

DEEPSPATIAL INC.

Condensed interim consolidated financial statements

For the three and six months ended December 31, 2023 and 2022

(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 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.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED DECEMBER 31, 2023 and 2022
(Unaudited - Amounts expressed in Canadian Dollars)

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DeepSpatial Inc.Interim Consolidated Statements of Financial Position
(Unaudited- expressed in Canadian dollars)

ASSETS	December 31,		June 30,
	2023		2023
CURRENT			
Cash	\$	90,283	\$ 12,254
Accounts receivable		-	5,234
Prepaid expenses		17,133	6,846
Loan to related party (Note 7)		44,039	-
Sales tax receivable		237,913	186,552
		<u>389,368</u>	<u>210,886</u>
Intangible assets (Note 5)		<u>824,680</u>	<u>977,894</u>
TOTAL ASSETS	\$	<u>1,214,048</u>	\$ <u>1,188,780</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities	\$	299,586	\$ 437,276
Contract liabilities		4,234	4,071
Loan from related party (Note 7)		-	37,500
Government assistance loan (Note 11)		30,000	30,000
		<u>333,820</u>	<u>508,847</u>
Convertible debentures (Note 12)		<u>180,611</u>	<u>610,938</u>
TOTAL LIABILITIES		<u>514,431</u>	<u>1,119,785</u>
SHAREHOLDERS' EQUITY			
Share capital (Note 6)		7,097,465	5,957,168
Share based compensation reserve		834,459	835,343
Warrant reserve		482,954	-
Accumulated other comprehensive loss		(27)	(100)
Accumulated deficit		(7,715,234)	(6,723,416)
TOTAL SHAREHOLDERS' EQUITY		<u>699,617</u>	<u>68,995</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$	<u>1,214,048</u>	\$ <u>1,188,780</u>

Organization and nature of operations (Note 1)
Basis of presentation and going concern (Note 2)
Subsequent events (Note 14)

Approved on behalf of the Board of Directors:

/s/ "Rahul Kushwah"
Signed: Rahul Kushwah, CEO and Director

/s/ "Sheldon Kales"
Signed: Sheldon Kales, Director

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

DeepSpatial Inc.Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited- expressed in Canadian dollars)

	For the three months ended December 31, 2023	For the three months ended December 31, 2022	For the six months ended December 31, 2023	For the six months ended December 31, 2022
Revenue:	\$ -	\$ -	\$ -	7,756
Expenses:				
Amortization of intangible assets (Note 5)	\$ 76,607	\$ 76,607	\$ 153,214	153,214
Consulting fees	166,253	67,770	273,041	132,477
Interest accretion (Note 13)	40,493	6,487	51,673	6,487
Interest expense (Note 13)	12,856	10,352	29,876	10,352
Investor relations	2,637	2,637	5,275	5,275
Legal fees	31,672	4,000	43,432	7,500
Management fees (Note 7)	82,740	94,790	153,140	152,190
Marketing expenses (Note 7)	33,000	33,000	93,250	63,500
Office and miscellaneous	15,855	11,129	22,007	33,542
Patent expenses	-	-	4,076	24,002
Research and development	35,162	37,867	67,294	68,147
Share based payments-restricted stock units (Note 10(b))	1,163	4,688	2,729	24,137
Stock based compensation (Note 10(a))	-	-	6,238	-
Transfer agent and regulatory fees	11,373	10,562	20,201	23,710
Travel, entertainment, and related	30,342	23,679	60,372	27,852
Vehicles use expenses (Note 7)	3,000	3,000	6,000	6,000
	\$ (543,153)	\$ (386,568)	\$ (991,818)	\$ (738,385)
Net loss for the period	\$ (543,153)	\$ (386,568)	\$ (991,818)	\$ (730,629)
Loss per share-Basic and Diluted	\$ (0.005)	\$ (0.004)	\$ (0.009)	\$ (0.008)
Weighted average number of shares outstanding-Basic and Diluted	116,889,738	94,030,509	107,151,969	94,030,509
Net loss for the period	\$ (543,154)	\$ (386,571)	\$ (991,818)	\$ (730,632)
Currency translation adjustment	\$ 36	\$ (114)	\$ 73	\$ 57
Comprehensive loss for the period	\$ (543,118)	\$ (386,685)	\$ (991,745)	\$ (730,575)

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

DeepSpatial Inc.
Interim Statement of Changes in Shareholders' Equity
(Unaudited- expressed in Canadian dollars)

	Number of common shares outstanding	Share capital	Share based compensation reserve	Warrant reserve	Accumulated Deficit	Accumulated other comprehensive loss	Total
Balance as at June 30, 2022	94,030,509	\$ 5,817,314	\$ 834,992	\$ -	\$ (5,216,962)	\$ (39)	\$ 1,435,305
Share based payments-restricted share units	-	-	24,137	-	-	-	24,137
Equity portion of convertible debentures	-	76,617	-	-	-	-	76,617
Currency translation adjustment	-	-	-	-	-	57	57
Net loss for the period	-	-	-	-	(730,629)	-	(730,639)
Balance as of December 31, 2022	94,030,509	\$ 5,893,931	\$ 859,129	\$ -	\$ (5,947,591)	\$ 18	\$ 805,487
Balance as at June 30, 2023	94,740,341	\$ 5,957,168	\$ 835,343	\$ -	\$ (6,723,416)	\$ (100)	\$ 68,995
Shares issued for services	1,450,000	103,000	-	-	-	-	103,000
Warrants issued for services	-	-	-	6,238	-	-	6,238
Share based payments-restricted share units	-	-	2,729	-	-	-	2,729
Common shares issued upon settlement of RSU	42,500	3,613	(3,613)	-	-	-	-
Private placement of units	22,516,000	585,097	-	452,903	-	-	1,038,000
Share issue expenses	-	(5,500)	-	(4,100)	-	-	(9,600)
Conversion of convertible debentures	3,213,330	454,087	-	27,913	-	-	482,000
Currency translation adjustment	-	-	-	-	-	73	73
Net loss for the period	-	-	-	-	(991,818)	-	(991,818)
Balance as at December 31, 2023	121,962,171	\$ 7,097,465	\$ 834,459	\$ 482,954	\$ (7,715,234)	\$ (27)	\$ 699,617

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

DeepSpatial Inc.Interim Statements of Cash Flows
(Unaudited- expressed in Canadian dollars)

	For the six months ended December 31, 2023		For the six months ended December 31, 2022	
OPERATING ACTIVITIES				
Net loss	\$	(991,818)	\$	(730,629)
Non-cash items included in net loss and other adjustments:				
Amortization of intangible assets		153,214		153,214
Interest accretion (Note 13)		51,673		6,487
Share based payments-restricted share units		2,729		24,137
Shares issued for services		103,000		-
Stock based compensation		6,238		-
Changes in non-cash working capital:				
Sales tax receivable		(51,361)		(37,559)
Accounts receivable		5,234		
Contract liabilities		163		(5,147)
Prepaid expenses		(10,247)		(6,745)
Accounts payable and accrued liabilities		(137,690)		1,097
CASH USED IN OPERATING ACTIVITIES		(868,865)		(595,145)
FINANCING ACTIVITIES				
Cash received for Convertible debentures		-		572,500
Subscriptions for convertible debentures		-		75,000
Private placement of units, net of expenses		1,028,400		-
Due to related party		(37,500)		
Due from related party		(44,039)		-
CASH PROVIDED BY FINANCING ACTIVITIES		946,861		647,500
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES				
		33		57
NET CHANGE IN CASH DURING THE PERIOD		78,029		52,412
CASH, BEGINNING OF PERIOD		12,254		170,570
CASH, END OF PERIOD	\$	90,283	\$	222,982
Cash paid for interest and income taxes				
	\$	-	\$	-

Non-cash financing transactions:

Six months ended December 31, 2023

- a) The Company issued 1,450,000 common shares valued at \$103,000 to consultants for services.
- b) The Company converted convertible debentures for \$482,000 to 3,213,330 common shares.

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

DeepSpatial Inc.

Notes to Interim Condensed Consolidated Financial Statements

December 31, 2023

(Unaudited- expressed in Canadian dollars)

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 February 29, 2024.

DeepSpatial Inc.

Notes to Interim Condensed Consolidated Financial Statements

December 31, 2023

(Unaudited- expressed in Canadian dollars)

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.

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 interim consolidated financial statements from the date that control commences until the date that control ceases. These interim 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

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, 2023, 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, 2023 annual financial statements.

DeepSpatial Inc.

Notes to Interim Condensed Consolidated Financial Statements

December 31, 2023

(Unaudited- expressed in Canadian dollars)

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 December 31, 2023, the Company had cash of \$90,283, a working capital of \$55,548 and an accumulated deficit of \$7,715,234. 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.

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 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.

DeepSpatial Inc.

Notes to Interim Condensed Consolidated Financial Statements

December 31, 2023

(Unaudited- expressed in Canadian dollars)

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, 2023, have been applied consistently to all periods presented in these interim consolidated financial statements.

DeepSpatial Inc.

Notes to Interim Condensed Consolidated Financial Statements

December 31, 2023

(Unaudited- expressed in Canadian dollars)

3. Significant Accounting Policies (Cont'd)**Revenue Recognition**

Revenue represents the amount of consideration the Company expects to receive for the delivery of products and services in its contracts with customers, net of discounts and sales taxes.

The Company recognizes revenue from technology services, software licensing, support and maintenance, and software-as-a-service (SaaS).

Revenue is recognized upon transfer of control of products or services to customers at an amount that reflects the transaction price the Company expects to receive in exchange for the products or services.

Technology services revenue consists of fees charged for recurring services provided. Technology service revenue is recognized when the service is delivered to the customer and revenue is recognized on a monthly basis.

Software license revenue is comprised of non-recurring license fees charged for the use of our software products generally licensed under perpetual arrangements. Revenue from the license of distinct software is recognized at the time that both the right to-use software has commenced, and the software has been made available to the customer.

Support and maintenance and other recurring revenue primarily consist of fees charged for customer support on our software products post-delivery.

Revenue from SaaS arrangements, which allows customers to use hosted software over a term without taking possession of the software, are provided on a subscription basis. Revenue from the SaaS arrangement, which includes the hosted software and maintenance, is recognized ratably over the term of the

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.

DeepSpatial Inc.

Notes to Interim Condensed Consolidated Financial Statements

December 31, 2023

(Unaudited- expressed in Canadian dollars)

4. Reverse merger transaction (Cont'd)

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.

DeepSpatial Inc.

Notes to Interim Condensed Consolidated Financial Statements

December 31, 2023

(Unaudited- expressed in Canadian dollars)

5. Intangible assets (Cont'd)

	Intellectual Property	
Cost:		
Balance as at June 30, 2022	\$	2,145,000
Additions		-
Balance as at June 30, 2023	\$	2,145,000
Additions		-
Balance as at December 31, 2023	\$	2,145,000
Accumulated amortization:		
Balance as at June 30, 2022	\$	860,678
Amortization		306,428
Balance as at June 30, 2023	\$	1,167,106
Amortization		153,214
Balance as at December 31, 2023	\$	1,320,320
Net book value:		
At December 31, 2023	\$	824,680
At June 30, 2023	\$	977,894

DeepSpatial Inc.

Notes to Interim Condensed Consolidated Financial Statements

December 31, 2023

(Unaudited- expressed in Canadian dollars)

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 regard to the Company's residual assets.

At December 31, 2023 the Company has 121,962,171 (June 30, 2023: 94,740,341) common shares issued and outstanding.

b) Share issuance

During the six-month period ended December 31, 2023

- 42,500 common shares were issued upon the settlement of Restricted Share Units ("RSU") at no additional consideration and with a fair value of \$3,613.
- On August 1, 2023, the Company issued 100,000 common shares with fair valued at \$5,000 to a consultant for services.
- On September 13, 2023, the Company closed the first tranche of a private placement of 11,700,000 units at \$0.05 per unit for a consideration of \$585,000. Each unit is comprised of one common share and one common share purchase warrant, with each warrant exercisable into a common share of the Company at an exercise price of \$0.10 per share for a period of 24 months. The Black-Scholes option pricing model was used to determine the fair value of the warrants using the following weight average assumptions: Expected dividend yield of 0%; risk free interest rate of 5.0%; expected volatility of 133.46%; expected life of 2 years. The relative fair value of the 11,700,000 warrants has been valued at \$276,110 and common shares at \$308,890. In connection with this private placement, the Company issued an additional 1,170,000 units as finder fee.
- On September 15, 2023, the Company issued 350,000 common shares with fair valued at \$28,000 to a consultant for services.
- On October 6, 2023, the Company closed the next tranche of a private placement of 6,000,000 units at \$0.05 per unit for a consideration of \$300,000. Each unit is comprised of one common share and one common share purchase warrant, with each warrant exercisable into a common share of the Company at an exercise price of \$0.10 per share for a period of 24 months. The Black-Scholes option pricing model was used to determine the fair value of the warrants using the following weight average assumptions: Expected dividend yield of 0%; risk free interest rate of 5.0%; expected volatility of 115.75%; expected life of 2 years. The relative fair value of the 6,000,000 warrants was valued at \$128,119 and common shares at \$171,881. In connection with this private placement, the Company paid a finder fee for \$9,600.
- On October 10, 2023, the Company issued 1,000,000 common shares with fair valued at \$70,000 to a consultant for services.
- On November 17, 2023, the Company converted \$100,000 convertible debentures to 666,666 units at \$0.15 per unit. Each unit comprises of one common share and one-half share purchase warrant. Each whole warrant is exercisable into a common share of the Company at an exercise price of \$0.30 per share for a period of 24 months.

DeepSpatial Inc.

Notes to Interim Condensed Consolidated Financial Statements

December 31, 2023

(Unaudited- expressed in Canadian dollars)

6. Capital Stock (Cont'd)**b) Share issuance (Cont'd)**

- On December 4, 2023, the Company converted \$382,000 convertible debentures to 2,546,664 units at \$0.15 per unit. Each unit comprises of one common share and one-half share purchase warrant. Each whole warrant is exercisable into a common share of the Company at an exercise price of \$0.30 per share for a period of 24 months.
- On December 4, 2023, the Company closed the final tranche of a private placement of 3,060,000 units at \$0.05 per unit for a consideration of \$153,000. Each unit is comprised of one common share and one common share purchase warrant, with each warrant exercisable into a common share of the Company at an exercise price of \$0.10 per share for a period of 24 months. The Black-Scholes option pricing model was used to determine the fair value of the warrants using the following weight average assumptions: Expected dividend yield of 0%; risk free interest rate of 5.0%; expected volatility of 117.10%; expected life of 2 years. The relative fair value of the 3,060,000 warrants was valued at \$48,674 and common shares at \$104,326. In connection with this private placement, the Company issued an additional 586,000 units as finder fee.

During the year ended June 30, 2023

- 334,832 common shares were issued upon the settlement of Restricted Share Units ("RSU") at no additional consideration and with a fair value of \$28,461.
- On April 10, 2023, the Company issued 375,000 common shares with fair valued at \$20,625 to consultants for services.

c) Warrants

On September 15, 2023, the Company issued 150,000 warrants to a consultant for services. These warrants were issued at an exercise price of \$0.12 per share term of two (2) year expiring on September 15, 2025. 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	5%
Expected dividends	0%
Expected forfeiture rate	0%
Expected volatility	105.39%
Expected life	2 years
Fair value per options	\$0.04
Stock based compensation expense	\$ 6,238

DeepSpatial Inc.

Notes to Interim Condensed Consolidated Financial Statements

December 31, 2023

(Unaudited- expressed in Canadian dollars)

6. Capital Stock (Cont'd)**c) Warrants (Cont'd)**

Continuity of the Company's warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, June 30, 2022	-	-
Issued	-	-
Outstanding, June 30, 2023	-	-
Issued	150,000	\$0.12
Issued	11,700,000	\$0.10
Issued agent warrants	1,170,000	\$0.10
Issued	6,000,000	\$0.10
Conversion of convertible debentures	333,333	\$0.30
Conversion of convertible debentures	1,273,332	\$0.30
Issued	3,060,000	\$0.10
Issued agent warrants	586,000	\$0.10
Outstanding, December 31, 2023	24,272,665	\$0.11

As at December 31, 2023, the Company had the following warrants outstanding:

Outstanding	Exercise Price	Remaining Life (Years)	Expiry Date
150,000	\$0.12	1.71	September 15, 2025
12,870,000	\$0.10	1.71	September 13, 2025
6,000,000	\$0.10	1.77	October 6, 2025
333,333	\$0.30	1.88	November 17, 2025
1,273,332	\$0.30	1.93	December 4, 2025
3,646,000	\$0.10	1.93	December 4, 2025
24,272,665	\$0.11	1.77	

DeepSpatial Inc.

Notes to Interim Condensed Consolidated Financial Statements

December 31, 2023

(Unaudited- expressed in Canadian dollars)

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 Executive Chairman, 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:

	Six months ended		Six months ended	
	December 31, 2023		December 31, 2022	
Management fees expensed to directors and officers	\$	153,140	\$	152,190
Vehicle expense		6,000		6,000
	\$	<u>159,140</u>	\$	<u>158,190</u>

	Three months ended		Three months ended	
	December 31, 2023		December 31, 2022	
Management fees expensed to directors and officers	\$	82,740	\$	94,790
Vehicle expense		3,000		3,000
	\$	<u>85,740</u>	\$	<u>97,790</u>

At December 31, 2023, there was \$28,157 (June 30, 2023: \$146,270) due to related parties.

During the six months ended December 31, 2023, the Company expensed \$36,000 (December 31, 2022: \$33,500) being marketing expenses and \$30,000 (December 31, 2022: \$25,000) being consulting expenses to companies controlled by close family members of the Executive Chairman.

As of December 31, 2023, an amount of \$nil (June 30, 2023: \$37,500) was due to a Company related by common directors. This amount is free of interest and payable on demand.

As of December 31, 2023, an amount of \$44,039 (June 30, 2023: \$nil) was due from a Company related by common directors. This amount is free of interest and payable on demand.

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Notes to Interim Condensed Consolidated Financial Statements

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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 days to 360 days look out periods. Funding for long-term liquidity needs is based on the ability of the Company to successfully complete private placements.

As at December 31, 2023, the Company had cash of \$90,283 to settle current liabilities of \$333,820.

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.

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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 December 31, 2023 totaled \$699,617. 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.

Six-month period ended December 31, 2023

No stock options were issued during the six months period ended December 31, 2023

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(Unaudited- expressed in Canadian dollars)

10. (a) Stock options (Cont'd)Year ended June 30, 2023

No stock options were issued during the year ended June 30, 2023

In the prior period, 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:

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, 2021	9,400,000	\$0.13
Granted during the year	-	-
Outstanding June 30, 2022	9,400,000	\$0.13
Granted during the year	-	-
Expired during the period	-	-
Outstanding, June 30, 2023 and December 31, 2023	9,400,000	\$0.13

As at December 31, 2023, 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	0.43	June 4, 2024

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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 six-month period ended December 31, 2023, the Company did not grant any RSU's. The Company expensed \$2,729 (December 31, 2022: 24,137) being share based payments-restricted share unit expense on the vesting of the units.

	December 31, 2023	December 31, 2022
RSUs outstanding, beginning of period	245,168	580,000
Granted	-	-
Settled	(42,500)	-
RSUs outstanding, end of period	202,668	580,000

11. Government assistance loan

In connection to the outbreak of COVID-19, Aylene 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 January 18, 2024. The loan can be extended to December 31, 2026 and 25% will be forgiven if the principal is repaid before the maturity date. Aylene 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 December 31, 2023, the Company has not made a payment on the CEBA loans.

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(Unaudited- expressed in Canadian dollars)

12. Convertible debentures

The Company closed the first tranche of its issuance of unsecured convertible debentures on October 27, 2022, for a total consideration of \$572,500. The Company closed the final tranche of its issuance of unsecured convertible debentures on March 24, 2023, for a total consideration of \$102,750. 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.

Of the total consideration amount of \$675,250, \$90,768 was allocated to the equity component of the Debentures and the remaining amount allocated to the liability component, to be accreted over the term of the Debentures.

On November 17, 2023, the Company converted \$100,000 convertible debentures to 666,666 units at \$0.15 per unit. Each unit comprises of one common share and one-half share purchase warrant. Each whole warrant is exercisable into a common share of the Company at an exercise price of \$0.30 per share for a period of 24 months.

On December 4, 2023, the Company converted \$382,000 convertible debentures to 2,546,664 units at \$0.15 per unit. Each unit comprises of one common share and one-half share purchase warrant. Each whole warrant is exercisable into a common share of the Company at an exercise price of \$0.30 per share for a period of 24 months.

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(Unaudited- expressed in Canadian dollars)

12. Convertible debentures (Cont'd)

As at December 31, 2023, the Company's Debentures were comprised of the following:

		Equity component of convertible debenture		Liability component of convertible debenture		Total
Balance, October 27, 2022	\$	76,617	\$	495,883	\$	572,500
Balance, March 24, 2023	\$	14,151		88,599		102,750
Accretion	\$	-		26,457		26,457
Balance, June 30, 2023	\$	90,768	\$	610,938	\$	701,706
Accretion	\$	-		51,673		51,673
Conversion	\$	-		(482,000)		(482,000)
Balance, December 31, 2023	\$	90,768	\$	180,611		271,379

The Company expensed interest on convertible debentures for \$29,876 for the six-month period ended December 31, 2023 (December 31, 2022: \$10,352)

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 December 31, 2023, all assets of the business are located in Canada except for cash of \$10,985 (June 30, 2023: \$9,244), accounts receivable for \$nil (June 30, 2023: \$5,234) and prepaid expense of \$1,702 (June 30, 2023: \$1,895) which are located in India.

14. Subsequent events

On February 9, 2024, the Company issued 270,000 common shares to a consultant for services.