



American Aires Inc.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2023 AND 2022
(EXPRESSED IN CANADIAN DOLLARS)**

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited condensed consolidated interim financial statements of American Aires Inc. (the "Company") are the responsibility of management and the Board of Directors.

The unaudited condensed consolidated interim financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed consolidated interim financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the unaudited condensed consolidated interim financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 - Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it with sufficient knowledge to support management representations that it has exercised reasonable diligence in that (i) the unaudited condensed consolidated interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the unaudited condensed consolidated interim financial statements and (ii) the unaudited condensed consolidated interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited condensed consolidated interim financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed consolidated interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed consolidated interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed consolidated interim financial statements together with other financial information of the Company for issuance to the shareholders. Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

NOTICE TO READER

The accompanying condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of management. The condensed consolidated interim financial statements have not been reviewed by the Company's auditors.

AMERICAN AIRES INC.

Condensed Consolidated Interim Statements of Financial Position (Unaudited) (Expressed in Canadian Dollars)

As at		March 31 2023	December 31 2022
ASSETS			
Current assets			
Cash and cash equivalents		\$ 255,553	\$ 196,103
Prepaid and sundry receivable	(note 19)	148,329	410,000
Accounts receivable		-	-
Inventory		552,722	509,825
		956,604	1,115,928
Non-current assets			
Furniture and equipment	(note 5)	18,154	20,608
Intellectual property	(note 4)	352,393	384,428
		370,547	405,036
Total assets		\$ 1,327,151	\$ 1,520,964
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	(note 16)	\$ 2,375,420	\$ 1,896,033
Deferred revenue		384,605	220,775
Provision for sales returns		9,699	20,502
Working capital loan payable	(note 8)	397,104	480,170
E-commerce platform loan payable	(note 9)	61,889	174,710
Grid promissory note payable	(note 11)	652,582	-
		3,881,299	2,792,190
Non-current liabilities			
Government loan payable	(note 6)	60,000	60,000
Promissory note payable	(note 10)	568,548	553,753
Grid promissory note payable	(note 11)	-	513,309
Loan payable	(note 12)	153,255	-
		781,803	1,127,062
Total Liabilities		4,663,102	3,919,252
Shareholders' equity			
Share capital	(note 13)	16,048,006	16,048,006
Contributed surplus		6,136,624	6,136,624
Accumulated other comprehensive loss		(250,442)	(174,053)
Deficit		(25,270,139)	(24,408,865)
Total shareholders' equity		(3,335,951)	(2,398,288)
Total liabilities and shareholders' equity		\$ 1,327,151	\$ 1,520,964

Nature of Operations and Going Concern (note 1)
Subsequent Events (note 21)

Approved on behalf of the Board of Directors:

"Dimitry Serov"
Director

"Drew Green"
Director

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

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

For the Three Months Ended March 31,	2023	2022
		(note 22)
Revenue		
Sales	\$ 1,487,372	\$ 688,503
Cost of sales	(note 20) (595,754)	(350,419)
Gross margin	891,619	338,084
Expenses		
Advertising and promotion	663,724	402,493
Marketing	(note 16) 437,243	403,049
Consulting fees	(note 16) 188,937	300,641
Interest charges	(notes 7 to 12) 191,608	53,707
Equity-based finance charge	(note 10) -	176,000
Office and general	73,315	103,400
Professional fees	91,663	148,112
Rent expense	4,224	7,830
Salaries and benefits	(note 16) 67,689	97,851
Travel expense	-	7,496
Stock-based compensation	(notes 13, 15) -	96,848
Depreciation	(notes 4, 5) 34,489	32,586
	1,752,893	1,830,013
Net loss for the period	(861,274)	(1,491,929)
Restatement due to valuation estimate adjustment	(note 22) -	(219,819)
Net loss for the period and restated net loss for the comparative period	(861,274)	(1,711,748)
Other comprehensive loss		
Foreign exchange	(76,389)	21,580
Restated net loss and comprehensive loss for the period	\$ (937,663)	\$ (1,690,168)
Basic and diluted net loss per share	(note 18) (0.01)	(0.01)
Weighted average number of common shares outstanding, basic and diluted	(note 18) 158,756,453	155,168,830

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

AMERICAN AIRES INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Unaudited) (Expressed in Canadian Dollars)

		Number of Shares	Share Capital Amount	Contributed Surplus	Deficit	OCI/(L) (Note A)	Total
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)	2,500,000	208,000	-	-	-	208,000
Issuance of warrants	(notes 13,14)	-	(132,175)	132,175	-	-	-
Issuance of finders warrants	(notes 13,14)	-	(10,574)	10,574	-	-	-
Stock-based compensation	(notes 13,14)	491,228	46,667	96,848	-	-	143,515
Exercise of options	(notes 13,14)	850,000	134,470	(49,470)	-	-	85,000
Issuance of warrants in connection to debt	(notes 10,14)	-	-	176,000	-	-	176,000
Net loss for the period		-	-	-	(1,491,929)	-	(1,491,929)
Other comprehensive gain for the period		-	-	-	-	21,580	21,580
Balance, March 31, 2022		158,206,453	\$16,038,127	\$5,922,751	\$(21,991,945)	\$ 21,580	\$ (9,487)
Restatement due to valuation estimate adjustment (note 22)		-	(11,721)	184,873	(219,819)	-	(46,666)
Restated Balance, March 31, 2022		158,206,453	\$16,026,406	\$6,107,624	\$(22,211,764)	\$ 21,580	\$ (56,153)
Balance, December 31, 2022		158,756,453	\$16,048,006	\$6,136,624	\$(24,408,865)	\$ (174,053)	\$(2,398,288)
Net loss for the period		-	-	-	(861,274)	-	(861,274)
Other comprehensive loss for the period		-	-	-	-	(76,389)	(76,389)
Balance, March 31, 2023		158,756,453	\$16,048,006	\$6,136,624	\$(25,270,139)	\$ (250,442)	\$(3,335,951)

Note A: OCI/(L) = Other Comprehensive Income/(Loss)

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

AMERICAN AIRES INC.**Condensed Consolidated Interim Statements of Cash Flows (Unaudited)
(Expressed in Canadian Dollars)**

For the Three Months Ended March 31,	2023	2022
		(Note 22)
Operating activities		
Net loss and comprehensive loss for the period (note 22)	\$ (937,663)	\$ (1,690,168)
Depreciation	34,489	32,586
Stock-based compensation (note 22)	-	139,667
Equity-based finance charges (note 22)	-	353,000
Interest expense	191,608	53,707
Non-cash working capital items:		
Accounts receivable	-	(10,152)
Prepaid and sundry receivable	261,671	144,168
Inventory	(42,897)	(135,767)
Deferred revenue	163,830	1,356
Accounts payable and accrued liabilities	478,451	720,594
Provision for sales returns	(10,803)	-
	138,686	(391,009)
Investing activities		
Acquisition of furniture and equipment	-	(6,193)
Proceeds on disposition of assets	-	1,128
	-	(5,065)
Financing activities		
Proceeds from issuance of shares	-	293,000
Proceeds from promissory note	-	500,000
Proceeds from e-commerce platform loan	-	120,000
Proceeds from other loan	150,000	-
Repayments on marketing loan payable	-	(34,179)
Repayments on working capital loan payable	(80,929)	(468,487)
Repayments on e-commerce platform loan	(112,821)	(76,849)
Interest paid	(35,485)	(57,169)
	(79,236)	276,316
Net change in cash	59,451	(119,758)
Cash, beginning of the period	196,103	275,696
Cash, end of the period	\$ 255,553	\$ 155,938

Supplemental Disclosure of Non-Cash Transactions

Accounts payable and accrued liabilities settled through loan payable	-	543,300
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The accompanying notes are an integral part of these condensed consolidated interim financial statements

AMERICAN AIRES INC.

Notes to Condensed Consolidated Interim Financial Statements (Unaudited) Three Months Ended March 31, 2023 and 2022 (Expressed in Canadian Dollars)

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 condensed consolidated interim 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 \$25,270,139 as of March 31, 2023 (December 31, 2022 - \$24,408,865) and incurred a loss of \$861,274 for the three months ended March 31, 2023 (March 31, 2022 - \$1,711,748). The Company had a working capital deficiency of \$2,924,695 as at March 31, 2023 (December 31, 2022 – working capital deficiency of \$1,676,262).

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 condensed consolidated interim 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. Basis of Presentation

Statement of Compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2022.

These condensed consolidated interim financial statements have been prepared on a historical cost basis. In addition, these condensed consolidated interim financial statements are using the accrual basis of accounting, except for cash flow information. In addition, these condensed interim consolidated financial statements have been prepared in accordance with the same accounting policies and methods of application as the most recent audited consolidated financial statements for the year ended December 31, 2022, except that they do not include all the disclosures required for the annual audited consolidated financial statements.

In the preparation of these condensed consolidated interim 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 condensed consolidated interim financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates.

These condensed consolidated interim financial statements were approved by the Board of Directors on May 18, 2023.

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Notes to Condensed Consolidated Interim Financial Statements (Unaudited) Three Months Ended March 31, 2023 and 2022 (Expressed in Canadian Dollars)

Accounting Standards Issued and Adopted

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. The Company adopted the amendments on January 1, 2023 and there was no impact on the condensed consolidated interim financial statements upon adoption of this policy.

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. The amendments apply on or after January 1, 2023. The Company adopted the amendments on January 1, 2023 and there was no impact on the condensed consolidated interim financial statements upon adoption of this policy.

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. The Company adopted the amendments on January 1, 2023 and there was no impact on the condensed consolidated interim financial statements upon adoption of this policy.

3. 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 March 31, 2023, the Company had cash and cash equivalents of \$255,553 (December 31, 2022 - \$196,103) to settle current liabilities of \$3,881,299 (December 31, 2022 - \$2,792,190). 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

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Notes to Condensed Consolidated Interim Financial Statements (Unaudited) Three Months Ended March 31, 2023 and 2022 (Expressed in Canadian Dollars)

expenses, and preserving cash. The following table shows the remaining contractual maturities of financial liabilities as at March 31, 2023 and December 31, 2022, including the estimated interest and royalty payments of \$670,943 (December 31, 2022 - \$587,772). It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

March 31, 2023	Carrying amount	Contractual cash flows	Current	Long term
Accounts payable & accrued liabilities	\$ 2,375,421	\$ 2,375,421	\$ 2,375,421	\$ -
Government loan	60,000	66,000	-	66,000
Current loans	1,111,575	1,704,517	1,704,517	-
Long term loans	721,803	799,803	-	799,803
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	66,000	-	66,000
Current loans	654,880	672,180	672,180	-
Long term loans	1,067,062	1,637,644	359,738	1,277,906

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, British Pound and Euro denominated bank accounts, containing sufficient funds to support monthly forecasted cash outflows. Management does not hedge its foreign exchange risk. As at March 31, 2023, a 5% fluctuation in the foreign exchange rate would have an impact of approximately \$62,908 (December 31, 2022 - \$43,837) in the Company's condensed consolidated interim statements of loss and comprehensive loss.

4. Intellectual Property

Balance, December 31, 2021	\$ 512,571
Depreciation	(128,143)
Balance, December 31, 2022	\$ 384,428
Depreciation	(32,036)
Balance, March 31, 2023	\$ 352,392

5. Furniture and Equipment

Cost	Furniture and Fixtures	Computer Equipment	Total
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
Additions	-	-	-
Dispositions	-	-	-
Balance, March 31, 2023	\$ 1,812	\$ 33,063	\$ 34,875

AMERICAN AIRES INC.

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)

Three Months Ended March 31, 2023 and 2022

(Expressed in Canadian Dollars)

Accumulated Depreciation	Furniture and Fixtures	Computer Equipment	Total
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
Depreciation	82	2,372	2,454
Dispositions	-	-	-
Balance, March 31, 2023	\$ 263	\$ 16,458	\$ 16,721

Carrying Value	Furniture and Fixtures	Computer Equipment	Total
At December 31, 2022	\$ 1,630	\$ 18,977	\$ 20,608
At March 31, 2023	\$ 1,549	\$ 16,605	\$ 18,154

6. 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.

7. Marketing Loan Payable

On June 9, 2021, the Company obtained a working capital loan. The terms of the agreement required the Company to make daily repayments based on 20% of daily sales. The implied interest rate was 12% per annum if repaid over a one-year term. Advances taken were 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 and there have been no new transactions with this lender. 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 \$nil in the condensed consolidated interim statements of loss and comprehensive loss for the three months ended March 31, 2023 (three months ended March 31, 2022 - \$4,661). The following is a continuity of the marketing loan payable:

Balance, December 31, 2021	\$ 149,534
Eligible Advances	500,000
Repayments	(716,992)
Interest	67,458
Balance, December 31, 2022 and March 31, 2023	\$ -

8. Working Capital Loan Payable

In calendar years 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 three months ended March 31, 2023, the lender paid invoices on behalf of the Company amounting to \$nil (three months ended March 31, 2022 - US\$370,926/CAD\$471,027) for which the Company made repayments of principal totaling US\$60,000/ /CAD\$80,929 (2022 – both principal and interest of US\$372,836/CAD \$485,395). Invoices paid by the lender on behalf of the Company have been included within changes in accounts payable and accrued liabilities in the condensed consolidated interim statements of cash flows. The Company recognized interest expense totaling \$nil in the condensed consolidated interim

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Notes to Condensed Consolidated Interim Financial Statements (Unaudited) Three Months Ended March 31, 2023 and 2022 (Expressed in Canadian Dollars)

statements of loss and comprehensive loss for the three months ended March 31, 2023 (three months ended March 31, 2022 - \$16,908). The following is a continuity of the working capital loan payable:

Balance, December 31, 2021	\$	553,510
Debt Issued		471,027
Repayments		(625,764)
Interest		30,351
Foreign Exchange		51,046
Balance, December 31, 2022	\$	480,170
Repayments		(80,929)
Foreign Exchange		(2,137)
Balance, March 31, 2023	\$	397,104

9. E-commerce platform loan payable

In calendar year 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 in the amount of \$11,172 related to the paid portion of the loan has been recorded as interest expense in the condensed consolidated interim statements of loss and comprehensive loss for the three months ended March 31, 2023 (three months ended March 31, 2022 - \$15,600). 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
Repayments		(123,993)
Interest		11,172
Balance, March 31, 2022	\$	61,889

10. 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 three months ended March 31, 2023, the Company incurred interest expense of \$14,795, unpaid as at March 31, 2023 (three months ended March 31, 2022 - \$8,548, unpaid as at March 31, 2022, and a financing fee of \$20,000 which was deducted from the initial disbursement) and all have been recorded as interest expense in the respective condensed consolidated interim statements of loss and comprehensive loss. The unpaid cumulative interest of \$68,548 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 condensed consolidated interim statements of loss and comprehensive loss for the three months ended March 31, 2022.

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Notes to Condensed Consolidated Interim Financial Statements (Unaudited) Three Months Ended March 31, 2023 and 2022 (Expressed in Canadian Dollars)

11. 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. On January 24, 2023, the lender converted the outstanding unpaid accrued royalty expense of \$119,738 as of December 31, 2022 into a new advance by way of a non-cash conversation. During the three months ended March 31, 2023, the Company incurred interest expense of \$9,273 (unpaid as at March 31, 2023) and royalty expense of \$150,000 (\$130,000 unpaid as at March 31, 2022) and both have been recorded as interest expense in the condensed consolidated interim statements of loss and comprehensive loss. The unpaid cumulative interest and royalty of \$150,564 has been added to the principal amount of the loan. The loan has been classified as a current liability due to its maturity within 12 months of March 31, 2023 (December 31, 2022 – non-current liability).

Balance, December 31, 2021	\$	-
Advances		500,000
Repayments		(209,407)
Royalty		210,000
Interest		12,716
Balance, December 31, 2022	\$	513,309
Advances		119,738
Repayments		(139,738)
Royalty		150,000
Interest		9,273
Balance, March 31, 2023	\$	652,582

12. Loan payable

On January 24, 2023, the Company entered into a loan agreement with a related party (Note 16) 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. During the three months ended March 31, 2023, the Company incurred interest expense of \$3,255 (unpaid as at March 31, 2023) which has been recorded interest expense in the condensed consolidated interim statements of loss and comprehensive loss. The unpaid cumulative interest of \$3,255 has been added to the principal amount of the loan.

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, 2021	154,365,225	\$	15,791,739
Private placement, net of costs (i)	2,500,000		208,000
Issuance of warrants (i)	-		(153,000)
Issuance of finders warrants (i)	-		(12,000)
Shares issued as stock-based compensation (ii)	491,228		46,667
Exercise of stock options (ii)	850,000		145,000
Balance, March 31, 2022	158,206,453	\$	16,026,406
Balance, December 31, 2022	158,756,453	\$	16,048,006
No transactions in the period	-		-
Balance, March 31, 2023	158,756,453	\$	16,048,006

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(i) On March 15, 2022 and March 24, 2022, the Company closed three tranches of a non-brokered private placement and issued an aggregate of 2,500,000 units at a price of \$0.10 per unit for gross proceeds of \$250,000. 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 2,500,000 warrants issued have an exercise price of \$0.10 and a three-year term. A fair value of \$153,000 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 \$42,000 in aggregate. In addition, the Company issued 200,000 finders warrants exercisable for \$0.10 per warrant with identical terms as the non-brokered private placement warrants above. A fair value of \$12,000 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.

(ii) During the three months ended March 31, 2022, the Company issued 491,228 common shares in exchange for services provided to the Company, valued at \$46,667. The Company also 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 three months ended March 31, 2023 and 2022:

	Warrants Outstanding	Weighted Average Exercise Price
Balance, December 31, 2021	14,207,583	\$0.16
Issued	7,700,000	\$0.10
Balance, March 31, 2022	21,907,583	\$0.17
Balance, December 31, 2022	22,501,583	\$0.17
No transactions in the period	-	-
Balance, March 31, 2023	22,501,583	\$0.17

The following table reflects warrants outstanding as at March 31, 2023:

Expiry Date	Exercise Price	Weighted Average Life Remaining (Years)	Warrants Outstanding	Black-Scholes Value
May 28, 2023	\$ 0.30	0.16	6,033,333	\$ 287,186
May 28, 2023	\$ 0.15	0.16	315,000	\$ 24,666
August 31, 2023	\$ 0.15	0.42	1,975,000	\$ 83,938
August 31, 2023	\$ 0.10	0.42	355,500	\$ 18,567
September 20, 2023	\$ 0.15	0.47	1,937,500	\$ 69,750
September 20, 2023	\$ 0.10	0.47	288,000	\$ 12,726
October 25, 2023	\$ 0.10	0.57	649,750	\$ 13,765
December 17, 2023	\$ 0.15	0.71	2,460,000	\$ 30,940
December 17, 2023	\$ 0.15	0.71	193,500	\$ 4,644
February 7, 2025	\$ 0.10	1.85	5,000,000	\$ 353,000
March 15, 2025	\$ 0.10	1.96	750,000	\$ 53,000
March 15, 2025	\$ 0.10	1.96	60,000	\$ 4,000
March 24, 2025	\$ 0.10	1.98	1,750,000	\$ 100,000
March 24, 2025	\$ 0.10	1.98	140,000	\$ 8,000
April 5, 2025	\$ 0.10	2.01	550,000	\$ 27,000
April 5, 2025	\$ 0.10	2.01	44,000	\$ 2,000
	\$ 0.17	0.94	22,501,583	\$ 1,093,182

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15. Stock Options

The following table reflects the continuity of stock options for the three months ended March 31, 2023 and 2022:

	Stock Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2021	10,150,000	\$0.20
Granted (i)	1,350,000	\$0.10
Exercised (ii)	(850,000)	\$0.10
Balance, March 31, 2022	10,650,000	\$0.19
Balance, December 31, 2022	10,650,000	\$0.19
No transactions in the period	-	-
Balance, December 31, 2022	10,650,000	\$0.19

(i) 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.

(ii) 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 three months ended March 31, 2022, the Company recognized aggregate stock-based compensation expense of \$139,667.

Expiry Date	Exercise Price	Weighted Average Life Remaining	Options Outstanding
December 9, 2024	\$ 0.50	1.69	1,500,000
January 13, 2025	\$ 0.10	1.79	500,000
February 4, 2026	\$ 0.34	2.84	500,000
July 6, 2026	\$ 0.13	3.27	8,150,000
	\$ 0.19	2.96	10,650,000

Of the 10,650,000 options issued and outstanding, 9,150,000 were exercisable at March 31, 2023.

16. Related Party Balances and Transactions

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

For the three months period ended March 31	2023	2022
Remuneration paid for key management	\$ 190,030	\$ 194,139
Stock-based compensation	\$ -	\$ 33,000

The Company defines key management as the Company's directors and officers of the Company. As at March 31, 2023, amounts due to key management for remuneration totaled \$161,191 (December 31, 2022 - \$ 54,408).

During the three months ended March 31, 2023, the Company expensed \$198,788 (three months ended March 31, 2022 - \$79,788) for digital marketing services provided by a firm controlled by an officer of the Company. As at March 31, 2023, \$208,631 (December 31, 2022 - \$195,666) was included in accounts payable and accrued liabilities in connection with these services.

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(Expressed in Canadian Dollars)

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 \$14,795 for the three months ended March 31, 2023 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 10 to these condensed consolidated interim financial statements.

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 CEO of the lending party is also an officer of the Company. Interest of \$3,255 for the three months ended March 31, 2023 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 12 to these condensed consolidated interim financial statements.

During the three months ended March 31, 2022, the Company expensed \$7,635 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 March 31, 2023, the Marrelli Group was owed \$nil (December 31, 2022 - \$nil). 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 three months ended March 31, 2022, the Company expensed \$46,288 for legal services provided by a firm, a partner of which was a director of the Company. As of March 31, 2023, \$130,857 (December 31, 2022 - \$82,270) 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.

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 three months ended March 31, 2023, 79% (2022 - 74%) of sales were to US customers and 7% (2020 - 15%) 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 three months ended March 31, 2023 was based on the loss attributable to common shareholders of \$861,274 (2022 - \$1,711,748), and the weighted average number of common shares outstanding of 158,756,453 (2022 - 155,168,830). The impact of conversion of options and warrants have been excluded from the weighted average number of common shares calculation as it would be antidilutive.

19. Prepaid and sundry receivable

	March 31, 2023	December 31, 2022
Refundable GST/HST	\$ -	\$ 6,656
Prepaid expenses	24,531	62,994
Manufacturing deposits	123,798	340,350
	\$ 148,329	\$ 410,000

20. Cost of Goods Sold

Cost of goods sold is comprised of the following:

For the Three Months Ended March 31	2023	2022
Manufactured product cost	\$ 340,084	\$ 232,436
Shipping expenses	67,119	40,303
Fulfillment services	104,072	53,644
E-commerce fees	84,479	24,035
	\$ 595,754	\$ 350,419

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Three Months Ended March 31, 2023 and 2022

(Expressed in Canadian Dollars)

All of the Company's products are manufactured by a sole supplier located overseas. Since inception the Company has dealt with the same supplier 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.

21. Subsequent Events

On April 4, 2023, the Company received a new working capital advance of \$670,000 from its e-commerce service provider. Under the terms of the agreements, the Company shall remit amounts totaling \$743,700 as full repayment for principal and implied interest on the advances. Payments are required to be made daily based on a percentage of the Company's daily sales (17%) until such time that the advances are repaid in full.

On April 14, 2023, the Company announced that it intends to extend the expiry date of an aggregate of 13,055,808 previously issued common share purchase warrants expiring in fiscal 2023 by one (1) year as the holders were unable to exercise their rights because of the CTO. The exercise price of these warrants will remain unchanged and the application to extend the exercise date is subject to all regulatory and corporate approvals.

On April 17, 2023, the Company, with the agreement of the option holders, cancelled 2,400,000 stock options with exercise prices ranging from \$0.13 to \$0.50 and expiry dates between December 9, 2024 and February 4, 2026. These stock options were fully vested but unexercised due to the stock price of the Company being lower than the exercise price of the options. After the cancellation 8,250,000 options remain issued and outstanding.

On April 28, 2023, the related party lender of the promissory note appointed one of the officers of the Company as its chief executive officer. That position was previously held by one of the directors of the Company who has resigned both from the officer position at the lender and from the Board of Directors of the Company on April 21, 2023.

22. Comparative Period

Some of the numbers for the comparative period in these condensed consolidated interim financial statements have been reclassified between various line items to match the presentation of 2023 and for consistency with the financial statement line item groupings and values in the annual audited 2022 financial statements.

Items	Amount	Q1 2022	Q1 2023	Explanation
Affiliate commissions	\$33,627	Cost of Sales	Advertising and promotion	Affiliate commissions are fees paid to affiliates, influencers and bloggers as part of the advertising and promotion campaign and are not a cost of sales. In annual audited 2022 consolidated financial statements and Q1 2023 condensed consolidated interim financial statements, this cost has been classified as part of advertising and promotion and for a fair comparison the Q1 2022 number has been adjusted accordingly.
Advertising and promotion bifurcation	\$692,127	Advertising and promotion	(1) Advertising and promotion (2) Marketing	Q1 2022 condensed consolidated interim financial statements combined advertising and promotion expenses into a single line item. In the annual audited 2022 consolidated financial statements and Q1 2023 condensed consolidated interim financial statements, management has decided to split this line in two parts in order to make the 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 - \$692,127 was split between \$402,493 (advertising and promotion) and \$403,049 (marketing).

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Notes to Condensed Consolidated Interim Financial Statements (Unaudited)

Three Months Ended March 31, 2023 and 2022

(Expressed in Canadian Dollars)

Items	Amount	Q1 2022	Q1 2023	Explanation
Marketing agency costs	\$79,788	Consulting	Marketing	Q1 2022 condensed consolidated interim financial statements grouped some of the marketing costs under consulting fees. In the annual audited consolidated 2022 financial statements and Q1 2023 condensed consolidated interim financial statements, this cost was classified under marketing costs and for a fair comparison the Q1 2022 number has been adjusted accordingly.
Accounting fees	\$33,269	Office and general	Professional fees	Q1 2022 condensed consolidated interim financial statements grouped some of the accounting fees under office and general category. In annual audited 2022 consolidated financial statements and Q1 2023 condensed consolidated interim financial statements, this cost was classified under professional fees and for a fair comparison the Q1 2022 number has been adjusted accordingly.
Foreign exchange gain	\$21,580	P&L	OCI	Due to the rapid growth of the Company and the volume of foreign transactions, it was concluded in annual audited 2022 consolidated financial statements that the functional currency of the Company is US Dollars while the presentation currency is Canadian Dollars. In prior years and quarters the differences were not material and this change was therefore adopted on a prospective basis. As a result, for a fair comparison the foreign exchange gain in Q1 2022 has been moved to the OCI section.
Fair value of warrants issued in connection to debt	\$353,000	Interest charges	Equity-based finance charge	In the Q1 2022 condensed consolidated interim financial statements, the fair value of the warrants issued in connection with the promissory note (refer to Note 10) was grouped under interest charges. In annual audited 2022 consolidated financial statements this cost was classified under its own line item called equity-based finance charge and for consistency the Q1 2022 classification has been adjusted accordingly. In addition, the fair value of these warrants has been updated from \$176,000 to \$353,000 for consistency with annual audited 2022 consolidated financial statements. The difference in value relates to the true-up performed at 2022 year-end based on the updated assumptions.
Stock-based compensation	\$139,667	N/A	N/A	Fair value of the various stock-based compensation transactions in Q1 2022 has been updated from \$96,848 to \$139,667 for consistency with annual audited 2022 consolidated financial statements. The difference in value relates to the true-up performed at 2022 year-end based on the updated assumptions.
Consulting fee paid to an investor relations company	\$100,000	Office and general	Consulting fees	The Q1 2022 condensed consolidated interim financial statements grouped some of the consulting fees under the office and general category. In the annual audited 2022 consolidated financial statements and Q1 2023 condensed consolidated interim financial statements, this cost was classified under consulting fees and for a fair comparison the Q1 2022 number has been adjusted accordingly.
Statement of Cash Flows	N/A	N/A	N/A	Various sections of the statement of cash flows for the comparative period of 2022 have been updated to match the mapping and presentation in the audited annual 2022 consolidated financial statements and Q1 2023 condensed consolidated interim financial statements.