Biosenta Inc.

Condensed Interim Consolidated Financial Statements
For the three and nine months ended June 30, 2024 and 2023
(Expressed in Canadian dollars)
(Unaudited)

MANAGEMENT'S RESPONSIBILITY STATEMENT

The management of Biosenta Inc. (the "Company"), is responsible for preparing the condensed interim consolidated financial statements, the notes to the condensed interim consolidated financial statements and other financial information contained in these condensed interim consolidated financial statements (the “condensed interim consolidated financial statements”).

Management prepares the condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”). The condensed interim consolidated financial statements are considered by management to present fairly the Company's financial position and results of operations.

The management, in fulfilling its responsibilities, has developed and maintains a system of internal accounting controls designed to provide reasonable assurance that management assets are safeguarded from loss or unauthorized use, and that the records are reliable for preparing the condensed interim consolidated financial statements.

Am Gill, Chief Executive Officer
August 28, 2024

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

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

The accompanying condensed interim consolidated financial statements (unaudited) of Biosenta Inc. (the “Company”) have been prepared by management and approved by the Audit Committee and the 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 (CPA) of Canada for a review of condensed interim financial statements by an entity’s auditors.

Biosenta Inc.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited - Expressed in Canadian dollars)

	Notes	June 30, 2024 $	September 30, 2023 $
ASSETS			
Current			
Cash		**6,302**	5,883
Inventory	5	**38,771**	39,623
Prepaid expenses		**12,252**	26,040
Other receivables		**258,993**	20,486
		316,318	92,032
Non-current			
Intangible assets	6	**1**	1
Property and equipment	7	**13,303**	15,559
Total assets		**329,622**	107,592
LIABILITIES			
Current			
Accounts payable and accrued liabilities	8	**1,875,726**	2,090,386
Payable from restructuring proposal	9	**254,092**	254,092
Loans and promissory notes payable	10	**39,957**	323,437
		2,169,775	2,667,915
Non-current			
CEBA loan	13	**60,000**	60,000
Promissory note payable	11	**5,266,958**	5,235,448
Total liabilities		**7,496,733**	7,963,363
SHAREHOLDERS' DEFICIT			
Share capital	14	**14,995,376**	13,401,252
Warrant reserves	15	**608,039**	—
Equity reserves	16	**1,811,697**	1,811,697
Loss on settlement of liabilities		**(1,848,118)**	(1,848,118)
Deficit		**(22,734,105)**	(21,220,602)
Total shareholders' deficit		**(7,167,111)**	(7,855,771)
Total liabilities and shareholders' deficit		**329,622**	107,592

Nature of operations and going concern (Note 1)
Commitments and contingencies (Note 17)
Subsequent events (Note 20)

See accompanying notes.

Approved by the Board of Directors

Signed "Am Gill" CEO and President

Signed "Ed Korhonen" Director

Biosenta Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited - Expressed in Canadian dollars)

	Notes	**Three months ended June 30, 2024 $**	Three months ended June 30, 2023 $	**Nine months ended June 30, 2024 $**	Nine months ended June 30, 2023 $
Sales		**200,252**	197	**200,603**	665
Cost of sales		**121**	83	**298**	382
Gross profit		**200,131**	114	**200,305**	283
Administrative expenses					
Professional fees		**223,042**	123,863	**458,812**	354,653
Salaries, management and consulting fees, net of SR&ED		**82,616**	194,851	**222,131**	480,183
Share based compensation		**51,450**	143,250	**57,450**	168,624
Office and general		**8,353**	9,863	**26,777**	30,754
Insurance		**1,854**	1,252	**5,608**	7,014
Product development costs		**14,210**	8,657	**31,952**	20,481
Share transfer fees		**60,476**	6,834	**74,385**	18,037
Sales and marketing		**1,585**	6,179	**11,556**	13,817
Amortization		**700**	—	**2,256**	—
Travel		**431**	1,503	**1,211**	2,056
Total expenses		**444,717**	496,252	**892,138**	1,095,619
Net loss from operations		**(244,586)**	(496,138)	**(691,833)**	(1,095,336)
Other (income) expenses					
Write-down of inventory		—	3,463	—	3,463
Interest expense		**168,102**	13,915	**428,747**	33,095
Exchange (gain) loss		**955**	(2,475)	**1,413**	(3,752)
Accretion expense	11	**133,653**	—	**391,510**	—
National Research Council Canada grant		—	(16,582)	—	(55,070)
Total other (income) expenses		**302,710**	(1,679)	**821,670**	(22,264)
Income tax expense (recovery)		—	—	—	—
Net loss and comprehensive loss		**(547,296)**	**(494,459)**	**(1,513,503)**	**(1,073,072)**
Loss per common share - basic and diluted		**(0.02)**	(0.02)	**(0.05)**	**(0.05)**
Weighted average number of common shares - basic and diluted		**28,781,454**	23,059,348	**28,781,454**	23,059,348

See accompanying notes.

Biosenta Inc.
Condensed Interim Consolidated Statements of Changes in Shareholders' Deficit
For the three and nine months ended June 30, 2024 and 2023
(Unaudited - Expressed in Canadian dollars)

		Share Capital		Warrants	Equity reserve	Loss on settlement of liabilities	Accumulated deficit	Total
		Shares	Amount					
	Notes	#	$	$	$	$	$	$
As at September 30, 2022		23,006,591	12,058,002	833,030	953,293	(1,848,118)	(14,920,848)	(2,924,641)
Share based compensation		400,000	143,250	—	25,374	—	—	168,624
Net loss for the period		—	—	—	—	—	(1,073,072)	(1,073,072)
As at June 30, 2023		**23,406,591**	**12,201,252**	**833,030**	**978,667**	**(1,848,118)**	**(15,993,920)**	**(3,829,089)**
As at September 30, 2023		**26,406,591**	**13,401,252**	—	**1,811,697**	**(1,848,118)**	**(21,220,602)**	**(7,855,771)**
Units issued on private placement	14	**2,750,000**	**740,105**	**359,895**	—	—	—	**1,100,000**
Units issuance cost on private placement - cash		—	**(9,385)**	**(4,634)**	—	—	—	**(14,019)**
Units issued for settlement of debt	14	**1,962,297**	**532,141**	**252,778**	—	—	—	**784,919**
Shares issued for settlement of debt		**625,000**	**273,813**	—	—	—	—	**273,813**
Share based compensation		**120,000**	**57,450**	—	—	—	—	**57,450**
Net loss for the period		—	—	—	—	—	**(1,513,503)**	**(1,513,503)**
As at June 30, 2024		**31,863,888**	**14,995,376**	**608,039**	**1,811,697**	**(1,848,118)**	**(22,734,105)**	**(7,167,111)**

See accompanying notes.

Biosenta Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited - Expressed in Canadian dollars)

	Notes	**Nine months ended June 30, 2024 $**	Nine months ended June 30, 2023 $
Operating activities			
Net loss and comprehensive loss for the period		**(1,513,503)**	(1,073,072)
Adjustments for items not affecting cash:			
Share based compensation		**57,450**	168,624
Accretion expenses		**391,510**	—
Accrued interest		**2,285**	—
Amortization expense		**2,256**	—
Accrued interest on promissory note		**165,750**	—
Changes in working capital items:			
Inventory		**852**	4,011
Prepaid expenses		**13,788**	13,788
Other receivables		**(238,507)**	(17,432)
Accounts payable and accrued liabilities		**392,557**	477,710
Cash used in operating activities		**(725,562)**	(426,371)
Financing activities			
Proceeds from (repayment of) loans and promissory notes		**(360,000)**	153,793
Advances from joint venture		**—**	273,622
Proceeds from issue of shares		**1,100,000**	—
Share issuance costs		**(14,019)**	—
CEBA loan		—	—
Cash provided by financing activities		**725,981**	427,415
Net increase in cash		**419**	1,044
Cash beginning of the period		**5,883**	27,263
Cash end of the period		**6,302**	28,307

See accompanying notes.

1. Nature of Operations and Going Concern

Biosenta Inc. (the "Company" or "Biosenta") is a public company, incorporated and domiciled in Canada, whose shares are listed on the Canadian Securities Exchange ("CSE") under the symbol "ZRO". The Company's registered address is 18 Wynford Drive, Suite 794, Toronto, Ontario, M3C 3S2. In 2011, the Company acquired the intellectual property rights to certain technology and processes relating to anti-microbial products with potential commercial and consumer applications. The Company is engaged in developing sales for *True* product lines and the development for commercial applications of its technology to produce an anti-microbial Tri-Filler product.

Going concern

During the period ended June 30, 2024, the Company reported net loss of $1,513,503 (June 30, 2023: $1,073,072) and a working capital deficit of $1,853,457 (September 30, 2023: $2,575,883).

The ability of the Company to continue as a going concern is dependent upon the continuing financial support of shareholders or other investors, obtaining new financing on commercial terms acceptable to the Company to enable it to monetize its intellectual property assets, and upon attaining profitable operations once such assets can be monetized, all of which outcomes are uncertain and which represents material uncertainties, cast significant doubt over the ability of the Company to continue as a going concern. These condensed interim consolidated financial statements do not include any adjustments to the carrying values of the Company's assets, liabilities, and expenses and the related classifications that would be necessary if the going concern assumption were inappropriate. Such adjustments have not been quantified by management but could be material.

The Company funded its operations for the period ended June 30, 2024, from existing cash, issuance of units on private placements and loans (See Note 10 and 14). The Company may not have sufficient cash reserves to fund its product development programs, administrative costs and other obligations for the coming fiscal year. Management is actively involved in developing and bringing their products to market, as well as seeking new debt and equity financing to enable it to service the Company's liabilities and its ongoing administrative costs. Management believes the Company will continue as a going concern due to the Company's ability to obtain funding through the issuance of debt and equity instruments.

2. Basis of Presentation

Statement of Compliance

These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company reported in Notes 2 and 3, in the Company's audited annual financial statements for the years ended September 30, 2023, and 2022. These condensed interim consolidated financial statements do not include all the information required for full annual financial statements.

The accounting policies noted above have been applied consistently to all periods presented in these condensed interim consolidated financial statements.

The Board of Directors of the Company authorized these condensed interim consolidated financial statements for issuance on August 28, 2024.

2. Basis of Presentation (continued)

Basis of preparation and presentation

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. The condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company, which is incorporated in Canada, and its wholly owned subsidiary, Biosenta U.S.A. Inc. which is incorporated in the United States. All inter-company balances and transactions are eliminated on consolidation. These condensed interim consolidated financial statements include all assets, liabilities, expenses, and cash flows of the Company and its subsidiary after eliminating inter-company balances and transactions.

3. Material Accounting Policies

Material accounting judgments, estimates and assumptions

The preparation of these unaudited condensed interim consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates, and assumptions about future events that affect the amounts reported in the unaudited condensed interim consolidated financial statements and related notes.

Although these estimates are based on management's best knowledge of the amount, event, or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

a) <u>Revenue recognition policy</u>

IFRS 15 – Revenue from contracts with customers ("IFRS 15") specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

- Identifying the contract with a customer
- Identifying the performance obligations within the contract
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognizing revenue when/as performance obligation(s) are satisfied.

3. Material Accounting Policies (continued)

In some cases, judgement is required in determining whether the customer is a business or the end consumer. This evaluation was made on the basis of whether the business obtains control of the product before transferring to the end consumer. Control of the product transfers at a point in time either upon shipment to or receipt by the customer, depending on the contractual terms.

In determining the appropriate time of sale, the Company takes into consideration a) the Company's right to payment for the goods or services; b) customers legal title; c) transfer of physical possession of the goods; and d) timing of acceptance of goods.

The Company recognizes revenue in an amount that reflects the consideration that the Company expects to receive taking into account any variation that may result from rights of return.

b) <u>Related party transactions</u>

A party is related to an entity if the party directly or indirectly controls, is controlled by or is under common control with the entity; or if it has an interest in the entity that gives it significant influence over the entity; or if it has joint control over the entity or is an associate or a joint venture of the entity. In addition, members and dependents of the key management personnel of the entity (Board of Directors and Executive Management Board) are also considered related parties.

c) <u>Joint Venture advances</u>

Joint ventures advances comprise money received from one or more unaffiliated entities. The Company invests these advances under terms requiring unanimous consent of all the parties.

The Company's interests in joint ventures are classified as obligation relating to investments in joint ventures and is accounted for using the equity method, with the Company's share of net losses and net liabilities separately disclosed in the condensed interim consolidated statements of loss and comprehensive loss and condensed interim consolidated statements of financial position, in accordance with IFRS 11 'Joint Arrangements'.

Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

d) <u>Financial instruments</u>

Recognition and initial measurement

Financial assets and financial liabilities, including derivatives, are recognized when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are measured at fair value on initial recognition. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as FVTPL, are added to or deducted from the fair value on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in the condensed interim consolidated statements of loss and comprehensive loss.

3. Material Accounting Policies (continued)

d) Financial instruments (continued)

Classification and subsequent measurement

The Company classifies financial assets, at the time of initial recognition, according to the Company's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are classified in the following measurement categories:

a) amortized cost ("AC");
b) fair value through profit or loss ("FVTPL"); and
c) fair value through other comprehensive income ("FVTOCI").

Financial assets are subsequently measured at amortized cost if both the following conditions are met and they are not designated as FVTPL: a) the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost using the effective interest rate method, less any impairment, with gains and losses recognized in the condensed interim consolidated statements of loss and comprehensive loss in the period that the asset is derecognized or impaired.

All financial assets not classified as amortized cost as described above are measured at FVTPL or FVTOCI depending on the business model and cash flow characteristics. The Company has no financial assets measured at FVTOCI.

Financial liabilities are subsequently measured at amortized cost using the effective interest rate method with gains and losses recognized in the condensed interim consolidated statements of loss and comprehensive loss in the period that the liability is derecognized, except for financial liabilities classified as FVTPL.

Financial instruments are classified into one of the following categories: FVTPL; financial assets at amortized cost, financial liabilities at amortized cost, and financial assets at FVTOCI.

Impairment of financial instruments – Expected credit losses ("ECL")

For all financial assets recorded at amortized cost, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all accounts receivables based on the Company's historical default rates over the expected life of the accounts receivable and is adjusted for forward-looking estimates. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

All individually significant loan receivables are assessed for impairment. All individually significant loans receivable found not to be specifically impaired are then collectively assessed for impairment. Loans receivables not individually significant are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics.

3. Material Accounting Policies (continued)

d) Financial instruments (continued)

ECL are calculated as the product of the probability of default, exposure at default and loss given default over the remaining expected life of the receivables. No ECL has been recorded by the Company as all receivables are expected to be collected and are not significant.

Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recognized in the condensed interim consolidated statements of loss and comprehensive loss.

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the condensed interim consolidated statements of loss and comprehensive loss.

Impairment of non-financial assets

At each financial reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there is an indication that those assets have suffered an impairment loss.

If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the assets belong.

4. Recent Accounting Pronouncements

The Standards, Amendments and Interpretations Issued but not yet effective

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ended September 30, 2024 and, accordingly, have not been applied in preparing these consolidated financial statements.

In August 2023, the IASB issued amendments to IAS 21 – The Effects of Changes in Foreign Exchange Rates in relation to Lack of Exchangeability. The amendments require entities to apply a consistent approach in assessing whether a currency can be exchanged into another currency and in determining the exchange rate to use and the disclosures to provide when it cannot. These amendments are effective for annual reporting periods beginning on or after January 1, 2025, with early adoption permitted. The Company assessed the impact of the amendments and determined there to be no material impact on the condensed interim consolidated financial statements.

(Unaudited - Expressed in Canadian dollars)

5. Inventory

Inventory is comprised of the following:

Inventory

	As at June 30, 2024	As at September 30, 2023
	$	**$**
Raw materials and containers	**2,408**	2,407
Finished Goods	**36,363**	37,216
Closing balance	**38,771**	39,623

The cost of inventory expensed and included in cost of sales was $121 (June 30, 2023: $83) and $298 (June 30, 2023: $382) during the three and nine months ended June 30, 2024 respectively.

6. Intangible Assets

On June 7, 2011, the Company entered into an exclusive world-wide license agreement with Marcus Martin, a Director of the Company, with respect to certain intellectual property rights held by Mr. Martin relating to a process for the manufacture of anti-microbial filler product (the "MM License Agreement"). Effective October 3, 2011, the License Agreement was amended and restated to add Edward Pardiak, a former Director of the Company, as a co-licensor and was again amended and restated on April 10, 2012, to add 2320696 Ontario Inc. and 2262554 Ontario Inc., as co-licensors. Marcus Martin and Edward Pardiak, control 2320696 Ontario Inc. and 2262554 Ontario Inc., respectively through holding companies controlled by them.

The Company exercised its right to convert the interim license granted on June 7, 2011, as amended and restated, into an assignable, transferable, perpetual, world-wide exclusive license (the "License"). In connection with the exercise of the right to acquire the License, and in accordance with the terms of the MM License Agreement as amended, the Company issued fully paid and non-assessable Class A shares of the Company to the Licensors, valued at $1,606,500. The effective date for the issuance of the Class A shares and the acquisition of the License was April 10, 2012. The License was subject to royalties payable equal to 7% to 25%, based on gross margin, actually received by the Company on the sale of the licensed goods.

The shares were released in fiscal 2015. Under the terms of the license agreement, all patents, know-how and patent applications were assigned to the Company. All provisions of the License to which the Company is obligated to make payments to any of the licensors, including royalty payments, are void and the parties acknowledge that no further payments will be made in respect of the License. If the Company had failed to obtain adequate funding to build the Parry Sound production facility by December 31, 2015, the patents could revert to the licensors, however as at September 30, 2015, management believes this requirement has been met as the plant was finished such that material was produced from the plant for testing by prospective customers.

As at September 30, 2017, the Company had written-off the value of the corresponding equipment and leasehold improvements associated with this agreement.

(Unaudited - Expressed in Canadian dollars)

As at September 30, 2018, management, based on its assessment of the recoverability of the carrying value of the intangible assets associated with this agreement, decided to write-down the asset value to $1 from $1,606,500. The impairment loss arising as a result, was reported on the Statement of Operations and Comprehensive Income (loss) during the year ended September 30, 2018.

7. Property and Equipment

PROPERTY, PLANT AND EQUIPMENT

	Furniture and equipment $
Cost	
As at September 30, 2023	**15,559**
Additions during the period	**—**
Disposals during the period	**—**
As at June 30, 2024	**15,559**
Depreciation	
As at September 30, 2023	**—**
Depreciation	**2,256**
As at June 30, 2024	**2,256**
Net book value	
As at September 30, 2023	**15,559**
As at June 30, 2024	**13,303**

8. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	As at June 30, 2024	As at September 30, 2023
	$	$
Trade payables	**1,274,762**	1,225,056
Payroll taxes payable	**128,452**	195,296
Interest on promissory note	**193,060**	—
Accrued liabilties and other	**279,452**	670,034
	1,875,726	2,090,386

(Unaudited - Expressed in Canadian dollars)

9. Payable from Restructuring Proposal

On June 13, 2016, the Company announced it had completed the Restructuring Proposal as approved by the Ontario Court. The financial impact of the Restructuring Proposal transaction is reflected in the accompanying consolidated financial statements, and is summarized as follows:

i. The settlement of $3.8 million of debt was completed through the issuance of 6,607,762 common shares (pre-consolidation 99,116,431) of the Company. The fair market value of the common shares which was based on the quoted market price of the Company's shares at the December 7, 2015 meeting, including costs for issuing the shares, was $991,164.

ii. The difference between the book value of the debt and the fair market value of the common shares issued was included in the Gain on Debt Settlement from Restructuring Proposal in fiscal 2016;

iii. The settlement of approximately $725,000 of debt was completed through the cash settlement option of the Restructuring Proposal. The cash option only paid a portion of the debt outstanding at the time of the settling of the debt, and in return the vendor had to forgive 50% of the balance, which was included in the Gain on Debt Settlement from Restructuring Proposal for fiscal 2016. The outstanding payables for these vendors was reflected on the consolidated statements of financial position – Payable from Restructuring Proposal. This debt is only payable by the Company upon there being sufficient cash flow over an undefined period of time. The balance of this payable as of June 30, 2024, is $254,092 (September 20, 2023 - $254,092). There have been no payments made on this balance since inception; and

iv. Other debt that was not supported by an eligible claim or claims without merit were approved by the Court to be written down to nil. Since the settlement amount is nil, the full amount of such debt was included in Gain on Debt Settlement from Restructuring Proposal for fiscal 2016.

10. Loans and Promissory Notes payable

Loans consist of the following:

	As at June 30, 2024	As at September 30, 2023
	$	**$**
Loans	**292,223**	6,458
Addition during the period	**104,038**	283,449
Interest accrued during the period	**5,710**	7,316
Settled during the period	**(395,513)**	(5,000)
Closing balance	**6,458**	292,223

Loans of $6,458 to the Company from related parties are unsecured, non-interest bearing with no fixed terms of repayment.

(Unaudited - Expressed in Canadian dollars)

During the period loans and interest amounting to $117,819 were settled in cash and $277,694 was settled through issuance of units. Refer note 14.

10. Loans and Promissory Notes payable (Continued)

Promissory Notes Payable

Thes promissory notes are unsecured, carry interest at the rate of Prime rate plus 5% and are fully due and repayable on demand. The interest accrued on promissory notes during the period is $2,285 (June 30, 2023: $2,139) respectively.

The following table summarizes the promissory notes outstanding as at June 30, 2024:

	As at June 30, 2024	As at September 30, 2023
	$	**$**
Opening balance	**31,214**	28,308
Interest accrued during the period	**2,285**	2,906
Closing balance	**33,499**	31,214

11. Promissory Note Payable

On July 17, 2023, the Company completed the transaction to terminate the joint venture agreement with 19443391 Ontario Inc. ("194") pursuant to a termination of joint venture agreement dated June 23, 2023 and all indebtedness owing to 194 and related persons from the Company was extinguished. The Company issued a non-transferable promissory note ("Note") in the principal amount of $6,500,000 as consideration. Interest on the Note will accrue at a rate of prime plus 3% per annum and will be payable quarterly subject to a 120-day interest holiday. The promissory note, at the time of issue, was fair valued at $5,131,408 using present value technique, by discounting the contractual cash flows using market interest rate of companies with similar credit risk. The effective interest applied to determine the discounted cash flows of the promissory note was 19.07%.

The effective interest will be accreted to the promissory note as well as charged to the consolidated statement of operations and comprehensive loss over the period from date of issuance of the promissory note to its the maturity on December 31, 2025. The reconciliation of the Promissory note is as follows:

	As at June 30, 2024	**As at September 30, 2023**
	$	**$**
Opening balance	**5,235,448**	5,131,408
Interest accretion	**391,510**	104,040
Settled during the year	**(360,000)**	—
Closing balance	**5,266,958**	5,235,448

(Unaudited - Expressed in Canadian dollars)

During the three and nine months ended June 30, 2024, interest expense on promissory note was $133,653 (June 30, 2023: $Nil) and $391,510 (June 30, 2023: $Nil) respectively, recorded in the statements of loss and comprehensive loss. Interest amounting to $133,653 was settled through issuance of common shares. Refer note 14.

12. Related Party Transactions and Balances

The Company had the following related party transactions for the period ended June 30, 2024, and 2023. These transactions were in the normal course of operations and are measured at the exchange amount, which are the amounts agreed to by the related parties.

Compensation of key management personnel of the Company

The remuneration of directors and other key management personnel is as follows:

	For the three months ended June 30, 2024	For the three months ended June 30, 2023	**For the nine months ended June 30, 2024**	For the nine months ended June 30, 2023
	$	$		
Short-term compensation	**10,577**	74,038	**148,077**	211,538
Share-based compensation	**—**	—	**—**	25,374
Total	**10,577**	74,038	**148,077**	236,912

Short-term compensation includes salaries, bonuses, allowances, employment benefits, and directors' fees. As at June 30, 2024 the Company owes $Nil (September 30, 2023: 155,316) to a related party.

13. CEBA loan

In 2020, the Company availed the RBC Canada Business Account revolving credit line, to a maximum of $60,000 under the Canada Emergency Business Account (CEBA) program funded by the Government of Canada. The loan is unsecured and any unpaid balance is converted to a two-year term loan carrying interest at the rate of 5% payable monthly. The full amount of the loan (including principal and interest) is due and payable on December 31, 2025.

During the three and nine months ended June 30, 2024, the Company incurred interest of $492 (2023: $Nil) on CEBA loan.

14. Share Capital

Authorized:

The Company is authorized to issue an unlimited number of:

Class A shares, voting and participating.

Class B shares, voting, redeemable at any time at the option of the Company for an amount equal to the fair value of the consideration received at issuance.

(Unaudited - Expressed in Canadian dollars)

Class C preferred shares issuable in series with the following to be fixed with each series: number of shares, designation, rights, privileges, restrictions and conditions including dividend rate and calculation method and payment dates, the redemption, purchase and/or conversion prices, terms of redemption, purchase and/or conversion, any sinking fund or other provisions, may be convertible into Class A shares and voting unless otherwise determined.

14. Share Capital (Continued)

Issued and outstanding: Class A Shares

	Number of shares	Amount
Balance, September 30, 2023	26,406,591	$ 13,401,252
Shares issued during the period on private palcement	2,750,000	740,105
Units issued during the period	1,962,297	532,141
Shares issued during the period to settle debt	625,000	273,813
Share based compensation	120,000	57,450
Share isuance cost	—	(9,385)
Balance, June 30, 2024	31,863,888	$ 14,995,376

In December 2023, the Company issued 1,250,000 units through a non-brokered private placement for gross proceeds of $500,000. Each unit consists of one common share in the capital of the Company and one half of common share purchase warrant. Each warrant will entitle the holder to acquire one common share in the capital of the Company at an exercise price of $0.80 per share for a period of eighteen months from the date of issuance. The Company issued 1,250,000 common shares and 625,000 common share warrants, accordingly. The proceeds from issuance were allocated between shares and warrants based on relative fair values. The relative fair value of the shares was determined to be $334,732 based on the market price of shares on the date of issuance.

The relative fair value of warrants was estimated to be $165,268 using Black Scholes valuation model using the following assumptions: stock price of $0.15; expected maturity of eighteen months; $nil dividends; annualized volatility of 450.62%; risk free interest rate of 3.91% and exercise price of $0.80.

The Company incurred share issuance costs of $14,019 which is allocated to common shares and warrants based on relative fair values. Accordingly share issuance cost of $9,385 was allocated to common shares and $4,634 was allocated to warrants and adjusted against share capital and warrants in the condensed interim consolidated statements of changes in shareholders' deficit.

In February 2024, the Company issued 1,962,297 units at a price of $0.40 per unit to settle debt of $784,919. Each unit consists of one common share in the capital of the Company and one half of common share purchase warrant. Each warrant will entitle the holder to acquire one common share in the capital of the Company at an exercise price of $0.80 per share for a period of eighteen months from the date of issuance. Accordingly, the Company issued 1,962,297 common shares and 981,147 common share warrants. The proceeds from issuance were allocated between shares and warrants based on relative fair values. The relative fair value of the shares was determined to be $532,141 based on the market price of shares on the date of issuance.

(Unaudited - Expressed in Canadian dollars)

The relative fair value of warrants was estimated to be $252,778 using Black Scholes valuation model using the following assumptions: stock price of $0.32; expected maturity of eighteen months; $nil dividends; annualized volatility of 348%; risk free interest rate of 4.18% and exercise price of $0.80.

In March 2024, the Company issued 213,432 common shares valued at the market price at the time of issue, to settle $85,373 of interest on promissory note issued on termination of Joint Venture. The Company also issued 15,000 common shares valued at market price at the time of issuance as stock based compensation for services rendered to the Company.

In April 2024, the Company issued 1,500,000 units through a non-brokered private placement for gross proceeds of $600,000. Each unit consists of one common share in the capital of the Company and one half of the common share purchase warrant. Each warrant will entitle the holder to acquire one common share in the capital of the Company at an exercise price of $0.80 per share for a period of eighteen months from the date of issuance. The Company issued 1,500,000 common shares and 750,000 common share warrants, accordingly. The proceeds from issuance were allocated between shares and warrants based on relative fair values. The relative fair value of the shares was determined to be $405,373 based on the market price of shares on the date of issuance.

The relative fair value of warrants was estimated to be $194,627 using Black Scholes valuation model using the following assumptions: stock price of $0.34; expected maturity of eighteen months; $nil dividends; annualized volatility of 362%; risk free interest rate of 3.99% and exercise price of $0.80.

15. Warrant Reserves

The following table shows the schedule of warrants as at June 30, 2024:

	No. of warrants	Amount
	#	$
Balance at September 30, 2023	—	—
Warrants issued during the period	2,356,147	612,673
Balance at June 30, 2024	2,356,147	612,673

The following table summarizes the warrants outstanding as at June 30, 2024:

Expiration Date	Warrants outstanding	Weighted average exercise price	Remaining contractual life
June 27, 2025	625,000	$0.80	0.99
August 21, 2025	981,147	$0.80	1.14
October 26, 2025	750,000	$0.80	1.32
Total	**2,356,147**		

Refer Note 14.

(Unaudited - Expressed in Canadian dollars)

16. Equity Reserves

The Company has a stock option plan (the "Plan"), under which the Company may grant options to directors, officers, employees, and third-party service providers. Under the terms of the Plan that was approved by the shareholders on May 24, 2012, the Company is authorized to issue a maximum of 10% of the issued and outstanding shares.

The purpose of the Plan is to attract, retain and motivate directors, officers, and certain third-party service providers by providing them with the opportunity to acquire a proprietary interest in the Company and benefit from its growth. The options granted under the Plan are non-assignable, have a term of 5 years and vest over periods of up to three years from the date of issue.

During the period ended June 30, 2024, no stock options were granted under the Plan. The following is a schedule of outstanding options:

	June 30, 2024		September 30, 2023	
	No. of options	**Weighted average exercise price**	No. of options	Weighted average exercise price
	#	**$**	#	$
Opening balance	1,367,000	0.68	1,367,000	0.68
Closing balance	**1,367,000**	**0.68**	1,367,000	0.68

The following table summarizes the stock options outstanding as at June 30, 2024:

Expiration Date	**Stock options outstanding**	**Weighted average exercise price**	**Stock options exercisable**	**Remaining contractual life**
February 2026	350,000	$1.06	350,000	1.67
May 2026	1,017,000	$0.55	1,017,000	1.84
Total	**1,367,000**	$0.68	**1,367,000**	

17. Commitments and Contingencies

Commitments

The Company has a rent agreement in Canada with Barracuda Wellsite Management on a monthly rental of $500 per month. This rental agreement is based on a month-to-month basis.

The Company has also entered into a Revenue sharing agreement with the University of Calgary through its innovation transfer and business incubation center UTI Limited Partnership (ULP). Pursuant to the Research agreement, the Company will own Research Results arising from the Project and in consideration for the University assigning its rights in the Research Results to the Company, the Company will pay ULP:

- Revenue sharing payments equal to one and one-half percent (1.5%) of Net Sales; plus
- Revenue sharing payments equal to ten percent (10%) of Licensing Revenue.

On January 8, 2024 the Company entered into an agreement with Oak Hill Financial Inc. to provide business and capital markets advisory services to the Company including investor relations activities. The agreement is for a period of three months and will be renewed for an additional one month and compensation totals $10,000 plus applicable taxes on the effective date and every month the agreement is in effect.

Other Contingencies

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As at June 30, 2024, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates are an adverse party or have a material interest adverse to the Company's interest.

18. Financial Risk Factors

The Company's financial instruments mainly comprise of cash and other receivables, accounts payable and accrued liabilities, payable from restructuring proposal, loans and joint venture advances.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which there is sufficient data with unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the condensed interim consolidated financial statements are categorized within the fair value hierarchy.

This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

• Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.

• Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.

(Unaudited - Expressed in Canadian dollars)

• Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

18. Financial Risk Factors (Continued)

Fair Value (Continued)

The classification of financial instruments at their carrying and fair values is as follows:

	Carrying values			**Fair values**
Financial assets	**FVTPL**	**FVTOCI**	**Total**	**Total**
June 30, 2024	**$**	**$**	**$**	**$**
Cash	**6,302**	**—**	**6,302**	**6,302**
Other receivables	**258,993**	**—**	**258,993**	**258,993**
	265,295	**—**	**265,295**	**265,295**
September 30, 2023	$	$	$	$
Cash	5,883	—	5,883	5,883
Other receivables	20,486	—	20,486	20,486
	26,369	—	26,369	26,369

	Carrying values			**Fair values**
Financial liabilities	**FVTPL**	**Amortised cost**	**Total**	**Total**
June 30, 2024	**$**	**$**	**$**	**$**
Accounts payable and accrued liabilities	**—**	**1,875,726**	**1,875,726**	**1,875,726**
Payable from restructuring proposal	**—**	**254,092**	**254,092**	**254,092**
Promissory notes payable	**—**	**5,266,958**	**5,266,958**	**5,266,958**
Loans and promissory notes payable	**—**	**39,957**	**39,957**	**39,957**
CEBA loan	**—**	**60,000**	**60,000**	**60,000**
	—	**7,496,733**	**7,496,733**	**7,496,733**
September 30, 2023	**$**	**$**	**$**	**$**
Accounts payable and accrued liabilities	—	2,090,386	2,090,386	2,090,386
Payable from restructuring proposal	—	254,092	254,092	254,092
Loans	—	323,437	323,437	323,437
Promissory notes payable	—	5,235,448	5,235,448	5,235,448
CEBA loan	**—**	60,000	60,000	60,000
	—	7,963,363	7,963,363	7,963,363

There were no transfers between levels in the hierarchy. For financial assets and liabilities not measured at fair value, their carrying value approximates fair value due to their short-term nature and market terms.

The Company is exposed to credit risk, liquidity risk and interest rate risk. The Company's management oversees the management of these risks. The Company's management is supported by the members that advise on financial risks and the appropriate financial risk governance framework for the Company. The Company's financial risk activities are governed by appropriate policies and procedures and financial risks are identified, measured and managed in accordance with Company policies and Company risk appetite.

18. Financial Risk Factors (Continued)

Fair Value (Continued)

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

There have been no changes to the Company's exposure to risks in respect of its financial instruments, and there have been no changes in respect of management's objectives, policies and processes in the management of its financial instruments from that of prior reporting period.

Credit risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and other receivables. To address its credit risk arising from cash, the Company ensures to keep these balances with financial institutions of high repute. The Company has not recorded an ECL as all amounts are considered to be recoverable and are immaterial. The Company is not significantly exposed to its other receivables. As at June 30, 2024 and September 30, 2023 the maximum amount exposed to credit risks was $265,295 and $26,369 respectively.

Liquidity risk

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash in a cost-effective manner to fund its obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages liquidity risk through obtaining financing from its members, third parties and joint venture. As at June 30, 2024, all accounts payable and accrued liabilities are due within a year.

Market risk - Interest rate risk

The Company's current policy is to invest excess cash in investment-grade, short-term deposit certificates issued by its banking institutions. Interest rate risk is the risk that the value of financial instruments will fluctuate due to change in market interest rates. As at June 30, 2024, all of the Company's financial instruments are either non-interest bearing or bear interest at fixed rates.

19. Capital Management

Capital is defined as share capital and equity reserve. The Company's objectives when managing capital are to maintain an appropriate balance between holding a sufficient amount of capital to support its operations as a going concern, and providing shareholders with a prudent amount of leverage, as and when required, to enhance returns. There have been no changes since the prior year.

The intellectual property in which the Company has acquired through a license agreement is currently in the development stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Funds are primarily secured through equity capital raised by way of private placements. There can be no assurances that the Company will be able to continue raising equity capital in this manner.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments, such as cash and other short-term guaranteed deposits, all held with major Canadian financial institutions.

The Company is not subject to any regulatory or contractual capital obligations of material consequence.

20. Subsequent Events

The Company has evaluated subsequent events through August 28, 2024 which is the date the condensed interim consolidated financial statements were issued, and has determined there were no events to report.