Railtown AI Technologies Inc.

Condensed Interim Financial Statements

Three months ended December 31, 2023 and 2022

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

NOTICE TO READER

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

The accompanying unaudited interim consolidated financial statements have been prepared by and are the responsibility of the management. In the opinion of management, the unaudited condensed interim financial statements have been prepared within acceptable limits of materiality and in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"), consistent with International Financial Reporting Standards ("IFRS") appropriate in the circumstances

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

RAILTOWN AI TECHNOLOGIES INC.
Condensed Interim Statements of Financial Position
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	December 31, 2023	September 30, 2023
Assets		
Current assets		
Cash	$ 107,392	$ 672,940
Receivables	52,266	48,843
Prepaid expenses (Note 3)	367,827	533,057
	527,485	1,254,840
Equipment (Note 4)	17,896	17,454
Right of use asset (Note 6)	118,782	127,473
	$ 664,163	$ 1,399,767
Liabilities and Shareholders' Equity		
Current liabilities		
Trade payables and accrued liabilities (Note 5)	$ 131,362	$ 122,380
Lease liability current portion (Note 6)	31,694	30,439
	163,056	152,819
Convertible debenture (Note 7)	348,488	346,600
Lease liability (Note 6)	100,441	108,860
	611,985	608,279
Shareholders' equity		
Share capital (Note 9)	6,897,684	6,897,684
Contribution surplus (Notes 7 and 9)	915,080	893,672
Equity portion of convertible debenture (Note 7)	26,924	26,924
Deficit	(7,787,510)	(7,026,792)
	52,178	791,488
	$ 664,163	$ 1,399,767

Nature of Operations *(Note 1)*
Subsequent event *(Note 12)*

Approved on behalf of the Board on February 28, 2024

"Cory Brandolini"
Director

"Paul Woodward"
Director

See accompanying notes to the condensed interim financial statements.

RAILTOWN AI TECHNOLOGIES INC.
Condensed Interim Statements of Comprehensive Loss
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)
Three months ended December 31,

	2023	2022
Expenses		
Consulting fees	$ 267,034	$ 39,027
Depreciation (Notes 4 and 6)	10,388	10,103
Filing fees	33,683	6,261
Interest on lease (Note 6)	4,450	5,319
Accretion and interest on convertible debenture (Note 7)	1,888	11,694
Marketing and promotion	9,191	50,322
Office	47,821	66,756
Professional fees	41,253	63,524
Salaries and benefits (Note 8)	321,022	182,193
Share-based compensation (Notes 9)	21,408	8,121
Travel	2,597	14,712
	(760,735)	(458,032)
Other income	17	-
Net and comprehensive loss for the period	$ (760,718)	$ (458,032)
Weighted average number of common shares outstanding – basic and diluted	91,602,040	76,556,912
Basic and diluted loss per common shares	$ (0.01)	$ (0.01)

See accompanying notes to the condensed interim financial statements.

RAILTOWN AI TECHNOLOGIES INC.
Condensed Interim Statements of Cash Flows
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)
Three months ended December 31,

		2023		2022
Operating activities:				
Net loss for the period	$	(760,718)	$	(458,032)
Items not involving cash:				
Depreciation		10,388		10,103
Interest on lease liability		4,450		5,319
Accretion and interest on convertible debenture		1,888		11,694
Share-based compensation		21,408		8,121
Changes in non-cash working capital items:				
Receivables		(3,423)		(4,657)
Prepaid expense		165,230		(4,167)
Trade payables and accrued liabilities		8,982		31,606
Net cash used in operating activities		(551,795)		(400,013)
Investing activities:				
Purchase of equipment		(2,139)		(2,163)
Net cash used in investing activities		(2,139)		(2,163)
Financing activities:				
Proceed from convertible debenture		-		504,800
Lease payments		(11,614)		(11,613)
Net cash provided by (used in) financing activities		(11,614)		493,187
Change in cash		(565,548)		91,011
Cash, beginning of the period		672,940		678,474
Cash, end of the period	$	107,392	$	769,485
Supplemental cash flow information				
Cash paid for interest	$	4,450	$	-
Non-cash investing and financing activities				
Convertible debenture – exercised	$	-	$	205,339

See accompanying notes to the condensed interim financial statements.

RAILTOWN AI TECHNOLOGIES INC.
Condensed Interim Statement of Changes in Shareholders' Equity
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Share Capital					
	Shares	Amount	Equity portion of convertible debenture	Contribution Surplus	Deficit	Total
Balance, September 30, 2022	76,507,999	$ 4,836,256	$ -	$ 639,312	$(4,832,815)	$ 642,753
Convertible debenture – referral fees	100,000	40,000	57,639	107,700	-	205,339
Share-based compensation	-	-	-	8,121	-	8,121
Net and comprehensive loss	-	-	-	-	(458,032)	(458,032)
Balance, December 31, 2022	76,607,999	4,876,256	57,639	755,133	(5,290,847)	398,181
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	-	-	(20,983)	(90,548)	-	(111,531)
Convertible debenture – exercised	1,061,309	131,545	(9,732)	(4,554)	-	117,259
Convertible debenture – referral fees	-	(28,000)	-	30,900	-	2,900
Exercise of warrants	66,400	16,769	-	(6,809)	-	9,960
Share-based compensation	-	-	-	141,950	-	141,950
Net and comprehensive loss	-	-	-	-	(1,735,945)	(1,735,945)
Balance, September 30, 2023	91,602,040	6,897,684	26,924	893,672	(7,026,792)	791,488
Share-based compensation	-	-	-	21,408	-	21,408
Net and comprehensive loss	-	-	-	-	(760,718)	(760,718)
Balance, December 31, 2023	91,602,040	$ 6,897,684	$ 26,924	$ 915,080	$(7,787,510)	$ 52,178

See accompanying notes to the condensed interim 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 condensed interim 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 December 31, 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 condensed interim 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 unaudited condensed interim financial statements, including comparatives have been prepared using accounting policies consistent with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB") and in accordance with International Accounting Standards ('IAS") 34, Interim Financial Reporting.

The policies applied in the condensed interim financial statements are presented below and are based on IFRS' issued and outstanding as of February 28, 2024; the date the Board of Directors approved the condensed interim financial statements. Any subsequent changes to IFRS that are given effect in our annual financial statements for the year ending September 30, 2023 could result in restatements of these condensed interim financial statements. None of these standards are expected to have a significant effect on the condensed interim financial statements.

Basis of preparation

The condensed interim 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 condensed interim 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 condensed interim 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 period ended December 31, 2023, 3,275,000 (2022 – 2,025,000) stock options and 9,543,947 (2022 – 2,185,608) 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.

(Expressed in Canadian Dollars)

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.

Convertible debentures

The host debt liability, equity conversion feature and other (when applicable) components of convertible debentures are presented separately on the consolidated 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.

3. Prepaid expenses

	December 31, 2023	September 30, 2023
Rental deposits	$ 9,497	$ 9,497
Insurance	-	643
Promotion and marketing	-	2,084
Consulting	358,330	520,833
Prepaid expenses	$ 367,827	$ 533,057

(Expressed in Canadian Dollars)

4. Equipment

	Computer	Equipment	Total
Cost			
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
Additions	2,139	-	2,139
Balance, December 31, 2023	$ 39,656	$ 9,183	$ 48,839
Accumulated depreciation			
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
Additions	1,697	-	1,697
Balance, December 31, 2023	$ 27,940	$ 3,003	$ 30,943
Carrying amounts			
Balance, September 30, 2023	$ 11,274	$ 6,180	$ 17,454
Balance, December 31, 2023	$ 11,716	$ 6,180	$ 17,896

5. Trade payables and accrued liabilities

	December 31, 2023	**September 30, 2023**
Trade payables	$ 90,862	$ 85,413
Accrued liabilities	40,500	36,967
Trade payables and accrued liabilities	$ 131,362	$ 122,380

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 period ended December 31, 2023 and year ended September 30, 2023 is as follows:

Right of use asset, September 30, 2022	$	162,239
Amortization of ROU asset		(34,766)
Right of use asset, September 30, 2023		127,473
Amortization of ROU asset		(8,691)
Right of use asset, December 31, 2023	$	118,782

The continuity of lease liabilities for the period ended December 31, 2023 and year ended September 30, 2023 is as follows:

Lease liabilities, September 30, 2022	$	165,745
Interest expense		20,008
Lease payments		(46,454)
Lease liabilities, September 30, 2023		139,299
Interest expense		4,450
Lease payments		(11,614)
Lease liabilities, December 31, 2023	$	132,135
Current lease liability	$	31,694
Long-term lease liability		100,441
Total lease liabilities at December 31, 2023	$	132,135

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 (see Note 9).
iii) cash referral fee of $15,000.
iv) 100,000 common shares valued at $12,000.

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*	*Contribution 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
Accretion and interest	1,888	-	-	1,888
Balance December 31, 2023	$ 348,488	$ 26,924	$ 12,598	$ 388,010

8. Related party transactions and Key management compensation

During the period ended December 31, 2023, the Company paid or accrued:

i) salaries of $83,162 (2022 - $83,199) 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 period ended December 31, 2023, the Company did not issue any common shares.

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, 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).

(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.

Details of stock option activities for the period ended December 31, 2023 and year ended September 30, 2023:

Stock options outstanding	**Period ended December 31, 2023**		**Year ended September 30, 2023**	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
	#	**$**	**#**	**$**
Outstanding – beginning of period/year	3,275,000	0.25	2,025,000	0.25
Granted	-	-	1,650,000	0.25
Expired/Forfeited	-	-	(400,000)	(0.25)
Outstanding – end of period/year	3,275,000	0.25	3,275,000	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 December 31, 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	530,000
		3,275,000	2,355,000

As at December 31, 2023, the options outstanding had a weighted average remaining life of 2.94 years (September 30, 2023 – 3.19 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:

	Period Ended December 31, 2023	Year Ended September 30, 2023
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 period ended December 31, 2023, the Company did not grant any 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.

(Expressed in Canadian Dollars)

9. Share capital (continued)

Warrants (continued)

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

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.

Details of warrant activity for the period ended December 31, 2023 and year ended September 30, 2023:

Warrants outstanding	**Period ended December 31, 2023**		**Year ended September 30, 2023**	
	Number of Warrants	**Weighted average exercise price**	**Number of warrants**	**Weighted average exercise price**
	#	**$**	**#**	**$**
Outstanding – beginning of period/year	9,543,947	0.25	821,350	0.35
Granted	-	-	9,610,347	0.25
Exercised	-	-	(66,400)	0.15
Expired	-	-	(821,350)	0.35
Outstanding – end of period/year	9,543,947	0.25	9,543,947	0.25

The following table discloses the number of warrants outstanding as at December 31, 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 December 31, 2023, the warrants outstanding had a weighted average remaining life of 2.34 years (September 30, 2023 – 2.60 years).

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:

	Period Ended December 31, 2023	Year Ended September 30, 2023
Risk-free interest rate	-	4.31%
Expected life of warrants	-	3.00 year
Annualized volatility	-	153.11%
Dividend yield	-	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.

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 December 31, 2023, the Company had working capital of $364,429 (September 30, 2023 - $1,102,021). 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 period ended December 31, 2023.

12. Subsequent event

Subsequent to December 31, 2023, the Company granted 1,100,000 stock options to officers at a price of $0.25 per share, expiring on November 1, 2028. Also subsequent to December 31, 2023, the Company announced an offering under the Listed Issuer Financing Exemption of up to 19,333,33 units of the company at a price of $0.15 per unit, with each unit consisting of a share and one-half a share purchase warrant exercisable for 24 months from closing at $0.30 per share.