

METASPHERE LABS INC.

(FORMERLY LOOKING GLASS LABS LTD.)

Unaudited Condensed Interim Consolidated Financial Statements

Six months ended January 31, 2024 and 2023

Expressed in Canadian Dollars

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Unaudited Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

	Note	January 31, 2024 \$	(Audited) July 31, 2023 \$
ASSETS			
Current assets			
Cash and cash equivalents		721,912	46,979
Accounts receivable		120,855	110,658
Digital assets	5	27,976	21,951
Prepaid expenses		67,534	73,790
		938,277	253,378
Non-current assets			
Right-of-use assets	8	-	226,754
Property and equipment	6	23,013	35,553
Deferred contract costs	16	128,496	321,240
		1,089,786	836,925
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	9,12	1,239,760	1,137,010
Due to related parties	12	14,233	14,233
Loans payable	10	303,979	1,374,415
Deferred revenue – current portion	16	868,632	-
Lease liabilities – current portion	8	-	176,065
		2,426,604	2,701,723
Non-current liabilities			
Lease liabilities	8	-	67,854
Deferred revenue	16	-	2,170,910
		2,426,604	4,940,487
SHAREHOLDERS' DEFICIENCY			
Share capital	11	19,445,173	17,444,673
Reserve	11	3,686,440	3,720,574
Warrant reserve	11	9,762	9,762
Accumulated other comprehensive loss		(66,789)	(66,789)
Deficit		(24,411,404)	(25,211,782)
		(1,336,818)	(4,103,562)
Total liabilities and shareholders' deficiency		1,089,786	836,925

Nature and Continuation of Operations (Note 1)

Subsequent Events (Note 18)

Approved by the board of directors and authorized for issue on March 15, 2024:

"James Henning"

James Henning, Director

"Kevin Cornish"

Kevin Cornish, Director

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

 Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
 (Expressed in Canadian Dollars)

		Three months ended		Six months ended	
		January 31, 2024	January 31, 2023	January 31, 2024	January 31, 2023
		\$	\$	\$	\$
Revenues					
NFT sales	16	650,695	-	1,302,281	-
Royalty income	16	-	1,790	-	5,168
Design services income		-	71,148	-	204,836
Total revenues		650,695	72,938	1,302,281	210,004
Cost of revenues		(96,368)	(20,873)	(192,744)	(22,392)
Gross profit		554,327	52,065	1,109,537	187,612
Expenses					
Amortization	6,7,8	6,270	84,398	26,712	168,796
Consulting fees	12	64,101	28,890	75,851	66,474
Corporate development fees	12	7,876	145,253	14,876	271,406
Development costs		-	56,120	-	136,035
Interest expense		13,711	29,706	47,365	38,413
Marketing		68	373,086	9,639	444,502
Office expenses		14,572	81,325	46,801	140,575
Professional fees	12	123,815	53,373	153,203	383,511
Stock-based compensation (recovery)	11,12	(122,534)	1,184,716	(34,134)	2,289,961
Transfer agent and filing fees		52,890	70,356	57,220	126,060
Wages and salaries		-	421,322	4,093	865,746
Operating expenses		(160,769)	(2,528,545)	(401,626)	(4,931,479)
Other items					
Change in revaluation of digital assets	5	6,021	1,031	6,021	(1,253)
Gain (loss) on use of digital assets	5	-	87	-	(331)
Gain on settlement of debt		104,531	-	104,531	-
Loss on termination of lease		-	-	(18,085)	-
Impairment of goodwill		-	(3,488,996)	-	(3,488,996)
Income (loss) from continuing operations		504,110	(5,964,358)	800,378	(8,234,447)
Loss from discontinued operations		-	(88,943)	-	(167,878)
Net income (loss) for the period		504,110	(6,053,301)	800,378	(8,402,325)
Foreign currency translation adjustment		-	(40,568)	-	(41,401)
Net comprehensive income (loss) for the period		504,110	(6,093,869)	800,378	(8,443,726)
Net income (loss) per share:					
Basic income (loss) per share – continuing operations		0.03	(3.31)	0.08	(4.77)
Basic income (loss) per share – discontinued operations		-	(0.05)	-	(0.10)
Basic total income (loss) per share		0.03	(3.36)	0.08	(4.87)
Diluted income (loss) per share – continuing operations		0.02	(3.31)	0.04	(4.77)
Diluted income (loss) per share – discontinued operations		-	(0.05)	-	(0.10)
Diluted total income (loss) per share diluted		0.02	(3.36)	0.04	(4.87)

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Expressed in Canadian Dollars)

**Weighted average number of common
shares outstanding:**

Basic	16,989,514	1,802,927	9,487,639	1,724,492
Diluted	29,872,078	1,802,927	22,370,203	1,724,492

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Unaudited Condensed Interim Consolidated Statement of Shareholders' Equity (Deficit)

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

	Note	Share capital Number of shares*	Amount \$	Reserve \$	Warrant reserve \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
Balance, July 31, 2022	*	1,545,450	13,339,178	2,830,107	9,762	(25,387)	(12,665,870)	3,487,790
Shares issued to acquire Web 3.0	3	184,363	1,935,815	-	-	-	-	1,935,815
Shares issued upon exercise of options	11	19,556	255,806	(109,139)	-	-	-	146,667
Shares issued upon exercise of warrants	11	26,667	200,000	-	-	-	-	200,000
RSU conversion	11	111,800	1,566,874	(1,566,874)	-	-	-	-
Share-based compensation	11	-	-	2,289,961	-	-	-	2,289,961
Net loss for the period		-	-	-	-	(41,401)	(8,402,325)	(8,443,726)
Balance, January 31, 2023		1,887,836	17,297,673	3,444,055	9,762	(66,788)	(21,068,195)	(383,493)
Balance, July 31, 2023		1,985,836	17,444,673	3,720,574	9,762	(66,789)	(25,211,782)	(4,103,562)
Share consolidation rounding	*	(72)	-	-	-	-	-	-
Shares issued for private placement	11	20,005,000	2,000,500	-	-	-	-	2,000,500
Share-based recovery	11	-	-	(34,134)	-	-	-	(34,134)
Net income for the period		-	-	-	-	-	800,378	800,378
Balance, January 31, 2024		21,990,764	19,445,173	3,686,440	9,762	(66,789)	(24,411,404)	(1,336,818)

* On October 6, 2023, the Company completed a one-for-seventy-five common share consolidation. All share disclosures in these condensed interim consolidated financial statements are presented on a post-consolidation basis.

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Unaudited Condensed Interim Consolidated Statements of Cash Flow

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

	2024	2023
	\$	\$
Operating activities		
Net income (loss) for the period	800,378	(8,402,325)
Adjustments for non-cash items:		
Interest expense	47,363	16,491
Digital assets converted to fiat currency	-	110,633
Digital assets received for sales	-	(5,168)
Digital assets paid for services	-	22,392
Depreciation	26,712	251,263
Loss on use of digital assets	-	331
Change in revaluation of digital assets	(6,021)	1,253
Gain on termination of lease	18,085	-
Gain on settlement of debt	(104,531)	-
Share-based compensation (recovery)	(34,134)	2,289,961
Impairment of goodwill	-	3,488,996
Changes in non-cash working capital items:		
Amounts receivable	(10,197)	50,632
Prepaid expenses	6,256	23,605
Accounts payable and accrued liabilities	90,056	387,048
Deferred contract costs	192,744	-
Deferred revenue	(1,302,278)	3,216
Net cash flows used in operating activities	(275,567)	(1,761,672)
Investing activities		
Additions of internally developed software	-	(484,962)
Cash received pursuant to acquisition of Web 3.0	-	804,460
Net cash flows provided by investing activities	-	319,498
Financing activities		
Loans received (repaid), net	(50,000)	1,207,922
Lease payments	-	(96,766)
Proceeds from exercise of warrants and options	-	346,667
Cash proceeds from private placement, net	1,000,500	-
Net cash flows provided by financing activities	950,500	1,457,823
Increase in cash	674,933	15,649
Effects of foreign exchange on cash	-	(41,401)
Cash, beginning of the period	46,979	308,035
Cash, end of the period	721,912	282,283

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

1. Nature and Continuance of Operations

Metasphere Labs Inc. (formerly Looking Glass Labs Ltd.) (the “Company”) was incorporated on June 19, 2015, under the laws of the province of British Columbia, Canada. On February 29, 2024 the Company changed its name from Looking Glass Labs Ltd. to Metasphere Labs Inc. On October 8, 2021, the Company changed its name from BluKnight Aquafarms Inc. to Looking Glass Labs Ltd. The Company changed its name from 1040426 BC Ltd to BluKnight Aquafarms Inc. on July 12, 2017. The Company specializes in consumer engagement applications to leverage immersive metaverse environments, gamification and Web 3.0/blockchain monetization strategies.

The head office, principal address, records office and registered address of the Company are located at 1890 – 1075 West Georgia Street, Vancouver, BC.

Currently, based on its planned expenditures and expected cash flows, the Company will need to secure new sources of working capital to continue operations beyond a twelve-month period. Management’s plan is to actively secure sources of funds, including possible equity and debt financing options, while at the same time focus on exercising careful cost control to sustain operations. If necessary, the Company will curtail spending.

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. During the period ended January 31, 2024, the Company incurred a net comprehensive income of \$800,378 (January 31, 2023 – net comprehensive loss of \$8,443,726), and had an accumulated deficit of \$24,411,404 (July 31, 2023 – \$25,211,782) and a working capital deficiency of \$1,488,327 as at January 31, 2024 (July 31, 2023 – \$2,448,345).

The Company’s ability to continue as a going concern and meet its corporate objectives may require additional financing through debt or equity issuances or other available means. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be available on terms advantageous to the Company. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern. These unaudited condensed interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue its existence.

2. Statement of Compliance and Significant Accounting Policies

These unaudited condensed interim consolidated financial statements were approved and authorized for issue on March 15, 2024 by the directors of the Company.

Statement of Compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and in accordance with IAS 34 – Interim Financial Reporting. These unaudited condensed interim consolidated financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company’s audited financial statements for the year ended July 31, 2023. These condensed interim consolidated financial statements have been prepared following the same accounting policies as the Company’s audited consolidated financial statements for the year ended July 31, 2023.

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

2. Statement of Compliance and Significant Accounting Policies (continued)

Basis of Presentation

These unaudited condensed interim consolidated financial statements have been prepared on an accrual basis and are based on historical cost, modified where applicable. The unaudited condensed interim consolidated financial statements are presented in Canadian dollars, unless otherwise noted, which is the Company's functional currency.

Basis of Consolidation

The unaudited condensed interim consolidated financial statements include the accounts of the Company and its controlled entities. Control occurs when the Company is exposed to, or has the right to, variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. Details of controlled entities are as follows:

Name	Jurisdiction of Incorporation	Interest		Functional Currency
		2023	2022	
Genzeroes Productions Inc.	Canada	0%	100%	Canadian Dollars
HOK Vietnam Company Limited	Vietnam	0%	100%	Vietnamese Dong
Web 3.0 Holdings Corp.	Canada	100%	100%	Canadian Dollars
HOK Technologies Inc.	Canada	100%	100%	Canadian Dollars
HOK BVI Technologies Inc.	British Virgin Islands	100%	100%	Canadian Dollars

All inter-company transactions and balances have been eliminated in the consolidated financial statement presentation.

Functional and Presentation Currency

These unaudited condensed interim consolidated financial statements are presented in Canadian dollars. Each entity determines its own functional currency, and items included in the unaudited condensed interim consolidated financial statements of each entity are measured using that functional currency.

Transactions and balances in foreign currencies

Foreign currency transactions are translated into the functional currency of the respective entity, using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at period-end exchange rates are recognized immediately in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction and are not retranslated. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

Foreign Operations

On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars from their functional currency at the exchange rate prevailing at the reporting date and their statements of loss and comprehensive loss are translated at the exchange rates approximating those in effect on the date transactions occurred. The exchange differences arising on the translation are recognized in other comprehensive income and accumulated in the foreign currency translation reserve in equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in earnings as part of the gain or loss on disposal.

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

2. Statement of Compliance and Significant Accounting Policies (continued)

Significant Accounting Judgments, Estimates and Assumptions

The preparation of these financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments and estimates in applying the Company's unaudited condensed interim consolidated financial statements include the following:

Going concern

The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty involves significant judgment based on historical experience and other factors, including the expectation of future events that are believed to be reasonable under the circumstances.

Deferred tax assets

The ability of the Company to recognize deferred tax assets involves judgment of the probability that the Company will be able to generate taxable income in the future.

Digital assets

Digital assets are considered to be an identifiable non-monetary asset without physical substance. Management has determined that the digital assets are accounted for as intangible assets in accordance with IAS 38 Intangible Assets.

Digital currency valuation

Digital assets consist of cryptocurrency denominated assets (Note 5). Digital assets are carried at their fair market value determined by the spot rate from www.finance.yahoo.com. The digital currency market is still a new market and is highly volatile; historical prices are not necessarily indicative of future value; a significant change in the market prices for digital assets would have a significant impact on the Company's earnings and financial position. In addition, management estimates that selling costs will be nominal. Digital currency prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and global political and economic conditions. A decline in the market prices for digital assets could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its digital assets.

Stock-based compensation

The fair value of stock-based compensation requires estimates of assumptions that are used in the Black-Scholes option pricing model. The Company also uses judgment to estimate probability of achieving vesting conditions of restricted stock units ("RSUs").

Business combinations

Judgment is required to determine if the Company's acquisition represented a business combination or an asset purchase. If estimates or judgments differed, this could result in a materially different allocation of net assets on the consolidated statement of financial position. In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. In certain circumstances where estimates have been made, the Company may obtain third-party valuations of certain assets, which could result in further refinement of the fair-value allocation of certain purchase prices and accounting adjustments.

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

2. Statement of Compliance and Significant Accounting Policies (continued)

Leases

Determining whether a lease contract contains an identified asset, whether the Company has the right to control the asset, and the lease term. The lease term is based on considering facts and circumstances, both qualitative and quantitative, that can create economic incentive to exercise renewal options.

Recoverability of long-lived assets

The Company assesses at each reporting date if the intangible asset has indicators of impairment. In determining whether the intangible asset is impaired, the Company assesses certain criteria including observable decreases in value, significant changes with adverse effect on the entity, a change in market interest rates, and evidence of technological obsolescence. The application of the Company's accounting policy for intangible asset expenditures requires judgment in determining whether it is likely that the future economic benefits will flow to the Company, which are based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized in excess of recoverable value is written off to profit or loss in the period the new information becomes available.

Estimated useful life of long-lived assets

Judgment is used to estimate each component of a long-lived asset's useful life and is based on an analysis of all pertinent factors including, but not limited to, the expected use of the asset and in the case of an intangible asset, contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost, and renewal history. If the estimated useful lives were incorrect, it could result in an increase or decrease in the annual amortization expense, and future impairment charges or recoveries.

Revenue recognition

Management has exercised significant judgment in determining appropriate accounting treatment for the recognition of income, including whether contracts meet the definition of a contract within the scope of IFRS 15 - Revenue from Contracts with Customers.

New Standards Adopted

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's unaudited condensed interim consolidated financial statements.

3. Asset Acquisition

On August 9, 2022, the Company entered into a share purchase agreement to acquire all of the issued and outstanding securities of Web 3.0 Holdings Corp. ("Web 3.0"), a technology company that is addressing Business to Consumer and Business to Business infrastructure challenges within Web3 environments.

As consideration, the Company issued 184,363 common shares of the Company (each a "Consideration Share") on September 7, 2022, payable to the existing shareholders of Web 3.0 with a fair value of \$1,935,815. The acquisition of Web 3.0 does not constitute a business combination because this entity does not meet the definition of a business under IFRS 3 – *Business Combinations*. As a result, the transaction has been measured at the fair value of equity consideration issued to acquire the entity. The fair value of the consideration paid was determined based on the fair value of the assets received in accordance with IFRS 2 – *Share Based Payments*.

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

3. Asset Acquisition (continued)

Purchase price:	\$
184,363 common shares	1,935,815
Total consideration paid	1,935,815
<hr/>	
Cash	804,460
Net assets assumed	804,460
Acquired retail technology platform	1,131,355
	1,935,815

On July 31, 2023, the Company recorded impairment of the retail technology platform of \$1,131,355 as described in Note 7.

4. Disposal of GenZeroes and Discontinued Operations

On March 30, 2023, the Company completed the sale of its subsidiary, GenZeroes Productions Inc. ("GenZeroes"), the GenX smart contract and all associated intellectual property (the "Related IP") (collectively, the "Assets"), to GZU Entertainment Inc. (the "Purchaser"). The Company's former Chief Product Officer Neil Stevenson-Moore was part of the Purchaser's group and resigned from the Company following the completion of the sale.

As consideration for the Assets, the Company received a promissory note (the "Note") for \$800,000 having an interest rate of prime rate plus 1% and a five-year term to maturity, with the option by the Purchaser to extend the term for an additional five years. The Note is secured against the shares of GenZeroes Productions Inc. and the Related IP. The initial fair value of the Note on inception was determined to be \$200,426. The fair value of the instrument was estimated using a discounted cash flow model using a discount rate of 39%. At July 31, 2023, the Company had recorded \$23,522 of interest and recorded an impairment equal to the carrying value of the Note of \$223,948 due to uncertain collectability.

The Company shall also retain a 50% royalty in perpetuity on all net proceeds from the content owned by GenZeroes Productions Inc., which relates to the already completed first season of the GenZeroes series. As a condition of closing the Transaction, the Purchaser has also granted to the Company a non-exclusive and royalty-free license (the "IP License") to use the GenX collection's intellectual property for its metaverse product branded as Pocket Dimension and video game branded as Overlords. The term of the IP License is for a period from the closing date until the Note is fully paid.

During the year ended July 31, 2023, the Company recorded a loss on the deconsolidation of GenZeroes of \$428,307, which included \$268 of cash held by GenZeroes.

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

4. Disposal of GenZeroes and Discontinued Operations (continued)

The assets, liabilities and gain on loss of control of GenZeroes after deconsolidation are presented below:

	\$
Assets	
Cash	268
Accounts receivable	594
Prepaid expenses	35,000
Intangible asset	632,839
Total Assets	668,701
Liabilities	
Accounts payable	39,968
Intercompany payables	1,167,847
Total Liabilities	1,207,815
Net liabilities	(539,114)
Intercompany payables forgiven	1,167,847
Accounting fair value of promissory note received	(200,426)
Loss on deconsolidation	428,307

The net loss from discontinued operations for the periods ended January 31, 2024, and 2023 are presented below:

	Three Months Ended		Six Months Ended	
	January 31, 2024	January 31, 2023	January 31, 2024	January 31, 2023
	\$	\$	\$	\$
Revenues	-	-	-	-
Expenses				
Amortization	-	42,901	-	82,467
Consulting fees	-	9,000	-	18,000
Marketing	-	-	-	16,151
Office expenses	-	37,042	-	51,260
Total expenses	-	88,943	-	167,878
Net loss from discontinued operations	-	(88,943)	-	(167,878)

The consolidated statement of cash flows for the periods ended January 31, 2024, and 2023 was not restated to present the cash flows from the discontinued operations separately, as the Company elected to provide this information in the present note. The cash flows from the discontinued operations of GenZeroes for the periods ended January 31, 2024, and 2023 are presented in the following table:

	Six months ended	
	January 31, 2024	January 31, 2023
	\$	\$
Cash flows used in operating activities	-	(13,412)
Cash flows used in investing activities	-	(14,583)
Cash flows provided by financing activities	-	-
Decrease in cash	-	(27,995)

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

5. Digital Assets

Digital assets are recorded at their fair value on the acquisition date or when they are received as revenues, and are revalued to their current market value at each reporting date. The fair value is determined using the spot rate based on the weighted average from www.finance.yahoo.com on the date the tokens are received or recorded as a receivable.

Digital assets consist of Ethereum and USD-T/C (cryptocurrencies). Ethereum and USD-T/C earned and transacted during the year ended July 31, 2023 and six months ended January 31, 2024 were as follows:

	\$	USD-T/C #	Ethereum #
Balance, July 31, 2022	154,302	3,694.95	71.64
Digital assets received for revenues	5,534	-	2.76
Digital assets received for deferred revenues	446	-	0.26
Digital assets traded for cash	(110,634)	-	(55.00)
Digital assets paid for expenses	(22,907)	-	(10.77)
Gain on sale of digital assets	(7,650)	-	-
Revaluation of digital assets	2,860	-	-
Balance, July 31, 2023	21,951	3,694.95	8.89
Digital assets received for revenues	4	-	0.01
Revaluation of digital assets	6,021	-	-
Balance, January 31, 2024	27,976	3,694.95	8.90

- i) Digital assets held are revalued each reporting period based on the fair market value of the price of Ethereum and USD-T/C on the reporting date. As at January 31, 2024, the price of Ethereum was \$3,142 (July 31, 2023 - \$2,467) resulting in a revaluation gain of \$6,021 (July 31, 2023 - \$2,860).

6. Property and Equipment

	Computer Equipment \$	Furniture and Fixtures \$	Total \$
Cost			
Balance, July 31, 2022 and 2023	62,169	13,077	75,246
Additions	-	-	-
Balance, January 31, 2024	62,169	13,077	75,246
Accumulated depreciation			
Balance, July 31, 2022	(12,793)	(1,817)	(14,610)
Depreciation	(20,723)	(4,360)	(25,083)
Balance, July 31, 2023	(33,516)	(6,177)	(39,693)
Depreciation	(10,360)	(2,180)	(12,540)
Balance, January 31, 2024	(43,876)	(8,357)	(52,233)
Net book values			
Balance, July 31, 2023	28,653	6,900	35,553
Balance, January 31, 2024	18,293	4,720	23,013

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

7. Intangible Assets and Goodwill

As part of the acquisition of HOK, the Company acquired a platform. HOK is creating a blockchain-based virtual world and metaverse to be utilized across environments as well as virtual reality social and gaming activities (the “Platform”).

The Company has also capitalized costs related to the creation of a live-action NFT based series produced by the Company. Acquired NFTs represent NFTs purchased by the Company from third parties for development purposes.

	Acquired NFTs \$	Film Series \$	Acquired Platform \$	Internally Generated Platforms \$	Acquired IP \$	Total \$
Balance, July 31, 2022	48,973	670,354	503,024	1,089,417	-	2,311,768
Additions	-	63,401	-	387,912	1,131,355	1,582,668
Amortization	(48,973)	(100,916)	(57,857)	-	-	(207,746)
Disposals	-	(632,839)	-	-	-	(632,839)
Impairment	-	-	(445,167)	(1,477,329)	(1,131,355)	(3,053,851)
Balance, July 31, 2023 and January 31, 2024	-	-	-	-	-	-

Goodwill

	\$
July 31, 2022	3,323,409
Impairment	(3,323,409)
July 31, 2023 and January 31, 2024	-

The recoverable amount of the operating unit was determined based upon updated cash flow projections. The Company used a discount rate of 39% for the current and previous value in use calculations. As at July 31, 2023, the Company recorded impairment of goodwill of \$3,323,409 and impairment of intangibles of \$3,036,077. The events and circumstances that led to the recognition of the impairment losses included a decrease in forecasted growth as a result of material uncertainties with respect to the Company’s ability to raise capital for further development, decreased revenue projections as a result of a general downturn in the metaverse and blockchain industries.

8. Right-of-Use Assets and Lease Liabilities

The Company’s primary lease consisted of office space. The Company used an incremental borrowing rate of 9.5%. On August 28, 2023, the primary lease was terminated in consideration for a payment of \$60,000 to the lender which resulted in a loss on termination of \$18,085. Upon termination the respective right-of-use asset balance of \$212,582 and the right-of-use liability of \$229,554 was derecognized. The following is a continuity schedule of right-of-use assets for the period ended January 31, 2024 and July 31, 2023:

	Office Lease \$
Right-of-use assets	\$
Balance, July 31, 2022	396,819
Depreciation	(170,065)
Balance, July 31, 2023	226,754
Depreciation	(14,172)
Termination of lease	(212,582)
Balance, January 31, 2024	-

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

8. Right-of-Use Assets and Lease Liabilities (continued)

The following is a continuity schedule of lease liabilities for the six months ended January 31, 2024 and July 31, 2023:

	Office Lease
Lease liabilities	\$
Balance, July 31, 2022	408,463
Interest	28,990
Payments	(193,534)
Balance, July 31, 2023	243,919
Interest	1,762
Payments	(16,127)
Termination of lease	(229,554)
Balance, January 31, 2024	-
Less: current portion	-
Non-current portion	-

9. Accounts Payable and Accrued Liabilities

	January 31, 2024	July 31, 2023
	\$	\$
Accounts payable	584,401	541,074
Accrued liabilities	655,359	595,936
	1,239,760	1,137,010

10. Loans Payable

During the year ended July 31, 2022, the Company received loans of \$40,000 from a private company. The loans were unsecured, non-interest bearing and due on demand. During the year ended July 31, 2023, the Company received additional loans of \$1,544,000 from arm's-length parties and repaid \$293,750. The loans are unsecured, bear interest at 10% per annum and are due on demand.

Holders of \$1,000,000 of the Company's outstanding loans payable agreed to participate in the non-brokered private placement described in Note 11. On November 23, 2023, the Company closed the non-brokered private placement offering and issued 10,000,000 units ("Units") to convert \$1,000,000 of loans payable from debt into equity. Each Unit consists of one common share in the capital of the Company and one common share purchase warrant. Each Warrant entitles the holder thereof to purchase one additional share of the Company for a period of two years at an exercise price of \$0.10. The Company repaid \$50,000 to a loan holder, and a balance of \$66,036 of accrued interest was forgiven and recorded as a gain on settlement of debt.

As at January 31, 2024, the Company had \$303,979 (July 31, 2023- \$1,374,415) of loans payable, including \$23,980 (July 31, 2023- \$84,165) of accrued interest.

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

11. Share Capital

Authorized share capital

Unlimited number of common shares without par value.

On October 6, 2023, the Company completed a one-for-seventy-five common share consolidation. All share disclosures in these condensed interim consolidated financial statements are presented on a post-consolidation basis

Issued share capital

At January 31, 2024, there were 21,990,836 (July 31, 2023 – 1,985,836) issued and fully paid common shares outstanding.

For the period ended January 31, 2024

On October 6, 2023, the Company consolidated all of its issued and outstanding common shares on the basis of one new common share for every seventy-five old common shares. Unless otherwise noted, all share, option, loss per share and warrant information have been retroactively adjusted to reflect this consolidation.

On November 23, 2023, the Company closed a non-brokered private placement offering and issued 20,005,000 units (“Units”) at a price of \$0.10 per Unit, for cash consideration of \$2,000,500 (the “Offering”). The Company received gross cash proceeds of \$1,000,500 and \$1,000,000 was converted from debt into equity as certain loan holders participated in the Offering. Each Unit consists of one common share in the capital of the Company (each a, “Share”) and one common share purchase warrant (each a, “Warrant”). Each Warrant entitles the holder thereof to purchase one additional Share of the Company for a period of two years from the closing date of the Offering at an exercise price of \$0.10.

For the period ended January 31, 2023

On September 7, 2022, the Company issued 184,363 common shares with a fair value of \$1,935,815 pursuant to the acquisition of Web 3.0 as described in Note 3.

During the six months ended January 31, 2023, the Company issued 19,556 common shares upon the exercise of 19,556 stock options for total proceeds of \$146,667 and the Company transferred \$109,139 from reserve to share capital.

During the six months ended January 31, 2023, the Company issued 26,667 common shares upon the exercise of 26,667 warrants for total proceeds of \$200,000.

During the six months ended January 31, 2023, the Company issued 111,800 common shares upon the conversion of 111,800 RSUs and the Company transferred \$1,566,874 from reserve to share capital.

Warrants

The following table summarizes the continuity of the Company’s share purchase warrants:

	Number of Warrants Issued	Weighted Average Exercise Price
Balance, July 31, 2022	160,410	43.50
Exercised	(26,667)	7.50
Balance, July 31, 2023	133,743	50.76
Granted	20,005,000	0.10
Balance, January 31, 2024	20,138,743	0.44

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

11. Share Capital (continued)

Details of warrants outstanding as of January 31, 2024 are as follows:

Expiry Date	Number of Warrants Outstanding and Exercisable	Exercise Price
November 23, 2025	20,005,000	0.10
September 15, 2026	66,664	7.50
November 10, 2026	67,079	93.75
	20,138,743	

Stock options

The Company has an incentive stock option plan in place under which it is authorized to grant options to directors, officers, employees and consultants to acquire up to 20% of the Company's issued and outstanding common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less the applicable discount. The options can be granted for a maximum term of 5 years prior to listing on an exchange, and 10 years after being listed on an exchange. Vesting periods are determined by the Board of Directors.

On September 13, 2022, the Company granted incentive stock options to its officers and consultants to purchase an aggregate of 129,250 common shares at an exercise price of \$10.50 per common share for up to five years. The options vest 1/8 every three months over 24 months. The total grant date fair value of the options was measured at \$1,374,038. The options were measured using the Black-Scholes Option Pricing Model with the following assumptions: Stock price - \$13.50; exercise price - \$10.50; expected life - 5 years; volatility - 100%; dividend yield - \$0; and risk-free rate - 3.23%.

During the period ended January 31, 2024, the Company recorded a recovery of share-based compensation of \$34,134 (January 31, 2023 - share-based compensation of \$2,289,961) related to the vesting of options. The following is a summary of the Company's option activity for the periods ended January 31, 2024 and July 31, 2023.

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2022	151,333	27.75
Granted	129,250	10.50
Cancelled	(94,583)	(12.75)
Exercised	(19,556)	(7.50)
Balance, July 31, 2023	166,444	24.69
Cancelled	(42,672)	(16.11)
Balance, January 31, 2024	123,772	27.65
Exercisable, January 31, 2024	111,272	29.57

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

11. Share Capital (continued)

Stock options (continued)

Details of options outstanding and exercisable as at January 31, 2024 are as follows:

Expiry date	Number of Options Outstanding	Number of Options Exercisable	Exercise Price
April 11, 2024	1,334	1,334	56.25
October 14, 2026	31,438	31,438	7.50
February 7, 2027	55,666	55,666	48.75
March 16, 2027	667	667	60.00
April 13, 2027	667	667	56.25
June 1, 2024	667	667	18.75
September 13, 2027	33,333	20,833	10.50
	123,772	111,272	

Restricted Stock Units (“RSUs”)

The Company has adopted a Restricted Stock Unit (“RSU”) plan (“RSU Plan”). The purpose of the RSU Plan is to secure for the Company and its shareholders the benefits of incentive inherent in share ownership by certain directors, officers, other key employees and consultants of the Company (“Participants”) who, in the judgment of the Board, will be responsible for its future growth and success. RSUs granted pursuant to this RSU Plan will be used to compensate Eligible Persons who have forgone salary to assist the Company in cash management in exchange for the grant of RSUs and incentive stock options under the Company’s stock option plan.

Under the terms of the plan, RSUs are granted to Participants and the RSUs expire at the earlier of 5 years from the date of vesting of the RSU and 10 years from the grant date. Each RSU gives the Participant the right to receive one common share of the Company. The aggregate number of common shares that may be reserved for issuance, at any time, under this Plan and under any other share compensation arrangement adopted by the Company, including the Company’s incentive stock option plan, shall not exceed up to a maximum of 20% of the issued and outstanding Shares at the time of grant pursuant to awards granted under all share compensation plans.

On September 13, 2022, pursuant to its shareholder approved restricted share unit (“RSU”) plan (the “RSU Plan”), the Company has granted 1,500,000 RSUs to a consultant of the Company, vesting immediately. The RSUs had a fair value of \$270,000, based on the closing price of the Company’s common shares on the date of grant which the Company recorded as stock-based compensation.

During the period ended January 31, 2024, the Company recorded \$Nil (January 31, 2023- \$411,629) of stock-based compensation relating to the number of vested RSUs.

As at January 31, 2024, 37,773 (July 31, 2023 - 37,773) restricted stock units were outstanding under the RSU plan.

Share-based payment reserve

The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options, warrants or RSUs are exercised, at which time the corresponding amount will be transferred to share capital.

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

11. Share Capital (continued)**Net income per share continuing operations**

	Three months ended		Six months ended	
	January 31, 2024	January 31, 2023	January 31, 2024	January 31, 2023
	\$	\$	\$	\$
Net income (loss) attributable to common shareholders from continuing operations	504,110	(5,964,358)	800,378	(8,234,447)
Basic weighted average number of common shares outstanding	16,989,514	1,802,927	9,487,639	1,724,492
Effect of dilutive securities:				
Stock options	-	-	-	-
Warrants	12,882,564	-	12,882,564	-
Diluted weighted average number of common shares outstanding	29,872,078	1,802,927	22,370,203	1,724,492
Basic net income (loss) per common share	0.03	(3.31)	0.08	(4.77)
Diluted income (loss) per common share	0.02	(3.31)	0.04	(4.77)

Net income per share discontinued operations

	Three months ended		Six months ended	
	January 31, 2024	January 31, 2023	January 31, 2024	January 31, 2023
	\$	\$	\$	\$
Net income (loss) attributable to common shareholders from discontinued operations	-	(88,943)	-	(167,878)
Basic weighted average number of common shares outstanding	16,989,514	1,802,927	9,487,639	1,724,492
Effect of dilutive securities:				
Stock options	-	-	-	-
Warrants	12,882,564	-	12,882,564	-
Diluted weighted average number of common shares outstanding	29,872,078	1,802,927	22,370,203	1,724,492
Basic net income (loss) per common share	-	(0.05)	-	(0.10)
Diluted income (loss) per common share	-	(0.05)	-	(0.10)

12. Related Parties***Related party balances***

Amounts due to related parties:

The following amounts due to related parties are included in trade payables and accrued liabilities:

	January 31, 2024	July 31, 2023
	\$	\$
Amounts owed to directors of the Company	26,300	89,808
	26,300	89,808

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

12. Related Parties (continued)

Related party transactions

During the six months ended January 31, 2024, the Company paid and/or accrued accounting, management, corporate development and consulting fees of \$78,314 (2023 - \$176,000) to the Company's key management.

During the six months ended January 31, 2024, the Company also incurred stock-based compensation to key management personnel related to the vesting of granted options of \$3,732 (2023 - \$201,526).

All related party transactions are in the normal course of operations and have been measured at the agreed to amounts, which is the amount of consideration established and agreed to by the related parties.

13. Financial Risk and Capital Management

(a) Fair value measurements:

Financial hierarchy:

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The hierarchy is summarized as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly from observable market data; and

Level 3: Inputs that are not based on observable market data.

The following is an analysis of the Company's financial assets and liabilities measured at fair value as at January 31, 2024 and July 31, 2023:

	As at January 31, 2024		
	Level 1	Level 2	Level 3
	\$	\$	\$
Cash and cash equivalents	721,912	-	-
Digital assets	-	27,976	-

	As at July 31, 2023		
	Level 1	Level 2	Level 3
	\$	\$	\$
Cash and cash equivalents	46,979	-	-
Digital assets	-	21,951	-

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

13. Financial Risk and Capital Management (continued)

Digital assets and risk management

Digital assets are measured using Level 2 fair values, determined by taking the rate from www.finance.yahoo.com.

Digital asset prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and global political and economic conditions. A decline in the market prices for digital assets could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its sales of digital assets.

Digital assets have a limited history and the fair value historically has been relatively volatile. Historical performance of digital assets is not indicative of their future price performance. The Company's digital assets currently consist solely of Ethereum. As of January 31, 2024, had the market price of Ethereum increased or decreased by 10% with all other variables held constant, the corresponding digital assets value increase or decrease respectively would amount to \$2,798.

(b) Financial risk management:

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash. The Company limits its exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. The credit risk is considered low.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. As at January 31, 2024, the Company has cash of \$721,912 (July 31, 2023 - \$46,979) and digital assets of \$27,976 (July 31, 2023 - \$21,951) available to apply against short-term business requirements and current liabilities of \$2,426,604 (July 31, 2023 - \$2,701,723).

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk. The Company is exposed to market risk of its digital assets held. As at January 31, 2024, it is management's conclusion that the exposure to market risk is not material.

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

14. Segmented Information

At January 31, 2024, the Company operated in one geographic area and one operating segment. During the period ended January 31, 2023, Company operated within two geographic areas, Canada and Vietnam and had one operating segment, which is the design, development, and sale of exclusive Non-Fungible Tokens (“NFTs”).

	Canada	Vietnam	Total
	\$	\$	\$
Six months ended January 31, 2024			
Revenue	1,302,281	-	1,302,281
Net Income	800,378	-	800,378
Six months ended January 31, 2023			
Revenue	210,004	-	210,004
Net Loss	(8,355,699)	(46,626)	(8,402,325)
Three months ended January 31, 2024			
Revenue	650,695	-	650,695
Net Income	504,110	-	504,110
Three months ended January 31, 2023			
Revenue	72,938	-	72,938
Net Loss	(6,053,301)	-	(6,053,301)
As at January 31, 2024			
Total non-current assets	151,509	-	151,509
As at July 31, 2023			
Total non-current assets	583,547	-	583,547

15. Capital Management

The Company’s capital structure consists of shareholders’ equity. The Company’s objective when managing capital is to maintain adequate levels of funding to support the development of its business and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing and related party loans.

Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments. There were no changes to the Company’s approach to capital management during the period ended January 31, 2024.

The Company is not subject to externally imposed capital requirements. The Company does not currently have adequate sources of capital for the development of its business and will need to raise additional capital by obtaining equity financing through private placements or debt financing. The Company may raise additional debt or equity financing in the near future to meet its current obligations.

METASPHERE LABS INC. (FORMERLY LOOKING GLASS LABS LTD.)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

16. Revenues

The Company's main source of revenue is the sale of digital goods to customers. The following is a breakdown of revenues earned:

	Three Months ended January 31,		Six Months ended January 31,	
	2024	2023	2024	2023
	\$	\$	\$	\$
NFT sales	650,695	-	1,302,278	-
Royalty income	-	1,790	3	5,168
Design services income	-	71,148	-	204,836
	650,695	72,938	1,302,281	210,004

Deferred Revenue

The Company receives payments based on the payment terms established in its contracts. Such payments are initially recorded to deferred revenue and are recognized into revenue as the Company satisfies its performance obligations. Deferred revenue consists of payments received from the Company's virtual land NFT sales in advance of revenue recognition. As of January 31, 2024, the aggregate amount of revenue allocated to unsatisfied performance obligations of \$868,632 (July 31, 2023- \$2,170,910) is included in deferred revenue.

Deferred Contract Costs

The Company defers contract costs that are direct and incremental to obtaining user contracts. At January 31, 2024, the Company had deferred \$128,496 (July 31, 2023 - \$321,240) of contract costs consisting of commissions paid for communication services provided in connection with the Company's virtual land NFT sales. These costs will be amortized over the estimated period of time the corresponding products are available to the user in proportion to the revenue recognized.

17. Contingency

During the year ended July 31, 2023, a claim was commenced against the Company by Thanh Khiet Nguyen against the Company. The claim is brought against the Company, its directors and former directors, and third parties for conspiracy to extract all of the value out of the Plaintiff's former company and is brought under section 227 of the BC Business Corporations Act.

The Company intends to vigorously defend itself against the claim made. As set out in the Company's response to civil claim, it believes that the allegations are without merit.

18. Subsequent Events

- Subsequent to the period ended January 31, 2024, the Company changed its name to "Metasphere Labs Inc." and began trading on the Cboe Canada Inc. (the "Cboe") under the new name at the market open on February 29, 2024. The Company also concurrently changed its stock symbol to "LABZ" from "NFTX" on the Cboe.
- On February 6, 2024, the Company entered into an agreement (the "Purchase Agreement") to acquire the climate and artificial intelligence web3 assets (the "Purchased Assets") of Bot Media Corp. (the "Vendor") for a purchase price of \$765,000, payable through the issuance of common shares of the Company (the "Consideration Shares") at a deemed price of \$0.25 per share. Upon closing on February 8, 2024, the Company issued a total of 3,060,000 Consideration Shares to the Vendor pursuant to the terms of the Purchase Agreement.