AMERICAN AIRES INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

(EXPRESSED IN CANADIAN DOLLARS)

Independent Auditor's Report

To the Shareholders of American Aires Inc.:

Opinion

We have audited the consolidated financial statements of American Aires Inc. and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and December 31, 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2021 and, as of that date, the Company had an accumulated deficit. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

MNP LLP

Toronto, Ontario
November 1, 2022

Chartered Professional Accountants
Licensed Public Accountants

AMERICAN AIRES INC.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at December 31,		2021		2020
ASSETS				
Current assets				
Cash and cash equivalents	$	**275,696**	$	501,884
Prepaid and sundry receivable (note 19)		**1,057,598**		715,488
Accounts receivable		**615**		691
Inventory		**409,282**		264,456
		1,743,191		1,482,519
Furniture and equipment (note 6)		**11,504**		969
Intellectual property (note 5)		**512,571**		640,714
Total assets	$	**2,267,266**	$	2,124,202
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities (note 16)	$	**649,047**	$	627,666
Government loan payable (note 10)		**60,000**		40,000
Deferred revenue		**6,828**		68,204
Marketing loan payable (note 11)		**149,534**		-
Loan payable (note 12)		**553,510**		-
		1,418,919		735,870
Shareholders' equity				
Share capital (note 13)		**15,791,739**		11,690,924
Contributed surplus (notes 14 and 15)		**5,556,624**		4,110,543
Deficit		**(20,500,016)**		(14,413,135)
Total shareholders' equity		**848,347**		1,388,332
Total liabilities and shareholders' equity	$	**2,267,266**	$	2,124,202

Nature of Operations and Going Concern (note 1)
Subsequent Events (note 22)

Approved on behalf of the Board of Directors:

"Dimitry Serov"
Director

"Drew Green"
Director

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

AMERICAN AIRES INC.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

For the years ended December 31,	2021	2020
Revenue		
Sales	**$ 2,553,061**	$ 2,313,656
Cost of sales (note 21)	**(1,567,648)**	(1,611,961)
Gross margin	**985,413**	701,695
Expenses		
Advertising and promotion	**3,072,837**	2,389,820
Consulting fees (note 16)	**1,056,390**	1,072,864
Foreign exchange	**104,772**	69,572
Interest charges	**93,813**	7,959
Office and general	**682,528**	529,625
Professional fees	**271,136**	160,351
Rent expense	**50,365**	19,837
Research and development	**-**	215,285
Salaries and benefits (note 16)	**453,786**	520,107
Travel	**21,152**	86,987
Stock based compensation (note 15)	**1,142,539**	3,015,308
Interest and other income	**-**	(9,309)
Gain on settlement of debt	**(7,369)**	-
Loss on disposition of assets (notes 6,7)	**-**	40,937
Depreciation	**130,344**	170,591
	7,072,294	8,289,934
Net loss and comprehensive loss for the year	**$(6,086,881)**	$(7,588,239)
Basic and diluted net loss per share (note 18)	**$ (0.04)**	$ (0.07)
Weighted average number of common shares outstanding, basic and diluted (note 18)	**141,585,537**	111,940,355

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

AMERICAN AIRES INC.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Number	Share Capital Amount	Contributed Surplus	Deficit	Total
Balance, December 31, 2019	**109,720,000**	**$ 10,278,164**	**$ 1,226,995**	**$ (6,824,896)**	**$ 4,680,263**
Exercise of warrants (note 13)	9,150,000	1,412,760	(131,760)	-	1,281,000
Stock-based compensation (note 15)	-	-	3,015,308	-	3,015,308
Net loss for the year	-	-	-	(7,588,239)	(7,588,239)
Balance, December 31, 2020	118,870,000	11,690,924	4,110,543	(14,413,135)	1,388,332
Private placement, net of costs (note 13)	16,318,333	1,782,314	-	-	1,782,314
Issuance of warrants (note 13)	-	(471,814)	471,814	-	-
Issuance of finders warrants (note 13)	-	(60,603)	60,603	-	-
Stock based compensation (note 15)	-	-	1,142,539	-	1,142,539
Exercise of warrants (note 13)	16,850,000	2,601,640	(242,640)	-	2,359,000
Shares issued on settlement of debt (note 13)	776,942	99,298	-	-	99,298
Units issued in settlement of debt (note 13)	1,299,950	116,230	13,765	-	129,995
Shares issued in exchange for services (note 13)	250,000	33,750	-	-	33,750
Net loss for the year	-	-	-	(6,086,881)	(6,086,881)
Balance, December 31, 2021	**154,365,225**	**$ 15,791,739**	**$ 5,556,624**	**$ (20,500,016)**	**$ 848,347**

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

AMERICAN AIRES INC.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

For the Year Ended December 31,	2021	2020
Operating activities		
Net loss for the year	$ (6,086,881)	$ (7,588,239)
Depreciation	130,344	170,591
Gain on settlement of debt	(7,369)	-
Loss on disposition of assets (notes 6, 7)	-	40,937
Stock-based compensation (note 15)	1,142,539	3,015,308
Shares issued in exchange for services	33,750	-
Foreign exchange	(22,990)	-
Interest expense	93,634	3,483
Gain on termination of lease (note 8)	-	(4,307)
Non-cash working capital items:		
Accounts receivable	76	2,044
Prepaid and sundry receivable	(302,392)	(198,476)
Deferred revenue	(61,376)	68,204
Accounts payable and accrued liabilities	2,193,921	206,640
Inventory	(144,826)	293,139
	(3,031,570)	(3,990,676)
Investing activities		
Acquisition of furniture and equipment	(12,736)	-
Proceeds on disposition of assets	-	14,000
	(12,736)	14,000
Financing activities		
Proceeds from issuance of shares	4,141,314	1,281,000
Repayments on marketing loan payable	(190,110)	-
Repayments on loan payable	(1,153,086)	-
Government loan	20,000	40,000
Lease obligation expense	-	(40,775)
	2,818,118	1,280,225
Net change in cash	(226,188)	(2,696,451)
Cash, beginning of the year	501,884	3,198,335
Cash, end of the year	$ 275,696	$ 501,884
Supplemental Disclosure of Non-cash Transactions		
Accounts payable and accrued liabilities settled through loan payable	$ 1,648,084	$ -

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

1. Nature of Operations and Going Concern

American Aires Inc. (the "Company") was incorporated on May 15, 2012 and organized under the laws of Ontario, Canada. The registered office of the Company is located at 400 Applewood Crescent, unit 100, Vaughan, Ontario, L4K 0C3.

The Company is currently engaged in business of production, distribution and sales of electromagnetic protection devices.

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the ordinary course of operations. The Company has a deficit of $20,500,016 at December 31, 2021 (December 31, 2020 - $14,413,135) and incurred a loss of $6,086,881 (2020 - $7,588,239) for the year ended December 31, 2021. The Company had working capital of $324,272 on December 31, 2021 (December 31, 2020 - $746,649).

At December 31, 2021, the Company did not have sufficient cash on hand to fully execute its business plan for the next twelve months. The Company plans to raise additional capital, however the Company may increase or decrease expenditures as necessary to adjust to a changing capital market environment.

The above factors indicate the existence of material uncertainties that may cast significant doubt on the ability of the Company to continue as a going concern.

The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. If management is unsuccessful in securing capital, the Company's assets may not be realized or its liabilities discharged at their carrying amounts and these differences could be material.

<u>Covid-19 Impact</u>

Due to the worldwide COVID-19 outbreak, material uncertainties may come into existence that could influence management's going concern assumption. Management cannot accurately predict the future impact COVID-19 may have on:

- Global commodity prices;
- The severity and the length of potential measures taken by governments to manage the spread of the virus and their effect on labour availability and supply lines;
- Availability of essential supplies;
- Purchasing power of the Canadian dollar; and
- Ability to obtain funding

At the date of the approval of these consolidated financial statements, the Canadian government has not introduced measures which impede the activities of the Company. Management believes the business will continue and accordingly, the current situation bears no impact on management's going concern assumption. However, it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

2. Significant Accounting Policies

Basis of Preparation

These consolidated financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and their interpretations adopted by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the Handbook of the Canadian Institute of Chartered Accountants, as issued and effective for the year ended December 31, 2021.

These consolidated financial statements were approved by the Board of Directors on November 1, 2022.

Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis. In addition, using the accrual basis of accounting except for cash flow information.

In the preparation of these consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates.

Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars, which is both the presentation and functional currency of the Company and its wholly owned subsidiary, American Aires USA Inc.

Basis of Consolidation

These consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiary, American Aires USA Inc. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

2. Significant Accounting Policies (Continued)

Financial Instruments

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

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains the primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit and loss ("FVTPL").

Below is a summary showing the classification and measurement bases of the Company’s financial instruments.

Classification	IFRS 9
Cash and cash equivalents	FVTPL
Accounts receivable	Amortized cost
Sundry receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Government loan payable	Amortized cost
Marketing loan payable	Amortized cost
Loan payable	Amortized cost

Financial assets

Financial assets are classified as either financial assets at FVTPL, amortized cost, or FVTOCI. The Company determines the classification of its financial assets at initial recognition.

i) Financial assets recorded at FVTPL

Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or FVTOCI. Gains or losses on these items are recognized in profit or loss. The Company's cash is classified as a financial asset measured at FVTPL.

ii) Investments recorded at FVTOCI

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to measure the investment at FVOCI whereby changes in the investment’s fair value (realized and unrealized) will be recognized permanently in other comprehensive income with no reclassification to profit or loss. The election is made on an investment-by-investment basis.

iii) Amortized cost

Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at FVTPL: 1) the object of the Company’s business model for these financial assets is to collect their contractual cash flows, and 2) the asset’s contractual cash flows represent "solely payments of principal and interest". The Company's accounts receivable and sundry receivable are classified as financial assets measured at amortized cost.

2. Significant Accounting Policies (Continued)

Financial Instruments (Continued)

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

i. Amortized cost

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at FVTPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination.

The Company's accounts payable and accrued liabilities, government loan payable, marketing loan payable and loan payable do not fall into any of the exemptions and are therefore classified as measured at amortized cost.

ii. Financial liabilities recorded FVTPL

Financial liabilities are classified as FVTPL if they fall into one of the five exemptions detailed above.

Transaction costs

Transaction costs associated with financial instruments, carried at FVTPL, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

Subsequent measurement

Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVTOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

Derecognition

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of financial position is comprised of cash at banks, cash held in trust, as well as money market instruments. The Company's cash and cash equivalents is invested with major financial institutions in business accounts and higher yield investment and savings accounts that are available on demand by the Company for its programs.

Inventory

Inventory consists of finished goods. The Company values inventory at the lower of cost and net realizable value. The inventory value is determined using the weighted average method. Obsolete inventories are written down to their estimated net realizable value. During the year ended December 31, 2021, the Company recognized an impairment on inventory totaling $nil (2020 - $100,498) included in cost of sales in the consolidated statement of loss and comprehensive loss.

2. Significant Accounting Policies (Continued)

Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Company had no material provisions as at December 31, 2021 and 2020.

Income Taxes

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Furniture and Equipment

Furniture and Equipment are recorded at cost less accumulated depreciation. Depreciation is provided over the estimated useful life of the furniture and equipment using the declining balance method at rates of 20% and 30%, respectively.

Share Capital

Common shares issued by the Company are classified as equity. Costs directly attributable to the issuance of common shares are recognized as a deduction from equity. Cash received for common shares yet to be issued is recorded as share subscriptions received when a legal obligation to issue the shares exists.

Valuation of Equity Instruments in Private Placements

The Company has adopted a residual method with respect to the measurement of common shares and warrants issued as private placement units. Warrants attached to units are valued based on the fair value of the warrants using the Black-Scholes option pricing model and the share price at the time of financing, and the difference between the proceeds raised and the value assigned to the warrants is the residual fair value of the shares.

The proceeds from the issue of units are allocated between share capital and reserve for warrants. If and when the warrants are exercised, the applicable amounts of reserve for warrants are transferred to share capital. Any consideration paid on the exercise of the warrants is credited to share capital. For those warrants that expire after vesting, the recorded value is transferred to contributed surplus.

2. Significant Accounting Policies (Continued)

Share-based Payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Upon exercise of the options, consideration paid by the option holder together with the fair value amount previously recognized in contributed surplus is recorded as an increase to share capital. For those options that expire after vesting, the recorded fair value is held indefinitely in contributed surplus.

Intellectual Property

Intellectual property is recorded at cost less amortization. Amortization is recorded on a straight-line basis over a period of nine years.

Loss Per Share

The Company presents basic and diluted loss per share data for its common shares outstanding, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding to include potential common shares for the assumed conversion of all dilutive securities under the treasury stock method.

Revenue Recognition

The Company's revenue is substantially derived from the sale of eletromagnetic protection devices. Revenue is recognized when the product is shipped and there is a reasonable expectation of collection.

Under IFRS 15, revenue is recognized at an amount that reflects the expected consideration receivable in exchange for transferring goods or services to a customer, applying the following five steps:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

Revenues generated from the sale of electromagnetic protection devices are recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer, inclusive of discounts and rebates offered to customers.

Deferred Revenue

Deferred revenue relates to sales for which payment has been received, and for which the corresponding product has not been delivered as at year end.

2. Significant Accounting Policies (Continued)

Leasehold Improvements

Leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the term of the related lease using the straight-line method.

Impairment

Non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment.

Provision for Expected Credit Losses ("ECL")

The Company performs impairment testing annually for accounts receivable and sundry receivable in accordance with IFRS 9. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. IFRS 9 outlines a three-stage approach to recognize ECLs which is intended to reflect the increase in credit risks of a financial instrument based on 1) 12 -month expected credit losses or 2) lifetime expected credit losses. The Company measures provisions for ECLs at an amount equal to lifetime ECLs. The Company applies the simplified approach to determine ECLs on accounts receivable by using a provision matrix based on historical credit loss experiences. The historical results are used to calculate the run rates of default which are then applied over the expected life of the trade receivables, adjusted for forward looking estimates.

Government Grants

Government grants are recognized only when there is reasonable assurance that the Company will comply with any conditions attached to the grant and that the grant will be received. A grant relating to expenses is recognized as income in the period in which the expenses are incurred.

Critical Accounting Estimates and Judgments

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

2. Significant Accounting Policies (Continued)

Critical Accounting Estimates and Judgments (Continued)

Income Taxes and Recovery of Deferred Tax Assets

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the consolidated financial statements. Deferred tax assets require management to assess the likelihood that the Company will generate taxable income in future periods in order to utilize recognized deferred tax assets. As at December 31, 2021 and 2020, no deferred tax assets were recognized, as it is uncertain when sufficient taxable income will be available to realize the deferred tax assets.

Fair Value of Options and Warrants

Estimating fair value for granted stock options and warrants issued 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.

Sales Refunds

The Company maintains a provision for sales refunds based on historical sales experience.

Going Concern

Significant judgments are used in the Company's assessment of its ability to continue as a going concern.

Useful Life of Property and Equipment and Intellectual Property

Depreciation of property and equipment and intellectual property with finite lives are dependent upon estimates of useful lives and when the asset is available for use, which are determined through the exercise of judgment and are dependent upon estimates that take into account factors such as economic and market conditions, frequency of use, anticipated changes in laws and technological improvements.

Accounting Pronouncements Adopted During the Year

There were no accounting pronouncements adopted during the year ended December 31, 2021.

Future Accounting Pronouncements

i. In January 2020, the International Accounting Standards Board (IASB) issued amendments to IAS 1 which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in April 2020. The amendments clarify the requirements for classifying liabilities as either current or non-current by:

    - Specifying that the conditions which exist at the end of the reporting period determine if a right to defer settlement of a liability exists;
    - Clarifying that settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services;
    - Clarifying that classification is unaffected by management's expectation about events after the balance sheet date; and
    - Clarifying the classification requirements for debt an entity may settle by converting it into equity.

2. Significant Accounting Policies (Continued)

Future Accounting Pronouncements (Continued)

i. (Continued)

The amendments clarify existing requirements, rather than make changes to the requirements, and so are not expected to have a significant impact on an entity's financial statements. However, the clarifications may result in reclassification of some liabilities from current to non-current or vice-versa, which could impact an entity's loan covenants. Because of this impact, the IASB has provided a longer effective date to allow entities to prepare for these amendments. In July 2020, the IASB issued an amendment to defer the effective date of the amendments by one year from its originally planned effective date to annual periods beginning on or after January 1, 2023 due to the impact of the COVID-19 pandemic. Early application is permitted. The AcSB endorsed the IASB's amendment to defer the effective date in October 2020. The adoption of the above standard is not expected to have a material impact on the Company's consolidated financial statements.

ii. In February 2021, the IASB issued amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2 "Making Materiality Judgments" which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in June 2021. The amendments help entities provide accounting policy disclosures that are more useful to primary users of financial statements by:
   - Replacing the requirement to disclose "significant" accounting policies under IAS 1 with a requirement to disclose "material" accounting policies. Under this, an accounting policy would be material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that primary users of general purpose financial statements make on the basis of those financial statements.
   - Providing guidance in IFRS Practice Statement 2 to explain and demonstrate the application of the four-step materiality process to accounting policy disclosures. The amendments shall be applied prospectively. The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. Once the entity applies the amendments to IAS 1, it is also permitted to apply the amendments to IFRS Practice Statement 2. The adoption of the above standard is not expected to have a material impact on the Company's consolidated financial statements

iii. In May 2021, the IASB issued amendments to the recognition exemptions under IAS 12 *Income Taxes* which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in September 2021.The amendments narrowed the scope of the recognition exemption to require an entity to recognize deferred tax on initial recognition of particular transactions, to the extent that transaction gives rise to equal taxable and deductible temporary differences. These amendments apply to transactions for which an entity recognizes both an asset and liability, for example leases and decommissioning liabilities. The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The adoption of the above standard is not expected to have a material impact on the Company's consolidated financial statements.

iv. In May 2020, the International Accounting Standards Board (IASB) issued amendments to update IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* The Accounting Standards Board (AcSB) completed its endorsement process and incorporated the amendments into Part I of the CPA Canada Handbook – Accounting in September 2020. The amendments specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract. These amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted. The adoption of the above standard is not expected to have a material impact on the Company's consolidated financial statements.

3. Capital Management

The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- to maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity, comprising share capital, contributed surplus, and deficit, which at December 31, 2021 totaled $ 848,347 (2020 - $ 1,388,332). The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is updated based on activities related to its operations. Information is provided to the Board of Directors of the Company. The Company is not subject to externally imposed capital requirements. The Company's capital management objectives, policies and processes have remained unchanged during the years ended December 31, 2021 or 2020.

4. Financial Instruments and Risk Management

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quotes prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Cash and cash equivalents is level one.

Fair Values

The carrying value of cash and cash equivalents, accounts receivable, sundry receivable, accounts payable and accrued liabilities, loan payable, marketing loan payable and government loan payable approximate their fair values due to the expected short-term maturity of these financial instruments.

The Company’s activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including interest rate risk).

Risk management is carried out by the Company's management team with guidance from the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

4. Financial Instruments and Risk Management (Continued)

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, accounts receivables and sundry receivables. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents consists of cash at banks as well as money market instruments. The cash has been invested and held with reputable financial institutions, from which management believes the risk of loss to be remote. The Company`s customer base is well diversified with no reliance on any one client. Sundry receivables consist primarily of federal government harmonized sales tax receivable, which management believes is fully collectible.

Liquidity Risk

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations as they become due, or can only do so at excessive cost. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or as a result of conditions specific to the Company. As at December 31, 2021, the Company had a cash and cash equivalents balance of $275,696 (2020 - $501,884) to settle current liabilities of $ 1,418,919 (2020 - $735,870). The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity. As the Company does not generate revenue, managing liquidity risk is dependent upon the ability to secure additional financing, controlling expenses, and preserving cash. (note 1)

Market Risks

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

(i) Interest Rate Risk

The Company has cash balances and regularly monitors its cash management policy. As a result, the Company is not subject to significant interest rate risk.

(ii) Foreign Exchange Risk

The Company's functional currency is the Canadian dollar and it transacts major purchases primarily in Canadian dollars. To fund operations, it maintains United States dollar, Canadian dollar and Euro denominated bank accounts containing sufficient funds to support monthly forecasted cash outflows. Management believes the foreign exchange risk derived from currency conversions is minimal, and therefore does not hedge its foreign exchange risk. As at December 31, 2021, a 5% fluctuation in the foreign exchange rate would have an impact of approximately $34,616 (December 31, 2020 - $3,975) in the Company's consolidated statements of loss and comprehensive loss.

(Expressed in Canadian Dollars)

5. Intellectual Property

Balance, December 31, 2019	$	768,857
Depreciation		(128,143)
Balance, December 31, 2020	**$**	**640,714**
Depreciation		(128,143)
Balance, December 31, 2021	**$**	**512,571**

6. Furniture and Equipment

Cost		**Furniture and Fixtures**		**Computer Equipment**		**Total**
Balance, December 31, 2019	$	42,082	$	3,461	$	45,543
Dispositions		(42,082)		-		(42,082)
Balance, December 31, 2020	$	-	$	3,461	$	3,461
Additions		-		12,736		12,736
Balance, December 31, 2021	**$**	**-**	**$**	**16,197**	**$**	**16,197**
Accumulated Depreciation						
Balance, December 31, 2019	$	15,151	$	1,765	$	16,916
Depreciation		4,271		727		4,998
Dispositions		(19,422)		-		(19,422)
Balance, December 31, 2020	$	-	$	2,492	$	2,492
Depreciation		-		2,201		2,201
Balance, December 31, 2021	**$**	**-**	**$**	**4,693**	**$**	**4,693**
Carrying Value						
At December 31, 2020	$	-	$	969	$	969
At December 31, 2021	**$**	**-**	**$**	**11,504**	**$**	**11,504**

During the year ended December 31, 2020, the Company disposed of furniture and fixture with a carrying value of $22,660 for gross proceeds of $14,000, resulting in a loss on disposition of assets totaling $8,660 recognized in the consolidated statements of loss and comprehensive loss.

(Expressed in Canadian Dollars)

7. Leasehold Improvements

Cost	Leasehold Improvements
December 31, 2019	$ 45,568
Disposals	(45,568)
December 31, 2020 and 2021	**$ -**

Accumulated Depreciation	
December 31, 2019	**$ 9,114**
Depreciation	4,177
Disposals	(13,291)
December 31, 2020 and 2021	**$ -**

Carrying Value	
At December 30, 2020 and 2021	**$ -**

During the year ended December 31, 2020, the Company opted for early termination of its office lease (note 8, note 9). In connection with this termination, leasehold improvements with a carrying value of $32,277 were disposed of and included as a loss on disposition of assets in the consolidated statement of loss and comprehensive loss.

8. Right-of-use Assets

Balance, December 31, 2019	**$ 55,210**
Depreciation	(33,273)
Early termination of lease	(21,937)
Balance, December 31, 2020 and 2021	**$ -**

Right-of-use assets consist of office space amortized over a period of 27 months. During the year ended December 31, 2020, the Company terminated its operating lease, without penalty.

The Company recognized a gain of $4,307 on derecognition of the right-of-use asset and corresponding lease liability, which is included in rent expense on the Company's consolidated statement of loss and comprehensive loss for the year ended December 31, 2020.

9. Lease Obligation

At the commencement date of the leases, the lease liability was measured at the present value of the lease payments that were not paid at that date. The lease payments are discounted using an interest rate of 14%, which is the Company's incremental borrowing rate. The continuity of the lease liabilities are presented in the table below:

Balance, December 31, 2019	$ 63,536
Accretion	3,483
Lease payments	(40,775)
Early termination of lease (note 8)	(26,244)
Balance, December 31, 2020 and 2021	**$ -**

(Expressed in Canadian Dollars)

10. Government Loan

As a response to COVID-19, the Canadian Federal government introduced the CEBA for businesses that meet various eligibility requirements. The purpose of the CEBA is to support businesses and employers to meet their non-deferrable expenses. The non-repayable portion of the CEBA is considered a form of government grant. During the year ended December 31, 2020, the Company had applied for and received CEBA funding for an initial $40,000. Under the terms of the initial funding, if 75% of the loan is repaid on or before December 31, 2022, the remaining 25% of the balance will be forgiven. During the year ended December 31, 2021, the Company applied for and received the expansion offered on the CEBA for an additional $20,000. Under the terms of the additional funding, if 50% of the loan is repaid by December 31, 2022, the remaining 50% of the balance will be forgiven. Both the initial and expansion loan are non-interest bearing up until December 31, 2022, after which the outstanding balance will be subject to interest at a rate of 5% per annum.

The Company has not recognized any grant revenue or interest benefit in the consolidated statement of loss and comprehensive loss in connection with this loan, as it has determined the full amount of the loan will be repayable.

11. Marketing Loan Payable

On June 9, 2021, the Company entered into a marketing and advertising working capital loan facility agreement (the "Marketing Loan Agreement"), providing the Company with eligible advances of up to $170,000 to be directly applied against operating expenses from approved vendors. On August 18, 2021 and November 24, 2021, the Company received additional eligible advances on the Marketing Loan Agreement totaling $77,500 and $80,000, resulting in aggregate available advances of $327,500.

Under the terms of the Marketing Loan Agreement, the Company shall make repayments to the lender in the aggregate amount of $366,800, with an implied interest rate of 12% per annum if repaid over a one-year term. Repayments on the Marketing Loan Agreement are to be made daily based on 20% of the Company's daily sales. Advances taken on the Marketing Loan Agreement are subject to a 6% discount, provided that no event of default occurs throughout the term of the arrangement.

As of December 31, 2021, the Company has applied $287,782 of the eligible advances against operating expenses from approved vendors which have been included within changes in accounts payable and accrued liabilities in the consolidated statements of cash flows. Remaining eligible advances totaling $39,718 are included in prepaids and sundry receivable on the consolidated statements of financial position as at December 31, 2021. The following is a continuity of the marketing loan payable for the year ended December 31, 2021:

Balance, December 31, 2019 and 2020	$	-
Eligible advances		327,500
Repayments		(190,110)
Interest		12,144
Balance, December 31, 2021	**$**	**149,534**

12. Loan Payable

During the year ended December 31, 2021, the Company entered into a series of working capital loan facility agreements (the "Working Capital Loan Agreements") whereby the lender pays select invoices on the Company's behalf, with the ensuing debt repayable after a period of up to 120 days, in 30 day increments at the approval of the lender. Ensuing debt shall bear interest at a rate of 1% for each 30 day period. During the year ended December 31, 2021, the lender paid invoices on behalf of the Company amounting to USD $1,303,076 (CAD $1,648,084) of which the Company made repayments of both principal and interest on totaling USD $927,099 (CAD $1,153,085). Invoices paid by the lender on behalf of the Company have been included within changes in accounts payable and accrued liabilities in the consolidated statements of cash flows. In connection with the Working Capital Loan Agreements, the Company recognized interest expense totaling $81,490 in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2021.

(Expressed in Canadian Dollars)

12. Loan Payable (Continued)

The following is a continuity of the loan payable for the year ended December 31, 2021:

Balance, December 31, 2019 and 2020	$ -
Debt issued	1,648,084
Repayments	(1,153,086)
Interest	81,490
Foreign exchange	(22,978)
Balance, December 31, 2021	**$ 553,510**

13. Share Capital

(a) Authorized

The Company is authorized to issue an unlimited number of common shares.

(b) Issued and outstanding - Common Shares

	Number of common shares	Amount
Balance, December 31, 2020	109,720,000	$ 10,278,164
Exercise of warrants (i)	9,150,000	1,412,760
Balance, December 31, 2020	118,870,000	$ 11,690,924
Exercise of warrants (ix)	16,850,000	2,601,640
Shares issued on settlement of debt (ii)	776,942	99,298
Units issued on settlement of debt (iii)	1,299,950	116,230
Shares issued in exchange for services (iv)	250,000	33,750
Private placements, net of costs	16,318,333	1,782,314
Issuance of warrants	-	(471,814)
Issuance of finders warrants	-	(60,603)
Balance, December 31, 2021	**154,365,225**	**$ 15,791,739**

i. During the year ended December 31, 2020, the Company issued 9,150,000 shares on exercise of warrants for proceeds of $1,281,000. On exercise, amounts totaling $131,760 were transferred from contributed surplus to share capital.

ii. During the year ended December 31, 2021, the Company issued 776,942 common shares, fair valued at $99,298 in settlement of $106,667 of debt owing to two consultants, resulting in a gain on settlement of debt totaling $7,369 included in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2021.

iii. During the year ended December 31, 2021, the Company issued 1,299,950 units in settlement of debt of $129,995. Each unit was comprised of one common share and one half of one common share purchase warrant exercisable for one common share of the Company for $0.15 per full warrant for a period of two years. A fair value of $13,765 was assigned to these warrants, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.065, expected volatility of 100%, a risk-free rate of return of 0.86% and an expected life of 2 years. As the fair value of units issued in settlement of debt was determined to be equal to the carrying value of the debt, no gain or loss on settlement of debt was recognized in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2021.

13. Share Capital (Continued)

(b) Issued and outstanding - Common Shares (Continued)

iv. During the year ended December 31, 2021, the Company issued 250,000 common shares in exchange for services provided to the Company, valued at $33,750.

v. On May 28, 2021, the Company closed a non-brokered private placement raising gross proceeds of $905,000 through the issuance of 6,033,333 units at a price of $0.15 per unit. Each unit was comprised of one common share and one common share purchase warrant exercisable at a price of $0.30 for a period of 24 months from the date of closing. The expiry date of the warrants may be accelerated by the Company at any time following the date that is four months from the closing of the private placement and prior to the expiry date of the warrants if the volume weighted average price of the common shares on the Canadian Securities Exchange is greater than $0.45 for any ten consecutive trading days (the "Acceleration Event") at which time the Company may, within ten business days of the Acceleration Event, accelerate the expiry date of the warrants by issuing a press release announcing the reduced warrant term whereupon the warrants will expire on the 20th calendar day after the date of such press release. Pursuant to the closing, the Company incurred cash costs of $47,094 and issued 315,000 finders' warrants, each exercisable into a unit with the same terms as those issued in the non-brokered private placement.

The 6,033,333 warrants issued in conjunction with the private placement, have an exercise price of $0.30 and a two year term. A fair value of $287,186 was assigned to these warrants, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.14, expected volatility of 100%, a risk-free rate of return of 0.32% and an expected life of 2 years.

The 315,000 finders warrants issued in conjunction with the private placement, have an exercise price of $0.15 and a two year term. A fair value of $24,666 was assigned to these warrants, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.15, expected volatility of 100%, a risk-free rate of return of 0.32% and an expected life of 2 years.

vi. On August 31, 2021, the Company closed a non-brokered private placement raising gross proceeds of $395,000 through the issuance of 3,950,000 common share units at a price of $0.10 per unit. Each unit was comprised of one common share and half of one common share purchase warrant, each full warrant exercisable at a price of $0.15 for a period of 24 months from the date of closing. Should the closing price at which the common shares trade on the Canadian Securities Exchange (or any such other stock exchange in Canada as the common shares may trade at the applicable time) exceed $0.30 for 10 consecutive trading days at any time following the date of issuance, the Company may accelerate the warrant term such that the warrants shall expire on the date which is 30 business days following the date a press release is issued by the Company announcing the reduced warrant term. Pursuant to the closing, the Company incurred cash costs of $35,650 and issued 355,500 finders' warrants, each exercisable into a unit with the same terms as those issued in the non-brokered private placement.

The 1,975,000 warrants issued in conjunction with the private placement, have an exercise price of $0.15 and a two year term. A fair value of $83,938 was assigned to these warrants, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.10, expected volatility of 100%, a risk-free rate of return of 0.40% and an expected life of 2 years.

13. Share Capital (Continued)

(b) Issued and outstanding - Common Shares (Continued)

vi. (Continued)

The 355,500 finders warrants issued in conjunction with the private placement, have an exercise price of $0.10 and a two year term. A fair value of $18,567 was assigned to these warrants, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.10, expected volatility of 100%, a risk-free rate of return of 0.40% and an expected life of 2 years.

vii. On September 20, 2021, the Company closed a non-brokered private placement raising gross proceeds of $387,500 through the issuance of 3,875,000 units at a price of $0.10 per unit. Each unit was comprised of one common share and half of one common share purchase warrant exercisable at a price of $0.15 for a period of 24 months from the date of closing. Should the closing price at which the common shares trade on the Canadian Securities Exchange (or any such other stock exchange in Canada as the common shares may trade at the applicable time) exceed $0.30 for 10 consecutive trading days at any time following the date of issuance, the Company may accelerate the warrant term such that the warrants shall expire on the date which is 30 business days following the date a press release is issued by the Company announcing the reduced warrant term. Pursuant to the closing, the Company incurred cash costs of $28,800 and issued 288,000 finders' warrants, each exercisable into a unit with the same terms as those issued in the non-brokered private placement.

The 1,937,500 warrants issued in conjunction with the private placement, have an exercise price of $0.15 and a two year term. A fair value of $69,750 was assigned to these warrants, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.09, expected volatility of 100%, a risk-free rate of return of 0.41% and an expected life of 2 years.

The 288,000 finders warrants issued in conjunction with the private placement, have an exercise price of $0.10 and a two year term. A fair value of $12,726 was assigned to these warrants, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.10, expected volatility of 100%, a risk-free rate of return of 0.41% and an expected life of 2 years.

(Expressed in Canadian Dollars)

13. Share Capital (Continued)

(b) Issued and outstanding - Common Shares (Continued)

viii. On December 17, 2021, the Company closed a non-brokered private placement raising gross proceeds of $246,000 through the issuance of 2,460,000 units at a price of $0.10 per unit. Each unit was comprised of one common share and one common share purchase warrant exercisable at a price of $0.15 for a period of 12 months from the date of closing. Should the closing price at which the common shares trade on the Canadian Securities Exchange (or any such other stock exchange in Canada as the common shares may trade at the applicable time) exceed $0.30 for 10 consecutive trading days at any time following the date of issuance, the Company may accelerate the warrant term (the “reduced warrant term”) such that the warrants shall expire on the date which is 30 business days following the date a press release is issued by the Company announcing the reduced warrant term. Pursuant to the closing, the Company incurred cash costs of $39,642 and issued 193,500 finders' warrants.

The 2,460,000 warrants issued in conjunction with the private placement, have an exercise price of $0.15 and a one year term. A fair value of $30,940 was assigned to these warrants, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.06, expected volatility of 117%, a risk-free rate of return of 0.87% and an expected life of 1 years.

The 193,500 finders warrants issued in conjunction with the private placement, have an exercise price of $0.15 and a two year term. A fair value of $4,644 was assigned to these warrants, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.06, expected volatility of 118%, a risk-free rate of return of 0.92% and an expected life of 2 years.

ix. During the year ended December 31, 2021, the Company issued 16,850,000 shares on exercise of warrants for proceeds of $2,359,000. On exercise, amounts totaling $242,640 were transferred from contributed surplus to share capital.

14. Warrants

The following table reflects the continuity of warrants for the years ended December 31, 2021 and 2020:

	Number of Warrants Outstanding	Weighted Average Exercise Price
Balance, December 31, 2019	28,016,000	$ 0.15
Exercised (note 13)	(9,150,000)	$ 0.14
Balance, December 31, 2020	18,866,000	$ 0.16
Issued (note 13)	14,207,583	$ 0.21
Exercised (note 13)	(16,850,000)	$ 0.14
Expired	(2,016,000)	$ 0.30
Balance, December 31, 2021	**14,207,583**	**$ 0.21**

(Expressed in Canadian Dollars)

14. Warrants (Continued)

The following table reflects warrants outstanding as at December 31, 2021:

Expiry Date	Exercise Price	Weighted Average Life Remaining	Warrants Outstanding	Black-Scholes Value
May 28, 2023	$ 0.30	1.41 years	6,033,333	$ 287,186
May 28, 2023	$ 0.15	1.41 years	315,000	$ 24,666
August 31, 2023	$ 0.15	1.67 years	1,975,000	$ 83,938
August 31, 2023	$ 0.10	1.67 years	355,500	$ 18,567
September 20, 2023	$ 0.15	1.72 years	1,937,500	$ 69,750
September 20, 2023	$ 0.10	1.72 years	288,000	$ 12,726
October 25, 2023	$ 0.10	1.82 years	649,750	$ 13,765
December 17, 2022	$ 0.15	0.97 years	2,460,000	$ 30,940
December 17, 2023	$ 0.15	1.97 years	193,500	$ 4,644
	$ 0.21	1.45 years	14,207,583	$ 546,182

15. STOCK OPTIONS

The following table reflects the continuity of stock options for the year ended December 31, 2021 and 2020:

	Number of Stock Options Outstanding	Weighted Average Exercise Price
Balance - December 31, 2019	9,950,000	$ 0.50
Granted	900,000	0.36
Balance, December 31, 2020	**10,850,000**	**$ 0.49**
Granted	9,250,000	0.17
Cancelled	(9,550,000)	(0.49)
Expired	(400,000)	(0.35)
Balance, December 31, 2021	**10,150,000**	**$ 0.20**

On February 10, 2020, the Company granted 500,000 options to purchase common shares of the Company to a director. Each option is exercisable at a price of $0.37 for a five year term. A fair value of $133,500 was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.36 expected volatility of 100%, a risk-free rate of return of 1.31% and an expected life of 5 years. The options vest at a rate of one third every six months from the date of grant.

On July 6, 2020, the Company granted 400,000 options to purchase common shares of the Company to a consultant. Each option is exercisable at a price of $0.35 for a one year term. A fair value of $38,360 was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.29 expected volatility of 100%, a risk-free rate of return of 0.25% and an expected life of 1 year. The options vest at a rate of 50% 90 days post grant date, and the remaining 50% 180 days post grant date.

(Expressed in Canadian Dollars)

15. STOCK OPTIONS (Continued)

On February 4, 2021, the Company granted 500,000 options to an officer of the Company, exercisable at $0.34 per share, expiring February 4, 2026. Each option is exercisable at a price of $0.34 for a five year term. A fair value of $127,900 was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.35 expected volatility of 100%, a risk-free rate of return of 0.47% and an expected life of 5 years. The options vested immediately on the date of grant.

On March 19, 2021 the Company granted 500,000 options to a director of the Company, exercisable at $0.50 per share, expiring March 19, 2024. Each option is exercisable at a price of $0.50 for a three year term. A fair value of $56,300 was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.24 expected volatility of 100%, a risk-free rate of return of 0.53% and an expected life of 3 years. The options vest at a rate of one third every six months from the date of grant.

On April 15, 2021, the Company granted 100,000 options to a director of the Company, exercisable at $0.50 per share, expiring March 31, 2024. Each option is exercisable at a price of $0.50. A fair value of $10,760 was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.23 expected volatility of 100%, a risk-free rate of return of 2.47% and an expected life of 2.96 years. The options vested in three equal tranches on September 19, 2021, March 19, 2022 and September 19, 2022.

On May 12, 2021, 9,550,000 issued and outstanding options with exercise prices ranging from $0.37 to $0.50 and expiries between March 19, 2024 and February 10, 2025 were cancelled. Upon cancellation, the vesting of the options were accelerated, resulting in stock based compensation expenses totaling $200,553 recognized in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2021.

On July 6, 2021 the Company granted 8,150,000 options to directors and officers of the Company, exercisable at $0.13 per share, expiring July 6, 2026. Each option is exercisable at a price of $0.13 for a five year term. A fair value of $681,340 was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.115 expected volatility of 100%, a risk-free rate of return of 0.95% and an expected life of 5 years. All options granted vest immediately, with the exception of 1,500,000 which vest at a rate of 25% each year for four successive years from the anniversary date.

During the year ended December 31, 2021, the Company recognized aggregate stock based compensation expense of $1,142,539 (2020 - $3,015,308).

Expiry Date	Exercise Price	Weighted Average Life Remaining	Options Outstanding
December 9, 2024	$ 0.50	2.94 years	1,500,000
February 4, 2026	0.34	4.10 years	500,000
July 6, 2026	0.13	4.52 years	8,150,000
	$ 0.20	**4.26 years**	**10,150,000**

Of the 10,150,000 options issued and outstanding, 8,650,000 were exercisable at December 31, 2021.

(Expressed in Canadian Dollars)

16. Related Party Balances and Transactions

Remuneration of key management personnel of the Company was as follows:

		2021		2020
Remuneration paid for key management	**$**	**758,898**	$	510,540
Stock-based compensation	**$**	**790,559**	$	1,627,707

The Company defines key management as the Company's Directors and Officers of the Company.

As at December 31, 2021, amounts due to key management totaled $23,847 (December 31, 2020 - $80,000) pertaining to amounts payable for key management remuneration, and reimbursement of expenses paid on behalf of the Company. Included in prepaid and sundry receivables is $10,000 (December 31, 2020 - $11,532), pertaining to expense advances.

During the year ended December 31, 2021, the Company expensed $63,950, (2020 - $30,540) to Marrelli Support Services Inc. and DSA Corporate Services Inc. ("Marrelli Group") and for:

(i) Robert D.B. Suttie, President of Marrelli Support Services Inc., to act as Chief Financial Officer ("CFO") of the Company;
(ii) Regulatory filing services
(iii) Corporate secretarial services

The Marrelli Group is also reimbursed for out of pocket expenses.

As of December 31, 2021, the Marrelli Group was owed $21,040 (2020 - $7,500). These amounts are included in accounts payable and accrued liabilities.

On January 2, 2017 the Company entered into consulting agreements (the "Consulting Agreements") with two shareholders (collectively the "Consultants") whereby each of the Consultants provide financial, strategic and advisory services to the Company. During the year ended December 31, 2021, the two consultants who are shareholders of the Company were paid $26,000 and $16,150, respectively (2020 - $164,000 and $114,000, respectively) for additional financial, strategic and advisory services to the Company. As at December 31, 2021, $nil (2020 - $81,096) was included in accounts payable and accrued liabilities pertaining to these fees. Included in stock-based compensation is $33,814 (2020 - $288,089) pertaining to the value of stock options granted to the two Consultants during the years then ended.

During the year ended December 31, 2021, the Company expensed $76,040 (2020 - $51,424) for legal services provided by a firm, a partner of which is a director of the Company. As at December 31, 2021, $42,938 (2020 - $9,172) was included in accounts payable and accrued liabilities.

The above noted transactions are in the normal course of business and are measured at the exchange amount, as agreed to by the parties, and approved by the Board of Directors in strict adherence to conflict of interest laws and regulations.

17. Segmented Information

The Company's operations consist of a single operating segment, located in Canada. During the year ended December 31, 2021, 73% (2020 - 78%) of sales were to US customers and 16% (2020 - 19%) being sold to customers in Canada. The Company's remaining customers are distributed widely throughout the world.

(Expressed in Canadian Dollars)

18. Net Loss Per Share

The calculation of basic and diluted loss per share for the year ended December 31, 2021 was based on the loss attributable to common shareholders of $6,086,881 (2020 - $7,588,239), and the weighted average number of common shares outstanding of 141,585,537 (2020 - 111,940,355). Options and warrants have been excluded from the weighted average number of common shares outstanding as they are antidillutive.

19. Prepaid and Sundry receivable

	2021	2020
Refundable GST/HST	**$ 214,815**	$ 328,809
Prepaid expenses	**24,244**	76,891
Manufacturing deposits	**778,821**	309,788
Eligible advances (note 11)	**39,718**	-
	$ 1,057,598	$ 715,488

20. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2020 - 26.5%) to the effective rate is as follows:

	2021	2020
Loss before income taxes	**$ (6,086,881)**	$ (7,588,239)
Expected income tax expense (recovery)	**$ (1,613,023)**	$ (2,010,883)
Tax rate changes and other adjustments	**(108,167)**	1,144
Stock based compensation and non-deductible expenses	**303,524**	818,824
Share issuance cost booked directly to equity	**(56,125)**	-
Change in tax benefits not recognized	**1,473,791**	1,190,915
Income tax expense (recovery)	**$ -**	$ -

Unrecognized Deferred Tax Assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

Deferred tax assets and liabilities are attributable as follows:

	2021	2020
Property, plant and equipment	**$ 40,890**	$ 112,039
Intangible assets	**430,201**	592,286
Share issuance costs	**944,770**	760,969
Non-capital losses carried forward	**15,729,731**	10,128,825
Other temporary differences	**20,000**	10,000
	$17,165,592	$11,604,119

(Expressed in Canadian Dollars)

20. Income Taxes (Continued)

The Canadian non-capital loss carryforwards expire as noted in the above table. Share issue and financing costs will be fully amortized in 2025. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been fully recognized in respect of these items because it is not probable that future profit will be available against which the Company can use the benefits therefrom.

The Canadian non-capital loss carryforwards expire as noted in the table below:

2032	$ 66,285
2033	31,623
2034	35,506
2036	1,531,715
2037	1,661,560
2038	1,066,881
2039	1,576,987
2040	4,614,056
2041	5,145,118
	$ 15,729,731

21. Cost of Goods Sold

Cost of goods sold is comprised of the following:

	2021	2020
Manufactured product cost	**$ 967,176**	$ 1,094,684
Shipping expenses	**334,293**	168,984
Fulfillment services	**12,359**	65,926
Brokerage fees	**4,451**	6,700
Commissions	**152,387**	166,109
E-commerce fees	**84,851**	94,201
Other	**12,131**	15,357
	$ 1,567,648	$ 1,611,961

22. Subsequent Events

i. On January 13, 2022, the Company granted 500,000 options to purchase common shares of the Company exercisable at a price of $0.10 per common share and expiring on January 13, 2025, to a director of the Company. The options vested immediately on the date of grant.

ii. On February 7, 2022, the Company entered into a loan agreement with an arm's length lender whereby the lender agreed to advance $500,000 under the terms of a promissory note. The maturity date of the loan was three months from the date of the promissory note, which could be further extended by the lender for an additional three months. The rate of interest is 12% per annum. The loan will be secured by a general security interest over the assets of the Company. Under the general security agreement, the Company will agree, among other things, to not sell, lease or otherwise dispose of its assets, other than in the normal course, without prior written consent of the note holders. In connection with the loan, the Company issued to the lender common share purchase warrants to purchase up to 5,000,000 common shares of the Company exercisable at a price of $0.10 per share for a period of three years from the date of issuance. As of the date of these financial statements, the loan remains outstanding with its maturity date extended by the lender to February 7, 2023.

(Expressed in Canadian Dollars)

22. Subsequent Events (Continued)

iii. On February 18, 2022, the Company issued 850,000 stock options pursuant to a marketing service agreement. The options have an exercise price of $0.10 and expiring on February 18, 2025 and vested upon grant. On March 1, 2022, these options were exercised into common shares of the Company for gross proceeds of $85,000.

iv. In February 2022, the Company issued 491,228 common shares in settlement of $46,666 of debt.

v. On March 15, 24 and April 5, 2022, the Company closed three tranches of a non-brokered private placement to the Company through the issuance of an aggregate of 3,050,000 units at a price of $0.10 per unit for aggregate gross proceeds of $305,000. Each unit consists of one common share and one common share purchase warrant (each whole warrant, a “Warrant”). Each Warrant entitles the holder thereof to purchase one Common Share at a price of $0.10 per Common Share for a period of thirty-six months from the closing of the offering. In connection with the private placement, the Company issued 244,000 broker warrants exercisable for $0.10 per broker warrant into an additional unit with identical terms to those seen in the non-brokered private placement for a period of 36 months from the date of grant. Cash commissions of $18,400 and legal fees of $30,000 were paid.

vi. On May 26, 2022, the Company issued a grid promissory note dated May 26, 2022 and amended on August 12, 2022 with an arm’s length lender whereby the lender agreed to advance up to $500,000 (in $100,000 increments if and as needed) to the Company. The loan will primarily be used for working capital purposes, taking the form of a promissory note in favour of the Lender, maturing on May 1, 2023. bearing interest at a rate of 8% per annum. The Company has agreed to pay a monthly royalty of 3.5% from net sales for every $100,000 loaned to the Company, subject to a maximum monthly royalty of $10,000 per $100,000. The royalty will exist until the Loan is repaid in full. To date, $300,000 has been drawn from this promissory note.

vii. On August 12, 2022, the Company entered into a revised settlement agreement with respect to the loan payable described in note 12, whereby a structured repayment plan was established, with repayments commencing as follows:

August 31, 2022 (paid subsequent to December 31, 2021)	$	20,000 USD
September 30, 2022 (paid subsequent to December 31, 2021)		20,000 USD
October 31, 2022 (paid subsequent to December 31, 2021)		20,000 USD
November 30, 2022		196,717 USD
December 31, 2022		196,717 USD
	$	**453,434 USD**

vii. Subsequent to the year ended December 31, 2021, the Company entered into three working capital advances from its e-commerce service provider, receiving upfront advancements totaling $120,000, $152,500 and $315,000. Under the terms of the agreements, the Company shall remit amounts totaling $135,600, $167,750 and $355,950 respectively as full repayment for principal and implied interest on the advancements. Payments are required to be made daily based on 17%, 15% and 9% of the Company's daily sales until such time that the remittances are repaid in full.