management compensation

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Company. Key management personnel consists of the Company's Board of Directors, corporate officers, and certain members of the senior executive team.

Transactions with related parties that are included in the condensed interim consolidated statement of loss and comprehensive loss for the nine months ended September 30, 2023, and 2022, were made in the normal course of operations and are summarized as follows:

| | September 30, 2023 \$ | September 30, 2022 \$ |
|---------------------------------|-----------------------------|-----------------------------|
| Consultants and directors' fees | 54,000 | 65,500 |
| General and administrative | - | 73,855 |
| Salaries, wages, and benefits | 350,506 | 653,649 |
| Share-based compensation | 174,159 | 564,108 |
| | <u>578,665</u> | <u>1,357,112</u> |

As of September 30, 2023, \$36,767 (2022 - \$35,315) was outstanding to key management personnel regarding employment and consulting agreement commitments which were recorded in due to related parties. For the nine months ended September 30, 2023, and 2022, the Board of Directors were issued 496,970 (2022 - 140,000) shares for services at \$0.09 and \$0.11 for an aggregate of \$48,000 that covered services for the period of October 2022 to May 2023 (2022 - \$28,000).

11. FINANCIAL RISK MANAGEMENT OBJECTIVES and POLICIES

The risk exposure arising from financial instruments is summarized as follows:

- a. Credit risk - The Company's financial assets are cash and amounts receivable. The maximum exposure to credit risk, as at the period end, is the carrying value of their financial assets. The Company holds its cash in a bank account with a highly rated Canadian financial institution, therefore, minimizing the Company's credit risk in respect to its cash.
- b. Liquidity risk - The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company monitors its forecasted and actual cash flows as well as any anticipated investing, and financing activities. The Company, currently, does not have recurring revenue, and is working diligently on securing additional funding to meet short-term financial obligations after considering its operating obligations and cash on hand (see note 2).

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Financial risk management objectives and policies: (continued)

| September 30, 2023 | On-Demand \$ |
|--|-----------------|
| Accounts payable and accrued liabilities | 1,895,756 |
| Credit facility | 425,155 |
| Loans payable | 184,602 |
| Due to related parties | 36,767 |

- c. Market risk - Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices will affect the Company's income or value of its holdings or financial instruments. The Company's major activities have been transacted in Canadian dollars for the nine months ended September 30, 2023. As such, the Company has minimal market risks.

12. CAPITAL RISK MANAGEMENT

The Company's primary objective when managing capital is to maintain sufficient resources and raise funding to support current and long-term operating needs. The ability to continue as a going concern is essential to the Company's goal of providing returns to shareholders and other stakeholders. The capital structure of the Company consists of shareholders' equity. The Company manages its capital structure based on the level of funds available to the Company to manage its operations and in light of economic conditions. The Company balances its overall capital through new share or debt issuances or by undertaking other activities as deemed appropriate in the circumstances. The Company is not subject to externally imposed capital requirements. There have been no significant changes in the Company's approach to capital management during the year. These objectives and strategies are reviewed on a continuous basis.

13. CONTINGENCIES

The Company may, from time to time, be subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. Management believes that adequate provisions have been made in the financial statements, and the ultimate resolution of such contingencies will not have a material adverse effect on the consolidated financial position of the Company.

14. SUBSEQUENT EVENTS

On October 20, 2023, the Company closed its non-brokered equity private placement for aggregate gross proceeds of \$741,605, \$128,650 of which was for the settlement of outstanding indebtedness. Legible issued 6,180,041 units at \$0.09 per unit, with each unit consisting of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.15, expiring in one year. Finders acting in connection with the private placement received fees in the aggregate amount of \$29,398 in cash and 286,640 finders warrants, each finders warrants entitle the holder to purchase one common share at a price of \$0.15.

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Subsequent events: (continued)

On October 23, 2023, the Company granted 1,680,000 stock options to officers, employees, consultants, and a director. The options have an exercise price of \$0.20, and a 10-year expiry.

On October 23, 2023, the Company issued 250,000 common shares at \$0.135 per share regarding the settlement of \$33,750 in outstanding indebtedness. All common shares are subject to a 4-month hold period.

In November 2023, the Company issued an aggregate of 34,472 common shares from the exercise of brokers' warrants at an exercise price of \$0.10 for proceeds of \$3,447 from the private placement that closed on November 21, 2022. On November 21, 2023, 6,945,656 warrants at an exercise price of \$0.15, expired, unexercised.

On November 21, 2023, the Company received a bridge loan for \$152,286 with a commitment fee of 10% and interest of 15% per annum.