

Sparc AI Inc.
(formerly EYEFI Group Technologies Inc.)

Consolidated Financial Statements

For the Years Ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF SPARC AI INC. (formerly EYefi Group Technologies Inc.)

Opinion

We have audited the consolidated financial statements of SPARC AI Inc. and its subsidiaries (the "Company"), which comprise:

- ◆ the consolidated statements of financial position as at December 31, 2023 and 2022;
- ◆ the consolidated statements of income (loss) and comprehensive income (loss) for the years then ended;
- ◆ the consolidated statements of changes in equity (deficiency) for the years then ended;
- ◆ the consolidated statements of cash flows for the years then ended; and
- ◆ the notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and 2022, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that as at December 31, 2023, the Company has an accumulated deficit of \$2,275,655. During the year ended December 31, 2023, the Company incurred a net cash outflow from operations of \$262,108. 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined that there are no key audit matters to be communicated in our auditors' report.

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Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above 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.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. 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 the consolidated financial statements in accordance with IFRS, 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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

- ◆ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- ◆ 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 auditors' 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 auditors' 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.
- ◆ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

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

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 auditors' 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.

The engagement partner on the audit resulting in this independent auditors' report is Hervé Leong-Chung.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 25, 2024

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Sparc AI Inc. (formerly EYefi Group Technologies Inc.)
Expressed in Canadian Dollars
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For the years ended December 31, 2023 and 2022

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Sparc AI Inc. (formerly EYefi Group Technologies Inc.)
Expressed in Canadian Dollars
Consolidated Statements of Financial Position
As at December 31, 2023 and 2022

	Notes	2023 \$	2022 \$
Assets			
Current assets			
Cash		122,650	146,979
Trade and other receivables		7,095	1,006
Research and development tax credits receivable	7	-	376,113
Prepayments		-	130
Total current assets		<u>129,745</u>	<u>524,228</u>
Non-current assets			
Equipment	8	-	5,523
Right-of-use assets	9	-	157,410
Intangibles	10	26,854	35,346
Lease bond		-	29,509
Total non-current assets		<u>26,854</u>	<u>227,788</u>
Total assets		<u>156,599</u>	<u>752,016</u>
Liabilities			
Current liabilities			
Trade and other payables	11	63,581	416,129
Facility loan payable	12	-	202,076
Lease liabilities	13	-	78,504
Short-term employee benefits		-	56,920
Contract liabilities	15	-	333,961
Related party loans	22	-	70,279
Total current liabilities		<u>63,581</u>	<u>1,157,869</u>
Non-current liabilities			
Lease liabilities	13	-	94,419
Long-term employee benefits		-	5,854
Total non-current liabilities		<u>-</u>	<u>100,273</u>
Total liabilities		<u>63,581</u>	<u>1,258,142</u>
Equity (deficiency)			
Issued capital	16	2,246,032	5,779,104
Contributed surplus	17,18	122,641	161,417
Equity component of convertible debt	12	-	18,176
Cumulative translation adjustment		-	(69,218)
Accumulated deficit		<u>(2,275,655)</u>	<u>(6,395,605)</u>
Total equity (deficiency)		<u>93,018</u>	<u>(506,126)</u>
Total liabilities and equity (deficiency)		<u>156,599</u>	<u>752,016</u>

Signed on behalf of the board:

"Anoosh Manzoori"
Director

"Justin Hanka"
Director

The above consolidated statements of financial position should be read in conjunction with the accompanying notes

Sparc AI Inc. (formerly EYefi Group Technologies Inc.)
Expressed in Canadian Dollars
Consolidated Statement of Income (Loss) and Comprehensive Income (Loss)
For the Years Ended December 31, 2023 and 2022

	Notes	December 31, 2023 \$	December 31, 2022 \$
Revenue			
Revenue	6	201,203	458,621
Cost of Sales		<u>(134,783)</u>	<u>(419,544)</u>
Gross profit		<u>66,420</u>	<u>39,077</u>
Expenses			
Administration		(218,876)	(504,822)
Depreciation and amortization expense	8,9,10	(44,173)	(84,659)
Employee salaries and benefits expense	21,22	(241,666)	(670,259)
Consulting		(58,873)	-
Finance expense	12,13	(28,242)	(42,945)
Investor relations		(135,000)	-
Marketing		-	(57,719)
Share-based payments	18,22	<u>(122,641)</u>	<u>(189,864)</u>
Income (loss) before other income		(783,051)	(1,511,191)
Other income		-	5,012
Research and development tax credits		118,855	378,376
Profit on sale of subsidiary	23	3,631,331	-
Gain on sale of equipment		<u>-</u>	<u>26,712</u>
Income (loss) before income tax recovery		2,967,135	(1,101,091)
Income tax recovery	14	<u>-</u>	<u>6,824</u>
Income (loss) after income tax recovery for the year		2,967,135	(1,094,267)
Other comprehensive income (loss)			
Foreign currency translation		<u>69,218</u>	<u>(9,203)</u>
Other comprehensive loss for the year, net of tax		<u>69,218</u>	<u>(9,203)</u>
Total comprehensive income (loss) for the year		<u><u>3,036,353</u></u>	<u><u>(1,103,470)</u></u>
Basic and diluted income (loss) per share	19	\$0.16	\$(0.04)

The above consolidated statements of income (loss) and comprehensive income (loss) should be read in conjunction with the accompanying notes

Sparc AI Inc. (formerly EYefi Group Technologies Inc.)
Expressed in Canadian Dollars
Consolidated Statements of Changes in Equity (Deficiency)
For the Years Ended December 31, 2023 and 2022

	Number of Shares	Issued Capital \$	Contributed Surplus \$	Equity Component of Convertible Debt \$	Cumulative Translation Adjustment \$	Warrants	Accumulated Deficit \$	Total Equity (Deficiency) \$
Balance at January 1, 2022	27,555,600	5,292,160	113,761	-	(60,015)	399,524	(5,405,126)	340,304
Net loss for the year	-	-	-	-	-	-	(1,094,267)	(1,094,267)
Other comprehensive loss for the year	-	-	-	-	(9,203)	-	-	(9,203)
Exercise of Options	490,000	87,420	(38,420)	-	-	-	-	49,000
Warrants expired	-	399,524	-	-	-	(399,524)	-	-
Share based payments	-	-	189,864	-	-	-	-	189,864
Options expired	-	-	(103,788)	-	-	-	103,788	-
Convertible loan equity	-	-	-	25,000	-	-	-	25,000
Recognition of deferred tax liability	-	-	-	(6,824)	-	-	-	(6,824)
Balance at December 31, 2022	28,045,600	5,779,104	161,417	18,176	(69,218)	-	(6,395,605)	(506,126)
Net income for the year	-	-	-	-	-	-	2,967,135	2,967,135
Other comprehensive income for the year	-	-	-	-	69,218	-	-	69,218
Shares returned and cancelled on sale of subsidiary	(18,951,061)	(3,905,074)	-	(18,176)	-	-	991,398	(2,931,852)
Options cancelled	-	-	(161,417)	-	-	-	161,417	-
Share based payments	-	-	122,641	-	-	-	-	122,641
Private placement	3,389,777	372,002	-	-	-	-	-	372,002
Balance at December 31, 2023	12,484,316	2,246,032	122,641	-	-	-	(2,275,655)	93,018

The above consolidated statements of changes in equity (deficiency) should be read in conjunction with the accompanying notes

Sparc AI Inc. (formerly EYefi Group Technologies Inc.)
Expressed in Canadian Dollars
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022

	Notes	December 31, 2023 \$	December 31, 2022 \$
Cash flows from operating activities			
Net income (loss) for the year		2,967,135	(1,094,267)
<i>Adjustments for items not affecting cash</i>			
Depreciation and amortization	8,9,10	44,174	84,659
Accretion expense	12	22,924	2,076
Income tax recovery	14	-	(6,824)
Interest on lease obligations	13	5,318	13,086
Share based payments	18	122,641	189,864
Profit on sale of subsidiary	23	(3,631,331)	-
Gain on disposal of equipment	8	-	(26,714)
Foreign exchange		69,218	-
		(399,921)	(838,120)
<i>Net changes in non-cash working capital balances</i>			
Trade and other receivables		(45,788)	46,033
Prepayments		(388)	(130)
Research and development tax credits receivable		260,619	45,741
Trade and other payables		(52,063)	234,004
Related party loan		65,280	-
Contract liabilities		(39,431)	25,313
Employee benefit provisions		18,802	(29,687)
Net cash used in operating activities		(192,890)	(516,846)
Cash flows from investing activities			
Cash disposed with sale of subsidiary	23	(15,376)	-
Proceeds from disposal of equipment	8	-	49,276
Net cash used in (provided by) investing activities		(15,376)	49,276
Cash flows from financing activities			
Net proceeds from private placement	16	237,002	-
Proceeds from exercised stock options	16	-	49,000
Lease payments	13	(42,832)	(82,209)
Proceeds from (repayment of) facility loan	12	-	225,000
Net proceeds from related party loans		-	69,042
Net cash provided by financing activities		194,170	260,833
Net decrease in cash		(14,096)	(206,737)
Cash at the beginning of the year		146,979	354,947
Effects of exchange rate changes		(10,233)	(1,231)
Cash at the end of the year		<u>122,650</u>	<u>146,979</u>
Supplemental disclosure of cash flow information			
Debt settled with shares from private placement		135,000	-
Interest paid on facility loan		-	86,548
Total		<u>135,000</u>	<u>86,548</u>

The above consolidated statements of cash flows should be read in conjunction with the accompanying notes

Sparc AI Inc. (formerly EYefi Group Technologies Inc.)
Expressed in Canadian Dollars
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022

Note 1. Nature of operations and going concern

Sparc AI Inc. ("Sparc AI" or the "Company") was incorporated under the laws of the Province of British Columbia, Canada on October 4, 2018. The Company's registered office and principal place of business are: Registered Office #800-1281 W. Georgia Street, Vancouver, BC, V6E 3J7 Canada and 91 Collins Street, Melbourne, Australia. The Company became a Reporting Issuer on November 10, 2020. On December 4, 2020, the Company commenced trading on the Canadian Stock Exchange under the symbol "SPAI".

The Company's principal business activity is a software and engineering entity that has developed, patented and commercialized innovative spatial, predictive, approximation and radial convolution technology called SPARC and an associated product suite that turns any sensor, camera or smartphone device (fixed, mobile, airborne, portable or handheld) into a target co-ordinate acquisition system.

The Company's consolidated financial statements have been prepared on a going concern basis. The going concern basis of the presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize the carrying value of its assets and discharge its liabilities in the normal course of operations. The Company had an accumulated deficit of \$2,275,655 (2022 - \$6,395,605) as at December 31, 2023. During the year ended December 31, 2023, the Company incurred a net cash outflow from operations of \$262,108 (2022 - \$516,846). To date, the Company has funded operations through external financing and revenue from operations. The Company's ability to continue as a going concern is dependent upon its ability to achieve profitable operations in the future. These conditions indicate the existence of a material uncertainty that may cast significant doubt regarding the company's ability to continue as a going concern. The consolidated financial statements do not reflect adjustments that would be necessary if the going assumption was not appropriate. These adjustments could be material.

The Company disposed of its subsidiary company, EYefi Pty Ltd., effective June 29, 2023 (note 23).

The Board of Directors approved the consolidated financial statements on April 25, 2024.

Note 2. Basis of preparation

Statement of compliance

These audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International financial Reporting Interpretations Committee ("IFRIC").

Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments carried at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Critical accounting estimates

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

Basis of consolidation

The consolidated financial statements include the consolidated results of all entities considered to be part of the consolidated entity due to their underlying common shareholding interest. These entities include Sparc AI Inc Inc. ("Sparc AI") which operates in Canada, and its wholly owned subsidiary EYefi Pty Ltd. ("EYefi") and Sparc AI Pty Ltd., which operate in Australia. Subsidiaries are consolidated from the date upon which control is acquired by the Company. All intercompany transactions and balances have been eliminated on consolidation.

The subsidiary company, EYefi, was sold effective June 29, 2023 and upon loss of control, the subsidiary is no longer consolidated.

In December 2023, a new wholly owned subsidiary company was incorporated in Australia, Sparc AI Pty Ltd. This entity is consolidated from the date of incorporation.

Sparc AI Inc. (formerly EYefi Group Technologies Inc.)
Expressed in Canadian Dollars
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022

Note 2. Basis of preparation (continued)

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. The functional currency of the Company's subsidiary is CAD.

IAS 21 prescribes how an entity should: account for foreign currency transactions; translate financial statements of a foreign operation into the entity's functional currency; and translate the entity's financial statements into a presentation currency, if different from the entity's functional currency. The financial statements as of December 31, 2023 and 2022 and for the year ended December 31, 2023 and 2022, have been translated into Canadian Dollars in accordance with International Accounting Standard ("IAS") 21, "The Effects of Changes in Foreign Exchange Rates", as follows:

Foreign currency transactions

Foreign currency transactions are translated into the consolidated entity's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. For the purpose of the consolidated financial statements, assets and liabilities of the entities that have functional currencies other than the Canadian dollar are translated to Canadian dollars at the reporting date using the closing exchange rate. Revenue and expenses are translated at yearly average exchange rates that approximate those in effect at the transaction dates. Differences arising from these foreign currency translations are recognized in Cumulative Translation Adjustment ("CTA") and presented within equity.

Note 3. Summary of material accounting policies

The following accounting policies are the most relevant to the Company:

Revenue from Contracts with Customers

Revenue is recognized at an amount that reflects the consideration to which the Company is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Company: identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognizes revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised, and collection is reasonably assured. Cash received in advance for customer contracts for which services are yet to be performed is recorded as contract liabilities.

Hardware sales are recognized upon delivery to the customer, and software solution and professional services are recognized as the services are provided.

Sparc AI Inc. (formerly EYefi Group Technologies Inc.)
Expressed in Canadian Dollars
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022

Note 3. Summary of material accounting policies (continued)

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract contains a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Company, as lessee, recognizes a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments, at the commencement date of a lease.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the company expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

Right-of-use assets that meet the definition of investment property are measured at fair value where the Company has adopted a fair value measurement basis for investment property assets.

The lease liability is initially measured at the present value of the future lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

The lease liability is subsequently increased by the interest cost and decreased by lease payments made. The Company remeasures the lease liability when there is a change in future lease payments arising from a change in an index or a rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase, extension, or termination option is reasonably certain to be (or not to be) exercised.

The Company has elected not to recognize a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Income tax

Income tax expense, consisting of current and deferred tax, is recognized in the consolidated statements of loss and comprehensive loss. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjustment for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the asset and liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The 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 reporting date.

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

Sparc AI Inc. (formerly EYefi Group Technologies Inc.)
Expressed in Canadian Dollars
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022

Note 3. Summary of material accounting policies (continued)

Government grants

Government grants are recognized in the profit or loss on a systematic basis over the periods in which the consolidated entity recognizes, as expenses, the related costs for which the grants are intended to compensate. The consolidated entity uses the income approach and presents research and development grant income separately as part of the profit or loss as “research and development tax credits”. The consolidated entity has been lodging research and development applications with the Australian governing bodies since 2014 and has reasonable assurance that all of the expenditures qualify for the grants and that all conditions have been met, and that there is reasonable assurance the amount will be collectible when they are recorded. There are no unfulfilled conditions or other contingencies attached to these grants.

The research and development expenditures are permitted as established by AusIndustry, the Australian government body who reviews and approves research and development claims. In considering this, management considered the methodology used in assessing such expenditures as qualifying expenditures to be consistent with the methodology applied to like-for-like claims it has lodged in previous years since 2014. Management also considered the expertise and experience of the research and development consultant contracted to assist in the formulation and lodgement of those claims.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Company has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation.

Equipment

Equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Depreciation is calculated on a declining balance basis to write off the net cost of each item of equipment as follows:

Equipment	40%
Vehicles	25%

Financial Instruments

IFRS 9 contains three principle classifications for financial assets: measured at amortized cost, fair value through other comprehensive income (“FVOCI”), and fair value through profit or loss (“FVTPL”). Classification of financial assets under IFRS 9 is generally based on a business model and its contractual cash flow characteristics.

The following table shows the classification categories under IFRS 9 for each class of the Company’s financial assets and financial liabilities.

Asset/Liability	Measurement Category	Subsequent Measurement
Cash	FVTPL	FVTPL
Trade and other receivables	Amortized cost	Amortized cost
Lease bond	Amortized cost	Amortized cost
Trade and other payables	Amortized cost	Amortized cost
Employee benefits	Amortized cost	Amortized cost
Facility loan payable	Amortized cost	Amortized cost
Lease liabilities	Amortized cost	Amortized cost
Related party loans	Amortized cost	Amortized cost

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Note 3. Summary of material accounting policies (continued)

Financial assets

Recognition and initial measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at FVTPL, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at FVTPL are expensed in profit or loss when incurred.

Classification and subsequent measurement

Financial assets are subsequently measured based on their classification as measured at amortized cost, FVTPL, or FVOCI. The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost, using the effective interest method, and net of any impairment allowances. Gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss.
- Fair value through other comprehensive income - For financial assets that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments at fair value through other comprehensive income ("FVOCI"), with all subsequent changes in fair value being recognized in other comprehensive income. This election is available for each separate investment. Under this category, fair value changes are recognized in OCI while dividends are recognized in profit or loss. The Company does not have any financial assets designated as FVOCI.
- Fair value through profit or loss - Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded in profit or loss.

Business model assessment

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

Financial liabilities

Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value less transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Classification and subsequent measurement

Subsequent to initial recognition, all of the Company's financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains, and losses relating to a financial liability are recognized in profit or loss.

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Note 3. Summary of material accounting policies (continued)

Financial liabilities (continued)

Derecognition of financial liabilities

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

Compound financial instruments

The Company evaluates the terms of convertible financial instruments to determine whether it meets the definition of a compound financial instrument, such that it contains both a financial liability and an equity component, when the number of shares to be issued is fixed and does not vary with changes in fair value. Where an instrument contains both a financial liability and equity component, these components are recognized separately based on the substance of the instrument.

The initial carrying amount of a convertible financial instrument is first allocated to the liability component, and the residual amounts are then assigned to the equity component. The liability component is measured initially at fair value, calculated at the present value of future cash flows discounted at the market rate for similar debentures with no conversion feature, and is subsequently measured at amortized cost using the effective interest rate method. The equity component is recognized in equity and is not subsequently revalued. The fair value assigned to the equity component is transferred to issued capital or deficit upon conversion or repayment.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognized at cost. Indefinite life intangible assets are not amortized and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortization and any impairment. The gains or losses recognized in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The amortization method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortization method or period.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortized over their remaining useful life, based on their expiry.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. Due to their short-term nature, they are measured at amortized cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

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Note 3. Summary of material accounting policies (continued)

Employee benefits (continued)

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

The Company grants equity-settled share-based awards to directors, officers, employees, and consultants. Share-based payments to employees are measured at the fair value of the equity instrument on grant date. The fair value of stock options is measured using the Black-Scholes option pricing model, and share-based payments expense is recognized over the vesting period using the graded vesting method.

Fair value of share-based payments to non-employees is recognized and measured at the date the goods or services are received based on the fair value of the goods or services received. If the fair value of goods and services received cannot be reliably measured, the share-based payment are measured at the fair value of the equity instrument issued.

For both employees and non-employees, the fair value of share-based payments is recognized in profit or loss, with a corresponding increase to contributed surplus. The amount recognized as expense is adjusted to reflect the number of stock options expected to vest. Consideration received on the exercise of stock options is recorded in issued capital and the related share-based payments in contributed surplus is transferred to issued capital. Upon forfeiture or expiry of stock options, any previously recorded share-based payments included in contributed surplus is transferred to deficit.

Issued capital

Common shares are classified as equity.

Proceeds received from the exercise of stock options and warrants are recorded as issued capital, and the related fair value included in contributed surplus or warrants reserve is transferred to issued capital. Shares issued for non-monetary consideration is value at the closing market price at the date of issuance. Proceeds received from the issuance of new shares are recorded as issued capital. When units are issued comprising common shares and warrants, the Company uses the appropriate option pricing model to apportion the fair value of consideration received between share capital and warrants. Upon expiry, any previously recorded amounts in warrant reserve are transferred to issued capital.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Goods and Services Tax (“GST”) and other similar taxes

Revenues, expenses, and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the consolidated statements of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

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Note 3. Summary of material accounting policies (continued)

Basic and diluted earnings (loss) per share

Basic earnings (loss) per share

Basic earnings per share is calculated by dividing the profit/loss attributable to owners of the Company by the weighted average number of common shares outstanding during the financial period.

Diluted earnings (loss) per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share take into account:

- The after-income tax effect of interest and other financing costs associated with dilutive potential common shares; and
- The weighted average number of additional common shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Research and development

The Company incurs cost on activities that relate to research and development of new and existing products. Research and development costs are expensed, except in cases where development costs meet certain identifiable criteria for deferral. Development costs are capitalized only if the expenditures can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to, and has sufficient resources to, complete development and to use or sell the asset. As at December 31, 2023 and 2022, the Company has not capitalized any research and development costs.

Note 4. Critical accounting judgments, estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue, and expenses. Management bases its judgments, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgments and estimates will seldom equal the related actual results. The judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amounts of assets and liabilities within the next financial year. Critical accounting estimates include, but are not limited to, the following:

- **Equipment and intangible assets – useful lives**

The Company estimates the useful lives and selects methods used to allocate amortization amounts of equipment on a systematic basis. Technical obsolescence of the tangible assets could significantly impact estimated residual useful lives and in turn, carrying values being over or understated.

The Company carries the value of intangible assets at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded on a straight-line basis based upon management's estimate of the useful life and residual value. The estimates are reviewed annually and are updated if expectations change as a result of the technical obsolescence or legal and other limits to use. A change in the useful life or residual value will impact the reported carrying value of the intangible assets resulting in a change in related amortization expense.

- **Share-based payments**

The fair value of stock options granted, and compensatory warrants are measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility, expected life of the options, expected dividends and the risk-free rate. The Company estimates volatility based on its historical share price or historical share price of comparable companies, excluding specific time frames in which volatility was affected by specific transactions that are not considered to be indicative of the entities' expected share price volatility. The expected life of the options is based on historical experience and general option holder behaviour. Dividends were not taken into consideration as the Company does not expect to pay dividends.

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Note 4. Critical accounting judgments, estimates and assumptions (continued)

Critical accounting estimates (continued)

- **Facility loan payable**

The facility loan payable included an option which can be settled in the entity's common shares. Therefore, the value of the facility loan was separated into its liability and equity components on the consolidated statements of financial position. The liability component is initially recognized at fair value, calculated at the net present value of the liability based upon non-convertible debt issued by comparable issuers and accounted for at amortized cost using the effective interest rate method. The effective interest rate used is the estimated rate for non-convertible debt with similar terms at the time of issue. This facility was taken by the subsidiary company on sale in June.

- **Right-of-use asset and lease liability**

The right of use asset and lease liability is measured by discounting the future lease payments at incremental borrowing rate. The incremental borrowing rate is an estimated rate the Company would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

- **Income tax**

Income tax expense is comprised of 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. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end. Management estimates a current tax expense based on tax positions taken which are subject to review and assessment by the relevant tax authorities. Any changes to those estimates for tax payable with regards to previous years are adjusted in the year assessed.

- **Employee benefits provision**

As discussed in note 3, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognized and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

- **Fair value of equity consideration**

As discussed in note 23, the Company disposed on its subsidiary effective June 29, 2023. The deemed proceeds for the disposition were represented by a surrender and subsequent cancellation of shares of Sparc AI. Management has estimated that the fair value of the shares cancelled is represented by the market price of those shares at the date the terms were negotiated and agreed upon.

Critical accounting judgments

- **Intangible assets**

The application of the Company's accounting policy for intangible asset expenditures requires judgment in determining whether it is likely that the future economic benefits will flow to the Company, which is based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off to profit or loss in the period the new information becomes available.

The Company assesses at each reporting date if the intangible assets have indicators of impairment. In determining whether the intangible assets are impaired, the Company assesses certain criteria, including observable decreases in value, significant changes with an adverse effect on the entity, a change in market interest rates, evidence of technological obsolescence and plans.

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Note 4. Critical accounting judgments, estimates and assumptions (continued)

Critical accounting judgments (continued)

- **Recognition of research and development tax credits**

Recognition of government grant income in relation to research and development expenditure credits is made when the Company has reasonable assurance that all unfulfilled conditions and contingencies attached to those grants will be complied with. In making this assessment, management has considered the following matters:

- The research and development expenditure is permitted research and development expenditure as established by AusIndustry, the Australian government body who reviews and approves research and development claims. In considering this, management considered the methodology used in assessing such expenditures as qualifying expenditures, as to be consistent with the methodology applied to like-for-like claims it has lodged in previous years dating back to 2014. Management also considered the expertise and experience of the research and development consultant it contracted to assist in the formulation and lodgement of those claims; and

- The expenditure is claimable through the Australian Taxation Office ("ATO"), which requires the submission of annual taxation returns. The Company has consistently met lodgement deadlines for submitting those tax returns in previous financial years and has no reason to expect this condition will not continue to be met in future reporting periods.

- **Going concern assumption**

The assessment of whether the going concern assumption is appropriate requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

- **Functional currency determination**

The functional currency of the Company and its subsidiary is the currency of the primary economic environment and the Company reconsiders the functional currency if there is a change in events and conditions which determined the primary economic environment.

- **Right-of-use assets and lease liability**

For right-of-use assets and lease liability, the Company applies judgment in determining whether the contract contains an identified asset, whether they have the right to control the asset, and the lease term. The lease term is based on considering facts and circumstances, both qualitative and quantitative, that can create an economic incentive to exercise renewal options. Management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

Note 5. Operating segments

The Company has one operating segment: software and electronics engineering services. In identifying the operating segment, management generally follows the Company's service line representing Spatial Video Platform and IIoT Sensor Cloud services. The Company aims to solve critical problems for government and industry customers operating in infrastructure and asset management, emergency management and incident response markets. The Company operates in the Oceania region, which is situated in the Asia-Pacific region.

On the sale of the subsidiary company, the Company has not been operating in any segments and is currently not generating any revenue. The Company's focus is on further development and commercialisation of its IP assets.

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Note 6. Revenue

	December 31, 2023	December 31, 2022
	\$	\$
Spatial Video Platform	201,170	455,834
Interest	33	-
Consulting fees income	-	2,787
	<u>201,203</u>	<u>458,621</u>

Spatial Video Platform and other consulting revenue have all been recognised over the time the services have been rendered.

Major customer revenue contribution

	December 31, 2023	December 31, 2022
	\$	\$
<i>The following customers contributed more than 10% of total revenue:</i>		
Telstra	165,641	301,625
Melbourne Water	35,529	154,209
	<u>201,170</u>	<u>455,834</u>

Major customers

Telstra is an Australian telecommunications company that builds and operates telecommunications networks and markets voice, mobile, internet access, pay television, and other products and services.

Melbourne Water is a statutory authority owned by the State of Victoria in Australia. It manages and protects Melbourne's major water resources, including the water storage reservoirs and how drinking water is supplied.

These customers are no longer with the Company after the sale of the subsidiary.

Note 7. Research and development tax credits receivable

	Total \$
Balance at December 31, 2021	<u>420,848</u>
Amounts received	(424,115)
Amounts accrued	378,374
Exchange difference	1,006
Balance at December 31, 2022	<u>376,113</u>
Amounts received	(376,113)
Amounts accrued	118,855
Sale of subsidiary company	(118,855)
Balance at December 31, 2023	<u>-</u>

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Note 8. Equipment

Reconciliations of the values at the beginning and end of the current and previous financial year are set out below:

	Equipment	Vehicles	Total
	\$	\$	\$
Balance at December 31, 2021	9,165	24,392	33,557
Disposals	-	(49,276)	(49,276)
Gain on disposal	-	26,714	26,714
Exchange differences	(25)	(326)	(351)
Depreciation expense	(3,617)	(1,504)	(5,121)
Balance at December 31, 2022	<u>5,523</u>	<u>-</u>	<u>5,523</u>
Depreciation expense	(1,073)	-	(1,073)
Sale of subsidiary company	(4,740)	-	(4,740)
Exchange difference	290	-	290
Balance at December 31, 2023	<u>-</u>	<u>-</u>	<u>-</u>

Note 9. Right-of-use assets

On December 21, 2020, the Company signed a new lease at 17/71 Victoria Crescent, Abbotsford VIC 3067, Australia with a commencement date of February 1, 2021 and a term of four years.

The right-of-use asset is depreciated over four years and a lease liability is measured at the present value of the lease payments unpaid at commencement date, discounted using the consolidated entity's incremental borrowing rate of 6%.

The Company has one further option to extend the lease (for a further four years) with the last day to exercise the option being November 1, 2024. Given the uncertainty as to whether the option will be exercised at the end of the lease term, this has not been factored into the lease liability calculation.

	Total
	\$
Balance at December 31, 2021	231,391
Exchange differences	107
Depreciation expense	<u>(74,088)</u>
Balance at December 31, 2022	157,410
Exchange differences	(5,943)
Depreciation expense	(37,647)
Sale of subsidiary company	<u>(113,820)</u>
Balance at December 31, 2023	<u>-</u>

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Note 10. Intangibles

	Patents \$	Trademarks \$	Total \$
Balance at December 31, 2021	36,822	4,507	41,329
Exchange differences	(497)	(36)	(533)
Amortization expense	(4,549)	(901)	(5,450)
Balance at December 31, 2022	<u>31,776</u>	<u>3,570</u>	<u>35,346</u>
Sale of subsidiary company	(81)	-	(81)
Amortization expense	(1,884)	(3,570)	(5,454)
Exchange differences	(2,957)	-	(2,957)
Balance at December 31, 2023	<u>26,854</u>	<u>-</u>	<u>26,854</u>

Note 11. Trade and other payables

	December 31, 2023 \$	December 31, 2022 \$
Trade payables	63,581	366,692
Post-employment benefits payables	-	16,620
Employee withholding taxes payables	-	15,988
Other payables	-	16,829
	<u>63,581</u>	<u>416,129</u>

Refer to note 20 for further information on financial instruments and risk management.

Note 12. Facility loan payable

On November 29, 2022, the Company entered into an unsecured loan facility agreement with a shareholder Atom Jack Pty Ltd. (the "Lender") and was advanced \$225,000. The loan bears interest of 10% per annum, due upon receipt of principal. Included in interest expense is \$22,500 paid to the Lender (\$Nil during the year ended December 31, 2023 and \$22,500 during the year ended December 31, 2022). The maturity date on the loan facility is November 29, 2023.

The principal amount of \$225,000, was convertible into 592,105 common shares of the Company at a price of \$0.38 per share. If the conversion option is not exercised by the Lender, the principal is repayable on the first anniversary of the loan facility agreement.

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Note 12. Facility loan payable (continued)

The terms of the loan facility agreement also include the issuance of 592,105 bonus warrants to the Lender. Each bonus warrant grants the Lender the option to purchase one common share of the Company at an exercise price of \$0.40, expiring on November 25, 2024.

The facility loan contains both a financial liability component and an equity component given the conversion feature and the bonus warrants grant the Lender the option to acquire an equity interest in the Company and meet the fixed-for-fixed criteria. The Company bifurcated the loan facility using a discounted cash flow model and recognized a financial liability of \$200,000, representing the fair value of the liability component discounted at a rate of 12.5%. The equity component consists of the conversion feature and the bonus warrants and was assigned a fair value of \$25,000.

	Total
	\$
Balance at December 31, 2021	-
Issuance of convertible debt	225,000
Equity portion of convertible debt	(25,000)
Accretion interest	2,076
Balance at December 31, 2022	202,076
Accretion interest	22,924
Sale of the subsidiary company	(225,000)
Balance at December 31, 2023	-

This loan facility was disposed of with the sale of the subsidiary company.

Note 13. Lease liabilities

	Total
	\$
Balance at December 31, 2021	241,805
Payments towards lease	(82,209)
Accretion	13,086
Exchange differences	241
Balance at December 31, 2022	172,923
Payments towards lease	(42,832)
Accretion	5,318
Exchange differences	946
Sale of subsidiary company	(136,355)
Balance at December 31, 2023	-

	December	December
	31, 2023	31, 2022
	\$	\$
Current lease liabilities	-	78,504
Non-current lease liabilities	-	94,419
	-	172,923

Note 14. Income tax

For the years ended December 31, 2023 and 2022, the reconciliation of the expected income tax at the Canadian statutory income tax rate of 27% (2022 - 27%) to the actual income tax is as follows:

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Note 14. Income tax (continued)

	December 31, 2023 \$	December 31, 2022 \$
Net income (loss) before tax	<u>2,967,135</u>	<u>(1,094,267)</u>
Statutory tax rate	27%	27%
Expected income tax expense (recovery)	801,126	(295,452)
Differences between Canadian and foreign tax rates	3,313	26,483
Items not deductible for tax purposes	(947,346)	230,655
Effect of change in tax rates	-	74,949
Impact of foreign exchange on tax assets and liabilities	-	4,879
Under provided in prior years	-	42,078
Unused tax losses and tax offsets not recognized	199,891	(52,698)
Origination and reversal of temporary differences	(56,984)	(24,070)
	<hr/>	<hr/>
Income tax recovery	<u>-</u>	<u>6,824</u>

The Company recognizes tax benefits on losses or other deductible amounts where it is probable future taxable income for the recognition of deferred tax assets has been met. During the year ended December 31, 2022, the Company had convertible debt with an equity portion for accounting purposes which gives rise to temporary differences that result in deferred tax liabilities for which deferred tax assets can be recognized, consisting of the following:

	December 31, 2023 \$	December 31, 2022 \$
Deferred tax liability on equity component of debt	-	(6,823)
Deferred tax asset recognized to offset liability	-	6,823
	<hr/>	<hr/>
	<u>-</u>	<u>-</u>

Additionally, the Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	December 31, 2023 \$	December 31, 2022 \$
Non-capital losses carried forward	554,170	655,196
Capital losses carried forward	229,470	
Share issuance costs	13,094	96,210
Accruals and provisions	-	49,952
	<hr/>	<hr/>
	<u>796,734</u>	<u>801,358</u>

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Note 15. Contract liabilities

Contract liabilities as at December 31, 2022 presented in the consolidated statements of financial position represents deferred revenue relating to server licenses of SPARC platform deployed in Telstra data centre, which were not yet been activated or configured for customer use at that date. There is further configuration required once Telstra starts connecting cameras and customers (subscriptions) to those servers. This activity, when it occurs, will take less than a week and will be a one-off exercise. The Company has the resources to finish this configuration work and does not expect there to be significant costs associated with completing this work. Furthermore, contract liabilities also include unearned revenue in relation to work to be completed for Melbourne Water. The Company will complete the work during the 2023 financial year. The contract liabilities were disposed of with the sale of the subsidiary company.

	December 31, 2023	December 31, 2022
	\$	\$
Contract liabilities	-	<u>333,961</u>

Note 16. Issued Capital

Ordinary shares

Ordinary shares entitle the holder voting rights and to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

During the year ended December 31, 2023, the subsidiary company, EYEFi, was sold to certain shareholders of the Company. Pursuant to the terms of the purchase and sale agreement, those shareholders would return to treasury their shares of the Company, and they would be cancelled. The total number of shares cancelled was 18,951,061, representing 67.57% of shares issued and outstanding at the time. This attributed a value of \$3,905,074 in share capital being cancelled was reversed from issued capital. The difference between the estimated fair value of those shares using the market price and the attributed value, of \$991,398, has been recorded to equity as this represents a transaction with individuals in their capacity as shareholders.

Exercised options

During the year ended December 31, 2022, 490,000 options were exercised at \$0.10 per share.

Refer to note 18 for further details.

Private placement

On December 5, 2023, the Company completed a private placement where it raised \$372,002 for the issue of 3,389,777 shares. Part of the share issue was used to settle a \$135,000 debt that the Company owed a third party, so the actual cash raised was \$237,002.

Note 17. Warrants

On November 29, 2022, the Company issued 592,105 bonus warrants in connection with the loan facility agreement described in note 12. The bonus warrants were assigned a fair value of \$nil. As part of the sale of EYEFi, these warrants were cancelled as at June 30, 2023.

Warrants totaling 520,000 were issued as at June 30, 2023 and have an exercise price of \$0.15 each with an expiry date of 30 June, 2025.

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Note 17. Warrants (continued)

Stock price	0.15
Strike price	0.15
Term	2
Risk-free interest rate	3.35%
Dividend yield	-%
Volatility	98.57%
Barrier	-
Rebate	-

Warrants outstanding as at December 31, 2023 are summarized below:

	Number of Warrants
Balance of Warrants at December 31, 2021	4,400,000
Expired warrants	(4,400,000)
Issued	592,105
Balance of Warrants at December 31, 2022	592,105
Cancelled	(592,105)
Issued	520,000
Balance at December 31, 2023	<u>520,000</u>

The balance of the warrants outstanding and exercisable as at December 31, 2022 was as follows:

Expiry date	Exercise price	Remaining life (Years)	Warrants outstanding
November 25, 2024	\$0.40	1.90	592,105

The balance of the warrants outstanding and exercisable as at December 31, 2023 was as follows:

Expiry date	Exercise price	Remaining life (Years)	Warrants outstanding
June 30, 2025	\$0.15	1.5	520,000

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Note 18. Stock options

On June 23, 2021, the Company announced the appointment of Dr. Ian Meredith to the Company's US based advisory board to assist with expansion activities. Dr. Ian Meredith's remuneration included 20,000 options with an exercise price of \$0.82, with no vesting conditions with a 12-month expiry. An additional 100,000 options were granted with an exercise price of \$1.30, with vesting conditions (remain as consultant and provide a minimum of three strategic referrals) with an 18-month expiry. The fair value of the options granted was \$9,278 and \$42,665 (\$22,326 recorded in 2021 and \$20,339 recorded in 2022) respectively. On June 23, 2022, the 20,000 options issued to Dr. Ian Meredith with an exercise price of \$0.82 expired. On December 23, 2022, the 100,000 options issued to Dr. Ian Meredith with an exercise price of \$1.30 expired. Upon expiry, the aggregate fair value of \$51,943 was transferred from contributed surplus to deficit.

On July 15, 2021, the Company retained Gale Capital Corporation ("Gale") to assist with investor relations activities, including communicating and marketing to potential investors, brokers, shareholders, and media contacts. Under the terms signed, Gale was granted 100,000 options with an exercise price of \$0.71 per share, with a 12-month expiry. The options vest evenly on a monthly basis over the 12-month term of the Investor Relations Agreement with no more than 25% of the options vesting in any three-month period and expire on termination of the Agreement. The options have a fair value of \$39,547 (\$31,440 recorded in 2021 and \$8,107 recorded in 2022). On July 15, 2022, the 100,000 options issued to Gale expired, and the fair value of \$39,547 was transferred from contributed surplus to deficit.

On June 17, 2022, Polygon Fund Pty Ltd. ATF Polygon Fund Unit Trust exercised 90,000 options at \$0.10 share price. The Company issued 90,000 shares and received gross proceeds on exercise of \$9,000. The fair value of \$7,057 was transferred from contributed surplus to issued capital.

On July 8, 2022, Cheryl Hargrave-Hill exercised 150,000 options at \$0.10 share price. The Company issued 150,000 shares and received gross proceeds on exercise of \$15,000. The fair value of \$11,761 was transferred from contributed surplus to issued capital.

On October 13, 2022, the Company issued 500,000 options each (1,000,000 options in total) to Polygon Fund Pty Ltd. ATF Polygon Unit Trust, owned by Anoosh Manzoori, and Accelerative Investments Pty Ltd., owned by Justin Hanka, in connection with their appointment as non-executive directors of the Company, announced on December 15, 2022. The options have an exercise price of \$0.50 per share and expiry date of December 31, 2024. The shares issuable upon exercise of the options will have a four-month holding period and one day. The options have a fair value of \$161,419.

The following table presents a reconciliation of stock options outstanding:

	Weighted average exercise price	Number of stock options outstanding
Balance at December 31, 2021	\$0.38	710,000
Granted	\$0.50	1,000,000
Exercised	\$0.10	(490,000)
Expired	\$0.99	(220,000)
Balance at December 31, 2022	\$0.50	1,000,000
Granted	\$0.15	900,000
Cancelled	\$0.50	(1,000,000)
Balance at December 31, 2023	\$0.15	900,000

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Note 18. Stock options (continued)

As agreed in the share sale agreement for the sale of EYefi, 1,000,000 of these options were cancelled as at June 30, 2023. The canceled options have been reclassified from contributed surplus to accumulated deficit per the option plan at the date of sale of EYefi.

On February 2, 2023, 200,000 fully vested options were issued to Karsten Busche, a consultant for services rendered. The options have a three-year term with an exercise price of \$0.50

On June 2023, 2023, 700,000 fully vested options with an exercise price of \$0.15 per option with a term of two years were granted to the following:

	Options #	Value \$
Anoosh Manzoori (CEO and director)	300,000	23,870
Justin Hanka (Director)	300,000	23,870
Anthony Haberfield (Director)	50,000	3,978
John Dinan (CFO)	50,000	3,978

The fair value of stock options granted during the years ended December 31, 2023 and 2022 were determined using Black-Scholes pricing model at the weighted average assumptions as follows:

	December 31, 2023	December 31, 2022
Share price	\$0.15-\$0.40	\$0.40
Expected volatility	82.85%-98.57%	83.59%
Expected life	2-3 years	2.22 years
Expected dividends	-%	-%
Risk-free interest rate	2.94%-3.35%	4.11%

As at December 31, 2022, the Company had the following stock options outstanding and exercisable:

Expiry date	Weighted average exercise price \$	Weighted average remaining life (Years)	Options outstanding and exercisable
December 31, 2024	\$0.50	2.00	1,000,000

As at December 31, 2023, the Company had the following stock options outstanding and exercisable:

Expiry date	Weighted average exercise price \$	Weighted average remaining life (Years)	Options outstanding and exercisable
February 2, 2026	\$0.50	2.09	200,000
June 30, 2025	\$0.15	1.50	700,000

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Note 19. Loss per share

	December 31, 2023	December 31, 2022
	\$	\$
Income (loss) after income tax	<u>2,967,135</u>	<u>(1,094,267)</u>
	Number	Number
Weighted average number of common shares used in calculating basic earnings per share	<u>18,733,652</u>	<u>27,695,518</u>
Weighted average number of common shares used in calculating diluted earnings per share	<u>18,733,652</u>	<u>27,695,518</u>
Basic and diluted income per share	<u>0.16</u>	<u>(0.04)</u>

Note 20. Financial instruments and risk management

Capital Management

The Company's objective when managing capital is to maintain its ability to continue as a going concern, in order to provide returns for the shareholders and benefits for other stakeholders. The Company includes equity, comprised of share capital and deficit, in the definition of capital.

The Company's primary objective, with respect to its capital management, is to ensure that it has sufficient cash resources to fund the operations. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

There were no changes to the Company's approach to capital management during the year ended December 31, 2023.

Fair value of financial assets and financial liabilities

Fair value

Fair value represents the price at which an asset and liability could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of assets and liabilities according to the following hierarchy based on the number of observable inputs used to value the instrument.

Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.

Level 2: Fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (derived from prices).

Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The Company's financial instruments consist of cash, trade and other receivables, and trade and other payables as their carrying values approximate the fair values because of the short-term nature of these instruments. The employee benefits are carried at amortized cost and carried at the Company's estimated settlement value.

The Company's financial instruments classified as level 1 in the fair value hierarchy is cash. Trade and other receivables, and trade and other payables are short term which approximate their fair value. Lease liabilities, employee benefits and facility loan payable use a market rate to approximate their fair value.

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The cash at bank is subject to credit risk where the bank cannot repay the principal and interest to the Company. The Company mitigates this risk by using the major banks in Australia and Canada. The Company believes it has no significant credit risk.

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Note 20. Financial instruments and risk management (continued)

Fair value of financial assets and financial liabilities (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company will achieve this by maintaining sufficient cash and seeking equity financing when needed.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of undiscounted financial assets and liabilities. Liabilities are payable as follows:

	0-30 Days \$	30-60 Days \$	60-90 Days \$	90-365 Days \$	1-5 Years \$	Total \$
2023						
Trade and other payables	63,581	-	-	-	-	63,581
	0-30 Days \$	30-60 Days \$	30-90 Days \$	90-365 Days \$	1-5 Years \$	Total \$
2022						
Trade and other payables	416,129	-	-	-	-	416,129
Facility loan payable	-	-	-	225,000	-	225,000
Lease liabilities	-	-	-	86,752	97,765	184,517
Related party loans payable	-	-	-	70,279	-	70,279

Currency risk

The Company's main operating business is in Australia. As such, the Company is exposed to some foreign currency risk. Fluctuations in the exchange rate between the Canadian dollar and Australian dollar may have an adverse effect on the Company's business. The Company may mitigate its foreign currency risk by substituting Canadian vendors for certain services. Foreign currency risk is considered low relative to the overall financial operating plan. A change of 10% in the exchange rate at December 31, 2023 would increase or decrease net loss by \$3,715.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company currently has no interest-bearing debt.

Note 21. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the Company is set out below:

	December 31, 2023 \$	December 31, 2022 \$
Salaries	108,240	382,231
Short-term benefits	-	37,332
Other long-term benefits	-	4,528
Post-employment benefits	18,099	39,128
	<u>126,339</u>	<u>463,219</u>

The transactions with related parties were in the normal course of operations and were measured at their fair values.

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Note 22. Related party transactions

Key management personnel

Disclosures relating to key management personnel are set out in note 21.

Transactions with related parties

On May 1, 2022, the Company entered into a loan facility agreement with Brendan Dunne, the Chief Operating Officer of the company (at that time, until June 29, 2023), to borrow an amount up to \$46,025. As at December 31, 2022, the outstanding balance of the loan was \$45,980 (AUD \$50,000). As at June 29, 2023, the outstanding balance of the loan was \$41,981. This debt was taken with the subsidiary company on sale and was not repaid by Sparc AI Inc.

On October 1, 2022, the company entered into a loan facility agreement with Simon Langdon, the Chief Executive Officer of the Company (at that time, until June 29, 2023), to borrow an amount up to \$181,400. As at December 31, 2022, the outstanding balance of the loan was \$24,299 (AUD \$26,423). As at June 29, 2023, the outstanding balance of the loan was \$90,443. This debt was taken with the subsidiary company on sale and was not repaid by Sparc AI Inc.

On June 30, 2023, the company entered into a loan agreement with Polygon Fund, owned by Anoosh Manzoori, Chief Executive Officer, and Accelerative Investments Pty Ltd., owned by Justin Hanka, Director, for a facility of \$200,000 in total (\$100,000 each).

The terms of the loan are as follows:

Interest rate 0%
 Expiry Date June 30, 2024
 Warrant cover 260,000 warrants to be issued to each party

Please refer to the Warrants note 17 for details on the Warrants.

Issue of options (note 18)

The following options were issued to related parties on June 30, 2023:

	Options	Value
	#	\$
Anoosh Manzoori (CEO and director)	300,000	23,870
Justin Hanka (Director)	300,000	23,870
Anthony Haberfield (Director)	50,000	3,978
John Dinan (CFO)	50,000	3,978
Total on Issue	700,000	55,696

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Note 22. Related party transactions (continued)

Issue of warrants (note 17)

The following warrants were issued to related parties on June 30, 2023:

	Warrants	Value
	#	\$
Anoosh Manzoori (CEO and director)	260,000	20,687
Justin Hanka (Director)	260,000	20,687
Total on Issue	520,000	41,374

Note 23. Sale of EYefi Pty Ltd.

The Group consisted of Sparc AI and EYefi, its 100% owned subsidiary company. EYefi owned the SPARC Patents and Algorithms (the "Assets"). Effective June 29, 2023, Sparc AI entered into a purchase and sale agreement with certain shareholders of Sparc AI (the "Purchasers") for the sale of all the shares of EYefi.

Pursuant to the purchase and sale agreement, the agreed terms of the sale were that the Purchasers would return to treasury their shares in the Company and they would be cancelled. The total number of shares cancelled was 18,951,061. In addition, the agreement includes the payment of deferred consideration of \$2,200,000, in the form of a Promissory note, by the Purchasers to the Company upon certain contingent future events. As the contingent events are not probable at the date of the purchase and sale agreement nor at December 31, 2023, the Promissory note meets the definition of a contingent asset and has not been recorded to the Company's consolidated statement of financial position at December 31, 2023. The profit on sale of EYefi was \$3,631,331.

The profit on sale has been calculated as follows:

Number of shares returned to treasury	18,951,061
Share price at time of sale	<u>\$0.15</u>
Value of share consideration	\$2,842,659
Intercompany loan forgiveness	39,699
Assets of EYefi disposed	(317,795)
Liabilities of EYefi disposed	1,020,018
Foreign currency translation recognized	<u>46,750</u>
Profit on sale	<u>\$3,631,331</u>

The disposition of the subsidiary company occurred effective June 29, 2023. Following the sale of EYefi, the Company does not have any continuing business and will be required to further develop the SPARC technology. The sale of EYefi has not been presented as a discontinued operation as it represented the entire business of the Company prior to disposition and management has determined that it would be misleading to present the operating results as a single line item as required by IFRS 5 *Assets held for sale and discontinued operations*.