

DEEPSPATIAL INC.

(formerly, Aylen Capital Inc.)

Consolidated financial statements

June 30, 2022 and 2021

(Expressed in Canadian Dollars)

DEEPSPATIAL INC. (formerly AYLEN CAPITAL INC.)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(in Canadian Dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of DeepSpatial Inc.

Opinion

We have audited the accompanying consolidated statements of DeepSpatial Inc. (the "Company") , which comprise the consolidated statements of financial position as at June 30, 2022, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity, consolidated statements of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards ("IFRS").

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which describe the events and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Basis for Opinion

We conducted our audits 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 audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

The key audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the key audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the key audit matter below providing a separate opinion on the key audit matter or on the accounts or disclosures to which it relates.

Assessment of Impairment of Intangible Asset

Key Audit Matter Description

On September 9, 2019, the company acquired intellectual property related to geospatial artificial intelligence with fair value of \$2,145,000 and being amortized over 7 years useful lives. As of June 30, 2022, the Company recorded approximately \$1.28 million of intangible asset. The company disclosed the significant judgements, estimates, and assumptions and the results of their analyses on the intangible asset in Note 2 and Note 5 on the consolidated financial statements.



We considered the impairment of the intangible asset to be a key audit matter as it is a significant asset of the company and involved significant management judgments. Potential impairment may have a material impact on the fair values.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures focused on the indicators of impairment and valuation assessment. The procedures included, amongst others, the following:

- We validated the consideration paid and the valuation and reviewed the identification of the acquired assets by corroborating this identification based on our discussion with management
- We assessed the completeness of external or internal factors that could be considered indicators of impairment of the Company's mineral property interest
- We evaluated the reasonableness of the significant assumptions used by management and performed revaluation to determine the reasonable recoverable amount of the asset.
- We assessed the competence, capabilities and objectivity of the Company's personnel involved in preparing the impairment assessment.

The accounting and measurement methods applied are in accordance with IAS 36. We consider the underlying assumptions and measurement to be reasonable.

Other Matter

The consolidated financial statements of the Company for the year ended June 30, 2021 were audited by another auditor who expressed an unmodified opinion on the report dated October 28, 2021.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis 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 Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it 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 consolidated 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



The engagement partner on the audit resulting in this independent auditor's report is Julia Zhou.

Kreston GTA LLP

Chartered Professional Accountants

Markham, Canada

October 28, 2022

DeepSpatial Inc. (formerly, Aylen Capital Inc.)

Consolidated Statements of Financial Position

As at:

(in Canadian dollars)

ASSETS	June 30, 2022	June 30, 2021
CURRENT		
Cash	\$ 170,570	\$ 1,024,054
Prepaid expenses	25,894	27,627
Sales tax receivable	155,232	88,689
	<u>351,696</u>	<u>1,140,370</u>
Intangible assets (Note 5)	1,284,322	1,590,750
TOTAL ASSETS	\$ 1,636,018	\$ 2,731,120
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 164,552	\$ 81,052
Contract liabilities	\$ 6,161	\$ -
	<u>170,713</u>	<u>81,052</u>
Government Assistance loan (Note 12)	30,000	30,000
TOTAL LIABILITIES	<u>200,713</u>	<u>111,052</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	5,817,314	5,747,604
Share based compensation reserve	834,992	121,025
Accumulated other comprehensive loss	(39)	-
Accumulated deficit	<u>(5,216,962)</u>	<u>(3,248,561)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>1,435,305</u>	<u>2,620,068</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,636,018	\$ 2,731,120

Organization and nature of operations (Note 1)

Basis of presentation and going concern (Note 2)

Subsequent events (Note 13)

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 consolidated financial statements

DeepSpatial Inc. (formerly, Aylen Capital Inc.)
Consolidated Statements of Loss and Comprehensive Loss
(in Canadian dollars)

	For the Year ended June 30, 2022	For the Year ended June 30, 2021
Expenses:		
Amortization of intangible assets (Note 5)	\$ 306,428	\$ 306,428
Audit and accounting	46,000	25,000
Consulting fees	192,567	129,027
Investor relations	5,275	-
Legal fees	49,561	154,220
Management fees (Note 7)	230,670	186,480
Marketing expenses (Note 7)	155,300	78,500
Office and miscellaneous	44,534	9,922
Professional fees	-	4,550
Research and development	115,910	5,500
Share based payments-restricted share units (Note 10 (b))	48,046	-
Stock based compensation (Note 10 (a))	697,881	121,025
Transfer agent and regulatory fees	52,753	82,923
Travel, entertainment, and related	11,476	3,956
Vehicles use expenses (Note 7)	12,000	10,000
	<u>\$ (1,968,401)</u>	<u>\$ (1,117,531)</u>
Listing expense (Note 4)	-	(1,608,153)
Net loss for the year	\$ (1,968,401)	\$ (2,725,684)
Loss per share-Basic and Diluted	\$ (0.021)	\$ (0.033)
Weighted average number of shares outstanding-Basic and Diluted	93,600,279	83,236,984
Net loss for the year	\$ (1,968,401)	\$ (2,725,684)
Currency translation adjustment	(39)	-
Comprehensive loss for the year	\$ (1,968,440)	\$ (2,725,684)

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

DeepSpatial Inc. (formerly, Aylen Capital Inc.)
Statement of Changes in Shareholders' Equity
(in Canadian dollars)

	Number of common shares outstanding	Share capital	Share based compensation reserve	Share Subscriptions	Accumulated Deficit	Accumulated other comprehensive loss	Total
Balance as at June 30, 2020	83,575,000	\$ 2,940,601	-	642,000	(522,877)	-	3,059,724
Share subscriptions received	-	-	-	623,700	-	-	623,700
Shares issued for subscriptions	4,219,000	1,265,700	-	(1,265,700)	-	-	-
Share issuance cost	-	(99,350)	-	-	-	-	(99,350)
Reverse takeover of subsidiary (Note4)	4,660,509	1,398,153	-	-	-	-	1,398,153
Finder shares for reverse takeover (Note 4)	700,000	210,000	-	-	-	-	210,000
Stock based compensation	-	-	121,025	-	-	-	121,025
Shares issued for services	250,000	32,500	-	-	-	-	32,500
Net loss for the year	-	-	-	-	(2,725,684)	-	(2,725,684)
Balance as of June 30, 2021	93,404,509	\$ 5,747,604	\$ 121,025	\$ -	\$ (3,248,561)	\$ -	\$ 2,620,068
Shares issued for services	250,000	37,750	-	-	-	-	37,750
Share based payments-restricted share units	-	-	48,046	-	-	-	48,046
Common shares issued upon settlement of RSU	376,000	31,960	(31,960)	-	-	-	-
Stock based compensation	-	-	697,881	-	-	-	697,881
Currency translation adjustment	-	-	-	-	-	(39)	(39)
Net loss for the year	-	-	-	-	(1,968,401)	-	(1,968,401)
Balance as at June 30, 2022	94,030,509	\$ 5,817,314	\$ 834,992	\$ -	\$ (5,216,962)	\$ (39)	\$ 1,435,305

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

DeepSpatial Inc. (formerly, Aylen Capital Inc.)

Consolidated Statements of Cash Flows
(in Canadian dollars)

	For the year ended June 30, 2022		For the year ended June 30, 2021	
OPERATING ACTIVITIES				
Net loss	\$	(1,968,401)	\$	(2,725,684)
Non-cash items included in net loss and other adjustments:				
Amortization of intangible assets		306,428		306,428
Listing expense		-		1,608,153
Share based payments-restricted share units		48,046		-
Shares issued for services		37,750		32,500
Stock based compensation		697,881		121,025
Changes in non-cash working capital:				
Sales tax receivable		(66,543)		(88,689)
Contract liabilities		6,161		-
Prepaid expenses		1,733		(27,627)
Accounts payable and accrued liabilities		83,500		40,698
CASH USED IN OPERATING ACTIVITIES		(853,445)		(733,196)
FINANCING ACTIVITIES				
Issuance of share capital for cash		-		623,700
Share issuance cost		-		(99,350)
Share subscriptions received		-		-
Government assistance loan		-		30,000
CASH PROVIDED BY FINANCING ACTIVITIES		-		554,350
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES				
		(39)		-
NET CHANGE IN CASH DURING THE PERIOD		(853,445)		(178,846)
CASH, BEGINNING OF PERIOD		1,024,054		1,202,900
CASH, END OF PERIOD	\$	170,570	\$	1,024,054
Cash paid for interest and income taxes				
	\$	-	\$	-

Non-cash investing and financing transactions:

During the year ended June 30, 2022, the Company issued 250,000 common shares valued at \$37,750 to consultants for services.

During the year ended June 30, 2021, the Company issued 250,000 common shares fair valued at \$32,500 to consultants for services.

The accompanying notes are an integral part of these 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”).

On March 26, 2022, the Company incorporated a subsidiary in India as DeepSpatial Asia Private Limited.

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 consolidated financial statements for issuance on October 28, 2022.

2. Basis of Presentation and Going Concern

Basis of Preparation

These consolidated financial statements have been prepared on the historical cost basis except for financial instruments recorded at fair value. In addition, these 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.

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 subsidiaries DeepSpatial (Ontario) Inc. and DeepSpatial Asia Private Limited. All inter-company transactions and balances have been eliminated on consolidation.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 1, "Presentation of Financial Statements" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

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 June 30, 2022, the Company had cash of \$170,570 (2021 - \$1,024,054), working capital of \$180,983 (2021 - \$1,059,318) and an accumulated deficit of \$5,216,962 (2021 - \$3,248,561). 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.

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

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 Canadian subsidiary has been determined to be the Canadian dollar. The functional currency for the subsidiary incorporated in India has been determined to be Indian Rupees.

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 below have been applied consistently to all periods presented in these financial statements.

Cash

Cash comprises of cash held at a financial institution in Canada. The Company does not invest in any asset-backed deposits or investments.

Income taxes

Income tax on profit or loss for the period comprises of current and deferred tax. Current tax is the expected tax paid or payable on the taxable income for the period, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax paid or payable in respect of previous periods.

Deferred tax is recorded by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of the enactment or substantive enactment of the change. Deferred tax assets and liabilities are presented separately except where there is a right of set-off within fiscal jurisdictions.

Loss per share

Loss per share is computed by dividing the net loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted loss per common share is computed by dividing the net loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

Research and development expenditures

The application of the Company's accounting policy for research and development expenditures requires judgment in determining whether an activity is determined to be research or development, and if deemed to be development, whether it is probable that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If new information becomes available indicating that it is unlikely that future economic benefits will flow to the Company, the amount capitalized is written off to profit or loss in the period the new information becomes available.

3. Significant Accounting Policies (Cont'd)

Intangible assets

Intangible assets include technology acquired by the Company and have finite useful lives measured at cost less accumulated amortization and any accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred. Amortization is recorded using the straight-line method and is intended to amortize the cost of the assets over their estimated useful lives as follows:

Intellectual property	7 years straight line
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Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Impairment

The carrying amount of the Company's assets is reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the Company makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. Recoverable amount of an asset group is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

3. Significant Accounting Policies (Cont'd)

Share-Based Payments

The Company grants stock options and warrants for the purchase of common shares of the Company to directors, officers, employees and service providers. The Company recognizes share-based compensation expense based on the estimated fair value of the options and warrants. A fair value measurement is made for each vesting instalment within each option grant and is determined using the Black-Scholes option-pricing model. The fair value of the options and warrants is recognized over the vesting period of the options granted as both share-based compensation expense and reserves. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods. The reserves account is subsequently reduced if the options and warrants are exercised and the amount initially recorded is then credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of the goods or services received.

Restricted share units

The Company has established a restricted share plan under which restricted share units are granted to eligible directors, officers and consultants of the Company. The restricted share units are considered equity-settled and are measured using the quoted market price of the Company's common shares at the grant date and recognized as share-based compensation over the vesting period, with a corresponding amount recognized as equity

Financial Instruments

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

The following is the Company's accounting policy for financial instruments under IFRS 9:

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.

3. Significant Accounting Policies (Cont'd)

Financial Instruments (Cont'd)

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 expensed in the statement of loss and comprehensive 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 the statement of loss and comprehensive 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 the statements of loss and comprehensive 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.

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.

3. Significant Accounting Policies (Cont'd)

Financial Instruments (Cont'd)

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	Measurement
Cash	Amortized cost
Accounts payable	Amortized cost
Government assistance loans	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.

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 and restricted cash have been measured at fair value using Level 1 inputs.

Impairment of financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in a separate line item. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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. Reverse merger transaction

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

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

5. 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.

	Intellectual Property	
Cost:		
Balance as at June 30, 2020	\$	2,145,000
Additions		-
Balance as at June 30, 2021	\$	2,145,000
Additions		-
Balance as at June 30, 2022	\$	2,145,000
Accumulated amortization:		
Balance as at June 30, 2020	\$	247,822
Amortization		306,428
Balance as at June 30, 2021	\$	554,250
Amortization		306,428
Balance as at June 30, 2022	\$	860,678
Net book value:		
At June 30, 2022	\$	1,284,322
At June 30, 2021	\$	1,590,750

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 June 30, 2022 the Company has 94,030,509 (June 30, 2021: 93,404,509) common shares issued and outstanding.

b) Share issuances

During the year ended June 30, 2022

- On September 21, 2021, the Company issued 100,000 common shares with fair valued at \$17,500 to a consultant for services.
- On December 3, 2021, the Company issued 150,000 common shares with fair valued at \$20,250 to consultants for services.
- 376,000 common shares were issued upon the settlement of Restricted Share Units ("RSU") at no additional consideration and with a fair value of \$31,960.

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 finders fee, as discussed in Note 4.
- 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:

	June 30, 2022	June 30, 2021
Management fees to the Executive Chairman	\$ 75,000	\$ 60,000
Management fees to the CEO	78,000	78,000
Management fees to the CFO	53,670	46,480
Management fees to the CTO	24,000	2,000
Total Management fees	<u>\$ 230,670</u>	<u>\$ 186,480</u>
Research and development fees to a company in which the CTO and director of the Company is also a director	-	5,500
Marketing fees to a company controlled by a child of the Executive Chairman	46,500	43,000
Consulting fees to a company controlled by a child of the Executive Chairman	30,000	30,000
Rent to the CEO included in office and miscellaneous expenses	3,000	1,500
Vehicle expense to the Executive Chairman and CEO	12,000	10,000
	<u>\$ 319,670</u>	<u>\$ 276,480</u>

At June 30, 2022, there was \$nil (June 30, 2021: \$nil) due to any related parties.

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 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 June 30, 2022, the Company had cash of \$170,570 to settle current liabilities of \$137,713.

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.

(b) Price risk

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

8. Financial Instruments (Cont'd)

(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 June 30, 2022 totaled \$1,468,305. 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. (a) Stock options

Effective November 1, 2021, the Company's existing stock option plan was replaced by an equity incentive plan called the Omnibus equity incentive plan. The number of common shares of the Company issuable pursuant to options under the Omnibus Equity Incentive Plan is set at 10% of the aggregate number of common shares of the Corporation issued and outstanding from time to time, subject to any limitations imposed by applicable regulations, laws, rules and policies. Upon valid exercise of the stock options granted under the Omnibus Equity Incentive Plan and payment of the exercise price for the common shares of the Company issuable in connection therewith, such common shares shall be issued as fully paid and non-assessable common shares in the capital of the Company.

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.

10. (a) Stock options (Cont'd)

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:

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

During the year ended June 30, 2022, the Company expensed \$697,881 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, 2020	-	-
Granted during the year	9,400,000	\$0.13
Outstanding June 30, 2021	9,400,000	\$0.13
Granted during the year	-	-
Expired during the period	-	-
Outstanding, June 30, 2022	9,400,000	\$0.13

As at June 30, 2022, the Company had the following share purchase options outstanding and exercisable:

Outstanding	Exercisable	Exercise Price	Remaining Life (Years)	Expiry Date
9,400,000	9,400,000	\$0.13	1.93	June 4, 2024

10. (b) Restricted Share Units ("RSU")

The Company adopted the equity incentive plan called the Omnibus equity incentive plan. The number of common shares of the Company issuable pursuant to restricted share units and deferred share units under the Omnibus Equity Incentive Plan be set at 10% of the aggregate number of common shares of the Corporation issued and outstanding from time to time, subject to any limitations imposed by applicable regulations, laws, rules and policies. Upon vesting of the RSU or deferred share units granted under plan in accordance with the terms thereof, the underlying common shares shall be issued as fully paid and non-assessable common shares in the capital of the Company. 956,000 Common Shares in the capital of the Corporation are reserved and set aside for issuance in satisfaction of vested RSUs, subject to the terms of the Plan.

RSUs are measured at fair value on the date of grant and are recognized as share-based compensation expense on a straight-line basis over the vesting period. The corresponding amount is recorded to the share-based compensation reserve. Upon the exercise of RSUs, the related share-based compensation reserve is transferred to share capital. During the year ended June 30, 2022, the Company granted 956,000 RSU's (2021: Nil). The Company expensed \$48,046 (2021: Nil) being share based payments-restricted share units expense on the vesting of the options.

DeepSpatial Inc. (formerly, Aylen Capital Inc.)
Notes to Consolidated Financial Statements
June 30, 2022 and 2021
(in Canadian dollars)

10. (b) Restricted Share Units (“RSU”) (Cont’d)

	June 30, 2022	June 30, 2021
RSUs outstanding, beginning of year	-	-
Granted	956,000	-
Settled	(376,000)	-
RSUs outstanding, end of year	580,000	-

11. Income Taxes

The following is a reconciliation of income taxes attributable to operations computed at the statutory tax rates to income tax recovery.

	June 31, 2022	June 30, 2021
Loss for the period	\$ (1,968,401)	(2,725,684)
Tax rate	26.5%	26.5%
Expected income tax recoverable at statutory rate	(521,626)	(722,306)
Changes in statutory, foreign tax, foreign exchange rates and other	20,983	5,266
Non-deductible items	208,034	426,645
Share issuance costs	(26,328)	(26,328)
Change in unrecognized deductible temporary differences	318,937	316,723
Total income tax recovery	\$ -	-

Deferred tax assets

The tax effects of temporary differences that give rise to deferred income tax assets are as follows:

	June 30, 2022	June 30, 2021
Non-capital losses available for future period	\$ 539,465	\$ 298,451
Share issuance costs	22,358	25,639
Intangible assets	228,080	146,876
Total deferred tax assets	789,903	470,966
Less: Unrecognized deferred tax assets	(789,903)	(470,966)
Net deferred tax assets	\$ -	\$ -

The significant components of the Company’s unrecognized deferred tax assets are as follows:

	June 30, 2022	Expiry Date	June 30, 2021	Expiry Date
Non-capital losses	\$ 2,035,719	2040 - 2041	\$ 1,126,232	2040 - 2041
Share issuance costs	\$ 84,370	2024 – 2025	\$ 96,750	2024 – 2025
Intangible assets	\$ 860,678	No expiry date	\$ 554,250	No expiry date

Tax attributes are subject to review and potential adjustment by tax authorities.

12. 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, 2023. 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 June 30, 2022, the Company has not made a payment on the CEBA loans.

13. Segment Information

The Company has a single reportable segment. The Company leverages Artificial Intelligence to create robust location intelligence solutions for transforming existing location data into business outcomes.

As of June 30, 2022, all assets of the business are located in Canada except for cash of \$8,601 (June 30, 2021: \$nil), and prepaid expense of \$10,230 (June 30, 2021: \$nil) which are located in India.

14. Subsequent events

The Company closed the first tranche of its issuance of unsecured convertible debentures for a total consideration of \$572,500. These Convertible Debentures mature on the date which is two (2) years from the Closing Date (the "Maturity Date"). The Company shall have a right to prepay or redeem a part or the entire principal amount of the Convertible Debentures at par plus accrued and unpaid interest at any time by providing a minimum of 30 days and a maximum 60 days' notice prior to the date fixed for redemption (the "Redemption Date"). The Convertible Debentures bear interest at a rate of 10% per annum from the date of issue and payable on the earlier of the following: (i) conversion of the Convertible Debentures, (ii) the Redemption Date, and (iii) the Maturity Date.

Each Convertible Debenture will be convertible into Units at the option of the holder at any time prior to the close of the third business day prior to the earlier of: (i) the Maturity Date, and (ii) the Redemption Date, at a conversion price of per Unit equal to \$0.15. Unsecured debentures convertible are convertible into units ("Units") each consisting of one common share (the "Common Shares") of the Company and one-half warrant (the "Warrants") to purchase Common Shares of the Company (the "Convertible Debentures"). Each warrant is exercisable into one Common Share at a price of \$0.30 per warrant for a period of two years from the date of the Closing.

In the event that the Common Shares close at a trading price of at least \$0.30 for 10 consecutive trading days, the Company may cause the Convertible Debentures to be converted into Units at the Conversion Price upon the Company delivering a notice (a "Forced Conversion Notice") to the Debenture holders not less than a minimum of 30 days and a maximum of 60 days prior to the conversion date specified in such Forced Conversion Notice.