XR Immersive Tech Inc.
(Formerly Fantasy 360 Technologies Inc.)

Condensed Consolidated Interim Financial Statements
Nine months ended September 30, 2022 and 2021

Expressed in Canadian Dollars

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The condensed interim unaudited financial statements of XR Immersive Tech Inc. are the responsibility of the Company's management. The condensed consolidated interim unaudited financial statements are prepared in accordance with International Financial Reporting Standards and reflect management's best estimates and judgment based on information currently available.

Management has developed and maintains a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized, and properly recorded, and financial information is reliable.

XR Immersive Tech Inc. (Formerly Fantasy 360 Technologies Inc.)
Condensed consolidated interim statements of financial position
(Expressed in Canadian dollars)

	Note		As at September 30, 2022		As at December 31, 2021
ASSETS					
Current assets					
Cash and cash equivalents	3	$	522,821	$	2,932,795
Prepaids			256,106		46,211
Other receivables			17,248		17,272
Government subsidy receivable	4		-		182,782
Government sales tax receivable			33,375		18,364
Inventory	5		308,518		144,018
			1,138,068		3,341,442
Non-current assets					
Investments	6		35,700		15
Equipment	8		35,525		32,506
Right-of-use asset	9		31,718		45,312
Acquired assets	7		3,571,429		-
TOTAL ASSETS		**$**	**4,812,440**	**$**	**3,419,275**
LIABILITIES					
Current liabilities					
Trade payables	11	$	589,631	$	105,242
Accrued liabilities	7,11		232,590		188,973
Accrued interest on loan payable	12		150,411		14,795
Loan payable	12		-		2,545,377
Deferred revenue			104,476		64,486
Current portion of lease liability	9		18,978		13,977
Due to parent	11		1,119,109		1,119,109
Due to related parties	11		300,000		-
			2,515,195		4,051,959
Non-current liabilities					
CEBA loan	13		46,961		40,727
Lease liability	9		19,039		33,822
Loan payable	12		3,000,000		-
TOTAL LIABILITIES			5,581,195		4,126,508
SHAREHOLDERS' EQUITY (DEFICIENCY)					
Share capital	14		6,439,721		2,998,007
Reserve	14		1,666,350		1,329,255
Accumulated other comprehensive income			29,890		-
Deficit			(8,904,716)		(5,034,495)
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)			(768,755)		(707,233)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		**$**	**4,812,440**	**$**	**3,419,275**

Nature of operations and going concern – Note 1

See accompanying notes to the condensed consolidated interim financial statements

XR Immersive Tech Inc. (Formerly Fantasy 360 Technologies Inc.)
Condensed consolidated interim statements of loss and comprehensive loss
(Expressed in Canadian dollars)

	Note	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Revenue		$ 443,613	$ 28,037	$ 968,617	$ 68,917
Cost of goods sold		172,896	17,167	327,020	45,913
		270,717	10,870	641,597	23,004
Expenses					
Depreciation	8	6,392	3,110	17,928	6,310
Bad debt expense		-	-	-	391
Consulting fees	11	117,393	577,423	589,241	746,790
Foreign exchange gain (loss)		(4,553)	2,704	(8,783)	1,692
General and administration		83,338	78,415	439,662	108,268
Interest and accretion	9,12,13	124,961	1,819	766,518	5,153
Management fees	11	-	-	200,000	-
Professional fees	11	32,671	18,960	376,147	81,598
Rent		5,997	18,453	60,230	85,104
Research and development	10	9,018	409,827	280,292	1,146,806
Salaries and wages	11	228,493	255,972	1,065,640	495,161
Sales and marketing		16,179	34,421	290,915	93,758
Share-based compensation	11,14	-	272,517	707,380	591,167
Total expenses		(619,889)	(1,673,621)	(4,785,170)	(3,362,198)
Other Items					
Gain (loss) on investments	6	(53,550)	(4,670)	35,685	25,418
Interest and other income	4	-	74,720	237,667	303,042
		(53,550)	70,050	273,352	328,460
Net loss and comprehensive loss for the period		(402,722)	(1,592,701)	(3,870,221)	(3,010,734)
Other Comprehensive income					
Currency translation adjustment		25,357	-	29,890	-
Comprehensive loss for the period		(377,365)	(1,592,701)	(3,840,331)	(3,010,734)
Loss per share - basic and diluted		**$ (0.00)**	**$ (0.02)**	**$ (0.04)**	**$ (0.04)**
Weighted average number of common shares outstanding for the period - basic and diluted		**90,393,641**	**71,739,015**	**87,819,282**	**67,696,308**

See accompanying notes to the condensed consolidated interim financial statement

XR Immersive Tech Inc. (Formerly Fantasy 360 Technologies Inc.)
Condensed consolidated interim statements of changes in shareholders' equity
(Expressed in Canadian dollars)

	Note	Share Capital		Reserve					
		Number of Shares	Amount	Contributed Surplus	Warrants	Total Reserve	Accumulated other comprehensive income	Deficit	Total
Balance at January 1, 2021		**63,308,820**	**$ 1**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (689,025)**	**$ (689,024)**
Shares issued to settle deposit on shares		4,691,180	1,172,795	-	-	-	-	-	1,172,795
Shares, warrants, and broker warrants issued for private placement, net of share issuance costs		6,750,803	1,378,413	-	694,658	694,658	-	-	2,073,071
Shares and performance warrants issued to CEO		600,000	150,000	-	20,568	20,568	-	-	170,568
Share-based payments		-	-	591,167	332,517	923,684	-	-	923,684
Net loss for the period		-	-	-	-	-	-	(3,010,734)	(3,010,734)
Balance at September 30, 2021		**75,350,803**	**$ 2,701,209**	**$ 591,167**	**$ 1,047,743**	**$ 1,638,910**	**$ -**	**$ (3,699,759)**	**$ 640,360**
Balance at January 1, 2022		**76,050,785**	**$ 2,998,007**	**$ 287,415**	**$ 1,041,840**	**$ 1,329,255**	**$ -**	**$ (5,034,495)**	**$ (707,233)**
Shares issued on Synthesis acquisition	7,14	14,342,856	3,441,714	-	-	-	-	-	3,441,714
Share-based payments	14	-	-	318,372	18,723	337,095	-	-	337,095
Currency translation adjustment		-	-	-	-	-	29,890	-	29,890
Net loss for the period		-	-	-	-	-	-	(3,870,221)	(3,870,221)
Balance at September 30, 2022		**90,393,641**	**$ 6,439,721**	**$ 605,787**	**$ 1,060,563**	**$ 1,666,350**	**$ 29,890**	**$ (8,904,716)**	**$ (768,755)**

See accompanying notes to the condensed consolidated interim financial statements

(Expressed in Canadian dollars)

	Nine months ended September 30, 2022	2021
Operating activities		
Net loss for the period	$ (3,870,221)	$ (2,015,644)
Adjustments for non-cash items:		
Interest and Accretion	766,518	5,153
Bad debt expense	-	391
Consulting fees adjustment	(14,816)	-
Depreciation	17,928	6,310
Foreign exchange gain	(8,783)	1,692
Gain on investment	(35,685)	(25,418)
Share based compensation	707,380	741,167
Consulting and performance bonus warrants	-	353,084
Changes in non-cash working capital items:		
Prepaids	(224,796)	(11,658)
Trade receivables	24	880
Government sales tax receivable	(15,011)	(23,449)
Government subsidy receivable	182,782	-
Inventory	(164,500)	(40,121)
Trade payables	514,107	40,323
Accrued liabilities	52,400	(147,317)
Deferred revenue	39,990	-
Net cash flows used in operating activities	(2,052,683)	(1,114,607)
Investing activities		
Purchase of property and equipment	(7,353)	(14,974)
Development of intangible asset	-	(999,976)
Acquisition of Synthesis	(200,000)	-
Net cash flows used in investing activities	(207,353)	(1,014,950)
Financing activities		
Proceeds from parent company	-	1,002,658
Settlement of deposit on shares via common share issuance,	-	2,073,071
Coupon interest on loan payable	(163,736)	-
Payments on lease liability	(16,092)	(1,694)
Net cash flows from financing activities	(179,828)	3,074,035
Effect of foreign exchange rates on cash	29,890	-
Increase in cash	(2,409,974)	944,478
Cash, beginning	2,932,795	192,475
Cash, ending	**$ 522,821**	**$ 1,136,953**

See accompanying notes to the condensed consolidated interim financial statements

1. Nature of Operations and Going Concern

XR Immersive Tech Inc. (the "Company") (formerly Fantasy 360 Technologies Inc.) affected a name change on February 3, 2022. The Company is 58.75% owned by Victory Square Technologies Inc. ("Victory Square"). The Company provides immersive experiences primarily through the construction of interactive real-world simulations using VR and AR. The condensed consolidated interim unaudited financial statements comprise financial statements of the Company and its wholly owned subsidiary Synthesis VR Inc. ("Synthesis"), a company existing pursuant to the Laws of the State of California.

On September 3, 2021, the Company's common shares commenced trading on the Canadian Securities Exchange ("CSE") under the symbol VRAR. The Company's registered office is at Suite 401, 750 West Pender Street, Vancouver, British Columbia, V6C 2T7. The head office and principal address of the Company is located at Unit 240, 577 Great Northern Way, Vancouver, British Columbia, V5T 1E1.

These condensed consolidated interim unaudited financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at September 30, 2022, the Company had a working capital deficit of $1,377,127 (December 31, 2021 – working capital deficit of $710,517) and an accumulated deficit of $8,904,716 (December 31, 2021 – $5,034,495). The Company does not have sufficient cash to sustain operations for the next twelve months without additional financing. The continued operations of the Company are dependent upon its ability to generate future cash flows and/or obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due; however, they may not be at terms that are favorable to the Company. Although the Company has been successful in the past in raising funds to continue operations, there is no assurance it will be able to do so in the future. These factors indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern, and such adjustments could be material.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The pandemic has had an impact on the operations of the Company, including decreasing demand for the immersive experiences the Company offers and causing the Company to change focus to a scalable pre-built box product for sale. Management has monitored the effects of the pandemic on operations to date and continues to monitor the situation continuously. Management notes it could have a potential impact of increasing the difficulty to raise funding, finding target investments to acquire or to attain profitable operations.

2. Significant Accounting Policies

These condensed consolidated interim unaudited financial statements were authorized for issue on November 29, 2022, by the directors of the Company.

a) Statement of Compliance

These condensed consolidated interim unaudited financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent 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"). The accounting policies and methods of computation applied by the Company in these condensed consolidated interim unaudited financial statements are the same as those applied in the Company's annual financial statements as at and for the year ended December 31, 2021.

The condensed consolidated interim unaudited financial statements do not include all of the information and note disclosures required for full annual financial statements and should be read in conjunction with the Company's annual financial statements as at and for the year ended December 31, 2021.

b) Principles of Consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Company and its subsidiary Synthesis VR Inc. from acquisition on January 6, 2022.

Intercompany transactions, balances, income and expenses, and gains or losses on transactions are eliminated on consolidation.

c) Basis of Preparation

The condensed consolidated interim unaudited financial statements have been prepared on a historical cost basis, except for certain assets measured at fair value, and are presented in Canadian dollars. Under IFRS, the Canadian dollar is the functional currency of the Company. The functional currency of Synthesis is the US dollar.

Certain comparative figures have been restated to conform to the current period's presentation.

3. Cash and Cash Equivalents

As at September 30, 2022, the cash balance of $522,821 (December 31, 2021 - $2,932,795) was comprised entirely of cash and cash equivalents held in operating accounts.

4. Government subsidy receivable

During the period ended September 30, 2022, the Company applied for Government pandemic relief subsidies (the "subsidies"), of which $Nil was received subsequent to period end (December 31, 2021 - $182,782). Included in other income for the period ended September 30, 2022, is a total of $237,469 in subsidies (September 30, 2021 - $303,812) including $15,899 (September 30, 2021 - $23,824) from the Canada Emergency Rent Subsidy and $221,570 (September 30, 2021 - $233,150) from the Tourism and Hospitality Recovery Program (Canada Emergency Wage Subsidy successor subsidy) and $Nil (September 30, 2021 - $46,838) from the CanExport Grant.

(Expressed in Canadian dollars)

5. Inventory

During the year ended December 31, 2021, the Company began incurring costs related to the business line UNCONTAINED, with units for sale. As at September 30, 2022, inventory related to UNCONTAINED is comprised of the following:

	Units under Construction	Supplies Inventory	Total
Balance, January 1, 2022	$ 140,699	$ 3,319	$ 144,018
Additions	88,897	75,603	164,500
Balance, September 30, 2022	$ 229,596	$ 78,922	$ 308,518

During the three months ended September 30, 2022, the Company successfully delivered and launched the first of its UNCONTAINED VR attractions.

6. Investments

On February 8, 2018, the Company purchased a 33.34% interest of Shape Immersive (“Shape”) for $40 and advanced a working capital loan of $150,000 to Shape. The loan was unsecured, non-interest bearing and had no specified terms of repayment. On September 27, 2018, the Company’s interest in Shape was reduced to 21.42%. From the date of the acquisition, the investment was accounted for under the equity method.

On August 11, 2021, the Company’s interest was further diluted, and the Company’s initial investment was exchanged for non-voting common shares. As a result, the Company no longer has significant influence over Shape and accordingly as of August 11, 2021, the investment is recorded at fair value of $15, resulting in a cumulative loss on investment of $3,239.

On May 4, 2022, Alpha Metaverse Technologies Inc. (“Alpha”) (CSE:ALPA) completed the acquisition of 100% of the issued and outstanding share capital of Shape. As a shareholder of Shape, the Company received 700,000 Class A common shares of Alpha, of which 630,000 were restricted in escrow with scheduled release in equal instalments through January 2024. The Company recognized a gain on investments of $89,235. For the three months ended September 30, 2022, the Company recognized a fair value loss of $53,550, for a cumulative fair value gain for the nine months ended September 30, 2022 of $35,685 (September 30, 2021 - $25,418).

7. Acquisition

On January 6, 2022, pursuant to a share purchase agreement (the "SPA"), the Company completed its acquisition of the all the issued and outstanding shares of Synthesis for aggregate consideration of $4,800,000 (the “Initial Purchase Price”). The Initial Purchase Price is payable as follows: (i) $150,000 in cash with on the date of closing of the Transaction (the “Closing Date”), (ii) $50,000 payable in cash on the 5th business day after the Closing Date, (iii) $200,000 payable in cash within 5 business days of the earlier of the closing of a first financing to occur following the Closing Date (the “First Financing Payment”) and May 1, 2022, (iv) $100,000 payable in cash within 5 business days of the earlier of the closing of a second financing to occur following the Closing Date (the “Second Financing Payment”), and (v) $4,300,000 payable by the issuance of 12,285,714 XRI common shares of the Company at a deemed price per XRI share equal to $0.35, which such shares are subject to securities law mandated hold period lasting until June 19, 2022 and contractual escrow with tranche release over a period of 20 months (Note 13).

In addition to the Initial Purchase Price, subject to applicable laws and approval of the Canadian Securities Exchange, XRI has agreed to pay the Vendor up to $5,000,000 payable in cash or XRI shares in two separate

(Expressed in Canadian dollars)

7. Acquisition (Continued)

earn-out periods, subject to and upon the achievement of certain performance milestones. The first earn-out milestone would be payable in cash or through the issuance of that number of XRI Shares being equal to a fraction, the numerator of which is $2,500,000, and the denominator of which is the price per First Tranche Earn-Out Share equal to the 10-trading day volume weighted average price of the XRI Shares ending on last day of the First Tranche Earn-Out Period, being December 31, 2022 (the “First Tranche Earn-Out”).

Subject to the achievement of the Second Tranche Earn-Out Milestones either during the period from January 1, 2023 until December 31, 2023 (the “Second Tranche 2023 Period”) or during the period from January 1, 2024 until December 31, 2024 (the “Second Tranche 2024 Period” and together with the First Tranche Earn-Out Period and the Second Tranche 2023 Period, the “Earn-Out Periods”), the Purchaser shall pay to the Vendors $2,500,000 in cash or by the issuance of XRI Shares (the “Second Tranche Earn-Out Shares” and together with the First Tranche Earn-Out Shares, the “Earn-Out Shares”), at the sole option of the Purchaser, at a price per Second Tranche Earn-Out Share equal to the 10 trading day volume weighted average price of the XRI Shares ending on either the last day of the Second Tranche 2023 Period or the last day of the Second Tranche 2024 Period, as applicable. (the “Second Tranche Earn-Out” and together with the First Tranche Earn-Out, the “Earn-Out”). All Earn-Out Shares issued will be subject to Contractual Escrow.

The acquisition was treated as a business combination. In accordance with IFRS 3 Business Combinations, the fair value of consideration in excess of the fair value of the identifiable assets and liabilities acquired will be recognized as goodwill. As at the date of issuance of the financial statements, a valuation of the identifiable assets and liabilities acquired has not yet been performed. In accordance with the measurement period guidance in IFRS 3, provisional amounts have been reported for acquired assets and liabilities. The Company will begin amortizing the intangible asset when the amount is finalized, and an amortization period determined. The acquisition was recorded as follows:

		Acquisition of Synthesis VR Inc.
Fair value of consideration		
Common shares	$	3,071,428
Cash		200,000
Balance due on initial cash purchase price		300,000
		3,571,428
Assets and liabilities acquired		
Intellectual property		3,571,428
Accruals		(246,101)
Provision	$	246,101
Net assets acquired	$	3,325,327
Provision		246,101
	$	3,571,428

(Expressed in Canadian dollars)

8. Equipment

		Computer Equipment		Furniture and Other Equipment		Total
Cost						
Balance, January 1, 2022	$	32,756	$	22,107	$	54,863
Additions		4,880		2,473		7,353
Balance, September 30, 2022	$	37,636	$	24,580	$	62,216
Accumulated depreciation						
Balance, January 1, 2022	$	18,473	$	3,884	$	22,357
Depreciation		2,751		1,583		4,334
Balance, September 30, 2022	$	21,224	$	5,467	$	26,691
Net book value, September 30, 2022	$	16,412	$	19,113	$	35,525

9. Right-of-use asset and lease liability

On June 21, 2021, the Company entered into a lease agreement with an underlying lease commitment term from September 1, 2021, to June 30, 2024. The lease agreement provides for a monthly base rent of $1,694 for the period from September 1, 2021 - June 30, 2022, $1,976 for the period from July 1, 2022 – June 30, 2023, and $2,258 for the period from July 1, 2023 – June 30, 2024.

In accordance with IFRS 16, the Company recognized a right-of-use asset and lease obligation in relation to its lease commitment. The lease liability was recorded at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate estimated at 20% per annum. The associated right-of-use asset is measured at the amount equal to the corresponding lease liability and subsequently depreciated and the Company will record a related interest expense from the commencement date to the earlier of the end of the lease term on an effective interest rate method.

Right-of-use asset		
Balance, January 1, 2022	$	45,312
Additions		-
Amortization		(13,594)
Balance, September 30, 2022	$	31,718

Lease liability		
Balance, January 1, 2022	$	47,800
Additions		-
Interest expense		6,310
Lease payment		(16,093)
		38,017
Less: Current portion		18,978
Balance, September 30, 2022	$	19,039

(Expressed in Canadian dollars)

10. Research and Development

During the nine months ended September 30, 2022, development of the Company's UNCONTAINED project continued with a prototype composed of both intangible software as well as a customized shipping container with hardware fixtures. Research and development costs of $280,292 (September 30, 2021 - $999,976) were expensed as incurred. Cumulative research and development costs on the UNCONTAINED project are as follows:

		Container and Hardware		Software and Design Labor		IP - Patents, Trademarks		Total
Balance, January 1, 2022	$	521,952	$	1,082,562	$	4,886	$	1,609,400
Expenditure		115,472		164,820		-		280,292
Balance, September 30, 2022	$	637,424	$	1,247,382	$	4,886	$	1,889,692

As at September 30, 2022, the prototype was launched with the first customer experience occurring during the summer months.

11. Related Party Transactions

During the nine months ended September 30, 2022, and 2021, the Company entered into the following transactions with related parties:

		September 30, 2022		September 30, 2021
Consulting fees paid to Chief Marketing and Design Officer	$	102,144	$	54,000
Management fee expense to Parent Company	$	200,000	$	-
CEO compensation included in wages expense	$	90,000	$	75,600
Professional fees for accounting, CFO, and corporate secretarial services recorded to company controlled by CFO	$	106,489	$	16,935
Share based compensation to CEO	$	22,188	$	-
Share based compensation to related parties	$	96,588	$	66,660

Related Party Balances

At September 30, 2022, the Company has $107,227 (December 31, 2021 - $41,533) due to related parties included in other payables and accrued liabilities and $Nil (December 31, 2021 - $17,272) due from related parties included in other receivables. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

Related Party Loans

Loans from VST are unsecured, non-interest bearing and have no fixed terms of repayment. The amount due to related parties is owed to the vendors of Synthesis as a component of the acquisition's Initial Purchase Price's Cash Consideration on First and Second Financing Payments (Note 7).

		September 30, 2022		December 31, 2021
Due to Victory Square (Parent Company)	$	1,119,109	$	1,119,109
Due to related parties	$	300,000	$	-
	$	1,419,109	$	1,119,109

12. Loan Payable

On December 17, 2021, the Company entered into a loan agreement for a principal amount of $3,000,000, maturing on the earliest of 180 days from the closing date and either a financing or business combination transaction. The loan bears interest at a rate of 12% per annum and is, payable monthly, on the first business day of each month. As an inducement to the lender, 2,000,000 lender warrants (Note 14) were issued at an exercise price of $0.52 for a period of 4 years. Further, the loan is secured by a General Security Agreement over all of the Company's assets and property. The Company paid costs including a finder's fee of $150,000 and $16,000 in legal costs. The Company also issued 966,332 finder warrants at an exercise price of $0.52 for a period of 4 years (Note 14). The costs and fair value of the finder warrants of $238,216 was allocated to the issuance cost of the loan payable.

The fair value of the debt component of the Loan Payable was determined at inception using the Company's incremental borrowing rate of 20%. A total of $89,944, representing the difference between the discounted value of $2,910,056 and the proceeds received of $3,000,000, was allocated to the equity component.

On August 31, 2022, the loan agreement was amended to extend the maturity date to August 31, 2024. The Company had paid its coupon interest monthly through May 2022, but defaulted on the June, July, and August payments. The interest rate effective June 1, 2022, was increased to 15% from 12%, with interest accruing and payable on August 31, 2023. From September 1, 2023, until the maturity date, interest is payable monthly on the first Business Day of the month.

In addition, the amended agreement amended the exercise price of the 2,000,000 lender warrants (Note 14) from $0.52 per common share to $0.08 per common share. As an additional inducement for the lender to close the loan amendment agreement, the Company agreed to issue share purchase warrants exercisable to purchase up to 3,000,000 additional common shares at an exercise price of $0.00 per common share (the "Additional Warrants"), expiring on the fourth anniversary of loan amendment date. As at September 30, 2022, and through the date of these Financial Statements, the amended lender warrants and Additional Warrants had not been issued and are not recognized in the financial statements ended September 30, 2022.

Interest expense, accretion expense and the amortization of debt costs are being recognized over the loan period, with a total of $753,975 being recognized as interest and accretion expense during the nine months ended September 30, 2022 (September 30, 2021 - $Nil). As a result of the loan amendment agreement and full amortization of debt costs and fair value discount recognized on initial recognition, the carrying value of the loan principal excluding coupon interest as at September 30, 2022 is $3,000,000 (December 31, 2021 - $2,545,377) and presented as a non-current liability. Accrued interest as at September 30, 2022 is $150,411 (December 31, 2021 - $14,795).

13. CEBA

The Canadian Emergency Business Account (CEBA) loan originally launched on April 9, 2020, is intended to support businesses during the COVID-19 pandemic. The value of the government loan received at below market rate of interest is treated as a government grant. The loan was recognized at fair value using the Company's incremental borrowing rate of 20%. The difference between this discounted value of $19,749 and the proceeds received of $40,000 was recognized as a gain on CEBA loans of $20,251.

On December 4, 2020, the CEBA program was expanded, and the Company received an additional $20,000 in funds on December 31, 2020. This amount was discounted to a present value of $11,193 and an additional $8,807 gain was recognized.

For the nine months ended September 30, 2022, the Company recognized accretion on the CEBA loan of $6,234 (September 30, 2021 - $5,153) for an ending balance of $46,961 (December 31, 2021 - $40,727).

(Expressed in Canadian dollars)

14. Share Capital

Authorized Share Capital
Unlimited common shares without par value.

Issued Share Capital
At September 30, 2022, there were 90,393,641 common shares outstanding (December 31, 2021 – 76,050,803).

Shares issued during the nine months ended September 30, 2022

The Company issued 12,285,714 common shares in with a fair market value of $3,071,428 in relation to the acquisition of Synthesis (Note 7). In addition, there were 2,057,142 common shares issued as a finder's fee with a fair market value of $370,285 reported in share-based payment expense.

Reserve

Contributed surplus

The contributed surplus reserve records items recognized as share-based payments expense.

Warrants

The warrant reserve records the fair value of warrants issued as part of financing transactions and for services.

Warrants

The warrants outstanding as at September 30, 2022 are as follows:

Warrant	Exercise Price	Number of Shares Issuable upon Exercise	Expiry Date
Broker Warrants	$0.52	143,898	August 12, 2023
Consultant Warrants	$0.25	1,600,000	August 11, 2023
Performance Warrants	$0.25	600,000	August 11, 2026
Subscription Receipts	$0.52	3,375,396	August 12, 2023
Lender Warrants	$0.52	2,000,000	December 17, 2025
Finder Warrants	$0.52	966,332	December 17, 2025
	$0.45	8,685,626	

Warrant continuity for the period was as follows:

	Consultant Warrants	Performance Warrants	Broker Warrants	Subscription Receipts Warrants	Lender Warrants	Finder Warrants	Total
Balance, June 30, 2022 and December 31, 2021	1,600,000	600,000	143,898	3,375,396	2,000,000	966,332	8,685,626

The Finder Warrants were committed to as at December 31, 2021, but issued on February 25, 2022. The fair value of the warrants was $238,216 and was deducted as a directly attributable cost of the loan payable (Note 12).

Stock Options

These stock options vest according to specific terms on each employee, consultant, or director's stock option agreements.

(Expressed in Canadian dollars)

14. Share Capital (Continued)

Stock options continuity for the period ended September 30, 2022 is as follows:

	Number of units
Balance, January 1, 2022	7,400,000
Cancelled	(310,000)
Balance, September 30, 2022	7,090,000

The options outstanding at September 30, 2022 are as follows:

Exercise Price	Number of Shares Issuable	Exercisable	Expiry Date
$0.25	4,300,000	1,723,314	May 1, 2026
$0.25	2,790,000	1,291,665	August 12, 2026
$0.25	7,090,000	3,014,979	

The total share-based compensation for the period was as follows:

	September 30, 2022	September 30, 2021
Stock-based compensation for options vested	$ 318,372	$ 585,995
CEO performance warrants	18,723	5,172
Share based compensation - SVR Finders Fee	370,285	-
Stock-based compensation	$ 707,380	$ 591,167

15. Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company’s primary exposure to credit risk is on its cash held in bank accounts. The cash is deposited in a bank account in Canada. As most of the Company’s cash is held by one bank there is a concentration of credit risk. This risk is managed by using a bank that is a high credit quality financial institution as determined by rating agencies. Credit risk on cash is assessed as low.

The Company’s receivables consist of other receivables and amounts due from related parties. During the nine months ended September 30, 2022, the Company wrote off receivables in the amount of $Nil (September 30, 2021 - $391) that it believed were uncollectible. Based on the evaluation of remaining receivables at September 30, 2022, the Company believes that its receivables are collectable, however, due to the current COVID-19 pandemic, there is an increase in the uncertainty of collectability and management has determined credit risk to be high.

b) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risks.

c) 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 has a planning and budgeting process in place to help determine the funds required to support the Company’s normal operating requirements on an ongoing basis. The Company ensures that

15. Financial Risk Management (Continued)

there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

Historically, the Company's main source of funding has been loans from its parent company. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. Liquidity risk is assessed as high.

d) Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company does not hedge its exposure to fluctuations in foreign exchange rates. The Company is not exposed to significant foreign exchange risk.

Fair value

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. However, considerable judgment is required to develop certain of these estimates. Accordingly, these estimated values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of each class of financial instruments are discussed below.

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

Cash is measured using Level 1 inputs. Instruments carried at fair value are measured using level 3 inputs.

The Company's financial instruments consist of cash and cash equivalent, other receivables, government subsidy receivable, government sales tax receivable, trade payables, loan payable, lease liability, CEBA loan, and related party balances. The carrying value of financial instruments approximates the fair value at September 30, 2022 and December 31, 2021.

16. Capital Management

The Company manages its cash as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its technology and products and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account. The Company will require capital resources to carry its plans and operations through its current operating year. The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year.