XR Immersive Tech Inc.

Condensed Interim Financial Statements
Nine months ended September 30, 2024, and 2023

Expressed in Canadian dollars, except otherwise indicated

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 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 Interim Statements of Financial Position
(Expressed in Canadian dollars, except as otherwise indicated)

	Note		As at September 30, 2024 (Note 3)		As at December 31, 2023
ASSETS					
Current assets					
Cash	4	$	6,912	$	196,319
Prepaids and other receivable	5		287,850		438
Government sales tax receivable			4,447		28,659
			299,209		225,416
Non-current asset					
Investment	6		10,500		49,000
TOTAL ASSETS		**$**	**309,709**	**$**	**274,416**
LIABILITIES					
Current liabilities					
Trade and other payables	7	$	535,271	$	527,894
Accrued liabilities			158,453		334,134
Due to related parties	7		-		300,000
Loans payable	8		4,062,122		-
Licensing agreement liability	9		234,257		-
			4,990,103		1,162,028
Non-current liabilities					
CEBA loan	10		60,750		59,604
Due to former parent	7		1,092,194		1,161,913
Convertible debentures	11		-		200,260
Loans payable	8		217,358		3,630,063
TOTAL LIABILITIES			6,360,405		6,213,868
SHAREHOLDERS' DEFICIT					
Share capital	2,12		6,738,931		6,487,222
Reserve	12		2,842,875		2,503,211
Accumulated other comprehensive income			-		(5,367)
Accumulated deficit			(15,632,502)		(14,924,518)
TOTAL SHAREHOLDERS' DEFICIT			(6,050,696)		(5,939,452)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT		**$**	**309,709**	**$**	**274,416**

Nature of operations and going concern – Note 1

See accompanying notes to the condensed interim financial statements.

XR Immersive Tech Inc.

Condensed Interim Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars, except as otherwise indicated)

	Notes	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
		(Note 3)		(Note 3)	
Revenue	9	$ 203,273	$ 186,949	$ 718,767	$ 543,091
Cost of revenue		785	571	2,441	9,435
		202,488	186,378	716,326	533,656
Expenses					
Amortization and depreciation		-	55,781	-	167,341
Consulting fees	7	-	58,855	144,777	131,332
Foreign exchange loss		854	945	25,311	972
General and administration	7	7,994	41,155	166,079	296,951
Interest and accretion	3,7,8,10,11	219,846	148,068	535,078	438,704
Professional fees	7	36,161	236,861	133,804	310,176
Research and development		-	-	-	700
Salaries and wages	7	31,178	39,082	108,267	126,370
Sales and marketing (recovery)		2,430	1,832	43,306	(17,071)
Share-based compensation	7,12	-	21,653	4,023	174,757
Total expenses		(298,463)	(604,232)	(1,160,645)	(1,630,232)
Other items					
Loss on settlement of promissory notes payable	8	(51,132)	-	(51,132)	-
Change in fair value of investment	6	(3,500)	(29,750)	(38,500)	14,875
Interest and other income	6	101,747	3,250	101,954	20,219
		47,115	(26,500)	12,322	35,094
Loss on deconsolidation of subsidiary		(275,987)	-	(275,987)	-
Net loss for the period		(324,847)	(444,354)	(707,984)	(1,061,482)
Other comprehensive loss					
Currency translation adjustment		-	(16,375)	(24,568)	1,252
Comprehensive loss for the period		(324,847)	(460,729)	(732,552)	(1,060,230)
Loss per share - basic and diluted	2,12	**$ (0.00)**	**$ (0.03)**	**$ (0.03)**	**$ (0.06)**
Weighted average number of common shares outstanding for the period - basic and diluted	2,12	**15,431,792**	**15,190,607**	**15,410,876**	**15,190,607**

See accompanying notes to the condensed interim financial statements.

XR Immersive Tech Inc.
Condensed Interim Statements of Changes in Shareholders' Deficit
(Expressed in Canadian dollars, except as otherwise indicated)

		Share Capital [1]		Reserve					
	Notes	Number of Shares	Amount	Contributed Surplus	Warrants	Total Reserve	Accumulated Other Comprehensive Income	Deficit	Total
Balance at January 1, 2023		**15,190,628**	**$ 6,465,971**	**$ 760,756**	**$ 1,041,840**	**$ 1,802,596**	**$ 13,517**	**$ (11,060,779)**	**$ (2,778,695)**
Share-based payments - options	12	-	-	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		**15,190,628**	**$ 6,465,971**	**$ 935,513**	**$ 1,041,840**	**$ 1,977,353**	**$ 12,265**	**$ (12,122,261)**	**$ (3,666,672)**
Balance at January 1, 2024		**15,315,628**	**$ 6,487,222**	**$ 1,435,486**	**$ 1,067,725**	**$ 2,503,211**	**$ (5,367)**	**$ (14,924,518)**	**$ (5,939,452)**
Equity portion of promissory notes payable	8	-	-	87,350	-	87,350	-	-	87,350
Units issued for settlement of promissory notes payable	8,12	3,562,374	251,709	-	248,291	248,291	-	-	500,000
Share-based payments - options	12	-	-	4,023	-	4,023	-	-	4,023
Transfer fair value of cancelled warrants	8	-	-	25,886	(25,886)	-	-	-	-
Currency translation adjustment		-	-	-	-	-	24,568	-	24,568
Reclassification to deconsolidation of subsidiary	3	-	-	-	-	-	(19,201)	-	(19,201)
Net loss for the period		-	-	-	-	-	-	(707,984)	(707,984)
Balance at September 30, 2024		**18,878,002**	**$ 6,738,931**	**$ 1,552,745**	**$ 1,290,130**	**$ 2,842,875**	**$ -**	**$ (15,632,502)**	**$ (6,050,696)**

[1] Common share amounts have been retrospectively adjusted for all prior periods to reflect the Share Consolidation effected on November 8, 2023 (See Notes 2(b) and 12).

See accompanying notes to the condensed interim financial statements.

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

	Nine months ended September 30, 2024 (Note 3)	2023
Operating activities		
Net loss for the period	$ (707,984)	$ (1,061,482)
Adjustments for non-cash items:		
Interest and accretion	536,406	438,704
Amortization and depreciation	-	167,341
Foreign exchange loss	-	972
Change in fair value of investment	38,500	(14,875)
Share-based compensation	4,023	174,757
Loss on deconsolidation of subsidiary	275,987	-
Loss on settlement of promissory note payable	51,132	-
Changes in non-cash working capital items:		
Prepaids	-	12,000
Other receivable	-	55,820
Government sales tax receivable	42,974	(11,532)
Income tax subsidy	101,747	-
Trade and other payables	(232,631)	140,583
Accrued liabilities	(97,877)	64,312
Net cash flows provided by (used in) operating activities	12,277	(33,400)
Investing activities		
Other receivable - short-term loan	(37,500)	-
Cash derecognized on deconsolidation of subsidiary	(295,098)	-
Net cash flows used in investing activities	(332,598)	-
Financing activities		
Proceeds from former parent company	42,030	-
Repayments to former parent company	(139,250)	-
Interest paid on CEBA loan	(1,328)	-
Proceeds from loan payable, net of costs	248,662	-
Net cash flows provided by financing activities	150,114	-
Effect of foreign exchange rates on cash and cash equivalents	(19,200)	(1,252)
Decrease in cash and cash equivalents	(189,407)	(34,652)
Cash and cash equivalents, beginning of the period	196,319	270,681
Cash and cash equivalents, end of the period	**$ 6,912**	**$ 236,029**

See accompanying notes to the condensed interim financial statements.

1. Nature of Operations and Going Concern

XR Immersive Tech Inc. (the “Company” or “XRI”) is 43.89% owned by Victory Square Technologies Inc. (“Victory Square” or “VST”). The Company is a Virtual Reality (“VR”) location management and content licensing platform.

On September 3, 2021, the Company’s common shares commenced trading on the Canadian Securities Exchange (“CSE”) under the symbol VRAR. On November 6, 2023, the Company changed its CSE trading symbol to VRAI. The Company’s registered and records office are located at Suite 401, 750 West Pender Street, Vancouver, British Columbia, V6C 2T7.

On July 1, 2024, the Company entered into a five-year non-cash, rent-to-purchase agreement with a Bulgarian company controlled by former directors; which resulted in the deconsolidation of the Company’s former subsidiary Synthesis VR Inc. (“Synthesis” or “SVR”) (Note 3).

These condensed 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, 2024, the Company had a working capital deficiency of $4,690,894 (December 31, 2023 – $936,612) and an accumulated deficit of $15,632,502 (December 31, 2023 – $14,924,518). 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 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.

2. Material Accounting Policies

These condensed interim financial statements were authorized for issue on November 29, 2024, by the directors of the Company who have determined that there are no significant subsequent events to report, as of that date, other than those disclosed elsewhere in these condensed interim financial statements.

a) Statement of Compliance

These condensed 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 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, 2023.

2. Material Accounting Policies (continued)

b) Basis of Preparation

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

On November 8, 2023, the Company completed a one-for-six (1:6) reverse share split of all of its issued and outstanding common shares ("Share Consolidation"), resulting in a reduction in the issued and outstanding shares from 91,143,641 to 15,190,628. Shares reserved under the Company's equity and incentive plans were adjusted to reflect the Share Consolidation. All share and per share data presented in the Company's condensed interim financial statements have been retroactively adjusted to reflect the Share Consolidation unless otherwise noted.

3. Deconsolidation of Subsidiary

On July 1, 2024, the Company entered into a five-year non-cash, rent-to-purchase agreement with a Bulgarian company controlled by former directors, (the "Licensee") of the Company and founders of Synthesis. Under the agreement, XRI, which currently owns Synthesis, agreed to license and let the Licensee operate all of Synthesis' business operations and use the Synthesis brand and platform for a period of five years from July 1, 2024, for $4,500,000 ("Purchase Price") and the ability for it to purchase the Synthesis brand within this time frame from XRI. The Licensee was granted the rights to operate under Synthesis, use the Synthesis website, manage, service and bill all the Synthesis clients using its own name. In lieu of paying any license fees to XRI, the Licensee shall comply with all of the agreement terms outlined below:

a) The former directors forwent certain amounts due to them by XRI amounting to $441,392, comprised of:
   (i) $300,000 due to the former directors from the acquisition of SVR by XRI;
   (ii) $100,000 for unpaid salary;
   (iii) $37,000 for interest on deferred payments; and
   (iv) $4,392 of payroll taxes owed to Canada Revenue Agency on payroll withholdings.
b) The former directors will transfer 2,047,620 of their common shares in XRI at a price of $0.18 per share to a yet to be determined third party to be specified by XRI;
c) The Licensee commits to spend $102,147 per month on research and development activities of SynthesisVR;
d) XRI has signed Synthesis-specific content partnership contracts with certain entities that bring their own obligations to XRI. XRI shall transfer those contracts to the Licensee with immediate effect upon this agreement becoming effective; and
e) Inter-company liability of $570,496 due to Synthesis was extinguished.

The value of the former directors' relinquished claims and shares acted as an initial payment and covered the first year of licensing costs for XRI to transfer the rights to operate and license Synthesis to the Licensee. The full ownership to license the Synthesis brand will be transferred to the Licensee, once it has paid a total amount, or deemed to have paid $4,500,000, including all initial and subsequent payments made or relinquished by the former directors, investments made in the daily Synthesis operations, research and development, and proceeds from the share sale based on its floating value.

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

3. Deconsolidation of Subsidiary (continued)

The net income from Synthesis is as follows:

	January 1, 2024 to July 1, 2024	January 1, 2023 to September 30, 2023
Revenue	$ 512,627	$ 501,891
Expenses		
Consulting fees	19,357	72,332
General and administration	133,745	229,226
Professional fees	5,304	25,026
Sales and marketing	35,977	97
Total expenses	(194,384)	(326,681)
Net income for the period	$ 318,244	$ 175,210

The major classes of assets and liabilities of Synthesis are as follows:

	As at July 1, 2024	As at December 31, 2023
ASSETS		
Current assets		
Cash and cash equivalents	$ 295,098	$ 165,741
Due from XRI	570,496	545,461
Other receivable	91	88
Total Assets from Discontinued Operations	**$ 865,685**	**$ 711,290**
LIABILITIES		
Accounts payable	$ -	$ 130,823
Accrued liabilities	-	40,755
Total Liabilities from Discontinued Operations	**$ -**	**$ 171,578**

The following table provides details of the cash flow from operating, investing, and financing activities of Synthesis:

	January 1, 2024 to July 1, 2024	January 1, 2023 to September 30, 2023
Net cash flows from operating activities	$ 129,357	$ 82,039
Net cash flows used in investing activities	(295,098)	-
	$ (165,741)	**$ 82,039**

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

4. Cash

As at September 30, 2024, the cash balance of $6,912 (December 31, 2023 - $196,319) was comprised entirely of cash held in operating accounts.

5. Prepaids and Other Receivable

		As at July 1, 2024		As at December 31, 2023
Prepaid marketing fees (Note 8)	$	250,000	$	-
Short-term loan		37,500		-
Trade receivable		350		438
	$	**287,850**	**$**	**438**

6. Investment

On May 4, 2022, AlphaGen Intelligence Corp. (formerly Alpha Metaverse Technologies Inc.) ("Alpha") (CSE:AIC), a company traded on the CSE, completed the acquisition of 100% of the issued and outstanding share capital of Shape Immersive Entertainment Inc. ("Shape"), a private entity. 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 4, 2024. The fair value loss on the investment for the period ended September 30, 2024, is $38,500 (September 30, 2023 – gain of $14,875) resulting in a fair value of $10,500 as at September 30, 2024 (December 31, 2023 - $49,000).

Interest and other income during the period ended September 30, 2024, totaled $101,954 (September 30, 2023 - $20,219). The interest and income are comprised of a $101,747 (September 30, 2023 – $Nil) corporate tax refund, $207 (September 30, 2023 – $Nil) GST refund, $Nil (September 30, 2023 - $219) interest earned on a bank deposit, and $Nil (September 30, 2023 - $20,000) defined in the Alpha acquisition as additional cash consideration, being the payment of $500,000 total to the Shape shareholders in aggregate, based on each shareholder's pro rata interest, of which XRI held 5%.

7. Related Party Transactions and Balances

During the period ended September 30, 2024, and 2023, the Company entered into the following transactions with related parties:

		September 30, 2024		September 30, 2023
Professional fees for accounting, CFO, and corporate secretarial services recorded to company controlled by CFO	$	67,500	$	60,000
Wages and consulting fees paid to former CEO and Director	$	87,500	$	116,500
Consulting fees - former Director	$	75,000	$	90,200
General & administrative fees for a company controlled by former Director	$	83,418	$	-
Share-based compensation to related parties	$	4,023	$	58,745

7. Related Party Transactions and Balances (continued)

At September 30, 2024, the Company owes $168,246 (December 31, 2023 - $194,510) to related parties, which is included in trade and other payables of which $Nil (December 31, 2023 - $12,500) was due to former key management personnel. The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

Cumulative loans and advances from VST, amounting to $1,092,194 (December 31, 2023 - $1,161,913) presented as due to parent on the condensed interim statement of financial position, are unsecured, non-interest bearing and mature on December 31, 2025. The amount is presented as a long-term liability on the condensed interim statement of financial position.

Related Party Loans

The amount due to former owners of Synthesis previously presented in current liabilities as due to related parties on the condensed interim statement of financial position, arose as a component of XRI's acquisition of Synthesis, and the Initial Purchase Price's Cash Consideration on First and Second Financing Payments. On July 1, 2024, the $300,000 balance was extinguished as part of the rent-to-purchase agreement outlined in Note 3.

8. Loans Payable

Westdale promissory notes payable

On December 17, 2021, the Company entered into a bullet loan agreement ("Westdale loan #1") 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 bore interest at a rate of 12% per annum. As an inducement to the lender, 333,333 lender warrants were issued at an exercise price of $3.12 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.

On August 31, 2022, the Westdale loan #1 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 333,333 lender warrants was changed from $3.12 per common share to $0.48 per common share. As an additional inducement for the lender to close the loan amendment agreement, the Company agreed to issue 500,000 RSUs, with 25% vesting on December 13, 2022, and the remainder vesting at 25% every 12 months (Note 12). No gain or loss was recorded as the amendment occurred after the original maturity date.

Westdale management has confirmed in writing that the lender will not demand repayment of the $3,000,000 loan through August 31, 2025. Another amendment agreement of the Westdale loan #1 is under negotiation.

On April 29, 2024, the Company issued a promissory note payable to Westdale ("Westdale loan #2") upon receipt of an additional $250,000 which bears interest at 12% per annum payable semi-annually and matures 24 months from the date of issuance. The promissory note payable is secured by a General Security Agreement over all of the Company's assets and property.

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

8. Loans Payable (continued)

The fair value of the $250,000 Westdale loan #2 was determined using the Company's incremental borrowing rate of 23%. A total of $38,122, representing the difference between the discounted value of $210,540 and the proceeds received of $250,000, was allocated to the equity component of the promissory note payable. Directly attributable costs of issuance of $1,338 was deducted from the proceeds.

Conversion, issuance and settlement of promissory notes payable

On July 1, 2024, the Company issued $250,000 of promissory notes payable in consideration for prepaid marketing fees paid to a third-party on behalf of the Company (Note 5). The fair value of the note was $200,772 and the $49,228 equity component being allocated to contributed surplus. The fair value of these promissory notes payable was determined using the Company's incremental borrowing rate of 23%.

In September 2024, $250,000 of convertible debentures were converted into promissory notes payable.

On September 27, 2024, the Company executed debt settlement and subscription agreements, whereby the Company issued 3,562,374 Units to settle $500,000 of promissory notes payable. Each Unit was comprised of one common share and one share purchase warrant exercisable at $0.15 per share until September 27, 2027. The Company calculated a fair value of $251,709 for common shares and $248,291 for warrants based on the relative fair value method. The promissory notes payable had a carrying value of $414,512 plus $34,356 interest payable, resulting in a $51,132 loss on settlement of promissory notes payable. The $25,886 fair value of the previously issued 989,237 convertible debenture warrants was transferred from warrant reserves to contributed surplus.

A total of $438,877 of interest and accretion were recognized on promissory notes payable during the period ended September 30, 2024 (September 30, 2023 - $431,163). Accrued coupon interest payable as at September 30, 2024, is $1,062,123 (December 31, 2023 - $712,500).

Balance, January 1, 2024	$	3,630,063
Funds received from loans payable, discounted		210,540
Interest and accretion		438,877
Balance, September 30, 2024	$	4,279,480

Breakdown of loans payable:		
Short-term loan payable	$	4,062,122
Long-term loan payable		217,358
	$	4,279,480

9. Licensing Agreement Liability

On July 1, 2024, the Company entered into a five-year non-cash, rent-to-purchase agreement with a Bulgarian company controlled by the former directors (the "Licensee") of the Company (Note 3). Under the agreement, XRI, which currently owns Synthesis, agreed to license and let the Licensee operate all of Synthesis' business operations and use the Synthesis brand and platform for a period of five years from July 1, 2024, for $4,500,000 and the ability for it to purchase the Synthesis brand within this time frame from XRI. The Licensee was granted the rights to operate under Synthesis, use the Synthesis website, manage, service and bill all the Synthesis clients using its own name.

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

9. Licensing Agreement Liability (continued)

As at September 30, 2024, the Company has $234,257 (December 31, 2023 - $Nil) reported as a licensing agreement liability related to the aforementioned agreement. License revenue from Synthesis' business operations is recognized over the contract term as performance obligations are completed. The licensing agreement liability will be extinguished as license revenue is earned.

Licensing agreement liability, July 1, 2024	$	437,000
Revenue earned		(202,743)
Licensing agreement liability, September 30, 2024	$	234,257

10. CEBA Loan

The Canada Emergency Business Account ("CEBA") loan, partially forgivable, originally launched on April 9, 2020, was intended to support businesses during the COVID-19 pandemic.

The outstanding balance as of January 18, 2024, converted to a non-amortizing term loan with full principal repayment due on December 31, 2026. Commencing January 19, 2024, the loan accrues interest of 5% per annum. The Company did not repay the loan before January 18, 2024, and is not eligible for the forgivable portion.

For the period ended September 30, 2024, the Company recognized interest and accretion on the CEBA loan of $2,474 (September 30, 2023 - $7,541). During the period ended September 30, 2024, the Company paid $1,328 (September 30, 2023 - $Nil) of the CEBA loan resulting in an ending balance of $60,750 (December 31, 2023 - $59,604).

11. Convertible Debentures

The Company issued up to a maximum of $500,000 convertible debenture units to a group of subscribers, each consisting of one unsecured, non-redeemable debenture and one common share purchase warrant exercisable for common shares. The debenture units were offered at an issue price of the 10-day value weighted average price ("VWAP") of the Company's common shares for the 10 trading days immediately preceding the date of draw down. The debentures bore interest at 12% per annum from issue date payable semi-annually in arrears on June 30 and December 31 of each year. The debentures were to mature 36 months from closing date, with the option to extend or prepay upon agreement by both parties. The debentures were convertible at the holder's option into common shares of the Company at a conversion price of $0.15 with accrued and unpaid interest up to conversion date payable in cash or additional common shares. Each warrant was exercisable to acquire one common share at an exercise price of $0.15 per share for a period of 36 months from the closing date.

On November 2, 2023, the Company drew on $250,000 in debentures at a VWAP price equivalent to 989,237 debenture units. The debenture was financed by way of a transfer of $190,000 in cash and the balance as repayment of amount due to parent. The fair value of the debt component of the debenture was determined at inception using the Company's incremental borrowing rate of 23%. A total of $51,771, representing the difference between the discounted value of $198,229 and the proceeds received of $250,000, was allocated to the equity component. The amount allocated to equity was split between contributed surplus and warrant reserve based on the relative fair value of the warrants and conversion feature as determined using the Black-Scholes Option Pricing Model using expected volatility of 186%, dividend yield of 0%, life of 3 years, and risk-free interest rate of 4.15%.

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

11. Convertible Debentures (continued)

On September 27, 2024, the $250,000 debentures were converted into promissory notes payable with a discounted value of $210,828 plus $27,123 coupon interest payable.

Balance, January 1, 2024	$	200,260
Interest and accretion		42,905
Converted to promissory note payable		(243,165)
Balance, September 30, 2024	$	-

12. Share Capital

Authorized Share Capital

Unlimited common shares without par value.

Issued Share Capital

As described under Note 2(b), on November 8, 2023, the Company completed a one-for-six (1:6) reverse share split of all of its issued and outstanding common shares. Shares reserved under the Company's equity and incentive plans were adjusted to reflect the Share Consolidation. All current and prior period share and per share data presented below has been retroactively adjusted to reflect the Share Consolidation unless otherwise noted.

On September 27, 2024, the Company executed debt settlement and subscription agreements, whereby the Company issued 3,562,374 Units to settle $500,000 of promissory notes payable. Each Unit was comprised of one common share and one share purchase warrant exercisable at $0.15 per share until September 27, 2027. The Company calculated a fair value of $251,709 for common shares and $248,291 for warrants based on the relative fair value method. The promissory notes payable had a carrying value of $414,512 plus $34,356 interest payable, resulting in a $51,132 loss on settlement of promissory notes payable.

At September 30, 2024, there were 18,878,002 common shares outstanding (December 31, 2023 – 15,315,628).

Reserve

Contributed surplus

The contributed surplus reserve includes 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.

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

12. Share Capital (continued)

Warrants

On September 27, 2024, the Company issued 3,562,374 Units to settle $500,000 of promissory notes payable. The 3,562,374 warrants issued were valued at $248,291 using the Black-Scholes Option Pricing Model using expected volatility of 160%, dividend yield of 0%, life of 3 years, and risk-free interest rate of 2.84%.

The $25,886 fair value of the previously issued 989,237 convertible debenture warrants was transferred from warrant reserves to contributed surplus as part of the debt settlement and subscription agreements.

Warrant continuity for the period ended September 30, 2024 and December 31, 2023 was as follows:

	Lender Warrants	Finder Warrants	Convertible Debenture Warrants	Settlement Warrants	Total
Balance, January 1, 2024	333,333	161,055	989,237	-	1,483,626
Cancelled	-	-	(989,237)	-	(989,237)
Issued	-	-	-	3,562,374	3,562,374
Balance, September 30, 2024	333,333	161,055	-	3,562,374	4,056,763

The warrants outstanding as at September 30, 2024 are as follows:

Warrant	Exercise Price	Number of Shares Issuable upon Exercise	Weighted Average Remaining Contractual Life (Years)	Expiry Date
Lender Warrants	$0.48	333,333	1.21	December 17, 2025
Finder Warrants	$3.12	161,055	1.21	December 17, 2025
Settlement Warrants	$0.15	3,562,374	2.99	September 27, 2027
		4,056,763		

Stock Options

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

As of September 30, 2024, a total of 365,239 (September 30, 2023 – 2,419,725) stock options have vested. Total share-based compensation recorded for the period ended September 30, 2024, in relation to the vested stock options was $4,023 (September 30, 2023 - $174,757).

The Company has estimated a 0% forfeiture rate in 2024 and 2023. The following weighted average assumptions were used in calculating the fair value of stock options granted using the Black-Scholes Option Pricing Model:

	Expected Volatility	Risk-free Interest Rate	Expected Dividend Yield	Expected Life (in years)
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

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

12. Share Capital (continued)

Stock Options (continued)

The options outstanding at September 30, 2024, are as follows:

Exercise Price	Number of Shares Issuable and Exercisable	Weighted Average Remaining Contractual Life (Years)	Expiry Date
$1.50	266,667	1.58	May 1, 2026
$0.60	98,572	0.33	January 27, 2025
	365,239		

Stock options continuity for the period ended September 30, 2024, was as follows:

	Number of options
Balance, September 30 and January 1, 2024	365,239

Stock options cancelled are either due to expiry or forfeiture according to the terms of the Company's equity incentive plan and the circumstances of the optionee.

Restricted Share Units

In accordance with a loan amendment (Note 8), the Company issued 500,000 RSUs, with 25% vesting on December 13, 2022, and the remainder vesting at 25% every 12 months. As at September 30, 2024, 250,000 RSUs remain unvested.

13. 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 and payment platforms. The cash is deposited in bank accounts in Canada. As most of the Company's cash is held by a 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.

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.

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

13. Financial Risk Management (continued)

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.

Contractual Obligations As at September 30, 2024	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**After 5 years**
Trade payables and accrued liabilities	$ 693,724	$ 693,724	$ -	$ -	$ -
Loans payable	4,312,122	4,062,122	250,000	-	-
Due to former parent	1,092,194	-	1,092,194	-	-
Licensing agreement liability	234,257	234,257	-	-	-
CEBA loan and interest	60,750	-	60,750	-	-
Total Contractual Obligations	$ 6,393,047	$ 4,990,103	$ 1,402,944	$ -	$ -

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 of 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 list 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)

13. Financial Risk Management (continued)

e) Fair value (continued)

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 and other payables, accrued liabilities, loan payable including accrued interest, due to parent, CEBA loan and due to related parties. With the exception of investment 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, 2024 and December 31, 2023.

14. 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.