# American Aires Inc.

**CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**
**(EXPRESSED IN CANADIAN DOLLARS)**

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# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of **American Aires Inc.**

*Opinion*

We have audited the accompanying consolidated financial statements of **American Aires Inc.** (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of **American Aires Inc.** as at December 31, 2022 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

*Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits 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.

*Key Audit Matters*

We have determined that there are no key audit matters to communicate in our report.

*Emphasis of Matter*

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, 2022 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 Matter*

The consolidated financial statements of the Company for the year ended December 31, 2021, were audited by another auditor who had expressed an unmodified opinion on those statements on November 1, 2022.

*Information Other than the Consolidated Financial Statements and Auditor's Report Thereon*

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis and any statutory or other reports which may include financial information.

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 audit 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 audit or otherwise appears to be materially misstated. If, based on the work we have performed, 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 these 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 Audits 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 judgement 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. As noted above, we have determined that there are no key audit matters to communicate in our report.

The engagement partner on the audit resulting in this independent auditor’s report is Umair Tasadduq.

AGT Partners LLP

**Woodbridge, Canada** **LICENSED PUBLIC ACCOUNTANTS**

**April 5, 2023**

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

| As at December 31, | | 2022 | 2021 |
|---|---|---|---|
| | | (note 23) | (note 24) |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **$ 196,103** | $ 275,696 |
| Prepaid and sundry receivable | (note 19) | **410,000** | 1,057,598 |
| Accounts receivable | | **-** | 615 |
| Inventory | | **509,825** | 409,282 |
| | | **1,115,928** | 1,743,191 |
| **Non-current assets** | | | |
| Furniture and equipment | (note 6) | **20,608** | 11,504 |
| Intellectual property | (note 5) | **384,428** | 512,571 |
| | | **405,036** | 524,075 |
| **Total assets** | | **$ 1,520,964** | $ 2,267,266 |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | (note 16) | **$ 1,896,033** | $ 649,047 |
| Deferred revenue | | **220,775** | 6,828 |
| Provision for sales returns | | **20,502** | - |
| Marketing loan payable | (note 8) | **-** | 149,534 |
| Working capital loan payable | (note 9) | **480,170** | 553,510 |
| E-commerce platform loan payable | (note 10) | **174,710** | - |
| | | **2,792,190** | 1,358,919 |
| **Non-current liabilities** | | | |
| Government loan payable | (note 7) | **60,000** | 60,000 |
| Promissory note payable | (note 11) | **553,753** | - |
| Grid promissory note payable | (note 12) | **513,309** | - |
| | | **1,127,062** | 60,000 |
| **Total Liabilities** | | **3,919,252** | 1,418,919 |
| | | | |
| **Shareholders' equity** | | | |
| Share capital | (note 13) | **16,048,006** | 15,791,739 |
| Contributed surplus | | **6,136,624** | 5,556,624 |
| Accumulated other comprehensive loss | | **(174,053)** | - |
| Deficit | | **(24,408,865)** | (20,500,016) |
| **Total shareholders' equity** | | **(2,398,288)** | 848,347 |
| **Total liabilities and shareholders' equity** | | **$ 1,520,964** | $ 2,267,266 |

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, | | 2022 | 2021 |
|---|---|---|---|
| | | (note 23) | (note 24) |
| **Revenue** | | | |
| Sales | | **$ 5,822,140** | $ 2,553,061 |
| Cost of sales | (note 21) | **(2,286,410)** | (1,415,260) |
| Gross margin | | **3,535,730** | 1,137,801 |
| **Expenses** | | | |
| Advertising and promotion | (note 24) | **2,443,604** | 1,366,800 |
| Marketing | (note 16) | **1,970,265** | 1,858,426 |
| Consulting fees | (note 16) | **806,757** | 1,056,390 |
| Foreign exchange | | **-** | 104,772 |
| Interest charges | (notes 8 to 12) | **502,089** | 93,813 |
| Equity-based finance charge | (notes 11 and 16) | **353,000** | - |
| Office and general | | **329,180** | 682,528 |
| Professional fees | | **283,864** | 271,136 |
| Rent expense | | **16,420** | 50,365 |
| Research and development | | **5,500** | - |
| Salaries and benefits | (note 16) | **443,155** | 453,786 |
| Travel expense | | **12,718** | 21,152 |
| Stock-based compensation | (note 13) | **139,667** | 1,142,539 |
| Gain on settlement of debt | (note 13) | **-** | (7,369) |
| Depreciation | (note 6) | **138,359** | 130,344 |
| | | **7,444,578** | 7,224,682 |
| **Net loss for the year** | | **(3,908,848)** | (6,086,881) |
| Other comprehensive loss for the year | | | |
| Foreign exchange | (note 23) | **(174,053)** | - |
| **Net loss and comprehensive loss for the year** | | **$ (4,082,902)** | $ (6,086,881) |
| **Basic and diluted net loss per share** | (note 18) | **(0.03)** | (0.04) |
| **Weighted average number of common shares outstanding, basic and diluted** | (note 18) | **157,879,082** | 141,585,537 |

*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 of Shares | Share Capital Amount | Contributed Surplus | Deficit (note 23) | Other Comprehensive Loss (note 23) | Total |
|---|---|---|---|---|---|---|---|
| **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 13,14) | - | (471,814) | 471,814 | - | - | - |
| Issuance of finders warrants | (note 13,14) | - | (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** |
| Private placement, net of costs | (note 13) | 3,050,000 | 258,600 | - | - | - | 258,600 |
| Issuance of warrants | (notes 13,14) | - | (180,000) | 180,000 | - | - | - |
| Issuance of finders warrants | (notes 13,14) | - | (14,000) | 14,000 | - | - | - |
| Stock-based compensation | (notes 13,15) | 491,228 | 46,667 | 93,000 | - | - | 139,667 |
| Exercise of options | (notes 13,15) | 850,000 | 145,000 | (60,000) | - | - | 85,000 |
| Issuance of warrants in connection to debt | (notes 11,14) | - | | 353,000 | - | - | 353,000 |
| Net loss for the year | | - | - | - | (3,908,848) | - | (3,908,848) |
| Other comprehensive loss for the year | | - | - | - | - | (174,053) | (174,053) |
| **Balance, December 31, 2022** | | **158,756,453** | **$16,048,006** | **$6,136,624** | **$(24,408,864)** | **$ (174,053)** | **$(2,398,288)** |

*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 years ended December 31, | 2022 | 2021 |
|---|---|---|
| **Operating activities** | | |
| Net loss and comprehensive loss for the year | **$ (4,082,902)** | $ (6,086,881) |
| Depreciation | **138,359** | 130,344 |
| Gain on settlement of debt | **-** | (7,369) |
| Stock-based compensation | **139,667** | 1,142,539 |
| Equity-based finance charges | **353,000** | - |
| Shares issued in exchange for services | **-** | 33,750 |
| Foreign exchange | **-** | (22,990) |
| Interest expense | **502,089** | 93,634 |
| Non-cash working capital items: | | |
| Accounts receivable | **615** | 76 |
| Prepaid and sundry receivable | **647,598** | (302,392) |
| Inventory | **(100,543)** | (144,826) |
| Deferred revenue | **213,947** | (61,376) |
| Accounts payable and accrued liabilities | **2,218,013** | 2,193,921 |
| Provision for sales returns | **20,502** | - |
| | **50,345** | (3,031,570) |
| **Investing activities** | | |
| Acquisition of furniture and equipment | **(20,448)** | (12,736) |
| Proceeds on disposition of assets | **1,128** | - |
| | **(19,320)** | (12,736) |
| **Financing activities** | | |
| Proceeds from issuance of shares | **343,600** | 4,141,314 |
| Proceeds from government loan | **-** | 20,000 |
| Proceeds from promissory note | **500,000** | - |
| Proceeds from grid promissory note | **500,000** | - |
| Proceeds from e-commerce platform loan | **792,500** | - |
| Repayments on marketing loan payable | **(649,534)** | (190,110) |
| Repayments on working capital loan payable | **(595,413)** | (1,153,086) |
| Repayments on grid promissory note | **(117,720)** | - |
| Repayments on e-commerce platform loan | **(617,790)** | - |
| Interest paid | **(266,261)** | - |
| | **(110,618)** | 2,818,118 |
| **Net change in cash** | **(79,593)** | (226,188) |
| **Cash, beginning of the year** | **275,696** | 501,884 |
| **Cash, end of the year** | **$ 196,103** | $ 275,696 |
| **Supplemental Disclosure of Non-cash Transactions** | | |
| Accounts payable and accrued liabilities settled through loan payable | **$ 971,027** | $ 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 engaged in the 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 $24,408,865 as of December 31, 2022 (2021 - $20,500,016) and incurred a loss of $3,908,848 for the year ended December 31, 2022 (2021 - $6,086,881). The Company had a working capital deficiency of $1,676,262 as at December 31, 2022 (2021 – working capital of $384,272).

Management has taken steps to improve the Company's financial position, including the implementation of cost-cutting measures, capital-raising efforts, and the exploration of strategic alternatives.

The Company's ability to continue as a going concern is dependent on its ability to generate sufficient cash flows from operations to meet its obligations, obtain additional financing, and ultimately achieve profitable operations. There can be no assurance that the Company will be successful in these efforts. If the Company is unable to generate sufficient cash flows from operations, obtain additional financing or achieve profitable operations, it may be required to curtail or cease operations, which could have a material adverse effect on the Company's financial position, results of operations, and cash flows.

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 financing and or capital, the Company's assets may not be realized or its liabilities get discharged at their carrying amounts and these differences could be material.

## 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, 2022.

These consolidated financial statements were approved by the Board of Directors on April 5, 2023.

### Basis of Measurement

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

### Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency whereas its functional currency is the US dollars. Due to the global nature of the Company's operations, the use of the US dollars as functional currency is more efficient and appropriate. Accordingly, the Company's consolidated financial statements have been translated into its presentation currency according to IAS 21 on the following basis:

(a) assets and liabilities are translated to Canadian dollars at the closing rate at the date of the consolidated statement of financial position;

(b) income and expenses for each statement presenting profit or loss and other comprehensive income or loss are translated at exchange rates at the dates of the transactions;

(c) all resulting exchange differences are recognised in other comprehensive income or loss.

The Company presents its consolidated financial statements in Canadian currency because its shares are listed on a Canadian stock exchange and its shareholders and sources of financing are largely Canadian based.

### 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.

### 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").

Financial assets other than cash and cash equivalents are all classified and measured at amortized cost. Cash and cash equivalents are measured at fair value. All financial liabilities are classified and measured at amortized cost.

### Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of financial position is comprised of cash at banks as well as money market instruments. The Company's cash and cash equivalents are maintained with major financial institutions. With the exception of a GIC of $40,000 which is maintained as security for the Company's credit cards, all funds are available on demand.

### 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 first-in-first-out method. Obsolete inventories are written down to their estimated net realizable value. There has been no impairment of inventory during the years ended December 31, 2022 and 2021.

### 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. The Company has recorded a provision for sales returns of $20,502 as at December 31, 2022 (2021 - $nil).

### 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 taxes with regards to previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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 for losses 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 computer equipment using the declining balance method at rates of 20% and 50%, 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.

### Equity Instruments Issued with Warrants

The Company uses the residual method with respect to the measurement of common shares units that include warrants. The fair value of warrants is determined using the Black-Scholes option pricing model and the difference between the proceeds raised and the value assigned to the warrants is the residual fair value of the shares.

The value of the warrants issued is charged to share capital and credited to contributed surplus. If and when the warrants are exercised, the applicable amounts are credited back to share capital along with the consideration received on the exercise of the warrants. For those warrants that are not exercised and expire the recorded value remains indefinitely in contributed surplus.

Warrants issued on a stand-alone basis in lieu of options are treated and valued as share-based payments.

### Share-based Payments

Equity-settled share-based payments to employees and others providing similar services are measured at fair value at the grant date using the Black-Scholes option pricing model. The fair value is recognized over the period in which options vest.

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 are recorded as increases to share capital. For those options that expire after vesting, the recorded fair value remains 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 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 denominator to include the weighted average number of common shares outstanding plus 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 electromagnetic protection devices. Revenue is recognized when the product is received by the customer 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.

### Deferred Revenue

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

### 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.

### 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 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, relate to, but are not limited to, the following:

Income Taxes and Recovery of Deferred Tax Assets

The measurement of income taxes payable and deferred income tax assets and liabilities requires 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, 2022 and 2021 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 using of a 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 which are determined through the exercise of judgment.

### Accounting Pronouncements Adopted During the Year

There were no accounting pronouncements adopted during the year ended December 31, 2022.

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 in April 2020. The amendments clarify the requirements for classifying liabilities as either current or non-current by specifying the conditions which exist at the end of the reporting period that determine if a right to defer settlement of a liability exists. The amendments apply on or after January 1, 2023. Early application is permitted. The adoption of the above 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 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.

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 in September 2021.The amendments 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 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.

## 3. Capital Management

The Company manages its capital with the following objectives:

(a) to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities; and

(b) to maximize shareholder return through enhancing share value

**(Expressed in Canadian Dollars)**

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, accumulated other comprehensive loss and deficit, which at December 31, 2022 was negative $2,398,288 (2021 - $848,347). 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, 2022 and 2021.

## 4. Financial Instruments and Risk Management

Fair Values

The carrying value of all of the Company’s financial instruments (assets and liabilities) approximate their fair values due to the 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.

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 and prepaid and sundry receivables. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents are in accounts at reputable financial institutions, from which the risk of loss is remote. The Company’s customer base is well diversified with no reliance on any one client. Sundry receivables consist primarily of advances to the Company’s supplier of its electromagnetic protection devices. The Company has a long relationship with the supplier and assesses the risk of loss as low.

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 capital markets is hindered, whether due to the general state of the economy or conditions specific to the Company. As at December 31, 2022, the Company had cash and cash equivalents of $196,103 (2021 - $275,696) to settle current liabilities of $2,792,190 (2021 - $1,358,919). 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 yet generate profits, managing liquidity risk is dependent upon the ability to secure additional financing, controlling expenses, and preserving cash. The following table shows the remaining contractual maturities of financial liabilities as at December 31, 2022 and 2021, including the estimated interest and royalty payments of $587,772 (2021 - $97,809). It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

| **December 31, 2022** | **Carrying amount** | **Contractual cash flows** | **Current** | **Long term** |
|---|---|---|---|---|
| Accounts payable & accrued liabilities | $ 1,896,033 | $ 1,896,033 | $ 1,896,033 | $ - |
| Government loan | 60,000 | 60,000 | - | 66,000 |
| Current Loans | 654,880 | 672,180 | 672,180 | - |
| Long term loans | 1,067,062 | 1,637,644 | 359,738 | 1,277,906 |

| **December 31, 2021** | **Carrying amount** | **Contractual cash flows** | **Current** | **Long term** |
|---|---|---|---|---|
| Accounts payable & accrued liabilities | $ 649,047 | $ 649,047 | $ 649,047 | $ - |
| Government loan | 60,000 | 60,000 | - | 66,000 |
| Other Loans | 703,044 | 800,853 | 800,853 | - |

**(Expressed in Canadian Dollars)**

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's borrowings are at fixed rates of interest. Although it is not exposed to interest rate risk on its current borrowings, because of its heavy reliance on borrowing there is a risk that future costs of borrowing will increase if interest rates rise further.

(ii) Foreign Exchange Risk

The Company's functional currency is the United States Dollar and it transacts all its sales and major purchases primarily in that currency. To fund its operations, the Company maintains United States Dollar, Canadian Dollar and Euro denominated bank accounts, containing sufficient funds to support monthly forecasted cash outflows. Management does not hedge its foreign exchange risk. As at December 31, 2022, a 5% fluctuation in the foreign exchange rate would have an impact of approximately $43,837 (December 31, 2021 - $34,616) in the Company's consolidated statements of loss and comprehensive loss.

## 5. Intellectual Property

| | | |
|---|---|---|
| **Balance, December 31, 2020** | **$** | **640,714** |
| Depreciation | | (128,143) |
| **Balance, December 31, 2021** | **$** | **512,571** |
| Depreciation | | (128,143) |
| **Balance, December 31, 2022** | **$** | **384,428** |

## 6. Furniture and Equipment

| Cost | | Furniture and Fixtures | | Computer Equipment | | Total |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2020** | | - | | 3,461 | | 3,461 |
| Additions | | - | | 12,736 | | 12,736 |
| Dispositions | | - | | - | | - |
| **Balance, December 31, 2021** | | **-** | | **16,197** | | **16,197** |
| Additions | | 1,812 | | 18,636 | | 20,448 |
| Dispositions | | - | | (1,770) | | (1,770) |
| **Balance, December 31, 2022** | **$** | **1,812** | **$** | **33,063** | **$** | **34,875** |

| Accumulated Depreciation | | Furniture and Fixtures | | Computer Equipment | | Total |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2020** | | - | | 2,492 | | 2,492 |
| Depreciation | | - | | 2,201 | | 2,201 |
| Dispositions | | - | | - | | - |
| **Balance, December 31, 2021** | | **-** | | **4,693** | | **4,693** |
| Depreciation | | 181 | | 10,035 | | 10,216 |
| Dispositions | | - | | (642) | | (642) |
| **Balance, December 31, 2022** | **$** | **181** | **$** | **14,086** | **$** | **14,267** |

| Carrying Value | | Furniture and Fixtures | | Computer Equipment | | Total |
|---|---|---|---|---|---|---|
| At December 31, 2021 | $ | - | $ | 11,504 | $ | 11,504 |
| **At December 31, 2022** | **$** | **1,630** | **$** | **18,977** | **$** | **20,608** |

During the year ended December 31, 2022, the Company disposed of a computer with a carrying value of $1,128 for gross proceeds of $1,770, resulting in a gain on disposition of assets totaling $642 recognized in the consolidated statements of loss and comprehensive loss.

**(Expressed in Canadian Dollars)**

## 7. Government Loan

As a response to COVID-19, the Canadian Federal government introduced the CEBA for businesses that met various eligibility requirements. The purpose of the CEBA loan was to support businesses and employers to meet their non-deferrable expenses. The loan is interest free until December 31, 2023 and there is a forgivable portion of $20,000 if repaid on or before December 31, 2023 after which the unpaid balance is subject to interest of 5% per annum and the loan is due on December 31, 2025. The Company has not recognized any forgiveness revenue 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.

## 8. Marketing Loan & Revenue Share Loan Payable

On June 9, 2021, the Company obtained a working capital loan. The terms of the agreement require the Company to make daily repayments based on 20% of daily sales. The implied interest rate is 12% per annum if repaid over a one-year term. Advances taken are subject to a 6% discount, provided that no event of default occurs throughout the term of the arrangement.

On June 17, 2022, the Company entered into a revenue share agreement with the same lender whereby on June 29, 2022 it received an advance of $543,887, comprising a new advance of $500,000 and the unpaid balance of the 2021 advance of $43,887. This total amount repayable was $608,887 resulting in a financing charge of $65,000. Repayments were made on a daily basis based on 20% of the Company's sales. The advance and finance charge were repaid in full by November 21, 2022. The annualized interest rate on this advance is upwards of 30%. The exact interest amount and therefore rate cannot be determined as there is insufficient information to amortize repayments between principal and interest. The Company recognized interest expense totaling $67,458 in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2022 (2021 - $12,144). The following is a continuity of the marketing loan payable:

| | | |
|---|---|---|
| **Balance, December 31, 2020** | **$** | **-** |
| Eligible Advances | | 327,500 |
| Repayments | | (190,110) |
| Interest | | 12,144 |
| **Balance, December 31, 2021** | **$** | **149,534** |
| Eligible Advances | | 500,000 |
| Repayments | | (716,992) |
| Interest | | 67,458 |
| **Balance, December 31, 2022** | **$** | **-** |

## 9. Working Capital Loan Payable

During the years ended December 31, 2022 and 2021, the Company entered into a series of working capital loan facility 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 at a rate of 1% for each 30-day period. During the year ended December 31, 2022, the lender paid invoices on behalf of the Company amounting to US$370,926/CAD$471,027 (2021 - US$1,303,076/CAD $1,648,084) for which the Company made repayments of both principal and interest totaling US$480,654/CAD$625,764 (2021 - US $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. The Company recognized interest expense totaling $30,351 in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2022 (2021 - $81,490). The following is a continuity of the working capital loan payable:

| | | |
|---|---|---|
| **Balance, December 31, 2020** | **$** | **-** |
| Debt Issued | | 1,648,084 |
| Repayments | | (1,153,086) |
| Interest | | 81,490 |
| Foreign Exchange | | (22,978) |
| **Balance, December 31, 2021** | **$** | **553,510** |

**(Expressed in Canadian Dollars)**

| | | |
|---|---|---|
| Debt Issued | | 471,027 |
| Repayments | | (625,764) |
| Interest | | 30,351 |
| Foreign Exchange | | 51,046 |
| **Balance, December 31, 2022** | **$** | **480,170** |

## 10. E-commerce platform loan payable

During the year ended December 31, 2022, the Company received a series of working capital advances from its e-commerce service provider. Under the terms of the agreements, the Company shall remit amounts totaling $886,850 as full repayment for principal and implied interest on the advances. Payments are required to be made daily based on a percentage (varies between 8% and 17% depending on the advance) of the Company's daily sales until such time that the advances are repaid in full. The financing charge related to the paid portion of the loan has been recorded as interest expense in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2022. The annualized interest rate on these advances is upwards of 27%. The exact interest amount and therefore rate cannot be determined as there is insufficient information to amortize repayments made between principal and interest. The following is a continuity of the e-commerce platform loan payable:

| | | |
|---|---|---|
| **Balance, December 31, 2020 and 2021** | **$** | **-** |
| Advances | | 792,500 |
| Repayments | | (679,709) |
| Interest | | 61,919 |
| **Balance, December 31, 2022** | **$** | **174,710** |

## 11. Promissory note payable

On February 7, 2022, the Company entered into a loan agreement with a related party (Note 16) whereby the lender advanced $500,000 via a promissory note. The maturity date of the loan is May 7, 2024. The rate of interest is 12% per annum. The loan is secured by a general security interest over the assets of the Company. The Company has undertaken, 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 holder. In connection with this loan, the Company issued the lender 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 issue. During the year ended December 31, 2022, the Company incurred interest expense of $53,753 (unpaid as at December 31, 2022) and a financing fee of $20,000 (deducted from initial disbursement) and both have been recorded as interest expense in the consolidated statements of loss and comprehensive loss. The unpaid interest has been added to the principal amount of the loan.

A fair value of $353,000 was assigned to the warrants issued, estimated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, share price of $0.095, expected volatility of 130%, a risk-free rate of return of 1.43% and an expected life of 3 years. The fair value of warrants issued has been accounted for as an equity-based finance charge (as it is not related to raising capital) and expensed in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2022.

## 12. Grid promissory note payable

The Company issued a grid promissory note dated May 26, 2022, amended on August 12, 2022 and December 7, 2022 with an arm’s length lender for advances up to $500,000 (in $100,000 increments as needed). The loan matures on February 28, 2024 and bears interest at a rate of 8% per annum. In addition, the Company has agreed to pay a monthly royalty of 3.5% of net sales for every $100,000 loaned, subject to a maximum monthly royalty of $10,000 per $100,000. The royalty will exist until the loan is repaid in full. During the year ended December 31, 2022, the Company incurred interest expense of $12,716 ($11,291 unpaid as at December 31, 2022) and royalty expense of $210,000 ($119,738 unpaid as at December 31, 2022) and both have been recorded as interest expense in the consolidated statements of loss and comprehensive loss.

**(Expressed in Canadian Dollars)**

| | | |
|---|---|---|
| **Balance, December 31, 2021** | **$** | **-** |
| Advances | | 500,000 |
| Repayments | | (209,407) |
| Royalty | | 210,000 |
| Interest | | 12,716 |
| **Balance, December 31, 2022** | **$** | **513,309** |

## 13. Share Capital

(a) Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

(b) Issued and outstanding - Common Shares

| | Common Shares | | Amount |
|---|---|---|---|
| **Balance, December 31, 2020** | **118,870,000** | **$** | **11,690,924** |
| Exercise of warrants (i) | 16,850,000 | | 2,601,640 |
| Shares issued on settlement of debt (ii) | 776,942 | | 99,298 |
| Units issued on settlement of debt (iii) | 1,299,950 | | 116,230 |
| Shares issued in exchange for services (iv) | 250,000 | | 33,750 |
| Private placements, net of costs (v) | 16,318,333 | | 1,782,314 |
| Issuance of warrants (v) | - | | (471,814) |
| Issuance of finders warrants (v) | - | | (60,603) |
| **Balance, December 31, 2021** | **154,365,225** | **$** | **15,791,739** |
| Private placement, net of costs (vi) | 3,050,000 | | 258,600 |
| Issuance of warrants (vi) | - | | (180,000) |
| Issuance of finders warrants (vi) | - | | (14,000) |
| Shares issued as stock-based compensation (vii) | 491,228 | | 46,667 |
| Exercise of stock options (viii) | 850,000 | | 145,000 |
| **Balance, December 31, 2022** | **158,756,453** | **$** | **16,048,006** |

(i) 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.

(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 comprised 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 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.

(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 comprised 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 after four months from closing of the private placement and prior to the expiry date of the warrants if the volume weighted average price of the Company's 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. 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 Company incurred cash costs of $47,094 for this transaction and in addition issued 315,000 finders' warrants. The 315,000 finders warrants 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 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.

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 comprised 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. The terms of the "Acceleration Event" are the same as in the previous paragraph except that the weighted average price has to exceed $0.30 for 10 consecutive trading days at any time following the date of issuance. 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 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. The Company incurred cash costs of $35,650 and in addition issued 355,500 finders' warrants. The 355,500 finders warrants 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 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.

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 comprised 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. The terms of the "Acceleration Event" are the same as in the previous paragraph except that the weighted average price has to exceed $0.30 for 10 consecutive trading days at any time following the date of issuance. 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 Company incurred cash costs of $28,800 and in addition issued 288,000 finders' warrants, each exercisable into a common share. The 288,000 finders warrants 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 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.

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 comprised 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. The terms of the "Acceleration Event" are the same as in the previous paragraph except that the weighted average price has to exceed $0.30 for 10 consecutive trading days at any time following the date of issuance. 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 Company incurred cash costs of $39,642 and in addition issued 193,500 finders' warrants. The 193,500 finders warrants 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 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.

**(Expressed in Canadian Dollars)**

(vi) On March 15, March 24 and April 5, 2022, the Company closed three tranches of a non-brokered private placement and issued an aggregate of 3,050,000 units at a price of $0.10 per unit for gross proceeds of $305,000. Each unit comprises one common share and one common share purchase warrant which entitles the holder to purchase one common share for a period of thirty-six months from the closing of the offering. The 3,050,000 warrants issued have an exercise price of $0.10 and a three-year term. A fair value of $180,000 was assigned to these warrants, estimated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, share price of between $0.07 and $0.095, expected volatility of 130%, a risk-free rate of return of between 1.82% to 2.40% and an expected life of 3 years. Cash costs of issue amounted to $46,400 in aggregate. In addition the Company issued 244,000 finders warrants exercisable for $0.10 per warrant with identical terms as the non-brokered private placement warrants above. A fair value of $14,000 was assigned to these warrants, estimated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, share price of between $0.07 and $0.095, expected volatility of 130%, a risk-free rate of return of between 1.82% to 2.40% and an expected life of 3 years.

(vii) During the year ended December 31, 2022, the Company issued 491,228 common shares in exchange for services provided to the Company, valued at $46,667.

(viii) During the year ended December 31, 2022, the Company issued 850,000 common shares, on the exercise of stock options for proceeds of $85,000. Upon exercise, an amount of $60,000 was transferred from contributed surplus to share capital.

## 14. Warrants

The following table reflects the continuity of warrants for the years ended December 31, 2022 and 2021:

| | Warrants Outstanding | Weighted Average Exercise Price |
|---|---|---|
| **Balance, December 31, 2020** | **18,866,000** | **$0.16** |
| Issued | 14,207,583 | $0.21 |
| Exercised | (16,850,000) | $0.14 |
| Expired | (2,016,000) | $0.30 |
| **Balance, December 31, 2021** | **14,207,583** | **$0.21** |
| Issued | 8,294,000 | $0.10 |
| **Balance, December 31, 2022** | **22,501,583** | **$0.17** |

The following table reflects warrants outstanding as at December 31, 2022:

| Expiry Date | Exercise Price | Weighted Average Life Remaining (Years) | Warrants Outstanding | Black-Scholes Value |
|---|---|---|---|---|
| May 28, 2023 | $ 0.30 | 0.41 | 6,033,333 | $ 287,186 |
| May 28, 2023 | $ 0.15 | 0.41 | 315,000 | $ 24,666 |
| August 31, 2023 | $ 0.15 | 0.67 | 1,975,000 | $ 83,938 |
| August 31, 2023 | $ 0.10 | 0.67 | 355,500 | $ 18,567 |
| September 20, 2023 | $ 0.15 | 0.72 | 1,937,500 | $ 69,750 |
| September 20, 2023 | $ 0.10 | 0.72 | 288,000 | $ 12,726 |
| October 25, 2023 | $ 0.10 | 0.82 | 649,750 | $ 13,765 |
| December 17, 2023 | $ 0.15 | 0.96 | 2,460,000 | $ 30,940 |
| December 17, 2023 | $ 0.15 | 0.96 | 193,500 | $ 4,644 |
| February 7, 2025 | $ 0.10 | 2.10 | 5,000,000 | $ 353,000 |
| March 15, 2025 | $ 0.10 | 2.21 | 750,000 | $ 53,000 |
| March 15, 2025 | $ 0.10 | 2.21 | 60,000 | $ 4,000 |
| March 24, 2025 | $ 0.10 | 2.23 | 1,750,000 | $ 100,000 |
| March 24, 2025 | $ 0.10 | 2.23 | 140,000 | $ 8,000 |
| April 5, 2025 | $ 0.10 | 2.26 | 550,000 | $ 27,000 |
| April 5, 2025 | $ 0.10 | 2.26 | 44,000 | $ 2,000 |
| | **$ 0.17** | **1.19** | **22,501,583** | **$ 1,093,182** |

**(Expressed in Canadian Dollars)**

## 15. Stock Options

The following table reflects the continuity of stock options for the years ended December 31, 2022 and 2021:

| | Stock Options Outstanding | Weighted Average Exercise Price |
|---|---|---|
| **Balance, December 31, 2020** | **10,850,000** | **$0.49** |
| Granted (i) | 9,250,000 | $0.17 |
| Cancelled (i) | (9,550,000) | $0.49 |
| Expired | (400,000) | $0.35 |
| **Balance, December 31, 2021** | **10,150,000** | **$0.20** |
| Granted (ii) | 1,350,000 | $0.10 |
| Exercised (ii) | (850,000) | $0.10 |
| **Balance, December 31, 2022** | **10,650,000** | **$0.19** |

(i) 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. A fair value of $127,900 was assigned to these options, estimated using the Black-Scholes valuation model with the following 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. A fair value of $56,300 was assigned to these options, estimated using the Black-Scholes valuation model with the following 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. They were subsequently cancelled on May 12, 2021.

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. A fair value of $10,760 was assigned to these options, estimated using the Black-Scholes valuation model with the following 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. They were subsequently cancelled on May 12, 2021

On May 12, 2021, the Company cancelled 9,550,000 issued and outstanding options with exercise prices ranging from $0.37 to $0.50 and expiry dates between March 19, 2024 and February 10, 2025. Upon cancellation, the vesting of the options was accelerated, resulting in a stock-based compensation expense of $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. A fair value of $681,340 was assigned to these options, estimated using the Black-Scholes valuation model with the following 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 vested immediately.

(ii) On January 13, 2022, the Company granted 500,000 options to a director of the Company exercisable at a price of $0.10 for a three-year term. A fair value of $33,000 was assigned to these options, estimated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, share price of $0.10, expected volatility of 130%, a risk-free rate of return of 1.21% and an expected life of 3 years. The options vested immediately upon grant.

On February 18, 2022, the Company granted 850,000 options to a consultant exercisable at a price of $0.10 for a three-year term. A fair value of $60,000 was assigned to these options, estimated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, share price of $0.095 expected volatility of 130%, a risk-free rate of return of 1.57% and an expected life of 3 years. The options vested immediately upon grant. These options were exercised during the year and the Company issued 850,000 common shares for proceeds of $85,000. On exercise, $60,000 was transferred from contributed surplus to share capital.

During the year ended December 31, 2022, the Company recognized aggregate stock-based compensation expense of $139,667 (2021 - $1,142,539).

**(Expressed in Canadian Dollars)**

| Expiry Date | Exercise Price | Weighted Average Life Remaining | Options Outstanding |
|---|---|---|---|
| December 9, 2024 | $ 0.50 | 1.94 | 1,500,000 |
| January 13, 2025 | $ 0.10 | 2.04 | 500,000 |
| February 4, 2026 | $ 0.34 | 3.09 | 500,000 |
| July 6, 2026 | $ 0.13 | 3.52 | 8,150,000 |
| | **$ 0.19** | **3.21** | **10,650,000** |

Of the 10,650,000 options issued and outstanding, 9,150,000 were exercisable at December 31, 2022.

## 16. Related Party Balances and Transactions

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

| | **2022** | 2021 |
|---|---|---|
| Remuneration for key management | **$ 841,158** | $ 758,898 |
| Stock-based compensation | **$ 33,000** | $ 790,559 |

The Company defines key management as the Company's directors and officers of the Company.

As at December 31, 2022, amounts due to key management for remuneration totaled $54,408 (December 31, 2021- $23,847). Included in prepaid and sundry receivables is $nil (December 31, 2021 - $10,000), pertaining to expense advances.

During the year ended December 31, 2022, the Company expensed $75,678 (2021 - $63,950) to Marrelli Support Services Inc., DSA Corporate Services Inc. and DSA Filing Services Limited ("Marrelli Group") for acting as chief financial officer, regulatory filing and corporate secretarial services. As of December 31, 2022, the Marrelli Group was owed $nil (2021 - $21,040). As of December 6, 2022, the Company no longer uses the services of the Marrelli Group and has appointed a new chief financial officer.

During the year ended December 31, 2022, the Company expensed $101,081 (2021 - $76,040) for legal services provided by a firm, a partner of which was a director of the Company. As at December 31, 2022, $82,270 (2021 - $42,938) was included in accounts payable and accrued liabilities. On November 2, 2022, this director resigned from his position, but his firm continues to provide legal services to the Company.

During the year ended December 31, 2022, the Company expensed $659,243 (2021 - $nil) for digital marketing services provided by a firm controlled by an officer of the Company. As at December 31, 2022, $195,666 (December 31, 2021 - $nil) was included in accounts payable and accrued liabilities in connection with these services.

On February 7, 2022, the Company obtained a $500,000 loan from a lender whose president is also a director of the Company. Interest of $53,753 for the year was expensed but remains unpaid and has been added to the principal value of the loan. The details of this transaction are provided in Note 11 to these consolidated financial statements.

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, 2022, 78% (2021 - 73%) of sales were to US customers and 9% (2020 - 16%) being sold to customers in Canada. The Company's remaining customers are distributed widely throughout the world.

## 18. Net Loss Per Share

The calculation of basic and diluted loss per share for the year ended December 31, 2022 was based on the loss attributable to common shareholders of $3,908,848 (2021 - $6,086,881), and the weighted average number of common shares outstanding of 157,879,082 (2022 - 141,585,537). Options and warrants have been excluded from the weighted average number of common shares outstanding as they are antidilutive.

**(Expressed in Canadian Dollars)**

## 19. Prepaid and sundry receivable

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Refundable GST/HST | **$** | **6,656** | $ | 214,815 |
| Prepaid expenses | | **62,994** | | 24,244 |
| Manufacturing deposits | | **340,350** | | 778,821 |
| Eligible advances (Note 8) | | **-** | | 39,718 |
| | **$** | **410,000** | $ | 1,057,598 |

## 20. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2021 -26.5%) to the effective rate is as follows:

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Loss before income taxes | **$** | **(4,082,902)** | $ | (6,086,881) |
| Expected income tax expense (recovery) | **$** | **(1,081,969)** | $ | (1,613,023) |
| Tax rate changes and other adjustments | | **-** | | (108,167) |
| Stock based compensation and non-deductible expenses | | **130,858** | | 303,524 |
| Share issuance cost booked directly to equity | | **-** | | (56,125) |
| Tax benefits not recognized | | **951,111** | | 1,473,791 |
| 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:

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Property, plant and equipment | **$** | **50,464** | $ | 40,890 |
| Intangible assets | | **558,344** | | 430,201 |
| Share issuance costs | | **301,341** | | 944,770 |
| Non-capital losses carried forward | | **19,707,398** | | 15,729,731 |
| Other temporary differences | | **20,000** | | 20,000 |
| | **$** | **20,637,547** | $ | 17,165,592 |

The Canadian non-capital loss carryforwards expire as noted in the table below. Share issue and financing costs will be fully amortized in 2026. 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.

| | | |
|---|---|---|
| 2032 | $ | 58,916 |
| 2033 | | 31,623 |
| 2034 | | 35,506 |
| 2036 | | 1,531,715 |
| 2037 | | 1,661,560 |
| 2038 | | 1,066,686 |
| 2039 | | 1,576,987 |
| 2040 | | 4,614,056 |
| 2041 | | 5,036,183 |
| 2042 | | 4,094,166 |
| | **$** | **19,707,398** |

**(Expressed in Canadian Dollars)**

## 21. Cost of Goods Sold

Cost of goods sold is comprised of the following:

| | | **2022** | | 2021 |
|---|---|---|---|---|
| Manufactured product cost | **$** | **1,269,369** | $ | 967,176 |
| Shipping expenses | | **207,619** | | 334,293 |
| Fulfillment services | | **417,439** | | 12,359 |
| Brokerage fees | | **-** | | 4,451 |
| E-commerce fees | | **317,463** | | 84,850 |
| Other | | **74,520** | | 12,131 |
| | **$** | **2,286,410** | $ | 1,415,260 |

All of the Company's products are manufactured by a sole supplier located overseas. The Company has dealt with the same supplier since its inception and enjoys a good relationship. Management believes that should the relationship cease abruptly, it may cause a temporary disruption in supply, but alternate sources could be developed to manufacture the product.

## 22. Subsequent Events

On January 24, 2023, the Company entered into a loan agreement with a related party whereby the lender agreed to advance $150,000 to the Company. The rate of interest is 12% per annum and the loan is due on July 24, 2024 unless further extended by the lender for the additional three months. The CEO of the lending party is also an officer of the Company.

On March 13, 2023, the Company announced that it has been successful in its application to the Ontario Securities Commission, Alberta Securities Commission and British Columbia Securities Commission to revoke the failure-to-file cease trade order issued by the Ontario Securities Commission on May 6, 2022. As a result, the Company has resumed trading on the stock exchange.

In view of the Company's stock being under a cease trade order from May 6, 2022 to March 12, 2023, the Board of Directors is seeking legal advice with respect to extending the expiry dates of all warrants and options that expired during this period or are unexpired.

On March 1, 2023, the Company appointed a new chief executive officer ("CEO"). The outgoing CEO has taken over the role of the chief product officer and will continue in his role as president.

On March 21, 2023 the Company announced its intention to raise $2,500,000 through the issuance of 50,000,000 units of the Company for $0.05 each, comprising one common share and one common share warrant.

## 23. Functional and Reporting Currency

Due to the rapid growth of the Company and the volume of foreign transactions, it was concluded in 2022 that the functional currency of the Company is US Dollars while the presentation currency is Canadian Dollars. In prior years the differences were not material and this change is being adopted on a prospective basis. Please refer to Note 2 for a detailed discussion of functional and presentation currency. As a result of this change and per the requirements of IAS 21, the foreign exchange loss has been presented in Other Comprehensive Loss in the consolidated statements of loss and comprehensive loss.

## 24. Comparative Year

Some of the numbers for the comparative period in these consolidated financial statements have been reclassified between various line items to match the presentation of 2022. Please refer to the summary below:

| Items | Amount | 2021 Classification | 2022 Classification | Explanation |
|---|---|---|---|---|
| Affiliate commissions | $152,387 | Cost of Sales | Advertising and promotion | Affiliate commissions relate to the fees paid to affiliates, influencers and bloggers as part of the advertising and promotion campaign and are not a cost of sales. In 2022, this cost has been classified as part of advertising and promotion and for a fair comparison the 2021 number has been adjusted accordingly. |
| Advertising and promotion bifurcation | $1,858,426 | Advertising and promotion | (1) Advertising and promotion<br>(2) Marketing | The 2021 consolidated financial statements combined advertising and promotion expenses into a single line item. In 2022, management has decided to split this line in two parts in order to make the consolidated financial statements more meaningful to users. The advertising and promotion line now includes the costs that are directly linked to acquiring new customers and business and would generally fluctuate with sales. The marketing line now only includes the fixed marketing costs as part of the overall day-to-day marketing efforts. Comparative figures have been bifurcated in a similar fashion. |