

Sparc AI Inc

Unaudited Condensed Interim Consolidated Financial Statements – June 30, 2024

For the Three and Six Months Ended June 30, 2024 and 2023

(Unaudited)

(Expressed in Canadian Dollars)

Sparc AI Inc.
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Expressed in Canadian Dollars
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For the three and six months ended June 30, 2024 and 2023

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General information

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards and reviewed by the Audit Committee and Board of Directors of the Company. The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of condensed interim consolidated financial statements by an entity's auditor.

Sparc AI Inc.
Expressed in Canadian Dollars
Unaudited condensed interim consolidated statements of financial position
As at June 30, 2024

	Note	June 30, 2024 \$	December 31, 2023 \$
Assets			
Current assets			
Cash and cash equivalents		46,220	122,650
Trade and other receivables	7	11,308	7,096
Research and development tax credits receivable	8	-	-
Prepayments		-	-
Total current assets		57,528	129,746
Non-current assets			
Plant and equipment		23,196	
Intangibles		24,142	26,854
Lease bond			
Total non-current assets		47,338	26,854
Total assets		104,866	156,600
Liabilities			
Current liabilities			
Trade and other payables		30,331	63,581
Facility loan payable			
Lease liabilities			
Short-term employee benefits			
Contract liabilities			
Related party loans			
Total current liabilities		30,331	63,581
Non-current liabilities			
Lease liabilities			
Short-term employee benefits			
Total non-current liabilities		-	-
Total liabilities		30,331	63,581
Equity			
Issued capital	9	2,330,032	2,246,032
Contributed surplus		-	-
Equity component of convertible debt		-	-
Share based payments		122,642	122,642
Cumulative translation adjustment		-	-
Accumulated deficit		(2,378,139)	(2,275,655)
Total equity		74,535	93,018
Total liabilities and equity		104,866	156,599

Signed on behalf of the Board:



Director

Director 

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

Sparc AI Inc.**Expressed in Canadian Dollars****Unaudited condensed interim consolidated statements of operations and other comprehensive income (loss)
For the three and six months ended June 30, 2024 and 2023**

		3 Months Ended		6 Months Ended	
	Note	June 30,	June 30,	June 30,	June 30,
		2024	2023	2024	2023
		\$	\$	\$	\$
Revenue					
Sales from rendering services	6		1,724	-	195,482
Cost of sales			(50,571)	-	(130,971)
Gross margin			48,847	-	64,511
Other income		-	-		
Research and Development tax credits	8	-	-		
Expenses					
Administration		(37,148)	(89,403)	(45,389)	(169,920)
Employee benefits expense			(172,967)		(312,859)
Depreciation and amortisation expense		(1,358)	(16,800)	(2,712)	(37,625)
Listing expenses		(3,675)		(17,622)	
R&D Expenses				(36,761)	
Interest expense			(35)		(5,168)
Marketing		-			
Loss before income tax expense		(42,181)	(328,052)	(102,484)	(461,061)
Income tax (expense)/benefit			(69,590)		(69,562)
Loss after income tax expense for the period		(42,181)	(258,462)	(102,484)	(391,499)
Other comprehensive income/(loss)					
<i>Items that may be reclassified subsequently to profit or loss</i>		-		-	
<i>Foreign currency translation</i>		-	(6,641)	-	
Other comprehensive income/(loss) for the period, net of tax		-	271,847	-	271,847
Total comprehensive loss for the period		(42,181)	6,744	(102,484)	(119,652)
Basic and diluted loss per share	11	\$ (0.003)	\$ (0.001)	\$ (0.008)	\$ (0.013)

The above unaudited condensed interim consolidated statements of operations and other comprehensive income should be read in conjunction with the accompanying notes

Sparc AI Inc.
Expressed in Canadian Dollars
Unaudited condensed interim consolidated statements of changes in equity
For the three and six month ended June 30, 2024 and 2023

	Number of Shares	Issued Capital \$	Contributed Surplus \$	Capital raising costs \$	Equity Component of Convertible note \$	Cumulative translation adjustment \$	Share based Payments	Accumulated deficit \$	Total Equity \$
Balance at 1/1/2021	27,555,600	5,292,160	113,761		0	(60,015)	0	(5,405,126)	(59,220)
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	0
Convertible Loan equity					25,000				25,000
Recognition of deferred tax liability					(6,824)				(6,824)
Balance at 31/12/2022	28,045,600	5,779,104	161,417		18,176	(69,218)		(6,395,605)	(506,126)
Share based payments			21,672						21,672
Loss after income tax for the period								(664,196)	(664,196)
Translation of opening position			0			69,218			69,218
Sale of Subsidiary Co	(18,951,061)	(3,905,074)			(18,176)			991,398	(2,931,852)
Profit on Sale of Subsidiary								3,631,331	3,631,331
Cancellation of Options with the sale			(183,089)					161,417	(21,672)
Share based payments						(0)	122,642		122,642
Placement December 2023	3,389,777	372,002							372,002
Balance at 31/12/2023	12,484,316	2,246,032	0	0	0	(0)	122,642	(2,275,655)	93,019
Loss after income tax for the period								(102,484)	(102,484)
Issue of shares	560,000	84,000							84,000
Balance at 30 June 2024	13,044,316	2,330,032	0	0	0	(0)	122,642	(2,378,139)	74,535

Please see note 12 and note 13 for further information.

The above unaudited condensed interim consolidated statements of changes in equity should be read in conjunction with the accompanying notes

Sparc AI Inc.
Expressed in Canadian Dollars
Unaudited condensed interim consolidated statements of cash flows
For the six months ended June 30, 2024

		6 Months Ended	
		June 30,	June 30,
	Note	2024	2023
		\$	\$
Cash flows from operating activities			
Net Profit (Loss) for the period		(102,484)	(119,652)
<i>Adjustments for items not affecting cash:</i>			
Depreciation and amortisation	9	2,712	
Share based payments		-	115,431
Interest expense from leases			
Gain on disposal of plant & equipment			
		(99,772)	(4,221)
<i>Net changes in non-cash working capital balances:</i>			
Decrease / (increase) in trade and other receivables		(4,213)	
(Decrease) / increase in trade creditors and other payables		(33,249)	4,174
Research and development tax receivable	8		
Increase/(decrease) in employee benefits			
Profit on sale of Subsidiary company			
Net cash used in operating activities		(137,234)	(47)
Cash flows from investing activities			
Payments for property, plant and equipment		(23,196)	
Payments for intangibles			
Proceeds from disposal of plant and equipment			
Net cash from/(used in) investing activities		(23,196)	
Cash flows from financing activities			
Proceeds from exercised stock options	12	84,000	
Lease payments			
Net proceeds from private placements	12,13		
Facility loan		-	
Net cash from/(used in) financing activities		84,000	
Net increase/(decrease) in cash and cash equivalents		(76,430)	(47)
Cash and cash equivalents at the beginning of the financial period		122,650	3,180
Effects of exchange rate changes on cash and cash equivalents			
Cash and cash equivalents at the end of the financial period		46,220	3,133

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

Sparc AI Inc.
Expressed in Canadian Dollars
Notes to the unaudited condensed interim consolidated financial statements
For the three and six months ended June 30, 2024 and 2023

Note 1. Incorporation, operation and going concern

Sparc AI Inc. (the “Company” or “Sparc AI”) was incorporated under the laws of the Province of British Columbia, Canada on October 4, 2018 as EYEfi Technologies Inc. On August 11, 2023, the Company changed its name to Sparc AI Inc. The Company’s registered office and principal place of business are: Registered Office #390-825 Homer Street, Vancouver BC, V6B 2W2 Canada and level 8, 90 Collins street, Melbourne Australia. The Company became a Reporting Issuer on November 10, 2020.

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.

Disposal of subsidiary company.

Pre June 29, 2023, Sparc AI Inc owned a subsidiary company EYEfi Pty Ltd which was incorporated in Australia. The subsidiary company owned the Sparc Patents and Algorithms (the Assets). Effective June 29, 2023, the Company transferred the Sparc Patents and Algorithms (the Assets) from EYEfi Pty Ltd to Sparc AI Inc and then disposed 100% of the shares of EYEfi Pty Ltd to a group of former officers, directors and shareholders (the “Buyer”). As consideration for the sale, Sparc AI retained the Assets and in addition, the Buyers agreed to return 18,951,061 common shares to the Company to be cancelled and returned to treasury. At the time of sale, the common shares had a market value of \$0.15 per. In addition, the Buyer has agreed to pay a further \$2,200,000 (contingent on conditions occurring. See note 19 for further information).

Subsequent to the sale, in July 2023, the company incorporated a new subsidiary company in Australia named Sparc AI Pty Ltd. This is a 100% owned subsidiary company, and manages operations in Australia, focusing on developing the IP assets. During the half year, the Company has successfully integrated the IP onto a microchip which it will now concentrate on the marketing of this microchip.

The financial statements as at June 30, 2024 therefore consist of the Company only with the comparative being the consolidated entity. The sold subsidiary’s results were deconsolidated at 29 June, 2023.

The Company’s condensed interim 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 incurred a loss of (\$102,484) for the 6 months period ended June 30, 2024, and as of that date has an accumulated loss of (\$2,378,139).

Statements of compliance and functional currency

These condensed interim consolidated financial statements have been presented in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”), applicable to the preparation of interim financial statements, including Internal Accounting Standard (“IAS”) 34, Interim Financial Reporting.

These condensed interim financial statements are presented in Canadian dollars, which is the Company’s functional and presentation currency. The functional currency of the Company’s subsidiaries is the Australia dollar.

These condensed interim consolidated financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on August 24, 2023.

Effective January 1, 2020, the Company changed its presentation currency to Canadian Dollars from Australian Dollars. The financial statements as of June 30, 2023 and for the year ended December 31, 2022, have been translated into Canadian Dollars in accordance with IAS 21, “The Effects of Changes in Foreign Exchange Rates”, as follows:

Sparc AI Inc.
Expressed in Canadian Dollars
Notes to the unaudited condensed interim consolidated financial statements
For the six months ended June 30, 2024 and 2023

Note 2. Basis of preparation (continued)

- Assets and liabilities presented and previously reported in Australian Dollars and have been translated into Canadian Dollars using the period-end-exchange rate of 0.8746;
- Shareholders' equity balances have been translated using historical exchange rates in effect on the date that transactions occurred; and
- Resulting exchange differences have been recorded to the reserve of exchange differences account on translation.

Foreign currency transactions

Foreign currency transactions are translated into Canadian dollars 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Note 3. Summary of significant accounting policies

These condensed interim consolidated financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these condensed interim consolidated financial statements are to be read in conjunction with the annual report for the year ended December 31, 2023.

The principal accounting policies adopted are consistent with those of the financial year ended December 31, 2022 and corresponding interim reporting period, unless otherwise stated.

Note 4. Critical accounting judgements, estimates and assumptions

The preparation of the condensed interim consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the condensed interim consolidated financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, 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 judgements and estimates will seldom equal the related actual results. Revisions to estimates and the resulting impacts on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

Note 5. Operating segments

Post sale of the subsidiary company, the operating segments are under strategic review.

Note 6. Revenue

	6 Months Ended	
	June 30, 2024	June 30, 2023
	\$	\$
IIoT Sensor Cloud	-	
Spatial Video Platform	-	195,482
Consulting fees	-	
Revenue from rendering services	-	195,482

IIot Sensor Cloud and Spatial Video Platform revenue have all been recognised over the time the services have been rendered.

Sparc AI Inc.**Notes to the unaudited condensed interim consolidated financial statements****For the six months ended June 30, 2024 and 2023****Note 6. Revenue (continued)**

	6 Months Ended	
	June 30, 2024	June 30, 2023
Major customer revenue contribution		-
Revenue portion of total service revenue		-
Telstra	-	161,373
Melbourne Water	-	34,109
	-	195,482

Note 7. Trade and other receivables

	June 30, 2024 \$	December 31, 2023 \$
<i>Current assets</i>		
Trade receivables	-	7,095
GST receivable	11,308	
	11,308	7,095

Note 8. Research and development tax credits receivable*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 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 that reviews and approves research and development claims. In considering this, the directors 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. The directors also considered the expertise and experience of the research and development consultant contracted to assist in the formulation and lodgement of those claims.

The Company has incurred R&D expenditure in the six months ended June 30, 2024 and will investigate the possibility of making an R&D claim.

Sparc AI Inc.
Expressed in Canadian Dollars
Notes to the unaudited condensed interim consolidated financial statements
For the six months ended June 30, 2024 and 2023

Note 9. Issued capital

	June 30, 2024 Shares	December 31, 2023 Shares	June 30, 2024 \$	December 31, 2023 \$
Common shares - fully paid	13,044,316	12,484,316	2,330,032	2,246,032

Movements in common share capital

Details	Shares	\$
Balance at January 1, 2023	27,555,600	5,292,160
Exercised options	490,000	87,420
Warrants Expired	-	399,524
Balance at December 31, 2023	<u>28,045,600</u>	<u>5,779,104</u>
Shares cancelled as part of the sale of subsidiary	(18,951,061)	(3,905,074)
Placement of shares December, 2023	3,389,777	372,002
	<u>12,484,316</u>	<u>2,246,032</u>
Balance at June 30, 2024	<u>12,484,316</u>	<u>2,246,032</u>
Exercised options and warrants	<u>560,000</u>	<u>84,000</u>
Balance at June 30, 2024	<u><u>13,044,316</u></u>	<u><u>2,330,032</u></u>

Common shares

Common shares entitle the holder 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 common shares have no par value and the Company does not have a limited amount of authorised capital.

Note 10. Warrants

At 30 June 2023 as part of the sale transaction, all exiting warrants were cancelled and 520,000 new Warrants were issued. The Warrants were valued using the Black Scholes method.

Stock price	0.15
Strike price	0.15
Term	3
Risk-free interest rate	3%
Dividend yield	0%
Volatility	100%

As the Company does not have sufficient history of past share prices, the expected volatility was calculated by taking the volatility of a comparable company.

During the period ending June 30, 2024, 260,000 warrants were exercised and converted to ordinary shares.

	June 30, 2024 \$	December 31, 2023 \$
Warrants	<u>260,000</u>	<u>49,200</u>

EYefi Group Technologies Inc.
Expressed in Canadian Dollars
Notes to the unaudited condensed interim consolidated financial statements
For the six months ended June 30, 2023 and 2022

Note 13. Warrants (continued)

Note 11. Loss per share

	3 Months Ended		6 Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2024	2023	2024	2023
	\$	\$	\$	\$
Profit (Loss) after income tax attributable to the owners of Sparc AI Inc.	(42,181)	6,744	(102,484)	(119,652)
	Number	Number	Number	Number
Weighted average number of common shares used in calculating basic earnings per share	13,044,316	9,094,539	13,044,316	9,094,539
Weighted average number of common shares used in calculating diluted earnings per share	13,044,316	9,094,539	13,044,316	9,094,539
Basic and diluted loss per share	\$(0.003)	\$0.001	\$(0.008)	\$(0.013)

Note 15. 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 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.

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 amount 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.

As at June 30, 2022, the fair value of cash and cash equivalents held by the Company was based on level 1 inputs of the fair value hierarchy. The Company's financial instruments consist of cash and cash equivalents, trade receivables, employee benefits, contract liabilities, accounts payable and accrued liabilities, and lease liabilities. The carrying values of accounts payable and accrued liabilities approximate fair value because of the short-term nature of these instruments.

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.

Sparc AI Inc.
Expressed in Canadian Dollars
Notes to the unaudited condensed interim consolidated financial statements
For the six months ended June 30, 2024 and 2023

Note 15. Financial instruments and risk management (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 financial assets and liabilities.

	0-30 Days	30-60 Days	60-90 Days	90-365 Days	1-5 Years	Total \$
June 30, 2024						
Trade and other payables				30,991		30,991
				30,991		30,991
	0-30 Days	30-60 Days	60-90 Days	90-365 Days	1-5 Years	Total \$
December 31, 2023						
Trade and other payables	63,581					63,581
Facility loan payable						
Lease liabilities						
Related party loan payable						
	63,581					63,581

There were no related transactions with related parties for the six months period ended June 30, 2023 for the Company.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 18. Contingent Asset

As part of the sale of the subsidiary company, there was a Promissory Note issued by EYEfi Pty Ltd to Sparc AI Inc. This note was to the value of CAD 2,200,000. The maturity date of this note is contingent on the following:

- A sale of the issued shares of EYEfi Pty Ltd by any shareholders (except where the sale is between related entities);
- The issue and sale from treasury of Company shares, unless this is done to raise funds (if this is the case, 50% of the funds raised are to be applied to the repayment of the Promissory Note);
- A sale of the main undertaking or the majority of the assets of the company.

Having regard to the contingent nature of the maturity date, directors have resolved to treat the Promissory Note as a contingent asset and not record it to the statement of financial position.

EYefi Group Technologies Inc.
Notes to the unaudited condensed interim consolidated financial statements
For the period ended 30 June 2022

Note 19. Stock options

As part of the terms of the sale of the subsidiary company, the 1,200,000 options on issue were cancelled and new options were issued as follows:

Expiry Date	Exercise Price \$	Remaining life (Years)	Options outstanding
June 30, 2026	\$0.15	3.00	700,000

During the period ending June 30, 2024 300,000 options were exercised and 300,000 ordinary shares were issued. As at June 30, 2024 the following options were on issue..

Expiry Date	Exercise Price \$	Remaining life (Years)	Options outstanding
June 30, 2026	\$0.15	3.00	400,000

Note 15 Loan Facility

On June 30, 2023, the Company signed a loan agreement with related parties which allows for a maximum of \$200,000 to be drawn as required. There is no interest to be paid on the loan funds drawn, and the funds are to be repaid 12 months from the signing of the agreement (unless both parties agree to extend the term of the loan). The warrants referred to in note 13 were issued as part of the terms of this agreement.

Note 16 Subsequent events.

There are no subsequent events to disclose at the date of signing these financial statements.