Railtown AI Technologies Inc.

Financial Statements

Years ended September 30, 2023 and 2022

(Expressed in Canadian Dollars)

Crowe

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Independent Auditor's Report

To the Shareholders of Railtown AI Technologies Inc.

Opinion

We have audited the financial statements of Railtown AI Technologies Inc. (the "Company"), which comprise the statements of financial position as at September 30, 2023 and September 30, 2022 and the statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2023 and September 30, 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 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 financial statements which describes the material uncertainty 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Other than the matter described in the Material Uncertainty Related to Going Concern section, we have determined there are no key audit matters to be communicated in our report.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 Canadian generally accepted auditing standards 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 financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 purpose 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 auditor's report to the related disclosures in the 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 auditor's 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s 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 auditor's report is Diana Huang.

Crowe Mackay LLP

Chartered Professional Accountants
Vancouver, Canada
January 26, 2024

RAILTOWN AI TECHNOLOGIES INC.
Statements of Financial Position
(Expressed in Canadian Dollars)
As at September 30,

	September 30, 2023	September 30, 2022
Assets		
Current assets		
Cash	$ 672,940	$ 678,474
Receivables	48,843	44,996
Prepaid expenses (Note 3)	533,057	26,163
	1,254,840	749,633
Equipment (Note 4)	17,454	12,152
Right of use asset (Note 6)	127,473	162,239
	$ 1,399,767	$ 924,024
Liabilities and Shareholders' Equity		
Current liabilities		
Trade payables and accrued liabilities (Note 5)	$ 122,380	$ 115,526
Lease liability current portion (Note 6)	30,439	26,446
	152,819	141,972
Convertible debenture (Note 7)	346,600	-
Lease liability (Note 6)	108,860	139,299
	608,279	281,271
Shareholders' equity		
Share capital (Note 9)	6,897,684	4,836,256
Contribution surplus (Notes 7 and 9)	893,672	639,312
Equity portion of convertible debenture (Note 7)	26,924	-
Deficit	(7,026,792)	(4,832,815)
	791,488	642,753
	$ 1,399,767	$ 924,024

Nature of Operations *(Note 1)*
Subsequent event *(Note 13)*

Approved on behalf of the Board on January 26, 2024

"Cory Brandolini" Director

"Paul Woodward" Director

See accompanying notes to the financial statements.

RAILTOWN AI TECHNOLOGIES INC.
Statements of Comprehensive Loss
(Expressed in Canadian Dollars)
Years ended September 30,

	2023	2022
Expenses		
Consulting fees	$ 382,202	$ 54,930
Depreciation (Notes 4 and 6)	43,090	19,572
Filing fees	34,887	29,038
Interest on lease (Note 6)	20,008	7,402
Accretion and interest on convertible debenture (Note 7)	82,303	-
Marketing and promotion	127,781	484,514
Office	78,403	78,349
Professional fees	276,941	189,423
Rent (Note 8)	-	10,000
Salaries and benefits (Note 8)	981,960	842,344
Share-based compensation (Note 9)	150,071	(69,448)
Travel	46,378	31,777
	(2,224,024)	(1,677,901)
Other income	3,511	287,157
Loss before income taxes	(2,220,513)	(1,390,744)
Deferred income tax recovery (Note 12)	26,536	-
Net and comprehensive loss for the year	$(2,193,977)	$(1,390,744)
Weighted average number of common shares outstanding – basic and diluted	80,695,979	75,472,887
Basic and diluted loss per common shares	$ (0.03)	$ (0.02)

See accompanying notes to the financial statements.

RAILTOWN AI TECHNOLOGIES INC.
Statements of Cash Flows
(Expressed in Canadian Dollars)
Years ended September 30,

	2023	2022
Operating activities:		
Net loss for the year	$ (2,193,977)	$ (1,390,744)
Items not involving cash:		
Depreciation	43,090	19,572
Interest on lease liability	20,008	7,402
Accretion and interest on convertible debenture	82,303	-
Share-based compensation	150,071	(69,448)
Deferred income tax recovery	(26,536)	-
Changes in non-cash working capital items:		
Receivables	(3,847)	(31,561)
Prepaid expense	(506,894)	1,787
Trade payables and accrued liabilities	6,854	(59,654)
Net cash used in operating activities	(2,428,928)	(1,522,646)
Investing activities:		
Purchase of equipment	(13,626)	(6,005)
Net cash used in investing activities	(13,626)	(6,005)
Financing activities:		
Private placements	2,064,950	2,227,480
Share issue costs	(96,236)	(280,017)
Proceed from convertible debenture	565,000	-
Issuance costs from convertible debenture	(60,200)	-
Proceed from exercise of warrants	9,960	-
Lease payments	(46,454)	(15,485)
Net cash provided by financing activities	2,437,020	1,931,978
Change in cash	(5,534)	403,327
Cash, beginning of the year	678,474	275,147
Cash, end of the year	$ 672,940	$ 678,474
Supplemental cash flow information		
Cash paid for interest	$ 20,008	$ 7,402
Non-cash investing and financing activities		
Convertible debenture – exercised	$ 117,259	$ -
Exercise of warrants	$ 6,809	$ -
Right of use asset	$ -	$ 173,828
Share issuance costs – broker's warrants	$ 67,600	$ 122,300

See accompanying notes to the financial statements.

RAILTOWN AI TECHNOLOGIES INC.
Statement of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Share Capital					
	Shares	Amount	Equity portion of convertible debenture	Contribution Surplus	Deficit	Total
Balance, September 30, 2021	70,314,299	$ 3,011,093	$ -	$ 586,460	$ (3,442,071)	$ 155,482
Private placements	5,568,700	2,227,480	-	-	-	2,227,480
Share issuance costs – cash	-	(280,017)	-	-	-	(280,017)
Share issuance costs – shares	625,000	-	-	-	-	-
Share issuance costs – warrants	-	(122,300)	-	122,300	-	-
Share-based compensation	-	-	-	141,753	-	141,753
Cancellation of options	-	-	-	(211,201)	-	(211,201)
Net and comprehensive loss	-	-	-	-	(1,390,744)	(1,390,744)
Balance, September 30, 2022	76,507,999	4,836,256	-	639,312	(4,832,815)	642,753
Private placements	13,766,332	2,064,950	-	-	-	2,064,950
Share issuance costs – cash	-	(96,236)	-	-	-	(96,236)
Share issuance costs – shares	100,000	-	-	-	-	-
Share issuance costs – warrants	-	(67,600)	-	67,600	-	-
Convertible debenture – equity portion	-	-	36,656	17,152	-	53,808
Convertible debenture – exercised	1,061,309	131,545	(9,732)	(4,554)	-	117,259
Convertible debenture – referral fees	100,000	12,000	-	30,900	-	42,900
Exercise of warrants	66,400	16,769	-	(6,809)	-	9,960
Share-based compensation	-	-	-	150,071	-	150,071
Net and comprehensive loss	-	-	-	-	(2,193,977)	(2,193,977)
Balance, September 30, 2023	91,602,040	$ 6,897,684	$ 26,924	$ 893,672	$(7,026,792)	$ 791,488

See accompanying notes to the financial statements.

1. Nature of operations

Railtown AI Technologies Inc. (the "Company" or "Railtown") was incorporated by a Certificate of Incorporation issued pursuant to the provisions of the *Business Corporations Act* (British Columbia) on May 11, 2011.

The head office of the Company is located at Suite 490 – 580 Hornby Street, Vancouver, British Columbia, V6C 2E7. The registered office of the Company is located at 3148 Highland Boulevard, North Vancouver, British Columbia, V7R 2X6.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at September 30, 2023, the Company is not able to finance day to day activities through operations and incurs losses. The Company is in the business of research and development that by its nature involves a high degree of risk. There can be no assurance that the Company's business and strategy will enable it to become profitable or sustain profitability in future periods. The Company's information technology systems are subject to disruption, damage or failure from a number of sources. This may result in a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects. Additionally, the Company estimates that it will need additional capital to operate for the upcoming year. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern. Management intends to finance operating costs with loans from directors and companies controlled by directors and or private placement of common shares. These financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate.

The Company's business may be affected by changes in political and market conditions, such as interest rates, availability of credit, inflation rates, changes in laws, and national and international circumstances. Recent geopolitical events and potential economic global challenges such as the risk of higher inflation and energy crises, may create further uncertainty and risk with respect to the prospects of the Company's business.

2. Significant accounting policies and basis of presentation

Statement of compliance

These financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The accompanying financial statements have been prepared by and are the responsibility of the management.

The policies applied in the financial statements are presented below and are based on IFRS' issued and outstanding as of the date the Board of Directors approved the financial statements.

Basis of preparation

The financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The financial statements are presented in Canadian dollars unless otherwise noted.

2. Significant accounting policies and basis of presentation (continued)

Significant estimates and assumptions

The preparation of the financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised. The most significant estimate is the discount rate used to determine the Company's convertible debenture fair value on initial recognition.

Significant judgments

The preparation of the financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty.

Equipment

Equipment are recorded at cost and depreciated using the straight line method at the following rates per annum.

Computer	3 years
Equipment	5 years

Equipment that is withdrawn from use, or has no reasonable prospect of being recovered through use or sale, are regularly identified and written off. The assets' residual values, deprecation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Subsequent expenditures relating to an item of equipment are capitalized when it is probable that future economic benefits from the use the assets will be increased. All other subsequent expenditures are recognized as repairs and maintenance.

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. For the years ended September 30, 2023, 3,275,000 (2022 – 2,025,000) stock options and 9,543,947 (2022 – 821,350) warrants were not included in the calculation of diluted loss per shares because their inclusion was anti-dilutive.

2. Significant accounting policies and basis of presentation (continued)

Financial instruments

Financial assets and financial liabilities are recognized on the statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

Measurement

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are recognized in the profit and loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss in the period in which they arise.

Debt investments at FVOCI
These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI
These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

2. Significant accounting policies and basis of presentation (continued)

Financial instruments (continued)

Derecognition

Financial assets
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.

Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

The Company's financial assets and liabilities are recorded and measured as follows:

Asset or liability	Category	Measurement
Cash	FVTPL	Fair value
Trade payable and accrued liabilities	Other financial liabilities	Amortized cost
Convertible debenture	Other financial liabilities	Amortized cost

The Company determines the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument. There were no transfers between levels of the fair value hierarchy during the year.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Cash has been measured at fair value using Level 1 inputs.

Valuation of equity units issued in private placements

The Company records proceeds from issuances of equity net of issue costs and any related tax effects. The Company has adopted the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first attributes value to the shares based on their quoted trading price at issuance, and the residual amount, if any, is attributed to the value of the warrants. Any fair value attributed to the warrants is recorded within the warrant reserve.

2. Significant accounting policies and basis of presentation (continued)

Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant are measured using the Black-Scholes option pricing model and charged to profit or loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are reflected in reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid. If the options expire unexercised, the share-based payments remain in share-based payment reserve.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

Leases

At inception, the Company assesses whether a contract contains an embedded lease. A contract contains a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company, as lessee, is required to recognize a right-of-use asset ("ROU asset"), representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments.

The Company may elect to not apply IFRS 16 to leases with a term of less than 12 months or to low value assets, which is made on an asset by asset basis.

2. Significant accounting policies and basis of presentation (continued)

Leases (continued)

The Company recognizes a ROU asset and a lease liability at the commencement of the lease. The ROU asset is initially measured based on the present value of lease payments, plus initial direct cost, less any incentives received. It is subsequently measured at cost less accumulated amortization, impairment losses and adjusted for certain remeasurements of the lease liability. The ROU asset is amortized from the commencement date over the shorter of the lease term or the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator of impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. The incremental borrowing rate is the rate which the operation would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the ROU asset in a similar economic environment.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Variable lease payments that do not depend on an index or a rate not included in the initial measurement of the ROU asset and lease liability are recognized as an expense in profit or loss the in the period in which they are incurred.

Income taxes

Current income tax:
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:
Deferred income tax is recognized on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

2. Significant accounting policies and basis of presentation (continued)

Income taxes (continued)

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Tax credits
Refundable tax credits are recognized as other income in profit or loss when received due to the uncertainty of the collection.

During the year ended September 30, 2023, the Company received $Nil (2022 - $267,657) SRED tax credit.

Convertible debentures

The host debt liability, equity conversion feature and other (when applicable) components of convertible debentures are presented separately on the statements of financial position at initial recognition. The Company determines the carrying amount of the financial liability by discounting the stream of future payments at the prevailing market rate for a similar liability of comparable credit status and providing substantially the same cash flows. The liability component is then increased by accretion of the discounted amounts to reach the face value of the convertible debentures at maturity which is recorded in profit or loss as accretion and interest expense.

The carrying amount of other components (when applicable), such as warrants, is determined using the Black-Scholes option pricing model. The carrying amount of the equity component is calculated by deducting the carrying amount of the financial liability and the carrying amounts of any other components (when applicable) from the amount of the convertible debentures, and is presented in equity as an equity component of convertible debentures.

The transaction costs are allocated between liability, equity and other (when applicable) components, on a pro-rata basis according to their carrying amounts.

Adoption of new accounting standards, interpretations and amendments

The Company has performed an assessment of new standards issued by the IASB that are not yet effective. The Company has assessed that the impact of adopting these accounting standards on its financial statements would not be significant.

The Company did not adopt any new accounting standards during the current year.

(Expressed in Canadian Dollars)

3. Prepaid expenses

	September 30, 2023	September 30, 2022
Rental deposits	$ 9,497	$ 9,497
Insurance	643	-
Promotion and marketing	2,084	16,666
Consulting	520,833	-
Prepaid expenses	$ 533,057	$ 26,163

4. Equipment

	Computer	Equipment	Total
Cost			
Balance, September 30, 2021	$ 23,344	$ 3,725	$ 27,069
Additions	3,276	2,729	6,005
Balance, September 30, 2022	26,620	6,454	33,074
Additions	10,897	2,729	13,626
Balance, September 30, 2023	$ 37,517	$ 9,183	$ 46,700
Accumulated depreciation			
Balance, September 30, 2021	$ 11,963	$ 976	$ 12,939
Additions	7,160	823	7,983
Balance, September 30, 2022	19,123	1,799	20,922
Additions	7,120	1,204	8,324
Balance, September 30, 2023	$ 26,243	$ 3,003	$ 29,246
Carrying amounts			
Balance, September 30, 2022	$ 7,497	$ 4,655	$ 12,152
Balance, September 30, 2023	$ 11,274	$ 6,180	$ 17,454

5. Trade payables and accrued liabilities

	September 30, 2023	September 30, 2022
Trade payables	$ 85,413	$ 97,026
Accrued liabilities	36,967	18,500
Trade payables and accrued liabilities	$ 122,380	$ 115,526

6. Right-of-use asset

On June 1, 2022, the Company entered into a 5-year office lease agreement. In analysing the identified agreement, the Company applied the lease accounting model pursuant to IFRS 16 and considered all the facts and circumstances surrounding the inception of the agreement. The lease term matures on May 31, 2027.

The right of use asset is depreciated on a straight-line basis over the term of the lease.

(Expressed in Canadian Dollars)

6. Right-of-use asset (continued)

The continuity of the ROU asset for the years ended September 30, 2023 and 2022 is as follows:

Right of use asset, September 30, 2021	$	-
Addition		173,828
Amortization of ROU asset		(11,589)
Right of use asset, September 30, 2022		162,239
Amortization of ROU asset		(34,766)
Right of use asset, September 30, 2023	$	127,473

The continuity of lease liabilities for the year ended September 30, 2023 and 2022 is as follows:

Lease liabilities, September 30, 2021	$	-
Addition		173,828
Interest expense		7,402
Lease payments		(15,485)
Lease liabilities, September 30, 2022		165,745
Interest expense		20,008
Lease payments		(46,454)
Lease liabilities, September 30, 2023	$	139,299
Current lease liability	$	30,439
Long-term lease liability		108,860
Total lease liabilities at September 30, 2023	$	139,299

7. Convertible debenture

On November 16, 2022, the Company closed a convertible debenture financing by way of a non-brokered private placement for aggregate gross proceeds of $565,000. The financing was comprised of 565 units at a price of $1,000 per unit, with each unit consisting of (i) one unsecured convertible debenture in the principal amount of $1,000 that matures in 36 months, bears simple interest at the rate of 10% per annum and is convertible into common shares of the Company at a price of $0.15 per share, and (ii) 3,335 common share purchase warrants, each of which is exercisable into one share at a price of $0.30 per share for a period of 36 months.

In connection with the financing, the Company paid one arm’s length entity $45,200 in cash finder’s fees and issued 301,333 non-transferable finder’s warrants at a value of $30,900 (see Note 9). Each finder’s warrant is exercisable into one share at a price of $0.15 per share for a period of 36 months. The Company also paid a referral fee of $15,000 and issued 100,000 shares valued at $12,000 as finder’s fees.

(Expressed in Canadian Dollars)

7. Convertible debenture (continued)

The fair value of the liability component at the time of issuance was calculated to be $381,556, using the discounted cash flows for the convertible notes, applying a 18% interest rate for notes without a conversion feature.

The fair value of the equity component was determined at the time of issuance as the difference between the face value of the convertible debentures and the fair value of the liability component. Since there are two equity components, the conversion feature of the convertible debenture and the warrant portion of the units, the residual value was allocated based on pro-rata fair values of the two equity components by valuing each component using the Black-Scholes Option Pricing Model. The equity component was calculated to be $98,277, of which $66,950 (see Note 9) was allocated to the equity portion of the convertible debenture, and $31,327 was allocated to contribution surplus for the warrant portion of the units. The equity component was determined by the Black-Scholes Option Pricing Model with the following assumptions: an annualized volatility of 172%; an expected life of 3 years; a dividend yield of 0%; and a risk-free rate of 3.83%.

The transaction costs of $103,100 were allocated to the components in proportion to the allocation proceeds, which is comprised of :

i) cash finder's fees of $45,200.
ii) 301,333 non-transferable finder's warrants at a value of $30,900. Each finder's warrant is exercisable into one share at a price of $0.15 per share for a period of 36 months (Note 9).
iii) cash referral fee of $15,000.
iv) 100,000 common shares valued at $12,000 (Note 9).

The Company recognized deferred income tax recovery of $26,536 in proportion to the equity portion of the convertible debenture.

During the year ended September 30, 2023, the Company issued 1,061,309 common shares pursuant to the conversion of the debentures in settlement of liabilities of $117,259, of which $15,961 was accrued interest, and accordingly, the Company reallocated $9,372 of the equity portion of the convertible debenture and $4,554 of contribution surplus to share capital.

	Liability Component	*Equity Component*	*Contrubtion Surplus*	*Total*
Balance September 30, 2022	$ -	$ -	$ -	$ -
Issuance of convertible debentures	466,723	66,950	31,327	565,000
Issuance costs	(85,167)	(12,216)	(5,717)	(103,100)
Deferred income tax recovery	-	(18,078)	(8,458)	(26,536)
Accretion and interest	82,303	-	-	82,303
Conversion to 1,061,309 common shares	(117,259)	(9,732)	(4,554)	(131,545)
Balance September 30, 2023	$ 346,600	$ 26,924	$ 12,598	$ 386,122

8. Related party transactions and Key management compensation

During the year ended September 30, 2023, the Company paid or accrued:

i) rent expenses of $Nil (2022 - $10,000) to a corporation which has a director in common with the Company.

ii) salaries of $348,271 (2022 - $347,298) paid or accrued to directors and officers of the Company.

9. Share capital

Authorized

Unlimited number of common shares without par value.

Shares issued

During the year ended September 30, 2023, the Company:

i) issued 66,400 common shares pursuant to exercise of warrants.

ii) issued 100,000 common shares valued at $12,000 pursuant to the issuance costs for the convertible debenture (Note 7).

iii) issued 13,766,332 units at a price of $0.15 per unit for gross proceeds of $2,064,950. Each unit is comprised of one common share and one-half transferable share purchase warrant, of which $Nil was allocated to the warrant component of the unit offering completed. Each warrant will entitle the holder to purchase one common share at a price of $0.25, expiring on or before a 36-month period after the closing date.

In connection with the financing, the Company paid cash of $96,236, issued 100,000 common shares valued at $15,000, and granted 541,573 brokers' warrants valued at $67,600. Each brokers' warrants will entitle the holder to purchase one common shares at a price of $0.15, expiring on or before a 36-month period after the closing date.

iv) issued 1,061,309 common shares valued at $131,545 pursuant to the exercise of the convertible debentures in settlement of $117,259, of which $15,961 was accrued interest, and accordingly, the Company reallocated $9,732 of the convertible debenture equity portion and $4,554 of contribution surplus to share capital (Note 7).

During the year ended September 30, 2022, the Company completed its prospectus offering and listing on the Canadian Stock Exchange ("CSE"). The financing consists of 5,568,700 common shares of the Company at a price of $0.40 per Common Share for gross proceeds of $2,227,480. In connection with the financing, the Company paid cash commission of $280,017, issued 625,000 finder's shares, and granted 556,870 finder's warrants (valued at $122,300) exercisable at a price of $0.40 expiring on November 30, 2022.

(Expressed in Canadian Dollars)

9. Share capital (continued)

Stock options

The Company adopted a stock option plan to grant options to individuals exercisable up to 10 years from the date of grant to purchase shares at the market price, less applicable discount, if any. Such grants not to exceed an aggregate of 10% of the issued and outstanding shares and vesting periods will be determined by the Board of Directors.

During the year ended September 30, 2023, the Company granted 1,650,000 stock options at a price of $0.25 per share, expiring on February 9, 2028. The stock options are valued at $234,800. The options vest as follows:

i) 350,000 options vest immediately.

ii) 350,000 options vest over 21 months, where 150,000 options vest on November 15, 2023, and 200,000 options vest on November 15, 2024.

iii) 100,000 options vest over 32 months, where 50,000 options vest on October 24, 2024, and 50,000 options vest on October 24, 2025.

iv) 350,000 options vest over 13 months, where 150,000 options vest on March 3, 2023, and 200,000 options vest on March 3, 2024.

v) 100,000 options vest over 32 months, where 30,000 options vest on October 24, 2023, 30,000 options vest on October 24, 2024, and 40,000 options vest on October 24, 2025.

During the year ended September 30, 2023, 400,000 options were forfeited. The Company recognized share-based compensation of $150,071.

During the year ended September 30, 2022, 1,250,000 options were forfeited. The Company recognized a share-based compensation reversal of $69,448.

Details of stock option activities for the years ended September 30, 2023 and 2022:

Stock options outstanding	**Year ended September 30, 2023**		**Year ended September 30, 2022**	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
	#	**$**	**#**	**$**
Outstanding – beginning of year	2,025,000	0.25	3,275,000	0.25
Granted	1,650,000	0.25	-	-
Expired/Forfeited	(400,000)	(0.25)	(1,250,000)	(0.25)
Outstanding – end of year	3,275,000	0.25	2,025,000	0.25

(Expressed in Canadian Dollars)

9. Share capital (continued)

Stock options (continued)

The following table discloses the number of options outstanding and exercisable as at September 30, 2023:

Expiry Date	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
March 15, 2026	$0.25	1,900,000	1,700,000
May 13, 2026	$0.25	125,000	125,000
February 9, 2028	$0.25	1,250,000	500,000
		3,275,000	2,325,000

As at September 30, 2023, the options outstanding had a weighted average remaining life of 3.19 years (2022 – 3.47 years).

The fair value of options granted and vested was calculated using the Black-Scholes Model for total share-based compensation based on the following weighted average assumptions:

	Year Ended September 30, 2023	Year Ended September 30, 2022
Risk-free interest rate	3.20%	-
Expected life of warrants	5.00 year	-
Annualized volatility	162.04%	-
Dividend yield	0%	-

Volatility is determined based on comparable publicly listed entities.

Warrants

During the year ended September 30, 2023, the Company granted:

i) 1,884,275 warrants exercisable at $0.30 per share until November 16, 2025 in connection with the issuance of convertible debt. The estimated fair value of these warrants at the grant date was $31,327 (Note 7).

ii) 301,333 finder’s warrants exercisable at $0.15 per share until November 16, 2025. The estimated fair value of these finder’s warrants at the grant date was $30,900 (Note 7).

iii) 488,053 finder’s warrants exercisable at $0.15 per share until June 21, 2026. The estimated fair value of these finder’s warrants at the grant date was $60,920.

iv) 5,521,666 warrants exercisable at $0.25 per share until June 21, 2026. The estimated fair value of these warrants at the grant date was $Nil.

v) 53,520 finder’s warrants exercisable at $0.15 per share until June 27, 2026. The estimated fair value of these finder’s warrants at the grant date was $6,680.

(Expressed in Canadian Dollars)

9. Share capital (continued)

Warrants (continued)

vi) 1,361,500 warrants exercisable at $0.25 per share until June 27, 2026. The estimated fair value of these warrants at the grant date was $Nil.

During the year ended September 30, 2022, the Company granted:

i) 556,870 broker's warrants exercisable at $0.40 per share until November 30, 2022. The estimated fair value of these brokers warrants at the grant date was $122,300.

Details of warrant activity for the years ended September 30, 2023 and 2022:

Warrants outstanding	**Year ended September 30, 2023**		**Year ended September 30, 2022**	
	Number of warrants	**Weighted average exercise price**	**Number of warrants**	**Weighted average exercise price**
	#	**$**	**#**	**$**
Outstanding – beginning of year	821,350	0.35	264,480	0.25
Granted	9,610,347	0.25	556,870	0.40
Exercised	(66,400)	0.15	-	-
Expired	(821,350)	0.35	-	-
Outstanding – end of year	9,543,947	0.25	821,350	0.35

The following table discloses the number of warrants outstanding as at September 30, 2023:

Expiry Date	Exercise Price	Number of Warrants Outstanding
November 16, 2025	$0.30	1,884,275
November 16, 2025	$0.15	234,933
June 21, 2026	$0.25	5,521,666
June 21, 2026	$0.15	488,053
June 27, 2026	$0.25	1,361,500
June 27, 2026	$0.15	53,520
		9,543,947

As at September 30, 2023, the warrants outstanding had a weighted average remaining life of 2.60 years (2022 – 0.17 years).

(Expressed in Canadian Dollars)

9. Share capital (continued)

Warrants (continued)

The fair value of broker's warrants was calculated using the Black-Scholes Model based on the following weighted average assumptions:

	Year Ended September 30, 2023	Year Ended September 30, 2022
Risk-free interest rate	4.31%	0.95%
Expected life of warrants	3.00 year	1.00 year
Annualized volatility	153.11%	150.00%
Dividend yield	0%	0%

Volatility is determined based on comparable publicly listed entities.

10. Financial instruments

Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its bank account. All of its cash is deposited in a bank account held with a major bank in Canada. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company operates only in Canada and is therefore not exposed to foreign exchange risk arising from transactions denominated in a foreign currency.

Interest rate risk

Interest rate risk is the risk that an investment's value will change due to a change in the level of interest rates. The Company is exposed to interest rate risk as its bank account earns interest income at variable rates. The income earned on the bank account is subject to the movements in interest rates. Management considers the risk to be minimal.

(Expressed in Canadian Dollars)

10. Financial instruments (continued)

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time.

Historically, the Company's main source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. At September 30, 2023, the Company had working capital of $1,102,021 (2022 - $607,661). Management considers the risk to the minimal.

11. Capital disclosure

Management's objective is to manage its capital to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern through the optimization of its capital structure. The capital structure consists of share capital and working capital.

In order to achieve this objective, management makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. To maintain or adjust capital structure, management may invest its excess cash in interest bearing accounts of Canadian chartered banks and/or raise additional funds externally as needed. The Company is not subject to externally imposed capital requirements. The Company's management of capital did not change during the year ended September 30, 2023.

12. Income taxes

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	Year ended September 30, 2023	Year ended September 30, 2022
Net loss before tax	**$ (2,220,513)**	$ (1,390,744)
Statutory tax rate	**27%**	27%
Expected income tax recovery	**(599,539)**	(375,501)
Unrecognized items for tax purposes	**42,780**	(17,115)
Capital and other	**(28,083)**	-
Change in unrecognized deferred tax benefits	**558,306**	392,616
Income tax recovery	**$ (26,536)**	$ -

The deferred income tax recovery was the direct result of the initial recognition of the equity components of the convertible debenture and was charged directly to equity.

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	September 30, 2023	**Expiry Date**	September 30, 2022	Expiry Date
Capital assets	**$ 1,029,000**	**None**	$ 1,021,000	None
Share issuance costs	**325,000**	**2024-2027**	274,000	2024-2026
SR & ED pool	**100,000**	**None**	100,000	None
Non-capital losses carry forwards	**5,390,000**	**2032-2043**	3,276,000	2032-2042

(Expressed in Canadian Dollars)

12. Income taxes (continued)

The following is the analysis of recognized deferred tax assets and deferred tax liabilities.

	Year ended September 30, 2023	Year ended September 30, 2022
Deferred tax liabilities		
Convertible debenture	$ (31,000)	$ -
Deferred tax liabilities	(31,000)	-
Deferred tax assets		
Non-capital losses	31,000	-
Deferred tax assets	31,000	-
Net deferred tax assets (liabilities)	$ -	$ -

13. Subsequent event

Subsequent to September 30, 2023, the Company granted 1,100,000 stock options at a price of $0.25 per share, expiring on November 1, 2028.