

## **DEEPSPATIAL INC.**

(formerly, Aylen Capital Inc.)

Condensed interim consolidated financial statements

For the three months ended September 30, 2021 and 2020

(Unaudited - 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 interim financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has not performed a review of these consolidated interim 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.

**DEEPSPATIAL INC. (formerly, AYLEN CAPITAL INC.)**  
**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED SEPTEMBER 30, 2021 and 2020**  
**(Unaudited - Amounts expressed in Canadian Dollars)**

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**DeepSpatial Inc. (formerly, Aylen Capital Inc.)**Interim Consolidated Statements of Financial Position  
(Unaudited- expressed in Canadian dollars)

<b>ASSETS</b>		<b>September 30, 2021</b>		June 30, 2021
<b>CURRENT</b>				
Cash	\$	821,412	\$	1,024,054
Prepaid expenses		43,518		27,627
Sales tax receivable		103,412		88,689
		<u>968,342</u>		<u>1,140,370</u>
<b>Intangible assets</b> (Note 4)		1,514,143		1,590,750
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>2,482,485</u></b>	<b>\$</b>	<b><u>2,731,120</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>LIABILITIES</b>				
<b>CURRENT</b>				
Accounts payable and accrued liabilities	\$	88,817	\$	81,052
		<u>88,817</u>		<u>81,052</u>
<b>Government Assistance loan</b> (Note 11)		30,000		30,000
<b>TOTAL LIABILITIES</b>		<u>118,817</u>		<u>111,052</u>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital (Note 6)		5,765,104		5,747,604
Options reserve		326,889		121,025
Accumulated deficit		<u>(3,728,325)</u>		<u>(3,248,561)</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>2,363,668</u>		<u>2,620,068</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$</b>	<b><u>2,482,485</u></b>	<b>\$</b>	<b><u>2,731,120</u></b>

Organization and nature of operations (Note 1)  
Basis of presentation and going concern (Note 2)  
Subsequent events (Note 12)

Approved on behalf of the Board of Directors:

"Rahul Kushwah"

Signed: Rahul Kushwah, CEO and Director

"Sheldon Kales"

Signed: Sheldon Kales, Director

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

**DeepSpatial Inc.** (formerly, Aylen Capital Inc.)  
Interim Consolidated Statements of Loss and Comprehensive Loss  
For the three- month ended September 30, 2021 and 2020  
(Unaudited- expressed in Canadian dollars)

	For the Three months ended September 30, 2021	For the Three months ended September 30, 2020
<b>Expenses:</b>		
Amortization of intangible assets (Note 4)	\$ 76,607	\$ 77,026
Audit and accounting	14,650	
Consulting fees	62,050	19,500
Legal fees	1,902	9,358
Management fees (Note 7)	44,400	44,500
Marketing expenses (Note 7)	57,725	10,500
Office and miscellaneous	8,198	-
Professional fees	-	4,000
Research and development (Note 7)	-	4,000
Stock based compensation (Note 10)	205,864	-
Transfer agent and regulatory fees	5,368	-
Travel, entertainment, and related	-	1,542
Vehicles use expenses (Note 7)	3,000	1,000
	<u>\$ (479,764)</u>	<u>\$ (171,426)</u>
<b>Loss and comprehensive loss</b>	<b>\$ (479,764)</b>	<b>\$ (171,426)</b>
Loss per share-Basic and Diluted	\$ (0.005)	\$ (0.002)
Weighted average number of shares outstanding-Basic and Diluted	93,415,379	83,575,000

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

**DeepSpatial Inc.** (formerly, Aylen Capital Inc.)  
Interim Statement of Changes in Shareholders' Equity  
(Unaudited- expressed in Canadian dollars)

	Number of common shares outstanding	Share capital	Options reserve	Share Subscriptions	Deficit	Total
<b>Balance as at June 30, 2020</b>	83,575,000	2,940,601	-	642,000	(522,877)	3,059,724
Share subscriptions received	-	-	-	400,200	-	400,200
Net loss for the period	-	-	-	-	(171,426)	(171,426)
<b>Balance as at September 30, 2020</b>	83,575,000	\$ 2,940,601	\$ -	\$ 1,042,200	\$ (694,303)	\$ 3,288,498
<b>Balance as at June 30, 2021</b>	93,404,509	5,747,604	121,025	-	(3,248,561)	2,620,068
Shares issued for services	100,000	17,500	-	-	-	17,500
Stock based compensation	-	-	205,864	-	-	205,864
Net loss for the period	-	-	-	-	(479,764)	(479,764)
<b>Balance as at September 30, 2021</b>	93,504,509	\$ 5,765,104	\$ 326,889	\$ 1,042,200	\$ (3,728,325)	\$ 2,363,668

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

**DeepSpatial Inc.** (formerly, Aylen Capital Inc.)  
Interim Statement of Cash Flows  
(Unaudited- expressed in Canadian dollars)

	<b>For the three months ended September 30, 2021</b>		<b>For the three months ended September 30, 2020</b>	
<b>OPERATING ACTIVITIES</b>				
Net loss	\$	(479,764)	\$	(171,426)
Non-cash items included in net loss and other adjustments:				
Amortization of intangible assets		76,607		77,026
Shares issued for services		17,500		-
Stock based compensation		205,864		-
Changes in non-cash working capital:				
Sales tax receivable		(14,723)		(7,930)
Prepaid expenses		(15,891)		-
Accounts payable and accrued liabilities		7,765		9,004
<b>CASH USED IN OPERATING ACTIVITIES</b>		<b>(202,642)</b>		<b>(93,326)</b>
<b>FINANCING ACTIVITIES</b>				
Share subscriptions received		-		400,200
<b>CASH PROVIDED BY FINANCING ACTIVITIES</b>		<b>-</b>		<b>400,200</b>
<b>NET CHANGE IN CASH DURING THE PERIOD</b>				
		<b>(202,642)</b>		<b>306,874</b>
<b>CASH, BEGINNING OF PERIOD</b>		<b>1,024,054</b>		<b>1,202,900</b>
<b>CASH, END OF PERIOD</b>	\$	<b>821,412</b>	\$	<b>1,509,774</b>
<b>Cash consists of:</b>				
<b>Cash</b>	\$	<b>821,412</b>	\$	<b>467,574</b>
<b>Restricted cash</b>	\$	<b>-</b>	\$	<b>1,042,200</b>
		<b>821,412</b>		<b>1,509,774</b>
<b>Cash paid for interest and income taxes</b>	\$	<b>-</b>	\$	<b>-</b>

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

## 1. Organization and Nature of Operations

Aylen Capital Inc. (“Aylen”) was incorporated on October 28, 2010 under the Canada Business Corporations Act.

Aylen completed a triangular amalgamation (the “Transaction”) pursuant to the terms of an acquisition agreement dated September 2, 2020 among Aylen, Loc8 Corp., 2774951 Ontario Limited, John Pennal and Grapevine Analytics Inc. The Transaction was completed on December 22, 2020.

The Transaction involved: (i) the acquisition of all of the issued and outstanding securities of Loc8 Corp. (now called DeepSpatial (Ontario) Inc.) (“Loc8”) by way of a triangular amalgamation, pursuant to which, 2774951 Ontario Limited (a wholly owned subsidiary of Aylen) amalgamated with Loc8 (the “Acquisition”); (ii) the sale of Grapevine Analytics Inc. to RDH Inc.; and (iii) immediately prior to completion of the Acquisition, the consolidation of the common shares of Aylen on a one (1) new share for four (4) old share basis (the “Consolidation”) resulting in 4,660,509 post Consolidation common shares.

Pursuant to the Acquisition, each shareholder of Loc8 received one (1) post-Consolidation common share for each Loc8 share held, resulting in the issuance of 87,794,000 post-Consolidation common shares to the shareholders of Loc8. Following the completion of the Transaction, Aylen had a total of 92,454,509 common shares outstanding. Aylen issued an additional 700,000 common shares as finder’s fee in connection with the completion of the Transaction. The finder’s shares were issued in January 2021.

At completion of the Transaction, Aylen changed its name to DeepSpatial Inc. (the “Company”).

The Company leverages Artificial Intelligence to create robust location intelligence solutions for transforming existing location data into business outcomes. Location data can be anything from addresses and latitude/longitude coordinates, buildings, monuments or alike and when this data is correlated with internal business data, it creates business context to improve decision making backed by data driven analytics.

The Company’s corporate head office is located at 77 King Street W, Suite 3000, Toronto, Ontario, Canada, M5K 1G8.

The Company’s shares are listed on the Canadian Securities Exchange (“CSE”) under the symbol DSAI. Effective September 27, 2021, the Company’s common shares started trading on the OTCQB Venture Market under the symbol DSAIF.

The Board of Directors of the Company authorized these interim consolidated financial statements for issuance on November 29, 2021.

## **2. Basis of Presentation and Going Concern**

### **Basis of Preparation**

These condensed interim consolidated financial statements have been prepared on the historical cost basis except for financial instruments recorded at fair value. In addition, these interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The functional currency of the Company and its subsidiary is the Canadian dollar, which is also the Company's reporting currency.

### **Statement of Compliance**

These condensed interim financial statements (the "Financial Statements") are unaudited and have been prepared on a condensed basis in accordance with International Accounting Standard 34, Interim Financial Reporting issued by the International Accounting Standards Board ("IASB"), using accounting policies of International Financial Reporting Standards ("IFRS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC. The condensed interim financial statements should be read in conjunction with the annual audited financial statements for the year ended June 30, 2021, which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"). The unaudited condensed interim financial statements are based on accounting policies as described in the June 30, 2021 annual financial statements.

### **Basis of Consolidation**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of the Company's subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary: DeepSpatial (Ontario) Inc. All inter-company transactions and balances have been eliminated on consolidation.



## **2. Basis of Presentation and Going Concern (Cont'd)**

### **Going Concern Assumption**

These financial statements have been prepared using IFRS on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business, for the next fiscal year. At September 30, 2021, the Company had cash of \$821,412, working capital of \$879,525 and an accumulated deficit of \$3,728,325. The continuing operations of the Company are dependent on funding provided by equity investors. The Company intends to finance its future requirements through a combination of equity and/or debt issuance. There is no assurance that the Company will be able to obtain such financings or obtain them on favorable terms.

Since February 2020, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

This uncertainty may cast significant doubt about the ability of the Company to continue as a going concern. These financial statements do not include any adjustments to the carrying value or presentation of assets or liabilities that might be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

### **Significant Accounting Judgments and Estimates**

The preparation of these consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, shareholders' equity, and the disclosure of contingent assets and liabilities, as at the date of the financial statements, and expenses for the period reported.

#### Critical Judgements

The preparation of these consolidated financial statements requires management to make judgements regarding the going concern of the Company (discussed above), as well as the determination of functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. The functional currency for the Company and its subsidiary has been determined to be the Canadian dollar.

## **2. Basis of Presentation and Going Concern (Cont'd)**

### **Significant Accounting Judgments and Estimates (Cont'd)**

#### Key Sources of Estimation Uncertainty

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant.

Significant estimates made by management affecting the financial statements include:

#### *Deferred tax assets & liabilities*

The estimation of income taxes includes evaluating the recoverability of deferred tax assets and liabilities based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets and liabilities will not be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets or liabilities, and deferred income tax provisions or recoveries could be affected.

#### *Useful life of intangible assets*

The intangible asset is depreciated over its estimated useful life. Estimated useful lives are determined based on current facts and past experience and takes into consideration the anticipated life of the asset, the potential for technological obsolescence, and regulations.

#### *Share-based Payments*

Estimating fair value for granted stock options and warrants requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option or warrant, volatility, dividend yield, and rate of forfeitures and making assumptions about them.

## **3. Significant Accounting Policies**

The accounting policies set out in the financial statements at June 30, 2021, have been applied consistently to all periods presented in these interim consolidated financial statements.

### **3. Significant Accounting Policies (Cont'd)**

#### **COVID-19 Estimation Uncertainty**

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

#### **New standards not yet adopted**

##### *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*

The IASB has published Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) which clarifies the guidance on whether a liability should be classified as either current or non-current. The amendments:

- clarify that the classification of liabilities as current or non-current should only be based on rights that are in place "at the end of the reporting period"
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability
- make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

This amendment is effective for annual periods beginning on or after July 1, 2022. Earlier application is permitted. The extent of the impact of adoption of this amendment has not yet been determined.

### **4. Intangible assets**

On September 9, 2019, the Company issued 63,450,000 common shares with a fair value price of \$0.0338 per common share for a total fair value consideration of \$2,145,000, issued to Algo8 AI Private Limited, a Company incorporated in India and its associates including their designates, being the purchase and assignment of Intellectual Property comprising of development and creation of the work product related to geospatial artificial intelligence for enterprises. The issuance of shares is being recorded as an asset acquisition. This intellectual property amount of \$2,145,000 is estimated to have a useful life of 7 years and is being amortized on a straight-line basis.

**DeepSpatial Inc.** (formerly, Aylen Capital Inc.)  
Notes to Interim Condensed Consolidated Financial Statements  
September 30, 2021  
(Unaudited- expressed in Canadian dollars)

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**4. Intangible assets (Cont'd)**

	<b>Intellectual Property</b>	
<b>Cost:</b>		
Balance as at June 30, 2020	\$	2,145,000
Additions		-
<b>Balance as at June 30, 2021</b>	<b>\$</b>	<b>2,145,000</b>
Additions		-
<b>Balance as at September 30, 2021</b>	<b>\$</b>	<b>2,145,000</b>
<b>Accumulated amortization:</b>		
Balance as at June 30, 2020	\$	247,822
Amortization		306,428
<b>Balance as at June 30, 2021</b>	<b>\$</b>	<b>554,250</b>
Amortization		76,607
<b>Balance as at September 30, 2021</b>	<b>\$</b>	<b>477,643</b>
<b>Net book value:</b>		
<b>At September 30, 2021</b>	<b>\$</b>	<b>1,514,143</b>
<b>At June 30, 2021</b>	<b>\$</b>	<b>1,590,750</b>

**5. Reverse merger transaction**

During the year ended June 30, 2021, the Company completed the following acquisition:

Effective December 22, 2020, Aylene was part of a triangular amalgamation among Aylene, 2774951 Ontario Limited. (a wholly owned subsidiary) and Loc8 (the "Transaction"). The result of the transaction was that Aylene acquired all the issued and outstanding securities of Loc8 on the basis of one share of Aylene for each share of Loc8. At completion of the transaction, Aylene changed its name to DeepSpatial Inc. and Loc8 was amalgamated into 2774951 Ontario Limited.

Under IFRS, this was considered a Reverse Merger and Recapitalization (commonly referred to as a Reverse Take Over or "RTO"). The Company issued 4,660,509 shares to the shareholders of former corporation valued at \$0.30 per share, with a total value of \$1,398,153 and 700,000 common shares (finder shares) valued at \$210,000 for the acquisition.

The fair value of the acquired assets and liabilities assumed is as follows:

Assets acquired by the Company:	\$	-
Liabilities assumed by the Company:		-
Net assets (liabilities) assumed	\$	-
Consideration:		
4,660,509 common shares issued at a fair value of \$0.30 per share	\$	(1,398,153)
700,000 common shares being finders' shares at a fair value of \$0.30 per share		(210,000)
Listing expense	\$	(1,608,153)

## **6. Capital Stock**

The Company is authorized to issue the following shares:

- Unlimited number of common shares and an unlimited number of preferred shares issuable in series

### **a) Common shares**

The holders of common shares are entitled to receive dividends which are declared from time to time and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

At September 30, 2021 the Company has 93,504,509 (June 30, 2021: 93,404,509) common shares issued and outstanding.

### **b) Share issuances**

During the three- month period ended September 30, 2021

- The Company issued 100,000 common shares fair valued at \$17,500 to a consultant for services.

During the year ended June 30, 2021

- On December 22, 2020, the Company issued 4,219,000 common shares at \$0.30 per share in private placements which included subscription funds for \$642,000 received during the prior period. The Company incurred share issuance costs for \$99,350.
- The Company issued 4,660,509 shares in connection with the Acquisition and an additional 700,000 shares as finder's fee, as discussed in Note 5.
- The Company issued 250,000 common shares fair valued at \$32,500 to a consultant for services.

### **c) Share subscription and restricted cash**

As of June 30, 2020, the Company had received cash in escrow for \$642,000, being subscription for common shares at \$0.30 per share. As of June 30, 2021, the cash was no longer in escrow. This cash was previously held in escrow until the completion and listing of a going public Transaction which was completed in December 2020.

## 7. Related Party Transactions

Related parties include key management personnel, the Board of Directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions. Key management of the Company are members of the Board of Directors, the Chief Executive Officer (“CEO”), the Chief Financial Officer (“CFO”) and the Chief Technology Officer (“CTO”). Transactions with key management personnel not disclosed elsewhere in the financial statements include the following:

	September 30, 2021	September 30, 2020
Management fees to the Executive Chairman	\$ 16,500	\$ 15,000
Management fees to the CEO	19,500	19,500
Management fees to the CFO	2,400	10,000
Management fees to the CTO	6,000	-
Total Management fees	\$ 44,400	\$ 44,500
Research and development fees to a company in which the CTO and director of the Company is also a director	-	4,000
Marketing fees to a company controlled by a child of the Executive Chairman	12,500	10,500
Consulting fees to a company controlled by a child of the Executive Chairman	7,500	7,500
Rent to the CEO included in office and miscellaneous expenses	3,000	-
Vehicle expense to the Executive Chairman and CEO	3,000	1,000
	\$ 70,400	\$ 67,500

At September 30, 2021, there was \$nil due to any related parties.

As at September 30, 2020, there was \$500 each due to the CEO and Executive Chairman and \$10,000 due to the CFO, included in accounts payable and accrued liabilities.

## **8. Financial Instruments**

The fair value of the Company's accounts payable approximates carrying value, due to its short-term nature. The Company's cash and restricted cash is measured at fair value under the fair value hierarchy based on level one quoted prices in active markets for identical assets or liabilities. The fair value of the Company's government assistance loan approximates carrying value, since this amount bears no interest.

### **Financial risk management and objectives**

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, and market risk (including interest rate risk, foreign currency risk, and commodity price risk).

The Company thoroughly examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by the Board of Directors.

#### Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is not exposed to significant credit risk.

#### Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if its access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company. The Company generates cash flows primarily from its financing activities.

The Company manages its liquidity needs by carefully monitoring scheduled costs. Liquidity is measured in various time bands, on day to day and week-to-week basis, as well as on long term liquidity needs over 180 day to 360 day look out periods. Funding for long term liquidity needs is based on the ability of the Company to successfully complete private placements.

As at September 30, 2021, the Company had sufficient unrestricted cash of \$821,412 to settle current liabilities of \$88,817.

#### Market Risk

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

##### *(a) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risk.



## **8. Financial Instruments (Cont'd)**

### *(b) Price risk*

The Company is not exposed to significant price risk as it does not possess investments in publicly traded securities.

### *(c) Currency risk*

Currency risk is the risk that the fair value of future cash flows of a financial instrument denominated in a foreign currency will fluctuate because of changes in foreign exchange rates. The Company is not exposed to significant currency risk as it is not actively dealing in foreign currency.

## **9. Capital Management**

The Company considers its capital to be shareholders' equity, which is comprised of share capital and deficit, which as at September 30, 2021 totaled \$2,363,668. The Company's capital structure is adjusted based on the funds available to the Company such that it may continue to seek new opportunities. The Board of Directors does not establish quantitative return on capital criteria, but rather relies on the expertise of management and other professionals to sustain future development of the business.

The sources of future funds presently available to the Company are through the sale of equity capital of the Company. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Company.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital restrictions. There were no changes to the Company's management of capital during the period.

## **10. Stock-based Compensation**

The Company has established a stock option plan whereby officers, directors, employees and service providers may be granted options to purchase common shares at a fixed price. Vesting and expiry provisions are determined at the date of grant. The plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital. The plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases.

In the prior year, on June 4, 2021, the Company granted options to its directors, officers and consultants to purchase up to 9,400,000 common shares. These options were issued at an exercise price of \$0.13 per share and vest as follows:

- 2,225,000 vest on September 4, 2021;
- 2,225,000 vest on December 4, 2021;
- 2,225,000 vest on March 4, 2022;
- 2,225,000 vest on June 4, 2022; and
- 500,000 vest upon certain performance milestones being met.

All the options have a term of three (3) year expiring on June 4, 2024. The fair value of each option used for the purpose of estimating the stock-based compensation is estimated using the Black-Scholes option pricing model with the following assumptions:

**10. Stock-based Compensation (Cont'd)**

Risk free rate	1%
Expected dividends	0%
Expected forfeiture rate	0%
Expected volatility	120%
Expected life	3 year
Fair value per options	\$0.09
Stock based compensation expense recorded in the prior year	\$ 121,025

During the three-month period ended September 30, 2021, the Company expensed \$205,864 being stock based compensation expense on the vesting of the above options.

Continuity of the Company's options is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, June 30, 2021	9,400,000	\$0.13
Granted during the period	-	-
Expired during the period	-	-
Outstanding, September 30, 2021	9,400,000	\$0.13

As at September 30, 2021, the Company had the following share purchase options outstanding and exercisable:

Outstanding	Exercisable	Exercise Price	Remaining Life (Years)	Expiry Date
9,400,000	-	\$0.13	2.68	June 4, 2024

**11. Government assistance loan**

In connection to the outbreak of COVID-19, Aylen had received, prior to the reverse merger, \$40,000 in Canada Emergency Business Account ("CEBA") loans from the Government of Canada. These CEBA loans are non-interest bearing and mature on December 31, 2022. The loan can be extended to December 31, 2025 and 25% will be forgiven if the principal is repaid before the initial maturity date. Aylen had recognized the forgiveness of \$10,000 prior to the reverse merger on December 22, 2020 and the funds and debt of \$30,000 was transferred to the Company post acquisition. As at September 30, 2021, the Company has not made a payment on the CEBA loans.

**12. Subsequent Events**

In November 2021, the Company issued 150,000 common shares to a consultant for services.