

XR Immersive Tech Inc.

Condensed Consolidated Interim Financial Statements Nine months ended September 30, 2023, and 2022

Expressed in Canadian dollars, except otherwise indicated

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The condensed consolidated 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.

Condensed Consolidated Interim Statements of Financial Position

(Expressed in Canadian dollars, except where otherwise indicated - unaudited)

	Note	As at September 30, 2023	As at December 31, 2022
		Unaudited	Audited
ASSETS			
Current assets			
Cash and cash equivalents	3	\$ 236,029	\$ 270,681
Prepays		6,031	18,031
Other receivable	4	439	56,259
Government sales tax receivable		22,766	11,234
Inventory	5	-	44,028
		265,265	400,233
Non-current assets			
Investments	6	47,600	32,725
Equipment	8	-	5,456
Intangible Assets	9	890,566	1,057,906
Goodwill	10	1,208,649	1,208,649
TOTAL ASSETS		\$ 2,412,080	\$ 2,704,969
LIABILITIES			
Current liabilities			
Trade payables	12	\$ 566,853	\$ 475,755
Accrued liabilities		84,636	19,350
Accrued interest on loan payable	13	600,000	262,500
Due to related parties	13	300,000	300,000
		1,551,489	1,057,605
Non-current liabilities			
CEBA loan	14	56,811	49,270
Contingent consideration	7	114,583	114,583
Due to parent	12	1,145,650	1,145,650
Deferred tax liability		300,409	300,409
Loan payable	13	2,909,810	2,816,147
TOTAL LIABILITIES		6,078,752	5,483,664
SHAREHOLDERS' DEFICIT			
Share capital	15	6,465,971	6,465,971
Reserve	15	1,977,353	1,802,596
Accumulated other comprehensive income		12,265	13,517
Accumulated deficit		(12,122,261)	(11,060,779)
TOTAL SHAREHOLDERS' DEFICIT		(3,666,672)	(2,778,695)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT		\$ 2,412,080	\$ 2,704,969

Nature of operations and going concern – Note 1

See accompanying notes to the condensed consolidated interim financial statements

XR Immersive Tech Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars, except as otherwise indicated - unaudited)

		Three months ended September 30,		Nine months ended September 30,	
	Notes	2023	2022	2023	2022
Revenue		\$ 186,949	\$ 443,613	\$ 543,091	\$ 968,617
Cost of revenue		571	172,896	9,435	327,020
		186,378	270,717	533,656	641,597
Expenses					
Amortization and depreciation	9	55,781	6,392	167,341	17,928
Consulting fees	12	58,855	117,393	131,332	589,241
Foreign exchange loss (gain)		945	(4,553)	972	(8,783)
General and administration		40,628	83,338	295,575	439,662
Interest and accretion	13,14	148,068	124,961	438,704	766,518
Management fees	13	-	-	-	200,000
Professional fees	12	236,861	32,671	310,176	376,147
Rent		527	5,997	1,376	60,230
Research and development	11	-	9,018	700	280,292
Salaries and wages	12	39,082	228,493	126,370	1,065,640
Sales and marketing (adjustment)		1,832	16,179	(17,071)	290,915
Share-based compensation	12,15	21,653	-	174,757	337,094
Total expenses		(604,232)	(619,889)	(1,630,232)	(4,414,884)
Other Items					
Gain (loss) on investment	6	(29,750)	(53,550)	14,875	35,685
Finder's fee	7,16	-	-	-	(370,286)
Interest and other income	6	3,250	-	20,219	237,667
		(26,500)	(53,550)	35,094	(96,934)
Net loss for the period		(444,354)	(402,722)	(1,061,482)	(3,870,221)
Other Comprehensive loss					
Currency translation adjustment		(16,375)	25,357	1,252	29,890
Comprehensive loss for the period		(460,729)	(377,365)	(1,060,230)	(3,840,331)
Loss per share - basic and diluted		\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.04)
Weighted average number of common shares outstanding for the period - basic and diluted		91,143,641	90,393,641	91,143,641	87,819,282

See accompanying notes to the condensed consolidated interim financial statements

XR Immersive Tech Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Deficit

(Expressed in Canadian dollars, except as otherwise indicated - unaudited)

	Notes	Share Capital		Reserve			Accumulated other comprehensive income	Deficit	Total
		Number of Shares	Amount	Contributed Surplus	Warrants	Total Reserve			
Balance at January 1, 2022		76,050,803	\$ 2,998,007	\$ 287,415	\$ 1,041,840	\$ 1,329,255	\$ -	\$ (5,034,495)	\$ (707,233)
Shares issued on Synthesis acquisition	7	14,342,856	3,441,714	-	-	-	-	-	3,441,714
Share-based payments	15	-	-	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		90,393,659	\$ 6,439,721	\$ 605,787	\$ 1,060,563	\$ 1,666,350	\$ 29,890	\$ (8,904,716)	\$ (768,755)
Balance at January 1, 2023		91,143,641	\$ 6,465,971	\$ 760,756	\$ 1,041,840	\$ 1,802,596	\$ 13,517	\$ (11,060,779)	\$ (2,778,695)
Share-based payments	12,15	-	-	174,757	-	174,757	-	-	174,757
Currency translation adjustment		-	-	-	-	-	(1,252)	-	(1,252)
Net loss for the period		-	-	-	-	-	-	(1,061,482)	(1,061,482)
Balance at September 30, 2023		91,143,641	\$ 6,465,971	\$ 935,513	\$ 1,041,840	\$ 1,977,353	\$ 12,265	\$ (12,122,261)	\$ (3,666,672)

See accompanying notes to the condensed consolidated interim financial statement

XR Immersive Tech Inc.
Condensed Consolidated Interim Statements of Cash Flows
(Expressed in Canadian dollars, except as otherwise indicated - unaudited)

		Nine months ended September 30,	
		2023	2022
Operating activities			
Net loss for the period	\$	(1,061,482)	\$ (3,870,221)
Adjustments for non-cash items:			
Interest and accretion		438,704	766,518
Consulting fees adjustment		-	(14,816)
Amortization and depreciation		167,341	17,928
Foreign exchange loss (gain)		972	(8,783)
Gain on investment		(14,875)	(35,685)
Finder's fee		-	370,286
Share-based compensation		174,757	337,094
Changes in non-cash working capital items:			
Prepays		12,000	(224,796)
Other receivable		55,820	24
Government sales tax receivable		(11,532)	(15,011)
Government subsidy receivable		-	182,782
Inventory		-	(164,500)
Trade payables		140,583	514,107
Accrued liabilities		64,312	52,400
Deferred revenue		-	39,990
Net cash flows used in operating activities		(33,400)	(2,052,683)
Investing activities			
Purchase of equipment		-	(7,353)
Acquisition of Synthesis		-	(200,000)
Net cash flows provided by investing activities		-	(207,353)
Financing activities			
Interest on loan payable		-	(163,736)
Payments on lease liability		-	(16,092)
Net cash flows used in financing activities		-	(179,828)
Effect of foreign exchange rates on cash and cash equivalents		(1,252)	29,890
Decrease in cash and cash equivalents		(34,652)	(2,409,974)
Cash and cash equivalents, beginning of the period		270,681	2,932,795
Cash and cash equivalents, ending of the period	\$	236,029	\$ 522,821
Supplemental non-cash activities:			
Shares issued on acquisition	Note 7	\$ -	\$ 3,441,714
Supplemental cash flow information:			
Interest paid on loan payable	Note 13	\$ -	\$ 72,986

See accompanying notes to the condensed consolidated interim financial statements

1. Nature of Operations and Going Concern

XR Immersive Tech Inc. (the “Company” or “XRI”) effected a name change on February 3, 2022. The Company is 54.55% owned by Victory Square Technologies Inc. (“Victory Square” or “VST”). The Company is a Virtual Reality (“VR”) location management and content licensing platform. The condensed consolidated interim financial statements are comprised of financial statements of the Company and its wholly owned subsidiary Synthesis VR Inc. (Synthesis or “SVR”), 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 and records office are located at Suite 401, 750 West Pender Street, Vancouver, British Columbia, V6C 2T7.

These condensed consolidated interim 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, 2023, the Company had a working capital deficit of \$1,286,224 (December 31, 2022 – \$657,372) and an accumulated deficit of \$12,122,261 (December 31, 2022 – \$11,060,779). 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 condensed consolidated interim 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 February 2022, Russia commenced a military invasion of Ukraine which generated a response in the form of strict economic sanctions from multiple countries and corporations around the world, including Canada. Although the Company does not have operations in Russia or Ukraine, the global impact of this conflict in commodity prices, foreign currency exchange rates, supply chain challenges and increased fuel prices may have adverse impacts on the Company’s costs of doing business.

2. Significant Accounting Policies

These condensed consolidated interim financial statements were authorized for issue on October 31, 2023, 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, 2022.

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, 2022.

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 4, 2022, which also has a December 31st year-end.

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

c) Basis of Preparation

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

3. Cash and Cash Equivalents

As at September 30, 2023, the cash balance of \$236,029 (December 31, 2022 - \$270,681) was comprised entirely of cash held in operating accounts and balances held on payment processing platforms.

4. Other Receivable

Other receivable consisted primarily of the refund of provincial interactive digital media tax credit and refund interest in the amount of \$55,734 for eligible salaries and wages expended during the taxation year ended December 31, 2021. The refund was received during the period ended September 30, 2023.

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 well as hardware supplies inventory. During the year ended December 31, 2022, the Company successfully delivered and launched the first of its UNCONTAINED VR attractions. As at December 31, 2022, inventory related to UNCONTAINED was written down to \$44,028. On February 2, 2023, the Company executed a sales agreement whereby it sold all equipment and inventory to a former employee for \$49,484, being consideration equal to the balance owed to its former landlord under a terminated lease agreement of \$38,924 and \$10,560 in other payables (Note 10). The consideration was allocated to inventory

5. Inventory (Continued)

and equipment based on the relative net book values at year end, \$5,456 to equipment (Note 8) and \$44,028 to inventory. On the same day, the Company executed a settlement agreement with its former landlord whereby the consideration received on the sales agreement was paid to the landlord to extinguish all debts.

6. Investments

On May 4, 2022, Alpha Metaverse Technologies Inc. ("Alpha") (CSE:ALPA), a company traded on the CSE, completed the acquisition of 100% of the issued and outstanding share capital of Shape. On closing of the acquisition, XRI 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 fair value gain of the investment for the period ended September 30, 2023, is \$14,875 (September 30, 2022 – \$35,685) resulting in a fair value of \$47,600 as at September 30, 2023 (December 31, 2022 - \$32,725). Included in other income are \$20,000 of payments received during the period ended September 30, 2023, defined in the Alpha acquisition as additional cash consideration.

7. Acquisition

On January 4, 2022, the Company completed its acquisition of the all the issued and outstanding shares of Synthesis for aggregate consideration of \$4,800,000 payable as follows: (i) \$150,000 in cash with on the date of closing, (ii) \$50,000 payable by January 31, 2022, and a further \$300,000 payable upon the completion of certain milestones related to rounds of financings; and (iii) common shares of XRI with an aggregate value of \$4,300,000 at a deemed price per share equal to the market price of XRI's shares minus permitted discounts per policies of the CSE with a minimum price per share of \$0.35, which such shares shall be subject to contractual escrow subject to CSE mandated hold periods. In addition, subject to applicable laws and the policies of the CSE, XRI may issue additional shares with an aggregate value of up to \$5,000,000 upon the achievement of certain mutually agreed upon performance milestones. In connection with the transaction, XRI also paid a finder's fee by the issuance of 2,057,142 common shares at a fair market value of \$370,286, reported in Finder's fee expense. The total number of shares issued in connection with the acquisition was 14,342,856 with a fair value of \$3,441,714.

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 was recognized as goodwill. The acquisition was recorded, at the acquisition date, as follows:

	Acquisition of Synthesis VR Inc.
Fair value of consideration	
Common shares of XRI	\$ 3,071,429
Cash paid on closing	200,000
Cash payable on future financing (Note 12)	294,311
Contingent consideration	295,333
	\$ 3,861,073
Assets and liabilities acquired	
Cash and cash equivalents acquired	271,333
Net working capital acquired	(134,103)
Deferred income tax liability	(358,477)
Trademark (Note 9)	288,485
Developed Technology (Note 9)	992,542
Goodwill (Note 10)	2,801,293
	\$ 3,861,073

XR Immersive Tech Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2023 and 2022
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7. Acquisition (Continued)

As at September 30, 2023, there was no change in the valuation of contingent consideration. Contingent consideration is to be paid in shares subject to certain milestones being achieved through the period ended December 31, 2024.

8. Equipment

	Computer Equipment
Cost	
Balance, January 1, 2023	\$ 5,456
Disposition (Note 5)	(5,456)
Balance, September 30, 2023	\$ -
Accumulated depreciation	
Balance, January 1 and September 30, 2023	\$ -
Net book value, December 31, 2022	\$ 5,456
Net book value, September 30, 2023	\$ -

9. Intangible Assets

Intangible assets at September 30, 2023 consist of the following:

	Trademark	Developed Technology	Total
Cost			
Balance, September 30, 2023 and January 1, 2023	\$ 288,485	\$ 992,542	\$ 1,281,027
Accumulated amortization			
Balance, January 1, 2023	\$ 57,697	\$ 165,424	\$ 223,121
Amortization of intangible assets	43,273	124,067	167,340
Balance, September 30, 2023	\$ 100,970	\$ 289,491	\$ 390,461
Net book value, December 31, 2022	\$ 230,788	\$ 827,118	\$ 1,057,906
Net book value, September 30, 2023	\$ 187,515	\$ 703,051	\$ 890,566

10. Goodwill

Goodwill was recognized in the acquisition of SVR (Note 6) and represents the expected synergies from combining the operations of the acquired companies with those of the acquiring Company, revenue growth, future market development and customer relations. These benefits are not recognized separately from goodwill since the resulting economic impact cannot be measured reliably. Goodwill is non-deductible for tax purposes. For the purpose of annual impairment testing, goodwill is allocated to the operating segments, or cash-generating units ("CGU"), expected to benefit from the synergies of the business combinations in which the goodwill arises as set out below, and is compared to its recoverable value. The Company has identified SVR as its own CGU for the purposes of goodwill impairment testing:

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10. Goodwill (Continued)

Balance, January 1, 2022	\$ -
Additions (Note 6)	2,801,293
Impairment	(1,592,644)
Balance September 30, 2023 and December 31, 2022	\$ 1,208,649

The Company tests CGUs with goodwill annually for impairment, or more frequently if there are indications that a CGU to which goodwill has been allocated may be impaired. The recoverable amount of a CGU is the higher

of the CGU's fair value less cost of disposal ("FVLCD") and its value-in-use. FVLCD is determined based on an implied enterprise value calculation using a market capitalization approach. Value-in-use is calculated using a discounted cash flow analysis based on detailed forecasts provided by management to estimate enterprise value.

The Company recognized a goodwill impairment loss for the year ended December 31, 2022, primarily because the revenue targets were not achieved, on the SVR CGU of \$1,592,644 based on the excess of the carrying value of the acquired assets over the calculated recoverable amount using a value-in-use calculation. Key assumptions used in the impairment calculation were revenue growth rates and the discount rate of 3.0% and 16%, respectively.

11. Research and Development

During the year ended December 31, 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 \$700 (September 30, 2022 - \$280,292) were expensed as incurred as the expenditures did not meet the capitalization criteria for intangible asset(s). The prototype was launched with the first customer experience occurring during the third quarter of 2022. The UNCONTAINED project was discontinued with the liquidation of the inventory (Note 4).

12. Related Party Transactions

During the period ended September 30, 2023 and 2022, the Company entered into the following transactions with related parties:

	September 30, 2023	September 30, 2022
Consulting fees paid to former Chief Marketing and Design Officer	\$ -	\$ 102,144
Management fee expense to Parent Company	\$ -	\$ 200,000
Professional fees for accounting, CFO, and corporate secretarial services recorded to company controlled by CFO	\$ 60,000	\$ 106,489
Share based compensation to former CEO	\$ -	\$ 22,188
Wages and consulting fees paid to CEO and Director	\$ 116,500	\$ 90,000
Consulting fees paid to Director	\$ 90,200	\$ -
Share based compensation to related parties	\$ 58,745	\$ 96,588

Related Party Balances

At September 30, 2023, the Company has \$141,813 (December 31, 2022 - \$87,644) due to related parties included in trade payables. The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

12. Related Party Transactions (Continued)

Related Party Loans

Cumulative loans and advances from VST, presented as due to parent on the consolidated statement of financial position, are unsecured, non-interest bearing and have no fixed terms of repayment. Management of VST has formally notified the Company that VST will not demand repayment through the fiscal year ending December 31, 2024. Consequently, the balance is presented as a non-current liability.

The amount due to former owners of SVR, presented as due to related parties on the consolidated statement of financial position, arose as a component of the acquisition of SVR and the Initial Purchase Price's Cash

Consideration on First and Second Financing Payments (Note 7). The amount is undiscounted and remains unpaid as of the consolidated financial statement date.

	September 30, 2023	December 31, 2022
Due to Victory Square	\$ 1,145,650	\$ 1,145,650
Due to former owners of SVR	\$ 300,000	\$ 300,000
	\$ 1,445,650	\$ 1,445,650

13. Loan Payable

On December 17, 2021, the Company entered into a bullet 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 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. 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 paid \$72,986 in monthly interest 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, in the amended agreement, the exercise price of the 2,000,000 lender warrants was changed 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 3,000,000 RSUs, with 25% vesting on December 13, 2022, and the remainder vesting at 25% every 12 months. No gain or loss was recorded as the amendment occurred subsequent to the original maturity date.

Interest expense, accretion expense and the amortization of debt costs are being recognized over the loan period, with a total of \$431,163 being recognized as interest and accretion expense during the period ended

13. Loan Payable (Continued)

September 30, 2023 (September 30, 2022 - \$753,975). Accrued interest payable as at September 30, 2023, is \$337,500 (December 31, 2022 - \$262,500).

Balance, December 31, 2022	\$	2,816,147
Interest and accretion		431,163
Balance September 30, 2023		3,247,310
Less: Accrued interest payable		337,500
Balance, September 30, 2023	\$	2,909,810

14. CEBA

The Canada 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. The additional funds of \$20,000 are forgivable if the original \$40,000 loan is repaid on or prior to December 31, 2023. The outstanding balance as of January 1, 2024, accrues interest at 5% per annum and matures on December 31, 2025.

For the period ended September 30, 2023, the Company recognized accretion on the CEBA loan of \$7,541 (September 30, 2022 - \$6,234) for an ending balance of \$56,811 (December 31, 2022 - \$49,270).

15. Share Capital

Authorized Share Capital

Unlimited common shares without par value.

Issued Share Capital

At September 30, 2023, there were 91,143,641 common shares outstanding (December 31, 2022 – 91,143,641).

No shares were issued during the period ended September 30, 2023.

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

Warrant continuity for the period ended September 30, 2023, was as follows:

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15. Share Capital (Continued)

	Consultant Warrants	Performance Warrants	Broker Warrants	Subscription Receipts Warrants	Lender Warrants	Finder Warrants	Total
Balance, January 1, 2023	1,600,000	600,000	143,898	3,393,217	2,000,000	966,332	8,703,447
Expired	(1,600,000)	(600,000)	(143,898)	(3,393,217)	-	-	(5,737,115)
Balance, September 30, 2023	-	-	-	-	2,000,000	966,332	2,966,332

The warrants outstanding as at September 30, 2023 are as follows:

Warrant	Exercise Price	Number of Shares Issuable upon Exercise	Weighted Average Remaining Contractual Life (Years)	Expiry Date
Lender Warrants	\$0.52	2,000,000	2.22	December 17, 2025
Finder Warrants	\$0.52	966,332	2.22	December 17, 2025
	\$0.52	2,966,332		

The performance warrants were issued to the former CEO and were unvested at the time of termination and effectively cancelled on separation from the Company. The consultant, broker, and subscription receipt warrants expired in the period ended September 30, 2023.

Stock Options

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

On January 27, 2023, the Company granted 591,428 stock options to two consultants exercisable at \$0.10 and expiring on January 27, 2025.

As of September 30, 2023, a total of 2,419,725 (December 31, 2022 - 1,694,959) stock options have vested. Total share-based compensation recorded for the period ended September 30, 2023, in relation to the vested stock options was \$174,757 (September 30, 2022 - \$318,371).

The following weighted average assumptions were used in calculating the fair value of stock options granted during using the Black-Scholes Option Pricing Model:

	Expected Volatility	Risk-free Interest Rate	Expected Dividend Yield	Expected Life (in periods)
Issued May 1, 2021	167%	0.92%	0%	5
Issued August 12, 2021	162%	0.91%	0%	5
Issued January 27, 2023	178%	3.65%	0%	2

The options outstanding at September 30, 2023, are as follows:

Exercise Price	Number of Shares Issuable	Weighted Average Exercisable Remaining Contractual Life (Years)	Expiry Date
\$0.25	1,800,000	1,006,631	May 1, 2026
\$0.25	2,465,000	821,666	August 12, 2026
\$0.10	591,428	591,428	January 27, 2025
\$0.23	4,856,428	2,419,725	

15. Share Capital (continued)

Stock options continuity for the period ended September 30, 2023, was as follows:

	Number of options
Balance, December 31, 2022	4,265,000
Granted	591,428
Balance, September 30, 2023	4,856,428

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

		September 30, 2023	September 30, 2022
Stock-based compensation for options vested	\$	174,757	\$ 318,371
CEO performance warrants		-	18,723
Stock-based compensation	\$	174,757	\$ 337,094

16. 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 bank accounts in Canada and the US. As most of the Company's cash is held by two banks there is a concentration of credit risk. This risk is managed by using banks that are a high credit quality financial institution as determined by rating agencies. Credit risk on cash is assessed as low.

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. All loans bear a fixed rate of interest, while all the financial assets are either non-interest earning or short-term in nature. 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 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.

16. Financial Risk Management (Continued)

c) Liquidity risk (continued)

Contractual Obligations As at September 30, 2023	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Trade payables and accrued liabilities	\$ 651,489	\$ 651,489	\$ -	\$ -	\$ -
Accrued interest on loan payable	600,000	600,000	-	-	-
Loan payable	3,000,000	-	3,000,000	-	-
Due to related party	300,000	300,000	-	-	-
Due to parent	1,145,650	-	1,145,650	-	-
CEBA Loans	60,000	-	60,000	-	-
Total Contractual Obligations	\$ 5,757,139	\$ 1,551,489	\$ 4,205,650	\$ -	\$ -

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 actively hedge its exposure to fluctuations in foreign exchange rates. The Company is exposed to a moderate level foreign exchange risk.

e) 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).

Instruments carried at fair value are measured using level 3 inputs.

The Company's financial instruments consist of cash and cash equivalent, other receivable, investments, trade payables, accrued liabilities, loan payable, accrued interest on loans payable, due to parent, lease liability, CEBA loan, due to related parties, and contingent consideration. With the exception of contingent consideration and investments measured at fair value through profit and loss, all financial instruments are measured at amortized cost. The carrying value of financial instruments approximates the fair value at September 30, 2023 and December 31, 2022.

17. 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.