CITY VIEW GREEN HOLDINGS INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

(EXPRESSED IN CANADIAN DOLLARS)

Zeifmans

INDEPENDENT AUDITORS' REPORT

To the Shareholders of City View Green Holdings Inc.

Opinion

We have audited the consolidated financial statements of City View Green Holdings and its subsidiary (together, the "Company"), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("GAAS"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements which indicates that as at December 31, 2022 the Company has an accumulated deficit of $41,654,811 and a working capital deficit of $2,262,519 and for the year then ended the Company had a net loss of $2,416,017. These events or conditions along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements of the Company for the year ended December 31, 2021 were audited by another auditor who expressed an unmodified opinion on those statements on May 2, 2022.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as at and for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.

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Key audit matter	How our audit addressed the key audit matter
Classification of convertible loan and initial valuation of the liability component *Refer to note 2 – Significant accounting policies and note 11 – Loans payable* In 2022, the Company modified its line of credit agreement with a third party lender (the "Lender"). Under the terms of the amendment, the Lender advanced $641,389 (the "Loan"). The Lender has the right at any time until maturity to elect, in its sole discretion, to covert all or any portion of the outstanding amount into fully paid non-assessable shares at a price of $0.05 per share. The Loan bears interest at 7% and was amended to terminate on June 30, 2023. At issuance, the fair value allocated to the liability component, net of equity component of $39,500, was $601,889. The Loan was determined to be a compound financial instrument. Management applied judgment in assessing the accounting treatment for the individual components of the Loan and whether the conversion option qualified as an equity instrument, including whether the terms met the "fixed-for-fixed" requirement. The fair value of the liability component at the time of issuance was calculated at the discounted cash flows, assuming a 15.75% discount rate. The fair value of the equity component was valued using the Black-Scholes model. We considered this a key audit matter due to the judgment applied by management in assessing the treatment for the individual components of the Loan and determining the assumptions used for the fair value of the equity component and liability component at initial recognition. This in turn, led to a high degree of auditor judgement and effort in performing procedures to test management's assumptions.	Our approach to addressing the matter included the following procedures, among others: • We read the underlying agreements and evaluated whether management's interpretation of the agreements in relation to accounting for the financial instrument was reasonable, which included the accounting analysis of whether the Loan qualified as a compound financial instrument, including assessing whether the criteria were met to recognize components within equity, including the fixed-to-fixed requirements. • We verified that the terms of the Loan and management's assumptions and inputs utilized in the calculation are properly disclosed in the notes to the consolidated financial statements. • We obtained direct confirmation from the Lender to verify the terms and outstanding balances at the reporting date.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management Discussion and Analysis ("MD&A"), but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the MD&A and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the MD&A identified above and, in doing so, consider whether the MD&A is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be misstated.

We obtained the MD&A prior to the date of this auditors' report. If, based on the work we have performed on this MD&A, we conclude that there is a material misstatement of this MD&A, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Laurence W. Zeifman, CPA, CA.

Zeifmans LLP

Toronto, Ontario
May 2, 2023

Chartered Professional Accountants
Licensed Public Accountants

City View Green Holdings Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at	December 31, 2022	December 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents	$ -	$ 42,655
Amounts receivable (note 5)	95,202	88,155
Prepaid expenses	36,925	78,202
Promissory note receivable (note 6)	392,139	364,333
Due from related parties (note 16)	106,932	-
Total current assets	631,198	573,345
Non-current assets		
Plant and equipment (note 7)	1,062,705	2,026,721
Right-of-use assets (note 8)	-	2,496,310
Total non-current assets	1,062,705	4,523,031
Total assets	$ 1,693,903	$ 5,096,376
EQUITY (DEFICIENCY) AND LIABILITIES		
Current liabilities		
Bank overdraft	$ 494	$ -
Accounts payable and accrued liabilities (note 9)	1,868,703	1,530,856
Promissory notes payable (note 10)	293,790	236,246
Loans payable (note 11)	665,730	233,720
Current portion of lease liabilities (note 12)	-	156,378
Due to related parties (note 16)	65,000	20,000
Total current liabilities	2,893,717	2,177,200
Non-current liabilities		
Promissory note payable (note 10)	213,315	-
Loans payable (note 11)	-	40,000
Lease liabilities (note 12)	-	2,801,611
Total non-current liabilities	213,315	2,841,611
Total liabilities	3,107,032	5,018,811
Shareholders' equity (deficiency)		
Share capital (note 13)	31,831,706	30,298,577
Shares to be issued	257,223	351,789
Contributed surplus (note 14)	8,113,253	8,665,993
Equity portion of convertible loan payable (note 11)	39,500	-
Deficit	(41,654,811)	(39,238,794)
Total shareholders' equity (deficiency)	(1,413,129)	77,565
Total shareholders' equity (deficiency) and liabilities	$ 1,693,903	$ 5,096,376

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

Nature of operations and going concern (note 1)
Subsequent events (note 21)

Approved on behalf of the Board:

(Signed) "Rob Fia" Director (Signed) "Tim Peterson" Director

City View Green Holdings Inc.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Year Ended December 31, 2022	Year Ended December 31, 2021
Revenue	**$ 267,448**	**$ -**
Expenses		
Depreciation and amortization (notes 7 and 8)	**773,810**	989,342
Consulting (note 16)	**625,801**	637,113
General and administration	**296,940**	337,859
Interest on lease liabilities (note 12)	**283,493**	394,405
Professional fees	**232,538**	96,158
Supplies	**205,063**	-
Bad debt	**106,651**	-
Rent	**90,360**	227,112
Interest on loans and promissory notes payable (notes 10 and 11)	**59,204**	37,616
Share-based compensation (note 14)	**38,900**	231,800
Debt issue costs (notes 10, 11 and 15)	**22,900**	37,300
Accretion (note 11)	**13,166**	-
Advertising and promotion	**2,000**	19,062
Total expenses	**2,750,826**	3,007,767
Net loss before interest and undernoted items	**(2,483,378)**	(3,007,767)
Gain (loss) on debt settlement (note 13)	**66,904**	(23,815)
Interest income (note 6)	**27,806**	23,489
Loss on lease termination (notes 7 and 12)	**(27,349)**	-
Share of loss of associate	**-**	(139,742)
Impairment loss on investment in associate	**-**	(1,093,130)
Impairment of intangible assets and goodwill	**-**	(382,360)
Net loss and comprehensive loss for the year	**$ (2,416,017)**	$ (4,623,325)
Basic and diluted net comprehensive loss per share (note 17)	**$ (0.01)**	$ (0.02)
Weighted average number of common shares outstanding - basic and diluted	**299,995,715**	269,456,802

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

City View Green Holdings Inc.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in Canadian Dollars)

	Share capital						
	Number of shares	Amount	Shares to be issued	Contributed surplus	Equity portion of convertible loan payable	Deficit	Total
Balance, December 31, 2020	**247,461,530**	**$ 28,500,186**	**$ 1,384,053**	**$ 7,794,193**	**$ -**	**$ (34,615,469)**	**$ 3,062,963**
Units issued for cash	28,149,856	1,794,540	(210,000)	-	-	-	1,584,540
Fair value of warrants	-	(605,100)	-	605,100	-	-	-
Common shares issued for debt settlement	7,700,884	601,551	-	-	-	-	601,551
Warrants issued for financing costs	-	-	-	37,300	-	-	37,300
Issued on exercise of warrants	100,000	7,400	-	(2,400)	-	-	5,000
Shares to be issued	-	-	351,789	-	-	-	351,789
Shares to be issued pursuant to asset purchase transaction	-	-	(1,174,053)	-	-	-	(1,174,053)
Share-based compensation	-	-	-	231,800	-	-	231,800
Net loss and comprehensive loss for the year	-	-	-	-	-	(4,623,325)	(4,623,325)
Balance, December 31, 2021	**283,412,270**	**$ 30,298,577**	**$ 351,789**	**$ 8,665,993**	**$ -**	**$ (39,238,794)**	**$ 77,565**
Units issued for cash	9,600,000	480,000	(275,000)	-	-	-	205,000
Fair value of warrants	-	(201,300)	-	201,300	-	-	-
Common shares issued for debt settlement	1,261,784	56,780	-	-	-	-	56,780
Equity portion of convertible loan payable	-	-	-	-	39,500	-	39,500
Issued on exercise of warrants	26,980,571	1,197,649	-	(792,940)	-	-	404,709
Shares to be issued	-	-	180,434	-	-	-	180,434
Share-based compensation	-	-	-	38,900	-	-	38,900
Net loss and comprehensive loss for the year	-	-	-	-	-	(2,416,017)	(2,416,017)
Balance, December 31, 2022	**321,254,625**	**$ 31,831,706**	**$ 257,223**	**$ 8,113,253**	**$ 39,500**	**$ (41,654,811)**	**$ (1,413,129)**

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

City View Green Holdings Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended December 31, 2022	Year Ended December 31, 2021
Operating activities		
Net loss for the year	**$ (2,416,017)**	$ (4,623,325)
Adjustments for:		
Depreciation and amortization	**773,810**	989,342
Share-based compensation	**38,900**	231,800
Accrued interest	**31,398**	14,127
Interest expense on lease liabilities	**283,493**	394,405
Debt issue costs	**22,900**	37,300
Accretion	**13,166**	-
Loss on lease termination	**27,349**	-
(Gain) loss on debt settlement	**(66,904)**	23,815
Share of loss of associate	**-**	139,742
Impairment loss on investment in associate	**-**	1,093,130
Impairment of intangible assets and goodwill	**-**	382,360
Changes in non-cash working capital items:		
Amounts receivable	**(7,047)**	187,474
Prepaid expenses	**41,277**	108,509
Accounts payable and accrued liabilities	**438,630**	903,793
Net cash used in operating activities	**(819,045)**	(117,528)
Investing activities		
Purchase of plant and equipment	**(183,453)**	(1,727,175)
Net cash used in investing activities	**(183,453)**	(1,727,175)
Financing activities		
Proceeds from issuance of units, net of share issue costs	**205,000**	1,584,540
Proceeds from warrants exercised	**404,709**	5,000
Proceeds from promissory notes payable	**330,000**	-
Repayment of promissory note payable	**(100,000)**	-
Collection of promissory note receivable	**-**	382,057
Proceeds from loan payable	**400,000**	-
Advances from related parties	**45,000**	20,000
Advances to related parties	**(106,932)**	-
Shares to be issued	**180,434**	275,000
Repayment of lease liabilities	**(398,862)**	(531,816)
Net cash provided by financing activities	**959,349**	1,734,781
Net decrease in cash and cash equivalents for the year	**(43,149)**	(109,922)
Cash and cash equivalents, beginning of year	**42,655**	152,577
Cash and cash equivalents (bank overdraft), end of year	**$ (494)**	$ 42,655

Supplemental cash flow information (note 19)

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

1. Nature of operations and going concern

City View Green Holdings Inc. ("City View" or the "Company") was incorporated pursuant to the Canada Business Corporations Act on February 5, 2008. The Company continued into British Columbia from the jurisdiction of Canada, under the *British Columbia Business Corporations Act*, on February 18, 2011. On February 27, 2019, the Company completed a reverse take-over business combination with 2590672 Ontario Inc. ("2590672 Ontario") wherein the Company acquired 100% of the issued and outstanding common shares of 2590672 Ontario and began trading on the Canadian Securities Exchange (the "CSE") under the symbol "CVGR". The Company's registered office is located at 1173 Dundas Street East, Suite 132, Toronto, Ontario, M4M 3P1.

These consolidated financial statements reflect the continuation of the financial position, operating results and cash flows of the Company's legal subsidiary, 2590672 Ontario.

The consolidated financial statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. As at December 31, 2022, the Company has an accumulated deficit of $41,654,811 and a working capital deficit of $2,262,519, and for the year then ended, the Company had a net loss of $2,416,017. These conditions raise material uncertainties which cast significant doubt about the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. While the Company is continuing its best efforts to achieve the above plans, there is no assurance that any such activity will generate funds for operations. The consolidated financial statements do not reflect adjustments to the carrying values and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern, and such adjustments may be material.

On April 30, 2021, the Company received a cannabis processing license from Health Canada. The processing license allows the Company to produce cannabis edibles and related products and allows the Company to conduct development activities, including the formulation of proprietary cannabis infused edibles. On April 21, 2022, the Company further received its cannabis research license from Health Canada.

2. Significant accounting policies

Basis of presentation

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of May 2, 2023, the date the Board of Directors approved the statements.

The consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company. They have been prepared on the historical cost basis, except for financial instruments that have been measured at fair value through profit and loss (FVTPL).

In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

2. Significant accounting policies (continued)

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continues to be consolidated until the date that such control ceases. Control is achieved when an investor has power over an investee to direct its activities, exposure to variable returns from an investee, and the ability to use the power to affect the investor's returns.

The results of subsidiaries acquired or disposed of during the years presented are included in the consolidated statements of comprehensive loss from the effective date of control and up to the effective date of disposal or loss of control, as appropriate. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

Cash and cash equivalents

Cash and cash equivalents include cash on deposit at banking institutions, deposits in transit and bank overdraft where balances change from positive to overdrawn. The Company did not have any cash equivalents as at December 31, 2022.

Plant and equipment

Upon initial acquisition, plant and equipment is valued at cost, being the purchase price and the directly attributable costs of acquisition required to bring the assets to the location and in the condition necessary for these assets to be capable of operating in the manner intended by management. In subsequent periods, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Each component or part of plant and equipment with a cost that is significant in relation to the total cost of the item will be depreciated separately, unless there is no difference in depreciation on the respective components.

Leasehold improvement	5 years, straight-line method
Equipment	5 years, straight-line method

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

The recoverable amount is the higher of fair value less disposal costs and value in use. In assessing value in use, the estimated future cash flows are discounted at a rate that reflects current market assessments of the pre-tax time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statements of loss.

2. Significant accounting policies (continued)

Leases and right-of-use assets

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. Contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration are accounted for as leases giving rise to right-of-use assets.

At the commencement date, a right-of-use asset is measured at cost, where cost comprises: (a) the amount of the initial measurement of the lease liability; (b) any lease payments made at or before the commencement date, less any lease incentives received; (c) any initial direct costs incurred by the Company; and (d) an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any re-measurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term.

A lease liability is initially measured at the present value of the unpaid lease payments. Subsequently, the Company measures a lease liability by: (a) increasing the carrying amount to reflect interest on the lease liability; (b) reducing the carrying amount to reflect the lease payments made; and (c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments. Each lease payment is allocated between repayment of the lease principal and interest. Interest on the lease liability in each period during the lease term is allocated to produce a constant periodic rate of interest on the remaining balance of the lease liability. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs.

The Company elected to not recognize right of use assets and lease liabilities that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit on a straight-line basis over the lease term.

Intangible assets

Intangible assets, including testing/formation technology, standard operating procedures and contracts that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

Amortization is calculated to write of the intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is recognized in profit or loss. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate. Amortization commences when the asset is ready for use. Each component or part of intangible assets with a cost that is significant in relation to the total cost of the item will be amortized separately, unless there is no difference in depreciation on the respective components.

Testing/formation technology	3 years
Standard operating procedures	3 years
Contracts	3 years

2. Significant accounting policies (continued)

Goodwill

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the groups of assets (each a "Cash-Generating Unit" or a “CGU") to which goodwill has been allocated must be valued using present value techniques. The Company assesses impairment by comparing the recoverable amount of a long-lived asset, CGU, or CGU group to its carrying value. The recoverable amount is defined as the higher of: (i) value in use; or (ii) fair value less cost to sell. The determination of the recoverable amount involves significant estimates and assumptions. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

Investments in associates

Investments in associates are those entities over which the Company has or is deemed to have significant influence, but not control over, the financial and operating policies. The Company also provides loans to these entities. Investment in associate are carried in the consolidated statement of financial position using the equity method. The equity method is the basis of accounting for investments whereby the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the investor’s pro-rata share of post-acquisition earnings and other comprehensive income of the investee. Funding advances to the investee increase the carrying value of the investment and profit distributions from the investment, if any, reduce the carrying value of the investment.

Revenue recognition

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:

1. Identifying the contract with a customer;
2. Identifying the performance obligations within the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue is recognized when the amount of revenue can be measured reliably, the economic benefits associated with the revenue will flow to the Company, the stage of completion can be measured reliably, and the costs incurred for the transaction can be measured reliably.

Revenue is derived from the sale of the Company's goods. Performance obligations are satisfied upon delivery of the goods to the customers, and the customers receive and accept the goods. Customers are billed and revenue is recognized upon delivery to the customers.

Share-based compensation

The Company accounts for all equity-settled stock-based payments using a fair value based method incorporating the Black-Scholes option pricing model. Under the fair value based method, compensation cost attributable to options granted is measured at fair value at the grant date and is either recorded at the date of grant, in the case of options that vest immediately, or over the vesting period in the case of options that vest over a period of time. In the latter case, the Company estimates forfeitures at the time of grant and the amount recognized as an expense from time to time is adjusted to reflect any changes in the Company’s estimate of the shares that will eventually vest and the effect of any non-market vesting conditions.

2. Significant accounting policies (continued)

Share-based compensation (continued)

The valuation is dependent on a number of estimates, including the risk free interest rate, the level of share volatility, together with an estimate of the level of forfeiture. The level of share volatility is calculated with reference to the historic traded daily closing share price at the date of issue. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable measure of the fair value of the Company's share purchase options.

Share-based payment arrangements with non-employees in which the Company receives goods or services as consideration are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case they are measured at the fair value of equity instruments granted.

Provision

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation.

Financial instruments

Recognition

The Company recognizes a financial asset or financial liability on the statement of financial position when it becomes party to the contractual provisions of the financial instrument. Financial assets are initially measured at fair value, and are derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire. Financial liabilities are initially measured at fair value and are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

A write-off of a financial asset (or a portion thereof) constitutes a derecognition event. Write-off occurs when the Company has no reasonable expectations of recovering the contractual cash flows on a financial asset.

Classification and measurement

The Company determines the classification of its financial instruments at initial recognition. Financial assets and financial liabilities are classified according to the following measurement categories:

i) those to be measured subsequently at fair value, either through profit or loss (“FVTPL”) or through other comprehensive loss (“FVTOCI”); and
ii) those to be measured subsequently at amortized cost.

2. Significant accounting policies (continued)

Financial instruments (continued)

Classification and measurement (continued)

The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at each subsequent reporting period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through profit or loss or through other comprehensive loss (which designation is made as an irrevocable election at the time of recognition).

After initial recognition at fair value, financial liabilities are classified and measured at either:

i) amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss;
ii) FVTPL, if the Company has made an irrevocable election at the time of recognition, or when required (for items such as instruments held for trading or derivatives); or,
iii) FVTOCI, when the change in fair value is attributable to changes in the Company's credit risk.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability classified as subsequently measured at amortized cost are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at fair value through profit or loss are expensed in profit or loss.

The Company's financial instruments classified and measured as follows:

Cash and cash equivalents	FVTPL
Promissory note receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Promissory note payable	Amortized cost
Loans payable	Amortized cost
Due to related parties	Amortized cost

Impairment

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized costs and debt financial assets carried at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

2. Significant accounting policies (continued)

Financial instruments (continued)

<u>Impairment (continued)</u>

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default of past due event;
- The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Recognition of allowance of expected credit losses ("ECL") in the statement of financial position

The Company recognizes a loss allowance for ECL on trade receivables that are measured at amortized cost. The Company's applied the simplified approach for trade receivables and recognizes the lifetime ECL for these assets. The ECL on trade receivables is estimated using a provision matrix based on the Company’s historical credit loss experience, adjusted for factors that are specific to the customers, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial assets measured at amortized cost or FVOCI, the Company recognizes lifetime ECL only when there has been a significant increase in credit risk since initial recognition. If the credit risk on such financial instruments has not increased significantly since initial recognition, the Company measures the loss allowance on those financial instruments at an amount equal to 12-months ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial asset. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial asset that are possible within 12 months after the reporting date. In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Company compares the risk of default occurring on the financial asset at the reporting date with the risk of default occurring at the initial recognition. The Company considers both quantitative and qualitative factors that are supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Irrespective of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise. Despite the foregoing, the Company presumes that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

2. Significant accounting policies (continued)

Financial instruments (continued)

Impairment (continued)

Definition of default

For internal credit risk management purposes, the company considers a financial asset not recoverable if the customer balance owing is 90 days past due and information obtained from the customer and other external factors indicate that the customer is unlikely to pay its creditors in full.

Write off policy

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Financial instruments recorded at fair value

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Loss per share

Basic and diluted net loss per share are calculated using the weighted average number of outstanding shares. The calculation of diluted loss per share takes into account the potential impact of the exercise of all dilutive instruments (such as stock options) on the theoretical number of shares using the treasury method. The Company had no dilutive instruments during the years ended December 31, 2022 and 2021.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

2. Significant accounting policies (continued)

Income tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax assets and liabilities are determined on a non-discounted basis, using the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets are recognized to the extent that it is probable that the asset can be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

New standards, amendment and interpretation not yet adopted

IAS 1, Presentation of Financial Statements ("IAS 1") - Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued amendments to IAS 1. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the consolidated statements of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted The Company is still assessing the impact of adopting these amendments on its financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2, Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policies disclosures that are more useful by replacing the requirement for entities to disclose "significant" accounting policies with a requirement to disclose their "material" accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting disclosures. The amendments to IAS 1 are applicable for annual periods beginning on or after January 1, 2023 with earlier application permitted. Since the amendments to IFRS Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The amendments are not expected to have a material impact on the Company's consolidated financial statements.

2. Significant accounting policies (continued)

New standards, amendment and interpretation not yet adopted (continued)

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") - Definition of Accounting Estimates

In February 2021, the IASB amendments to IAS 8. The amendment will require the disclosure of material accounting policy information rather than disclosing significant accounting policies and clarifies how to distinguish changes in accounting policies from changes in accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company has determined that adoption of these amendments has no significant effect on the Company's consolidated financial statements.

IAS 12, Income Taxes ("IAS 12") - Deferred Tax related to Assets and Liabilities Arising from a Single Transaction

In May 2021, the IASB issued amendments to IAS 12. The amendment narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal taxable and deductible temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company has determined that adoption of these amendments has no significant effect on the Company's consolidated financial statements.

All other IFRSs and amendments issued but not yet effective have been assessed by the Company and are not expected to have a material impact on the Company's consolidated financial statements.

3. Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements using accounting policies consistent with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. The preparation of the consolidated financial statements also requires management to exercise judgment in the process of applying the accounting policies.

Critical accounting estimates

Share-based compensation – management is required to make a number of estimates when determining the compensation expense resulting from share-based transactions, including the forfeiture rate and expected life of the instruments.

Warrants – management is required to make a number of estimates when measuring the value of warrants including expected life of the instruments.

Plant and equipment and right-of-use assets - management is required to estimate the useful lives and residual value of property, plant and equipment which are included in the consolidated statements of financial position and the related depreciation included in the consolidated statements of loss.

Recoverability of promissory notes receivable – Management's assessment of whether indicator of write off the receivable are present requires judgment based on facts and circumstances at reporting period ends.

3. Significant accounting judgments, estimates and assumptions (continued)

Critical judgments in applying accounting policies

Income taxes – measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only become final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the consolidated financial statements.

Going concern – the assessment of the Company's ability to continue as a going concern involves judgment regarding future funding available for its operations and working capital requirements as discussed in note 1.

Impairment assessment of investment in associate – Management's assessment as to whether there is any objective evidence that its net investment in the associate is impaired. Management must determine whether there has been a loss event that has an impact of the estimated future cash flows from the net investment that can be reliably estimated. Objective evidence that the net investment is impaired includes observable data that comes to the attention of the entity.

Impairment of plant and equipment and right-of-use assets - assessing whether indicators of impairment exist at reporting period ends and, if required, determining recoverable amounts including assumptions and inputs thereto.

Intangible assets – The Company applies judgment to assess whether there are any indications that its intangible assets may be impaired. This assessment requires an assessment of external, internal and other indicators at the end of each reporting period.

4. Capital risk management

The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities; and
- to maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and financial markets in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, or adjusting spending. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

The Company considers its capital structure to consist of share capital, shares to be issued, contributed surplus, equity portion of convertible loan payable, and deficit, which at December 31, 2022 totaled a deficiency of $1,413,129 (December 31, 2021 - surplus of $77,565). The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. Selected information is provided to the Board of Directors of the Company. The Company is not subject to any capital requirements imposed by a lending institution.

5. Amounts receivable

	As at December 31, 2022	As at December 31, 2021
Sales tax recoverable (i)	**$ 95,202**	$ 88,155

(i) Sales tax receivable is not past due.

6. Promissory note receivable

On March 5, 2019, the Company entered into a loan agreement in the amount of $200,000 with 11103016 Canada Inc. ("11103016 Canada"). The loan is secured by 11103016 Canada's inventory and equipment, and bears interest rate of Prime Bank Rate plus 5% per annum, calculated monthly not in advance. The loan is repayable on or before March 5, 2020. The Company loaned an additional $100,000 to 11103016 Canada in August 2019. On March 5, 2020, the Company extended the repayment date of the loan to December 31, 2020. In April 2021, the repayment date was extended to December 31, 2021, and in April 2022, the repayment date was further extended to December 31, 2022.

As at December 31, 2022, the Company was owed $392,139 (December 31, 2021 - $364,333) including accrued interest. The Company is currently negotiating the extension of the repayment date with 11103016 Canada.

7. Plant and equipment

Cost	Leasehold improvements	Equipment	Total
Balance, December 31, 2020	$ 648,553	$ 133,376	$ 781,929
Additions	457,728	1,269,447	1,727,175
Balance, December 31, 2021	1,106,281	1,402,823	2,509,104
Additions	89,674	93,779	183,453
Impairment (i)	(1,195,955)	-	(1,195,955)
Balance, December 31, 2022	$ -	$ 1,496,602	$ 1,496,602

Accumulated depreciation	Leasehold improvements	Equipment	Total
Balance, December 31, 2020	$ 152,762	$ -	$ 152,762
Depreciation for the year	186,798	142,823	329,621
Balance, December 31, 2021	339,560	142,823	482,383
Depreciation for the year	235,750	291,074	526,824
Impairment (i)	(575,310)	-	(575,310)
Balance, December 31, 2022	$ -	$ 433,897	$ 433,897

Carrying value	Leasehold improvements	Equipment	Total
Balance, December 31, 2021	$ 766,721	$ 1,260,000	$ 2,026,721
Balance, December 31, 2022	$ -	$ 1,062,705	$ 1,062,705

(i) During the year ended December 31, 2022, the Company impaired its leasehold improvements as the Company's lease was terminated (see note 12).

8. Right-of-use assets

Cost	**Brantford facility**
Balance, December 31, 2020 and December 31, 2021	$ 3,316,387
Lease termination (note 12(i))	(3,316,387)
Balance, December 31, 2022	$ -

Accumulated depreciation	
Balance, December 31, 2020	$ 490,761
Depreciation for the year	329,316
Balance, December 31, 2021	820,077
Depreciation for the year	246,986
Lease termination (note 12(i))	(1,067,063)
Balance, December 31, 2022	$ -

Carrying value	
Balance, December 31, 2021	$ 2,496,310
Balance, December 31, 2022	$ -

9. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities of the Company are principally comprised of amounts outstanding for purchases relating to general operating activities.

	As at December 31, 2022	**As at December 31, 2021**
Accounts payable	**$ 1,312,612**	$ 1,142,992
Accrued liabilities	**533,191**	387,864
Total accounts payable and accrued liabilities	**$ 1,845,803**	$ 1,530,856

10. Promissory notes payable

	Quinsam (i)	Therma (ii)	Other (iii)	Total
Balance, December 31, 2020	$ -	$ -	$ -	$ -
Promissory note advanced	225,000	-	-	225,000
Interest accrued	11,246	-	-	11,246
Balance, December 31, 2021	236,246	-	-	236,246
Promissory note advanced	30,000	200,000	100,000	330,000
Interest accrued	27,544	13,315	-	40,859
Repayment	-	-	(100,000)	(100,000)
	293,790	213,315	-	507,105
Less: current portion	(293,790)	-	-	(293,790)
Balance, December 31, 2022	$ -	$ 213,315	$ -	$ 213,315

(i) In August 2021, the Company obtained a $225,000 secured loan from Quinsam Capital Corporation ("Quinsam"). The loan is repayable by December 31, 2021, bears interest at 10% per annum, and is secured by the Company's assets.

In connection therewith, the Company issued 750,000 warrants to Quinsam. Each warrant is exercisable for one common share of the Company at a price of $0.15 per share for a period of 2 years. The 750,000 warrants were valued at $37,300 as estimated using the Black-Scholes model for pricing options under the following assumptions: risk free interest rate - 0.47%; dividend yield - 0%; expected stock volatility - 199% and an expected life of 2 years.

In April 2022, the Company extended the repayment date to December 31, 2022. In consideration, the Company agreed to issue 500,000 shares of the Company to Quinsam. As a result, $15,000 was expensed to debt issue cost.

During the year ended December 31, 2022, the Company obtained an additional $30,000 loan from Quinsam.

In April 2023, the Company further extended the repayment date to December 31, 2023.

As at December 31, 2022, the Company owed $293,790 (December 31, 2021 - $236,246) including accrued interest.

(ii) On May 2, 2022, the Company issued a promissory note in the amount of $200,000 to Therma Bright Inc, ("Therma"), a company with common directors. The note is non-secured, bears interest of 10% per annum and is due on May 2, 2024. As at December 31, 2022, the Company owed $213,315 (December 31, 2021 - $nil) including accrued interest.

(iii) On June 20, 2022, the Company issued a promissory note in the amount of $100,000 to a third-party lender. The note bore interest at 0.005833% per month, and was due and was repaid on December 31, 2022.

As a security for the obligations, the Company provided a general security agreement to the lender. As additional interest, the Company issued 750,000 warrants of the Company. Each warrant is exercisable for one common share of the Company at a price of $0.10 per share until June 20, 2024. The 750,000 warrants are valued at $7,900 as estimated using the Black-Scholes model for pricing options under the following assumptions: risk free interest rate - 3.30%; dividend yield - 0%; expected stock volatility - 163% and an expected life of 2 years. As a result, the Company expensed $7,900 to debt issue cost.

11. Loans payable

	LOC Agreement (i)	CEBA (ii)	Total
Balance, December 31, 2020	$ 427,822	$ 40,000	$ 467,822
Interest accrued	26,370	-	26,370
Repayment	(220,472)	-	(220,472)
Balance, December 31, 2021	233,720	40,000	273,720
Loan advanced	400,000	-	400,000
Equity portion of convertible loan payable	(39,500)	-	(39,500)
Interest accrued	18,344	-	18,344
Accretion	13,166	-	13,166
Balance, December 31, 2022	$ 625,730	$ 40,000	$ 665,730

(i) On July 7, 2020, the Company entered into a revolving line of credit agreement (the "LOC Agreement") with a third party lender (the "Lender"), whereby the Company can obtain $1,500,000 of revolving line of credit financing facility to be used exclusively for the purchase of the Company's business related equipment, deposits for construction work and tenant's improvements on the Company's Brantford facility, or for security, rental payments, taxes and insurance related thereto. The funds advanced under the LOC are non-secured and bore interest at a rate of 10% per annum.

During the year ended December 31, 2021, the LOC Agreement was amended to terminate on April 30, 2022 and bear interest at a rate of 7% per annum effective September 8, 2021.

In September 2022, the LOC Agreement was further amended. Under the terms of the amendment, the Lender may advance up to an additional $500,000 under the LOC by December 15, 2022, upon certain conditions being met. The funds advanced under the LOC bear interest at a rate of 7% per annum. The Lender has the right at any time until maturity to elect, in its sole discretion, to convert all or any portion of the outstanding amount into fully paid as non-assessable shares at a price of $0.05 per share. The LOC Agreement was amended to terminate on June 30, 2023. The Company bifurcated $39,500 to equity and the remaining balance to the carrying value of the loan.

In consideration for lending the funds advanced, the Company issued to the Lender one unit of the Company for each full $1 advanced. Each unit consisted of one common share of the Company and one common share purchase warrant. Each warrant entitled the Lender to purchase one common share of the Company at the greater of $0.15 and a 25% premium to the market price of the Company's common shares at the time of issuance and expire in 2 years. In consideration, the Company issued:

- On July 20, 2020, 250,000 units valued at $48,250, which consisted of 250,000 common shares valued at $26,250 and 250,000 warrants valued at $22,000 as estimated using the Black-Scholes model for pricing options under the following assumptions: risk free interest rate - 0.27%; dividend yield - 0%; expected stock volatility - 208% and an expected life of 2 years; and

- On September 16, 2020, 161,688 units valued at $32,786, which consisted of 161,688 common shares valued at $17,786 and 161,688 warrants valued at $15,000 as estimated using the Black-Scholes model for pricing options under the following assumptions: risk free interest rate - 0.26%; dividend yield - 0%; expected stock volatility - 204% and an expected life of 2 year.

During the during the year ended December 31, 2021, the Company issued 2,755,900 common shares to settle $220,472 of the LOC.

During the year ended December 31, 2022, the Company recognized an accretion expense of $13,166.

11. Loans payable (continued)

(ii) In April 2020, the Company received $40,000 under the Canada Emergency Business Account (CEBA) program. 25% of the loan is forgivable if repaid by December 31, 2022. The loan accrues no interest until December 31, 2023, and thereafter converts to a 2-year term loan with a 5% annual interest rate. Any portion of the loan is repayable without penalty at any time prior to December 31, 2025.

12. Lease liabilities

	Brantford facility
Balance, December 31, 2020	$ 3,095,400
Interest expense	394,405
Lease payments	(531,816)
Balance, December 31, 2021	2,957,989
Interest expense	283,493
Lease payments	(398,862)
Termination of lease (i)	(2,842,620)
Balance, December 31, 2022	$ -

(i) On October 3, 2022, the Company terminated its lease agreement with respect to its Brantford facility. As a result, the Company recorded a losson lease termination of $27,349.

13. Share capital

(a) Authorized share capital

Unlimited number of common shares, with no par value.

(b) Common shares issued

	Number of common shares	Amount
Balance, December 31, 2020	247,461,530	$ 28,500,186
Units issued for cash (i)(iii)(v)(vi)	28,149,856	1,794,540
Fair value of warrants (i)(iii)(v)(vi)	-	(605,100)
Common shares issued for debt settlement (ii)(iv)(vii)	7,700,884	601,551
Issued on exercise of warrants	100,000	7,400
Balance, December 31, 2021	283,412,270	$ 30,298,577
Units issued for cash (viii)	9,600,000	480,000
Fair value of warrants (viii)	-	(201,300)
Common shares issued for debt settlement (ix)	1,261,784	56,780
Issued on exercise of warrants	26,980,571	1,197,649
Balance, December 31, 2022	321,254,625	$ 31,831,706

13. Share capital (continued)

(b) Common shares issued (continued)

(i) On January 8, 2021, the Company completed the second and final tranche of its non-brokered private placement, pursuant to which it issued an aggregate of 11,400,000 units for aggregate gross proceeds of $570,000. Each unit is composed of one common share of the Company and one half share purchase warrant. Each warrant entitles the holder to purchase one share at a price of $0.05 per warrant for a period of 2 years from the date of issuance, subject to an acceleration provision whereby, after four months and one day from their date of issuance, if the closing price of the shares on the CSE is equal to or exceeds $0.15 for a period of 10 consecutive trading days, then the Company may, at its option, accelerate the expiry date of the warrants to the date which is 30 days following the date upon which notice of the accelerated expiry date is provided by the Company to the holders of the warrants. The Company did not incur any share issuance costs.

The 5,700,000 warrants issued were assigned a value of $155,000 using the Black-Scholes valuation model using the following assumptions: weighted average unit price of $0.05, risk-free rate of return of 0.19%, expected volatility of 200% based on historical trends, dividend yield of 0%, and expected life of 2 years.

(ii) On January 29, 2021, the Company issued 1,082,197 common shares to certain creditors of the Company to settle an aggregate debt of $91,987. The common shares issued had a deemed price of $0.11 based on the fair value and as a result, the Company recognized a loss on settlement of debt of $27,055.

(iii) In April 2021, the Company completed a non-brokered private placement, pursuant to which it issued an aggregate of 5,205,000 units for aggregate gross proceeds of $416,400. Each unit is composed of one common share of the Company and one half share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of $0.15 per share for a period of 2 years from the closing date, subject to acceleration from and after the date that is fourth months and one day after the closing date, if the closing price of the Company's common shares on the CSE is equal to or exceeds $0.20 for 10 consecutive trading days, at which time the Company may accelerate the expiry date of the warrants to the date that is 30 following the date on which the Company issues notice to all the warrant holders of the new expiry date.

The 2,602,500 warrants issued were assigned a value of $113,000 using the Black-Scholes valuation model using the following assumptions: unit price of $0.08, weighted average risk-free rate of return of 0.26%, expected volatility of 196% based on historical trends, dividend yield of 0%, and expected life of 2 years.

(iv) On April 30, 2021, the Company issued 2,755,900 common shares to settle $220,472 of the LOC (note 11(i)). The common shares issued had a deemed price of $0.105 based on the fair value and as a result, the Company recognized a loss on settlement of debt of $68,897.

(v) On August 11, 2021, the Company closed a non-brokered private placement, pursuant to which it issued an aggregate of 9,044,142 units for gross proceeds of $633,090. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share of the Company at a price of $0.15 per share for a period of 2 years.

The 9,044,142 warrants issued were assigned a value of $264,200 using the Black-Scholes valuation model using the following assumptions: unit price of $0.07, weighted average risk-free rate of return of 0.47%, expected volatility of 199% based on historical trends, dividend yield of 0%, and expected life of 2 years.

13. Share capital (continued)

(b) Common shares issued (continued)

(vi) On October 8, 2021, the Company closed a non-brokered private placement, pursuant to which it issued an aggregate of 2,500,714 units for gross proceeds of $175,050. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share of the Company at a price of $0.15 per share for a period of 2 years.

The 2,500,714 warrants issued were assigned a value of $72,900 using the Black-Scholes valuation model using the following assumptions: unit price of $0.07, weighted average risk-free rate of return of 0.68%, expected volatility of 198% based on historical trends, dividend yield of 0%, and expected life of 2 years.

(vii) On December 22, 2021, the Company issued 3,862,787 common shares to certain creditors of the Company to settle an aggregate debt of $270,395. The common shares issued had a deemed price of $0.05 based on the fair value and as a result, the Company recognized a gain on settlement of debt of $77,256.

(viii) On March 17, 2022, the Company closed a non-brokered private placement, pursuant to which it issued an aggregate of 9,600,000 units for aggregate gross proceeds of $480,000. Each unit is comprised of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to purchase one common shares of the Company at a price of $0.10 per share for a period of 2 years from the closing date, subject to acceleration from and after the date that is fourth months and one day after the closing date, if the closing price of the Company's common shares on the CSE is equal to or exceeds $0.11 for 5 consecutive trading days, at which time the Company may accelerate the expiry date of the warrants to the date that is 30 following the date on which the Company issues notice to all the warrant holders of the new expiry date.

The 9,600,000 warrants issued were assigned a value of $201,300 using the Black-Scholes valuation model using the following assumptions: unit price of $0.05, weighted average risk-free rate of return of 1.89%, expected volatility of 198% based on historical trends, dividend yield of 0%, and expected life of 2 years.

(ix) On March 17, 2022, the Company also issued 1,261,784 common shares to certain creditors of the Company to settle an aggregate debt of $88,325. The common shares issued had a deemed price of $0.045 based on the fair value and as a result, the Company recognized a gain on settlement of debt of $31,545.

14. Stock options

The Company has a Share Option Plan (the "Plan") under which it is authorized to grant options to purchase common shares of the Company to directors, senior officers, employees and/or consultants of the Company. The aggregate number of shares of the Company which may be issued and sold under the Plan may not exceed 15% of the total number of common shares issued and outstanding from time to time. Share options are granted with a maximum term of ten years with vesting terms at the discretion of the Board of Directors.

	Number of stock options	Weighted average exercise price
Balance, December 31, 2020	29,789,732	$ 0.23
Granted (i)(ii)	4,500,000	0.10
Balance, December 31, 2021	34,289,732	$ 0.21
Granted (iii)	500,000	0.10
Forfeited	(2,780,000)	0.15
Balance, December 31, 2022	32,009,732	$ 0.21

(i) On February 18, 2021, the Company granted 600,000 stock options to consultants of the Company exercisable at $0.12 per common share. The options vested immediately and expire in 3 years. The grant date fair value of $66,000 was assigned to the stock options as estimated by using the Black-Scholes valuation model with the following assumptions: share price of $0.12, expected dividend yield of 0%, expected volatility of 200%, risk-free rate of return of 0.27%, an expected maturity of 3 years, and forfeiture rate of 0%. For the year ended December 31, 2022, $nil (year ended December 31, 2021 - $66,000) was expensed to share-based compensation.

(ii) On December 22, 2021, the Company granted 3,900,000 stock options to its directors, employees and consultants of the Company exercisable at $0.10 per common share. The options vested immediately and expire in 3 years. The grant date fair value of $163,200 was assigned to the stock options as estimated by using the Black-Scholes valuation model with the following assumptions: share price of $0.05, expected dividend yield of 0%, expected volatility of 180%, risk-free rate of return of 1.03%, an expected maturity of 3 years, and forfeiture rate of 0%. For the year ended December 31, 2022, $nil (year ended December 31, 2021 - $163,200) was expensed to share-based compensation.

(iii) On March 16, 2022, the Company granted 500,000 stock options to a consultant of the Company exercisable at $0.10 per common share. The options vested immediately and expire in 3 years. The grant date fair value of $18,500 was assigned to the stock options as estimated by using the Black-Scholes valuation model with the following assumptions: share price of $0.045, expected dividend yield of 0%, expected volatility of 177%, risk-free rate of return of 1.90%, an expected maturity of 3 years, and forfeiture rate of 0%. For the year ended December 31, 2022, $18,500 (year ended December 31, 2021 - $nil) was expensed to share-based compensation.

14. Stock options (continued)

The following table reflects the actual stock options issued and outstanding as of December 31, 2022:

Expiry date	Exercise price ($)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)
January 9, 2023 (i)	0.38	0.02	1,166,400	1,166,400
February 18, 2024	0.12	1.13	600,000	600,000
February 28, 2024	0.75	1.16	600,000	600,000
February 28, 2024	0.25	1.16	4,560,000	4,560,000
February 28, 2024	0.75	1.16	3,013,332	3,013,332
June 3, 2024	0.15	1.42	1,750,000	1,750,000
July 24, 2024	0.18	1.56	300,000	300,000
October 4, 2024	0.15	1.76	3,150,000	3,150,000
December 22, 2024	0.10	1.98	3,250,000	3,250,000
March 16, 2025	0.10	2.21	500,000	500,000
September 14, 2025	0.10	2.71	12,920,000	12,920,000
October 7, 2025	0.10	2.77	200,000	200,000
	0.21	1.93	32,009,732	32,009,732

(i) Subsequent to December 31, 2022, these 1,166,400 options expired unexercised.

15. Warrants

	Number of warrants	Weighted average exercise price
Balance, December 31, 2020	39,888,021	$ 0.10
Issued (i)(ii)	20,597,356	0.14
Expired	(1,000,000)	0.15
Exercised	(100,000)	0.05
Balance, December 31, 2021	59,385,377	$ 0.11
Issued (i)(iii)	12,850,000	0.10
Expired	(9,213,021)	0.17
Exercised	(26,980,571)	0.02
Balance, December 31, 2022	36,041,785	$ 0.08

(i) During the year ended December 31, 2022, the Company issued an aggregate of 9,600,000 warrants (year ended December 31, 2021 - 19,847,356 warrants) as a part of its non-brokered private placements. See note 13.

(ii) During the year ended December 31, 2021, the Company issued 750,000 warrants to Quinsam in connection with a secured loan. See note 10.

15. Warrants (continued)

(iii) On May 2, 2022, the Company issued 3,250,000 share purchase warrants to a consultant in partial consideration for consulting advisory services. The warrants expire on December 31, 2022 and are each exercisable for one common share of the Company at a price of $0.10 per share. The fair value of $19,300 was assigned to the warrants and has been estimated using the Black-Scholes model for pricing warrants under the following assumptions: risk free interest rate - 2.66%; dividend yield - 0%; expected stock volatility - 139% and an expected life of 8 months. For the year ended December 31, 2022, $19,300 (year ended December 31, 2021 - $nil) was expensed to share-based compensation.

The following table reflects the warrants issued and outstanding as of December 31, 2022:

Expiry date	Exercise price ($)	Warrants outstanding
April 30, 2023	0.05	9,600,000
May 22, 2023	0.05	6,000,000
March 31, 2023 (v)	0.10	3,250,000
June 17, 2023	0.05	7,400,000
November 3, 2023	0.10	550,000
July 30, 2024	0.18	1,000,000
April 9, 2023	0.15	781,250
April 30, 2023	0.15	281,250
August 11, 2023	0.15	2,685,714
August 11, 2023	0.15	750,000
October 8, 2023	0.15	2,143,571
March 17, 2024	0.10	1,600,000
	0.08	36,041,785

(iv) On September 30, 2021, the Company extended the expiry date of the 6,700,000 warrants from September 30, 2021 to January 31, 2022. As a result, during the year ended December 31, 2021, the Company recognized a share-based compensation of $2,000, as estimated using the Black-Scholes model for option pricing with the assumptions: risk free interest rate - 0.53%; dividend yield - 0%; expected stock volatility - 122% and an expected life - 4 months.

On December 22, 2021, the Company further extended the expiry date of the 6,700,000 warrants from January 31, 2022 to April 30, 2022. As a result, during the year ended December 31, 2021, the Company recognized a share-based compensation of $600, as estimated using the Black-Scholes model for option pricing with the assumptions: risk free interest rate - 0.96%; dividend yield - 0%; expected stock volatility - 108% and an expected life - 4 months.

(v) On September 30, 2022, the Company extended the expiry date of these 3,250,000 warrants from December 31, 2022 to March 31, 2023. As a result, during the year ended December 31, 2022, the Company recognized share-based compensation of $1,100, as estimated using the Black-Scholes model for option pricing with the assumptions: risk free interest rate - 3.76%; dividend yield - 0%; expected stock volatility - 226% and an expected life - 0.5 years.

16. Related party balances and transactions

Related parties include key management being the Company's executive officers, the Board of Directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions. The following related party transactions were conducted in the normal course of operations and were made on an arm's length basis:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Consulting	**$ 245,000**	$ 231,250
Professional fees	**56,918**	50,171
Share-based compensation	**-**	83,692
	$ 301,918	$ 365,113

As at December 31, 2022, $547,524 (December 31, 2021 - $269,469) included in accounts payable and accrued liabilities was payable to key management personnel.

During the year ended December 31, 2022, the Company advanced $92,375 (December 31, 2021 - $nil) to Budd Hutt Inc., a company in which the Company is a major shareholder of. The advance is non-interest bearing and repayable on demand.

During the year ended December 31, 2022, the Company advanced $14,557 to the CEO (December 31, 2021 - $nil). The advance is non-interest bearing and repayable on demand.

As at December 31, 2022, the directors of the Company advanced a total of $65,000 (December 31, 2021 - $20,000). The advance is non-interest bearing and repayable on demand.

During the year ended December 31, 2022, the directors of the Company subscribed for an aggregate of 2,000,000 units for gross proceeds of $100,000 (year ended December 31, 2021 - an aggregate of 5,069,643 units for gross proceeds of $346,000).

17. Loss per share

For the year ended December 31, 2022, basic and diluted loss per share has been calculated based on the loss attributable to common shares of $2,416,017 (year ended December 31, 2021 - $4,623,325) and weighted average number of common shares outstanding of 299,995,715 (year ended December 31, 2021 - 269,456,802). Diluted loss per share did not include the effect of convertible debt, stock options, and warrants as they are anti-dilutive.

18. Income taxes

The reported recovery of income taxes differs from amounts computed by applying the statutory income tax rates to the reported loss before income taxes due to the following:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Loss before income taxes	**$ (2,416,017)**	$ (4,623,325)
Combined statutory income tax rate	**26.5%**	26.5%
Expected income tax recovery	**(640,245)**	$ (1,225,181)
Non-deductible expenses	**241,101**	489,567
Permanent differences and other	**125,820**	(136,320)
Share issuance cost booked directly to equity	**(12,254)**	(7,908)
Deferred tax assets not recognized	**285,578**	879,842
	$ -	$ -

Deferred income taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying values of assets and liabilities. The temporary differences and unused tax losses that give rise to deferred income tax assets are presented below:

	As at December 31, 2022	As at December 31, 2021
Associate investment	**$ 1,515,556**	$ 1,515,556
Non-current assets	**90,132**	179,557
Share issuance cost and other	**22,531**	157,130
Non-capital losses carried forward	**6,111,990**	5,602,388
Deferred tax assets	**7,740,209**	7,454,631
Less: deferred tax assets not recognized	**(7,740,209)**	(7,454,631)
Net deferred tax assets	**$ -**	$ -

The Company has approximately $23,064,113 of non-capital losses available, which expire between 2034 and 2042 and may be applied against future taxable income for income tax purposes.

The potential benefit of these losses and deductible temporary differences in excess of the deferred tax liabilities have not been recognized in these financial statements as it is not considered probable that sufficient future tax profit will allow the deferred tax assets to be recovered.

19. Supplemental cash flow information

Reconciliation of changes in liabilities to cash flows arising from financing activities, including changes arising from both cash and non-cash changes:

	Accounts payable and accrued liabilities	Promissory notes payable	Loans payable	Due to related parties	Total
Balance, December 31, 2021	$ 1,530,856	$ 236,246	$ 273,720	$ 20,000	$ 2,060,822
Changes from financing cash flows					
Proceeds from loan payable	-	330,000	-	-	330,000
Proceeds from promissory notes payable	-	-	400,000	-	400,000
Advances from related parties	-	-	-	45,000	45,000
Repayment of promissory notes payable	-	(100,000)	-	-	(100,000)
Total changes from financing cash flows	-	230,000	400,000	45,000	675,000
Other changes					
Accrued interest	-	40,859	18,344	-	59,203
Debt issue costs	22,900	-	-	-	22,900
Accretion	-	-	13,166	-	13,166
Changes in non-cash working capital items	438,630	-	-	-	438,630
Debt settlement	(123,683)	-	-	-	(123,683)
Equity portion of convertible loan payable	-	-	(39,500)	-	(39,500)
Total other changes	337,847	40,859	(7,990)	-	370,716
Balance, December 31, 2022	$ 1,868,703	$ 507,105	$ 665,730	$ 65,000	$ 3,106,538

20. Financial risk management

The Company's financial risk exposures and the impact on the Company's financial instruments are as follows:

(a) Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The Company is exposed to credit risk primarily associated with cash and cash equivalents, promissory note receivable, and due from related parties. The carrying value of the financial assets represents the maximum credit exposure. The risk for cash and cash equivalents is mitigated by holding these instruments with highly rated Canadian financial institutions. The Company undertakes credit evaluations on counter parties as necessary and has monitoring processes intended to mitigate credit risks.

20. Financial risk management (continued)

(b) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2022, the Company has a working capital deficiency of $2,262,519 (December 31, 2021 - working capital deficiency of $1,603,855). The Company had a cash balance of $nil (December 31, 2021 - $42,655) to settle current financial liabilities of $2,893,717 (December 31, 2021 - $2,177,200).

In order to meet the Company's anticipated working capital requirements, it will be required to attract additional funds through the issue of debt, equity or other business means to further the development of the Company's products and to provide sufficient working capital. The Company monitors its working capital position and makes changes or reductions in expenditures to help sustain sufficient liquidity to meet liabilities on a timely basis.

The following table summarizes the maturity profile of all the Company's financial liabilities based on a contractual basis at December 31, 2022 and 2021.

As at December 31, 2022	Less than 1 year	1-5 years	5+ years	Total
Accounts payable and accrued liabilities	$ 1,868,703	$ -	$ -	$ 1,868,703
Promissory notes payable	324,390	240,055	-	564,445
Loans payable	719,616	-	-	719,616
Due to related parties	65,000	-	-	65,000
	$ 2,977,709	$ 240,055	$ -	$ 3,217,764

As at December 31, 2021	Less than 1 year	1-5 years	5+ years	Total
Accounts payable and accrued liabilities	$ 1,530,856	$ -	$ -	$ 1,530,856
Promissory notes payable	236,329	-	-	236,329
Loans payable	263,370	40,000	-	303,370
Lease liabilities	531,818	2,451,597	1,844,590	4,828,005
Due to related parties	20,000	-	-	20,000
	$ 2,582,373	$ 2,491,597	$ 1,844,590	$ 6,918,560

(c) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and equity prices.

Interest rate risk

The Company's primary interest rate risk consists of interest rate fluctuations, which may affect the Company's interest-bearing debts and lease obligations. The Company does not currently use derivative instruments to limit interest rate risks. The majority of the Company's interest-bearing financial instruments are subject to fixed interest rates. As a result, the Company is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates and considers interest rate risk insignificant.

20. Financial risk management (continued)

(c) Market risk (continued)

Foreign currency risk

The Company's functional and reporting currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The operating results and financial position of the Company are reported in Canadian dollars. The Company's operations are in Canada. The Company considers this risk to be minimal.

(d) Fair Value

The carrying amount of each financial instrument approximates their fair value because of the short-term maturities of these items.

The following table presents the fair value hierarchy for the Company's assets and liabilities measured at fair value by level as at December 31, 2022 and 2021.

As at December 31, 2022	Level 1	Level 2	Level 3	Total
Liabilities				
Bank overdraft	$ 494	$ -	$ -	$ 494

As at December 31, 2021	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 42,655	$ -	$ -	$ 42,655

21. Subsequent events

Share issuances

On February 17, 2023, the Company closed the first tranche of a non-brokered private placement, pursuant to which it issued 21,666,668 common shares at $0.015 per share for aggregate gross proceeds of $325,000. A director of the Company subscribed for 3,333,334 shares for $50,000.

On March 21, 2023, the Company close the second and final tranche of its non-brokered private placement, pursuant to which it issued 3,166,667 common shares at $0.015 per share for aggregate gross proceeds of $47,500. A director of the Company subscribed for 1,500,000 shares for $22,500.