

MyndTec Inc.

Unaudited Interim Condensed Consolidated Financial Statements

As at September 30, 2023

(Expressed in Canadian Dollars, unless otherwise noted)

Interim Condensed Consolidated Financial Statements

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MyndTec Inc.
Unaudited Consolidated Statements of Financial Position
As at September 30, 2023 and December 31, 2022

	September 30 <u>2023</u>	December 31 <u>2022</u>
Assets		
Current assets		
Cash and short-term securities	\$ 157,333	\$ 68,621
Trade and other receivables (notes 3 and 12)	22,790	32,238
Inventories (note 4)	201,399	255,559
Prepaid expenses and deposits	<u>111,076</u>	<u>46,127</u>
	492,598	402,545
Non-current assets		
Right-of-use asset (note 5)	19,460	36,974
Equipment (note 6)	<u>153,816</u>	<u>203,050</u>
Total assets	<u>\$ 665,874</u>	<u>\$ 642,569</u>
Liabilities		
Current liabilities		
Trade and other payables (notes 7 and 12)	\$ 1,033,909	\$ 764,719
Deferred revenue (notes 8 and 12)	17,000	17,000
Current portion of long-term liabilities (note 9)	<u>454,306</u>	<u>487,706</u>
	1,505,215	1,269,425
Long-term liabilities, net of current portion		
Deferred revenue (notes 8 and 12)	38,250	51,000
Lease obligation (note 5)	-	6,253
Government loans (note 10)	<u>-</u>	<u>241,230</u>
Total liabilities	<u>1,543,465</u>	<u>1,567,908</u>
Shareholders' deficiency		
Share capital (note 13)	14,881,746	13,853,744
Contributed surplus (note 13)	3,553,670	3,176,353
Accumulated deficit	<u>(19,313,006)</u>	<u>(17,955,436)</u>
Total deficiency	(877,590)	(925,339)
Total liabilities and shareholders' deficiency	<u>\$ 665,875</u>	<u>\$ 642,569</u>
Nature of business and going concern (note 1, 2, 7 and 19)		
Commitments and contingencies (note 19)		
Subsequent events (note 23)		

"Craig Leon" Director

"Bill Jackson" Director

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

MyndTec Inc.

Unaudited Consolidated Statements of Loss and Comprehensive Loss

For the nine-month and three-month periods ended September 30, 2023 and 2022

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Revenue (notes 12 and 22)	\$ 56,165	\$ 53,442	\$ 115,906	\$ 189,181
Cost of sales	<u>27,707</u>	<u>47,928</u>	<u>64,999</u>	<u>87,829</u>
Gross margin	<u>28,458</u>	<u>5,514</u>	<u>50,907</u>	<u>101,352</u>
Expenses				
General and administration (note 14)	122,622	240,474	532,040	725,045
Research and development (note 14)	49,398	96,698	289,947	326,355
Quality and regulatory assurance	(5,702)	1,070	52,972	8,886
Selling and marketing	27,728	19,432	87,464	66,777
Share-based compensation (note 13)	50,560	68,323	124,306	196,927
Interest and accretion expense (note 16)	3,066	17,867	26,261	86,234
Depreciation and amortization (note 5 and 6)	22,249	22,943	66,748	67,628
Clinical trial (note 18)	-	(11,375)	-	(65,178)
Changes in fair value (note 16)	-	(13,065)	105,436	49,591
Public listing costs (notes 7 and 13)	15,686	19,686	297,451	258,137
Government grants and tax credits (note 17)	<u>(174,148)</u>	<u>-</u>	<u>(174,148)</u>	<u>-</u>
Total operating expenses	<u>111,459</u>	<u>462,053</u>	<u>1,408,477</u>	<u>1,720,402</u>
Net and comprehensive loss	<u>\$ (83,001)</u>	<u>\$ (456,539)</u>	<u>\$ (1,357,570)</u>	<u>\$ (1,619,050)</u>
Loss per share - basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.02)</u>	<u>\$ (0.06)</u>	<u>\$ (0.08)</u>
Weighted average number of common shares outstanding - basic and diluted	<u>23,602,403</u>	<u>21,838,500</u>	<u>22,874,687</u>	<u>21,022,679</u>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

MyndTec Inc.

Unaudited Consolidated Statements of Changes in Shareholders' Deficiency
For the nine-month periods ended September 30, 2023 and 2022

	Share Capital <u>(note 13)</u>	Contributed Surplus <u>(note 13)</u>	Accumulated Deficit	Total Surplus <u>(Deficiency)</u>
Balance, December 31, 2021	\$ 11,013,889	\$ 1,268,088	\$ (15,823,223)	\$ (3,541,246)
Net loss and comprehensive loss	-	-	(1,619,050)	(1,619,050)
Private placement (note 13)	1,891,640	1,062,662	-	2,954,302
Conversion of convertible debentures	1,013,336	641,849	-	1,655,185
Issuance expenses	(65,121)	(36,583)	-	(101,704)
Share-based compensation	-	196,927	-	196,927
Balance, September 30, 2022	13,853,744	3,132,943	(17,442,273)	(455,586)
Net loss and comprehensive loss	-	-	(513,163)	(513,163)
Share-based compensation	-	43,410	-	43,410
Balance, December 31, 2022	13,853,744	3,176,353	(17,955,436)	(925,339)
Net loss and comprehensive loss	-	-	(1,357,570)	(1,357,570)
Debt conversion (notes 10 and 13)	378,062	-	-	378,062
Private placement (note 13)	412,099	160,101	-	572,200
Issuance expenses (note 13)	(25,149)	(9,771)	-	(34,920)
Private placement (note 13)	267,600	104,480	-	372,080
Issuance expenses (note 13)	(4,610)	(1,799)	-	(6,409)
Share-based compensation	-	124,306	-	124,306
Balance, September 30, 2023	\$ 14,881,746	\$ 3,553,670	\$ (19,313,006)	\$ (877,590)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

MyndTec Inc.

Unaudited Consolidated Statements of Cash Flows

For the nine-month and three-month periods ended September 30, 2023 and 2022

	Three Months Ended September 30		Nine Months Ended September 30	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Cash flows from (to) operating activities				
Net loss and comprehensive loss	\$ (83,001)	\$ (456,539)	\$ (1,357,570)	\$ (1,619,050)
Items not affecting cash:				
Share-based compensation	50,560	68,323	124,306	196,927
Depreciation and amortization (notes 5 and 6)	22,249	22,943	66,748	67,628
Devices transferred to cost of sales (note 6)	-	5,000	-	5,000
Interest accretion (note 16)	1,392	21,990	12,202	93,985
Changes in fair value (note 16)	-	(13,065)	105,436	49,591
Deferred revenue (note 8)	(4,250)	(4,250)	(12,750)	(12,750)
	<u>(13,050)</u>	<u>(355,598)</u>	<u>(1,061,628)</u>	<u>(1,218,669)</u>
Changes in non-cash working capital items				
Trade and other receivables	7,991	29,505	9,448	244,624
Inventories	15,200	18,733	54,160	27,560
Prepaid expenses and deposits	37,433	39,071	(64,949)	(48,879)
Trade and other payables (note 7)	(47,540)	(14,228)	269,190	(1,110,470)
Net cash used in operating activities	<u>34</u>	<u>(282,517)</u>	<u>(793,779)</u>	<u>(2,105,834)</u>
Cash used in investing activities				
Purchase of equipment (note 6)	-	(28,000)	-	(28,000)
Net cash used in investing activities	<u>-</u>	<u>(28,000)</u>	<u>-</u>	<u>(28,000)</u>
Cash from (used in) financing activities				
Lease payments (note 5)	(6,934)	(6,676)	(20,459)	(19,687)
Repayment of deferred payment agreement (note 7)	-	(7,500)	-	(20,000)
Repayment of government loans (note 10)	-	(14,999)	-	(114,030)
Proceeds of Private Placements (note 13)	(2)	(101,704)	902,950	2,257,738
Net cash from (used in) financing activities	<u>(6,936)</u>	<u>(130,879)</u>	<u>882,491</u>	<u>2,104,021</u>
Increase (decrease) in cash	<u>(6,902)</u>	<u>(441,396)</u>	<u>88,712</u>	<u>(29,813)</u>
Cash, beginning of period	<u>164,235</u>	<u>788,648</u>	<u>68,621</u>	<u>377,065</u>
Cash, end of period	<u>\$ 157,333</u>	<u>\$ 347,252</u>	<u>\$ 157,333</u>	<u>\$ 347,252</u>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

MyndTec Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the nine-month periods ended September 30, 2023 and 2022

1 Nature of business and going concern

MyndTec Inc. (the “Company” or “MyndTec”) is a medical technology company that researches, develops and distributes innovative therapies designed to improve function, maximize independence and enhance the quality of life for individuals with paralysis due to stroke or spinal cord injury. The Company is incorporated under the Business Corporations Act of Ontario and its head office is located at 1900 Minnesota Court, Suite 122, Mississauga, Ontario, L5N 3C9. The Company became a publicly traded entity on the Canadian Securities Exchange on February 16, 2022 and is listed under the symbol MYTC.

These unaudited interim condensed consolidated financial statements (the “financial statements”) have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. There is no certainty whether the Company will generate significant revenues or attain profitable operations in the near future and there can be no assurance that it will achieve profitability in the future, as it incurred a net loss of \$1,357,570 and had a negative cash flow from operations of \$793,779 for the nine-month period ended September 30, 2023, after incurring a loss of \$2,132,213 and a negative cash flow from operating activities of \$2,343,697 for the year ended December 31, 2022.

As at September 30, 2023, the Company was in default in respect of its Federal Economic Development Agency (FEDA) loan payable, with a principal balance of \$412,242 (note 10), and its \$561,000 deferred payment agreement obligation (note 7) to its former legal firm. Assuming there is no demand for payment of the deferred payment agreement or FEDA loan, the Company had a September 30, 2023 cash balance of \$157,333 that covers approximately two months of operating expenses. As referenced in note 23, the Company completed a private placement on November 3, 2023 for \$138,210.

The Company has accumulated \$19,313,006 of losses as at September 30, 2023 and its ability to continue as a going concern is dependent on it raising future required capital; bringing its products to market; and, achieving and maintaining profitable operations. The outcome of these matters cannot be predicted at this time. As a result, there exists a material uncertainty (notes 7 and 19) which creates significant doubt regarding the Company’s ability to continue as a going concern. These financial statements do not include any adjustments and classifications of assets and liabilities, which might be necessary should the Company be unable to continue its operations. Such adjustments could be material.

2 Basis of presentation

Statement of compliance

These financial statements have been prepared by Management in accordance with International Financial Reporting Standards (IFRS) and with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (IASB) and interpreted by the IFRS Interpretations Committee (IFRIC). These financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the most recent annual consolidated financial statements of the Company, including the notes thereto, for the year ended December 31, 2022.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on November 21, 2023.

Basis of Measurement

These financial statements have been prepared on a going concern basis using historical cost, except for those items designated as fair value through profit and loss.

Basis of consolidation

The financial statements include the accounts of the Company and its wholly owned subsidiary, MyndTec US Inc. which was incorporated by the Company in the United States on October 10, 2018. As at September 30, 2023 and 2022, the US subsidiary is inactive.

The accounts of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies, and the subsidiary is fully consolidated from its date of formation. All intercompany balances, transactions and unrealized gains and losses resulting from intercompany transactions are eliminated on consolidation.

Functional currency and presentation currency

These financial statements are presented in Canadian dollars (“CAD dollars”). The Company’s functional currency is Canadian dollars and the functional currency of the Company’s wholly owned subsidiary is the United States dollar.

**Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the nine-month periods ended September 30, 2023 and 2022**

2 Basis of presentation (continued)

Use of estimates and judgements

The preparation of these financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the interim condensed consolidated financial statements:

- ***Going concern***

Judgement is required in determining if disclosure of a material uncertainty related to events or conditions which cast significant doubt on the Company's ability to continue as a going concern is required.

The estimates used by management in reaching this conclusion are based on information available as of the date of these financial statements were authorized for issuance and included an internally generated cash flow forecast. Accordingly, actual results could differ from those estimates and resulting variances may be material to management's assessment.

As indicated in notes 1, 7 and 19, a material uncertainty exists which creates significant doubt regarding the Company's ability to continue as a going concern. These financial statements do not include any adjustments or re-classifications of assets and liabilities, which might be necessary should the Company be unable to continue its operations. Such adjustments could be material.

- ***Leases***

Values of right-of-use assets and lease liabilities require judgment in determining lease terms such as extension options and the incremental borrowing rate applied. The Company estimates the incremental borrowing rate based on the lease term, collateral assumptions, and the economic environment in which the lease is denominated. Renewal options are only included if management is reasonably certain that the option will be renewed.

- ***Stock options and warrants***

The Company uses the Black-Scholes valuation model to determine the fair value of stock option awards granted and warrants granted in conjunction with the share capital subscriptions. The fair value of the warrants granted in conjunction with the issuance of convertible debentures were determined using the Cox-Rubenstein Binomial model. Estimates are required for inputs to this model including the fair value of the underlying shares, the expected life of the option, volatility, expected dividend yield, forfeiture rates and the risk-free interest rate. Variation in actual results for any of these inputs will result in a different value of the share option realized from the original estimate. The assumptions and estimates used are further outlined in note 13.

- ***Convertible debentures and embedded derivative***

Convertible debentures are compound financial instruments which are accounted for separately by their components: liabilities, equity and warrants. The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment by management. The separation of components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest or liability component. The determination of the fair value of the liability is also based on a number of assumptions including contractual future cash flows, discount rates, and presence of liabilities. Changes in the input assumptions can materially affect the fair value estimates and the Company's classification between debt and equity components.

**Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the nine-month periods ended September 30, 2023 and 2022**

2 Basis of presentation (continued)

Use of estimates and judgements (continued)

• ***Fair value of financial instruments***

The individual fair values attributable to the different components of a financing transaction, notably loans and borrowings and convertible debentures are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine the values attributable to each component of a transaction at the time of their issuance. When determining the discount rate used to estimate the fair value of government loans, the Company considers market conditions and other internal and external factors as well as third-party financing agreements entered into by the Company. In determining the fair value of the Health Technology Exchange loan, the Company uses judgment to estimate the future loan repayments based on projected future revenue. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

• ***Income taxes***

The Company computes an income tax provision in each of the tax jurisdictions in which it operates. Actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant tax authorities, which occurs subsequent to the issuance of the interim condensed consolidated financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets against future taxable income based on an assessment of the ability to use the underlying future tax deductions before they expire. To the extent that estimates of future taxable income differ from the tax return, earnings would be affected in a subsequent period.

In determining the amount of current and deferred tax, the Company considers the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expenses in the period that such a determination is made.

• ***Revenue recognition***

The Company recognizes revenue on the transfer of promised services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services by applying the following steps:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations; and,
- recognize revenue when, or as, the Company satisfies a performance obligation.

Revenue represents the amount the Company expects to receive for products and services in its contracts with customers, net of discounts and sales taxes. The Company derives treatment revenue based upon the use of the Company's MyndMove devices by treatment clinics, as well as the sale of its products and supplies to research institutions and treatment clinics. Treatment revenue is recognized on a monthly basis as services are provided. The sale of its products and supplies is recognized when delivered to the customer and all performance obligations have been satisfied. The sale of extended warranties is deferred and recognized over the warranty period.

The Company recognizes revenue upon transfer of control of products or services to customers at an amount that reflects the consideration the Company expects to receive in exchange for the products or services transferred. The Company evaluates contracts with customers to determine the appropriate performance obligations for revenue recognition purposes based on whether the product or service is distinct from some or all of the other products or services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Non-distinct products and services are combined with other goods or services until they are distinct as a bundle and therefore form a single performance obligation.

The Company determines the transaction price at the outset of each arrangement and the total consideration is allocated to the distinct performance obligations based on their relative fair value. The Company has determined that the recurring services promised in a contract with a customer represent a series of distinct services that are substantially the same and have the same pattern of transfer over time to the customer and each delivery of service is accounted for as a single distinct performance obligation.

MyndTec Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the nine-month periods ended September 30, 2023 and 2022

2 Basis of presentation (continued)

Use of estimates and judgements (continued)

The timing of revenue recognition and the contractual payment schedules often differ, resulting in some contractual payments being billed prior to the commencement of service. These amounts that are billed, but not earned, are recognized as deferred revenue in the consolidated statements of financial position. When products or services have been transferred to customers and revenue has been recognized, but not billed, the Company recognizes and includes these amounts as unbilled trade receivables in the consolidated statements of financial position.

The Company has elected to apply the practical expedient to not adjust the total consideration over the contract term for the effect of a financing component if the period between the transfer of services to the customer and the customer's payment for these services is expected to be one nine-month period or less.

3 Trade and other receivables

The aging of trade and other receivables, net of expected credit losses, as at September 30, 2023 and December 31, 2022 were as follows:

	September 30 <u>2023</u>	December 31 <u>2022</u>
Trade receivables		
0 - 30 days	\$ 12,085	\$ 24,339
31-90 days	1,861	1,354
Over 90 days	734	509
	<u>\$ 14,680</u>	<u>\$ 26,202</u>
Commodity taxes	8,110	6,036
	<u>\$ 22,790</u>	<u>\$ 32,238</u>

During the nine-month period ended September 30, 2023, the Company recorded \$nil (2022 – \$nil) of expected credit losses.

4 Inventories

The following are the Company's inventories as at September 30, 2023 and December 31, 2022:

	September 30 <u>2023</u>	December 31 <u>2022</u>
Production parts and clinical supplies	\$ 47,371	\$ 65,427
Finished devices	154,028	190,132
	<u>\$ 201,399</u>	<u>\$ 255,559</u>

During the nine-month period ended September 30, 2023, inventory of \$25,533 was recorded to cost of goods sold (2022 - \$35,280). During the nine-month period ended September 30, 2023, the Company recognized a \$nil write down of inventory (2022 - \$14,144).

MyndTec Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the nine-month periods ended September 30, 2023 and 2022

5 Right-of-use asset and lease obligation

Changes in the right-of-use asset and lease obligation for the nine-month period ended September 30, 2023 and year ended December 31, 2022 are as follows:

Right-of-use asset

	September 30 <u>2023</u>	December 31 <u>2022</u>
Cost		
Balance - beginning and end of period	\$ 70,056	\$ 70,056
Accumulated depreciation		
Balance - beginning of period	33,082	9,730
Amortization	17,514	23,352
Balance - end of period	<u>50,596</u>	<u>33,082</u>
Net book value - end of period	<u>\$ 19,460</u>	<u>\$ 36,974</u>

Lease obligation

	September 30 <u>2023</u>	December 31 <u>2022</u>
Balance - beginning of period	\$ 31,213	\$ 52,291
Accreted interest expense (note 16)	2,184	5,372
Lease payments	<u>(20,459)</u>	<u>(26,450)</u>
Balance - end of period	12,938	31,213
Less current portion (note 9)	12,938	24,960
Long-term portion	<u>\$ -</u>	<u>\$ 6,253</u>

The Company's right-of-use asset and lease obligation relate to the Company's office premises, a three-year agreement that terminates on July 31, 2024. The Company's fair value estimate of the new office lease addition and initial liability was \$70,056, utilizing an incremental borrowing rate of 13.5%. Variable lease payments for the nine-month period ended September 30, 2023 were \$24,324 (2022 – \$21,821), recognized in general and administrative expenses in the consolidated statements of loss and comprehensive loss for the nine-month period.

MyndTec Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the nine-month periods ended September 30, 2023 and 2022

6 Equipment

Net Book Value (NBV)	Computers		Treatment	Total
	Software and Equipment	Tooling	Devices	
Balance, December 31, 2021	\$ 13,973	\$ 56,752	\$ 211,070	\$ 281,795
Additions during the period	-	-	28,000	28,000
Cost of sales during the period				
At cost	-	-	(16,000)	(16,000)
Accumulated depreciation	-	-	11,000	11,000
Depreciation during the period	(6,428)	(9,343)	(34,343)	(50,114)
Balance, September 30, 2022	7,545	47,409	199,727	254,681
Additions during the period	-	-	14,005	14,005
Cost of sales during the period				
At cost	-	-	(24,000)	(24,000)
Accumulated depreciation	-	-	16,500	16,500
Depreciation during period	(1,140)	(2,940)	(54,056)	(58,136)
Balance, December 31, 2022	\$ 6,405	\$ 44,469	\$ 152,176	\$ 203,050
Depreciation during the period	(2,728)	(9,212)	(37,294)	(49,234)
Balance, September 30, 2023	3,677	35,257	114,882	153,816
<u>NBV As at December 31, 2022</u>				
Cost	\$ 32,010	\$ 87,198	\$ 451,916	\$ 571,124
Accumulated depreciation	(25,605)	(42,729)	(299,740)	(368,074)
Net book value	<u>\$ 6,405</u>	<u>\$ 44,469</u>	<u>\$ 152,176</u>	<u>\$ 203,050</u>
<u>NBV As at September 30, 2023</u>				
Cost	\$ 32,010	\$ 87,198	\$ 451,916	\$ 571,124
Accumulated depreciation	(28,333)	(51,941)	(337,034)	(417,308)
Net book value	<u>\$ 3,677</u>	<u>\$ 35,257</u>	<u>\$ 114,882</u>	<u>\$ 153,816</u>

7 Trade and other payables

The following are the Company's trade and other payables as at September 30, 2023 and December 31, 2022:

	September 30 <u>2023</u>	December 31 <u>2022</u>
Trade and other payables	\$ 292,442	\$ 201,565
Salary of former interim CEO (note 12)	-	75,000
Warranty provision	14,815	17,218
Deferred payment agreement	561,000	309,000
Legal fees incurred after January 24, 2022	165,652	161,936
	<u>\$ 1,033,909</u>	<u>\$ 764,719</u>

MyndTec Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the nine-month periods ended September 30, 2023 and 2022

7 Trade and other payables (continued)

Deferred payment agreement

Effective January 24, 2022, the Company entered into an agreement with its former legal firm, which was made in settlement of amounts payable by the Company for over \$1,250,000 of services provided in 2021 and up to January 24, 2022, that related to the preparation of the Company's non-offering prospectus and execution of its February 2022 private placement (note 13). The agreement provided for deferral of \$339,000 of fees, to be paid at \$2,500 per month from February 1, 2022 to June 1, 2023 plus \$296,500 due and payable on September 30, 2023. In the event the Company closes a private placement (note 23) or public offering, the Company is required to pay down the outstanding balance as follows: i) if the offering is less than \$3 million, the payment will be 5% of the original deferred balance; ii) if the offering is \$3 million or more, the payment will be for the outstanding balance. Interest accrues on the balance beginning January 24, 2022 at an annual rate equal to the Royal Bank of Canada prime rate plus 5%, calculated and compounded monthly. Conditional upon the Company respecting the payment terms, future interest was waived and \$213,570 of legal fees were written off by the former legal firm.

Loan payments of \$29,450 were made in nine-month period ended September 30, 2023 (year ended December 31, 2022 - \$30,000) and the remainder of the loan was due for payment by September 30, 2023.

On September 30, 2023, the entire deferred payment balance became due; the Company was unable to pay this obligation; and, the Company became in default of this agreement. The former legal firm has demanded its full entitlement under the agreement, which has required the Company to expense \$255,792 of reinstated legal fees, disclosed as public company costs in the unaudited consolidated statement of loss and comprehensive loss, that were formerly forgiven and \$25,658 in accrued interest expense, as of September 30, 2023.

On April 6, 2022, the Company obtained an Order for Assessment from the Ontario Superior Court of Justice to assess \$213,570 of legal fees, of which the Company had already paid \$51,634 and \$146,936 remains unpaid as of September 30, 2023. The Company intends to add the fore-noted reinstated legal fees to its Order for Assessment, if it is unable to make alternate settlement arrangements. As of September 30, 2023, there have been no mediation meetings or other formal proceedings in respect of this Assessment.

The Company does not have funds to settle the deferred payment agreement obligations and has asked the former legal firm to accept settlement in common shares, similar to the arrangement it has made with the Health Technology Exchange (note 10).

8 Deferred revenue

Current and long-term deferred revenue was \$55,250 as at September 30, 2023 (December 31, 2022 – \$68,000). Deferred revenue of \$12,750 was recognized in the nine-month period ended September 30, 2023 (2022 - \$12,750). The deferred revenue as at September 30, 2023 and 2022 relates to a five-year extended warranty for the engineering, manufacturing and delivery of devices to a research facility, the KITE Research Institute at the University Health Network, in Toronto, Canada, which is significantly influenced by a director of the Company (note 12).

9 Current portion of long-term liabilities

The current portion of long-term liabilities as at September 30, 2023 and December 31, 2022 includes:

	September 30	December 31
	<u>2023</u>	<u>2022</u>
Payable in cash		
Federal Economic Development Agency (note 10)	\$ 412,242	\$ 412,242
Health Technology Exchange (note 10)	1	23,854
Federal Canadian Emergency Business Account (note 10)	29,125	26,650
Total government loans	<u>441,368</u>	<u>462,746</u>
Lease obligations (note 5)	12,938	24,960
	<u>\$ 454,306</u>	<u>\$ 487,706</u>

MyndTec Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the nine-month periods ended September 30, 2023 and 2022

10 Government loans

Government loans as at September 30, 2023 and December 31, 2022 include:

	September 30	December 31
	<u>2023</u>	<u>2022</u>
Federal Economic Development Agency (FEDA)	\$ 412,242	\$ 412,242
Health Technology Exchange (HTX) (note 19)	1	265,084
Federal CEBA	29,125	26,650
	<u>441,368</u>	<u>703,976</u>
Less current portion (note 9)	441,368	462,746
Long-term portion	<u><u>\$ -</u></u>	<u><u>\$ 241,230</u></u>

The \$1 long-term portion of government loans is the fair value of the Company's contingent liability for the unlikely possibility that the forgiveness of the HTX, completed on July 6, 2023, will not meet the settlement agreement's conditions (note 19).

Federal Economic Development Agency of Southern Ontario (FEDA) loan

The FEDA loan is unsecured, non-interest bearing and it provided initial financing of \$919,518. On December 3, 2021, the payment terms for this loan were amended and, as at September 30, 2023, the principal balance outstanding on this loan is \$412,242 (2022 - \$422,242).

On December 1, 2022, the Company defaulted on a payment due to FEDA and, as of December 31, 2022, the Company exhausted the allowed time to cure the default and the loan became immediately due and payable. No payments have been made since November 1, 2022. As a result, the fair value of the loan was amended to the actual outstanding amount and a loss on debt modification was recorded on December 31, 2022 in the amount \$81,120.

Previously, the Company received the loan in tranches based on qualifying expenditures incurred. The Company initially determined the fair value of the loan based on the estimated future cash flows of the loan using a discount rate of 19.2%. The payment terms of the loan were amended on February 19, 2020, June 1, 2020 and December 3, 2021; in all instances extending the terms of repayment. On the amendment dates, the loan was revalued using an effective interest rate of 20.1% as at February 19, 2020, 19.2% as at June 1, 2020 and 19.2% as at December 3, 2021.

During the nine-month period ended September 30, 2023 the Company recognized \$nil (2022 - \$47,542) of accretion expense (note 16) on this loan.

During the nine-month period ended September 30, 2023, the Company made repayments of \$nil (2022 - \$45,000).

Health Technology Exchange (HTX) loan

The Health Technology Exchange loan was unsecured, requires interest at 3.1% per annum, was repayable based on 10% of certain preceding year gross revenue and provided initial financing of \$749,600. As at September 30, 2023, the principal balance outstanding on this loan is \$378,059 (December 31, 2022 - \$749,600), compared to the gross book value of the principal and interest payable as at September 30, 2023 of \$378,059 (December 31, 2022 - \$748,578).

As at September 30, 2023, the amount of the loan payable in cash in the following twelve months is \$1 (December 31, 2022 - \$23,854). During the nine-month period ended September 30, 2023, the Company made a cash repayment of \$nil (2022 - \$nil) and the Company recognized \$7,543 (2022 - \$17,428) of accretion expense on this loan (note 16). On July 6, 2023 the Company closed a settlement agreement with the Health Technology Exchange whereby the Company's repayment obligation of \$756,121 was fixed as of May 29, 2023 and, then, partially repaid by the issuance of 540,088 in common shares (note 13) at \$0.70 per share, for a total of \$378,062. The \$378,059 remainder of the obligation was forgiven, subject to the condition that the Company's MyndMove product revenues do not exceed \$1,000,000 in the twelve-month period ended May 29, 2024.

The Company has valued the HTX loan at its fair value at the end of each quarter, based on the estimated future cash flows of the loan using a discount rate of 20.0% and revenue growth rates between 10% and 30%. Pursuant to the Company's July 6, 2023 settlement agreement with HTX (note 10), the Company has determined the September 30, 2023 fair value of the HTX loan to be the share settlement amount of one dollar (\$1) for the contingent forgiveness of \$378,059 (note 19). In the nine-month period ended September 30, 2023, the Company recorded a fair value adjustment loss of \$105,436 (2022 - loss of \$47,004) (note 16).

MyndTec Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the nine-month periods ended September 30, 2023 and 2022

10 Government loans (continued)

Federal Canadian Emergency Business Account (CEBA) loan

The Federal CEBA loan is part of the Canadian federal government's support program in response to the COVID-19 pandemic, wherein the Company was able to obtain a \$40,000 non-interest-bearing loan due on or before March 31, 2022. If the Company fully repays the loan by the due date, \$10,000 of the loan will be forgiven.

On receipt of the loan in 2020, the Company determined the fair value of the loan based on the estimated future cash flows of the loan using a discount rate of 18.8%, which resulted in the Company recording income of \$16,265 that was included in government grants and tax credits on the consolidated statements of loss and comprehensive loss during that nine-month period. In 2022, the Government extended the due date to September 30, 2023, which required the Company to revalue the fair value of the loan and record a fair value adjustment gain of \$3,469 in the year.

During the nine-month period ended September 30, 2023, the Company recognized \$2,475 (2022 – \$1,928) of accretion expense on this loan (note 16).

A reconciliation of the government loans is as follows:

	September 30	December 31
	<u>2023</u>	<u>2022</u>
Balance - beginning of period	\$ 703,976	\$ 751,369
Loan payments	-	(124,030)
Conversion to equity	(378,062)	-
Accretion expense (note 16)	10,018	87,713
Fair value adjustment of government loans (note 16)	105,436	(11,076)
Balance - end of period	<u>441,368</u>	<u>703,976</u>
Less current portion (note 9)	441,368	462,746
Long-term portion	<u>\$ -</u>	<u>\$ 241,230</u>

11 Convertible debentures

A summary of the movement in convertible debentures is as follows:

	September 30	December 31
	<u>2023</u>	<u>2022</u>
Balance - December 31, 2022 and 2021	\$ -	\$ 1,275,499
Accretion expense (note 16)	-	22,807
Conversion to share capital (note 13)	-	(1,298,306)
Balance - September 30, 2023 and December 31, 2022	<u>\$ -</u>	<u>\$ -</u>

On May 19, 2020, the Company issued unsecured convertible debentures with a maturity date of March 31, 2022, in an aggregate principal amount of \$1,250,000. Interest accrued at a fixed annual interest rate of 8%, compounded annually and was payable on the maturity date. The convertible debenture was recorded at amortized cost using the effective interest rate of 18.4%. The fair value of the conversion option was determined to be \$304,236 on issuance, using a discount rate of 1%, probability of 95% and expected timing of a qualified financing of June 2021.

The convertible debentures were determined to have completed a qualified transaction on February 4, 2022 and were converted to share capital at a 25% premium to their book value (note 13). When converted, these convertible debentures and accrued interest were to be converted into common shares at the fair market value of the respective common shares at the date of conversion, as determined by the Board, unless the conversion is a result of a qualified financing. Given the occurrence of a qualified financing, the convertible debentures and accrued interest were converted at a price per security equal to 80% of the price per security issued in the qualified financing.

MyndTec Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the nine-month periods ended September 30, 2023 and 2022

11 Convertible debentures (continued)

As at March 31, 2021, the fair value of the conversion option was determined to be \$354,292 using a discount rate of nil%, probability of 100% and expected timing of qualified financing of February 2022. On February 4, 2022, a fair value expense of \$2,587 (2021 - \$29,561) was recorded and on February 7, 2022, the convertible debentures were converted into share capital (note 13).

The embedded derivative and warrant liabilities related to the convertible debentures are as follows:

	Conversion Option
Balance - December 31, 2021	\$ 354,292
Fair value loss (note 16)	2,587
Conversion to share capital (note 13)	(356,879)
Balance - December 31, 2022 and September 30, 2023	<u>\$ -</u>

12 Related party balances and transactions

During the nine-month period ended September 30, 2023 and 2022, the Company recognized treatment revenues and/or device sales revenues from LBB Applied Technology Inc., a significant shareholder of the Company and the Company's sole distributor in the USA. These transactions were made in the normal course of business.

The Company has a shareholder and director, who is employed by the KITE Research Institute at the University Health Network in Toronto, Canada (KITE), an Institution over which he has significant influence and to which the Company is committed to a long-term license agreement (note 19), requiring the semi-annual payment of royalty fees. In addition, the Company has entered into contracts with this Institution to sell MyndMove devices, which have been modified for research purposes; and, to purchase research and development (R&D) services. On August 11, 2023, the Company completed a debt settlement agreement with Dr. Milos Popovic, a current Director and formerly an interim Chief Executive Officer (CEO) of MyndTec, for him to forgive an outstanding debt due to him by the Company in the amount of \$75,000 (note 7). The debt was related to compensation due to him for services provided as interim CEO in a calendar period prior to 2022.

\$517,200 of the \$572,200 in private placement funds raised in January 2023 (note 13) and all of the \$372,080 raised in May 2023, was from two significant shareholders, one of whom is a director. \$1,807,500 of the \$2,954,302 in private placement funds raised in 2022 (note 13), was from directors, officers and a significant shareholder.

MyndTec Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the nine-month periods ended September 30, 2023 and 2022

12 Related party balances and transactions (continued)

A summary of the Company's related party transactions follows:

	<u>September 30</u>		<u>December 31</u>
	<u>2023</u>	<u>2022</u>	<u>2022</u>
Revenue during the nine-month period ended			
Treatment revenues	\$ -	\$ 77,601	
Sale of devices and parts	5,177	-	
	<u>\$ 5,177</u>	<u>\$ 77,601</u>	
Expenses during the nine-month period ended			
Share-based compensation for directors and senior officers	\$ 42,384	\$ 79,981	
Salaries, fees and benefits for directors and senior officers	301,907	417,387	
License fees	3,930	7,049	
	<u>\$ 348,221</u>	<u>\$ 504,417</u>	
Assets - as at the date specified			
Accounts receivable	\$ 3,616	\$ 24,898	\$ 19,312
Liabilities - as at the date specified			
Due to director for pre-2020 compensation (note 7)	\$ -	\$ 75,000	\$ 75,000
License fees and expenses payable	\$ 96,047	\$ 7,049	\$ 9,538
Deferred revenue	\$ 55,250	\$ 72,250	\$ 68,000

13 Share capital, warrants and stock options

The Company is authorized to issue an unlimited number of common shares. The following is a summary of the Company's issued securities:

	<u>Common Shares</u>	<u>Warrants</u>	<u>Stock Options</u>	<u>Fully Diluted Total</u>
Balance, December 31, 2021	17,099,796	1,259,535	987,500	19,346,831
Rights forfeited or expired	-	-	(117,500)	(117,500)
Options issued	-	-	250,000	250,000
Private placement	2,954,302	2,954,302	-	5,908,604
Conversion of convertible debentures	1,784,402	1,784,402	-	3,568,804
Balance, September 30, 2022	21,838,500	5,998,239	1,120,000	28,956,739
Rights forfeited or expired	-	-	(5,000)	(5,000)
Balance, December 31, 2022	21,838,500	5,998,239	1,115,000	28,951,739
Rights forfeited or expired	-	(1,259,535)	(150,000)	(1,409,535)
Options issued	-	-	525,000	525,000
Debt conversion (note 10)	540,088	-	-	540,088
Private placements	1,259,038	1,259,038	-	2,518,076
Balance, September 30, 2023	23,637,626	5,997,742	1,490,000	31,125,368

MyndTec Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the nine-month periods ended September 30, 2023 and 2022

13 Share capital, warrants and stock options (continued)

July 2023 Conversion of Government Loan

On July 6, 2023 the Company closed a settlement agreement with the Health Technology Exchange (note 10), whereby the Company's repayment obligation of \$756,121 was fixed as of May 29, 2023 and, then, partially repaid by the issuance of 540,088 in common shares, at \$0.70 per share, for a total of \$378,062.

May 2023 Private Placement

On May 23, 2023, the Company completed a non-brokered private placement with existing shareholders of 496,106 Units, at \$0.75 per Unit, for a total subscription price of \$372,080 and proceeds net of expenses of \$365,672. Each Unit was comprised of one Common share and one warrant. The warrants have an exercise price of \$0.90 per warrant and expire on May 23, 2026. Pursuant to this financing, the Company was required to make a \$16,950 pre-payment of the deferred payment agreement amount due on September 30, 2023 (note 7), which it did not make.

The subscribers ultimately received 496,106 common shares of the Company and 496,106 warrants to acquire common shares of the Company at \$0.90. The warrants expire May 23, 2026. Of the \$365,672 in proceeds net of issue costs, \$102,681 was allocated to the value of the warrants issued, based on a Black Scholes valuation of the warrants with an exercise price of \$0.90; an estimated \$0.54 value of common shares; a volatility rate of 76.94%; an expected 3-year life for the warrants; and a risk-free interest rate of 3.30%.

All of the proceeds were received from a director and a significant shareholder.

January 2023 Private Placement

On January 11, 2023, the Company completed a non-brokered private placement with existing shareholders of 762,932 Units, at \$0.75 per Unit, for a total subscription price of \$572,200 and proceeds net of expenses of \$537,280. Each Unit was comprised of one Common share and one warrant. The warrants have an exercise price of \$0.90 per warrant and expire on January 11, 2026. Pursuant to this financing, the Company was required to make a \$16,950 pre-payment of the deferred payment agreement amount due on September 30, 2023 (note 7). The common share issue price of \$0.75 represents approximately a 17% discount to the November 08, 2022 closing price of \$0.90 for the Common Shares on the Canadian Securities Exchange (the "CSE").

The subscribers ultimately received 762,932 common shares of the Company and 762,932 warrants to acquire common shares of the Company at \$0.90. The warrants expire January 11, 2026. Of the \$537,280 in proceeds net of issue costs, \$167,774 was allocated to the value of the warrants issued, based on a Black Scholes valuation of the warrants with an exercise price of \$0.90; an estimated \$0.60 value of common shares; a volatility rate of 76.94%; an expected 3-year life for the warrants; and a risk-free interest rate of 2.99%.

\$537,200 of the \$572,200 proceeds were received from a director and a significant shareholder.

February 2022 Private Placement and Public Company Listing

On February 16, 2022, the Company completed a non-brokered private placement, for a total of \$2,954,302 of which \$594,860 was received by the Company as of March 31, 2021, and was recorded in the statement of financial position as deposits for future share financings. The remaining \$2,359,442 of proceeds was received by the Company, from the Escrow Trustee, on February 18, 2022. Offsetting those amounts allocated to share capital and contributed surplus, the Company incurred \$101,704 of share issue costs that were recorded in prepaid expenses and deposits as at March 31, 2021.

The subscribers ultimately received 2,954,302 common shares of the Company and 2,954,302 warrants to acquire common shares of the Company at \$1.00. The warrants expire February 7, 2027. Of the \$2,852,598 in proceeds net of issue costs, \$1,062,662 was allocated to the value of the warrants issued, based on a Black Scholes valuation of the warrants with an exercise price of \$1.00; an estimated \$0.65 value of common shares; a volatility rate of 80.8%; an expected 5-year life for the warrants; and a risk-free interest rate of 1.31%.

Concurrent with the completion of the second private placement, the Company became a listed public company on the Canadian Securities Exchange.

MyndTec Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the nine-month periods ended September 30, 2023 and 2022

13 Share capital, warrants and stock options (continued)

Conversion of Convertible debentures

The secondary private placement created a qualified financing, as defined in the convertible debenture agreements, for the Company's existing convertible debentures. Effective February 4, 2022, the Company's outstanding carrying value of convertible debentures, accumulated interest and the related conversion liability (note 11), amounting to \$1,655,185, were converted into 1,784,402 subscription receipt units at \$0.80 per subscription receipt unit. Of the \$1,655,185, \$641,849 was allocated to the value of the warrants issued, based on a Black Scholes valuation of the warrants with an exercise price of \$1.00; an estimated \$0.65 value of common shares; a volatility rate of 80.8%; an expected 5-nine-month period life for the warrants; and a risk-free interest rate of 1.31%.

Shares in Escrow

As at September 30, 2023, the Company had 5,488,068 common shares held in escrow (December 31, 2022 – 9,146,781).

Warrants and Options

On September 30, 2023, the Company had:

- 762,932 of fully vested warrants outstanding, exercisable into one common share per warrant at an exercise price of \$0.90, that expire on January 11, 2026.
- 496,106 of fully vested warrants outstanding, exercisable into one common share per warrant at an exercise price of \$0.90, that expire on May 23, 2026.
- 4,738,704 of fully vested warrants outstanding, exercisable into one common share per warrant at an exercise price of \$1.00, that expire on February 16, 2027.

On September 30, 2023, the Company had 1,490,000 options outstanding, with a weighted average exercise price of \$0.90 and weighted average remaining life of 8.14 years. 826,250 of the options are fully vested.

The Company has issued the following options since December 31, 2021:

	2023		2022	
	<u>June 15</u>	<u>May 17</u>	<u>May 3</u>	<u>March 1</u>
Options	25,000	500,000	200,000	50,000
Exercise Price	\$0.70	\$0.75	\$0.95	\$1.00
Estimated share price value	\$0.70	\$0.75	\$0.95	\$0.95
Volatility	76.94%	76.94%	80.80%	80.80%
Expected life in years	7	7	5	5
Risk-free interest rate	3.21%	3.09%	2.93%	1.62%
Dividend yield	nil	nil	nil	nil
Estimated value per option	\$0.507	\$0.543	\$0.627	\$0.607
Total valuation	\$12,682	\$271,303	\$125,382	\$30,354

MyndTec Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the nine-month periods ended September 30, 2023 and 2022

14 Breakdown of expenses by nature

	<u>September 30</u>	
	<u>2023</u>	<u>2022</u>
Salaries and benefits (note 15)	\$ 202,901	\$ 294,562
Accounting, legal and professional fees	156,062	247,633
Technology expense	55,297	48,316
Additional rent	24,324	21,821
Insurance	88,373	96,971
Other expenses	5,083	15,743
Total general and administration	<u>\$ 532,040</u>	<u>\$ 725,045</u>
Salaries and benefits (note 15)	\$ 175,425	\$ 262,763
Patent expenses	35,069	43,102
Other development expenses	79,453	20,490
Total research and development	<u>\$ 289,947</u>	<u>\$ 326,355</u>

15 Salaries and benefits (note 12)

	<u>September 30</u>	
	<u>2023</u>	<u>2022</u>
General and administration (note 14)	\$ 202,901	\$ 294,562
Research, development and quality control (note 14)	175,425	262,763
Selling and marketing	59,900	50,531
Clinical trial (note 18)	-	76,915
	<u>\$ 438,226</u>	<u>\$ 684,771</u>

16 Interest and accretion expense and changes in fair value

	<u>September 30</u>	
	<u>2023</u>	<u>2022</u>
Government loans (note 10)		
FEDA	\$ -	\$ 47,542
HTX	7,543	17,428
CEBA	2,475	1,928
Total government loans	10,018	66,898
Lease obligation (note 5)	2,184	4,280
Convertible debentures (note 11)	-	22,807
Total accretion expense	12,202	93,985
Short term interest	14,059	(7,751)
Total interest and accretion expense	<u>\$ 26,261</u>	<u>\$ 86,234</u>
Government loans		
HTX (note 10)	\$ 105,436	\$ 47,004
Total for government loans	105,436	47,004
Convertible debentures, conversion option liability adjustment (note 11)	-	2,587
Total change in fair value	<u>\$ 105,436</u>	<u>\$ 49,591</u>

MyndTec Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the nine-month periods ended September 30, 2023 and 2022

17 Government grants and tax credits

Scientific research and experimental development tax credits (SR&ED)

The Company periodically made claims for SR&ED deductions and related expenses for income tax purposes, based on management's interpretation of the applicable legislation in the Income Tax Act (Canada). On February 16, 2022, when the Company became publicly listed, it no longer qualifies for cash refundable SR&ED credits from that date forward, which will cause the Company's net research and development expenses to increase.

The Company received the following government grants or tax credits in the nine-month periods ended September 30, 2023 and 2022.

	<u>September 30</u>	
	<u>2023</u>	<u>2022</u>
SR&ED Claims	\$ (174,148)	\$ -
	<u>\$ (174,148)</u>	<u>\$ -</u>

The SR&ED claims received in 2023 were for the 47 days ended February 16, 2022 and year ended December 31, 2021 income tax periods.

18 Clinical trial

The Company is party to an arrangement funded by the United States Department of Defense, for a total of US\$2,014,378, wherein the Company is responsible to manage a clinical trial of its MyndMove device. The Company has no obligation as to the outcome of this trial and is eligible to recover all costs of the participating clinics and supervising clinic once the respective funds have first been received from the US Federal Government. This trial was completed on July 28, 2022.

19 Commitments and contingencies

The Company is in default of its unsecured obligations to its former legal firm (note 7) and the Federal Development Agency (note 10), for which it does not have the funds to repay. As of September 30, 2023, the Company's only foreseeable option is to settle these \$1,138,894 of obligations is to issue Company securities. Otherwise, the creditors might be inclined to commence legal proceedings. These obligations are an impediment to the Company's ability to complete a new financing, which creates a material uncertainty and a going concern risk (note 1) for the Company.

The Company has recorded its obligation to HTX (note 10) equal to a one-dollar (\$1) contingency for the risk that the \$378,059 contingent forgiveness might be reversed. The one-dollar contingency is based on the unlikely probability that the Company's MyndMove product revenues will exceed \$1,000,000 in the twelve-month period ended May 29, 2024.

On August 29, 2012, the Company entered into an agreement with a health services institution whereby it granted the Company an exclusive worldwide license to commercialize certain intellectual property related to a functional electrical stimulation device and system; for which the Institution received 400,000 of the Company's common shares, with a fair value of \$400,000. In addition, the Company is committed to paying a cumulative royalty on the net sales of stimulators used to treat motor dysfunction, as follows:

- 0% on the first \$1,000,000 cumulative net sales;
- 4% on the cumulative net sales exceeding \$1,000,000 but not greater than \$7,500,000; and,
- 1% on cumulative net sales exceeding \$7,500,000.

The amount of these fees of the three months ended September 30, 2023 and 2022 are disclosed in note 12.

The Company's lease commitments are disclosed in note 5.

MyndTec Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the nine-month periods ended September 30, 2023 and 2022

20 Capital management

The Company's capital management objectives are to maintain financial flexibility in order to pursue its product development and commercialization strategy, and ultimately provide long-term returns to its shareholders. This strategy relies significantly on the Company's ability to demonstrate growing efficacy creation in its medical devices, in order to convince potential investors to invest more capital in the Company's development efforts.

The Company defines capital as the aggregate of its share capital and borrowings.

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, the Company may elect to issue or repay financial liabilities, issue shares, repurchase shares, pay dividends or undertake any other activities as deemed appropriate under the specific circumstances. The Company is not subject to any externally imposed capital requirements. Management reviews its capital management approach on an ongoing basis. There were no material changes to this approach during the nine-month period ended September 30, 2023.

21 Financial instruments and risk management

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from deposits with banks and outstanding receivables. The Company trades only with recognized, creditworthy third parties. The Company performs credit checks for all customers who wish to trade on credit terms.

The Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

Credit loss impairment is determined based upon a review of specific accounts, because the Company does not have a history of significant uncollectable receivables. As at September 30, 2023, the Company had \$2,595 in overdue trade and other receivables (December 31, 2022 – \$1,863).

Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they come due. The Company's exposure to liquidity risk is dependent on the Company's ability to raise additional financing to meet its commitments and sustain operations. The Company mitigates liquidity risk by management of working capital, cash flows, the issuance of share capital and if desired, the issuance of debt. The Company's trade and other payables are all due within twelve months from the date of these interim condensed consolidated financial statements.

If unanticipated events occur that impact the Company's ability to meet its forecast and continue to fund customer acquisition cost, research and development, and administrative requirements, the Company may need to take additional measures to increase its liquidity and capital resources, including obtaining additional debt or equity financing or strategically altering the business forecast and plan. In this case, there is no guarantee that the Company will obtain satisfactory financing terms or adequate financing. Failure to obtain adequate financing on satisfactory terms could have a material adverse effect on the Company's results of operations or financial condition.

The Company is obligated to the following contractual maturities of undiscounted cash flows as at September 30, 2023:

	Payments Due			<u>Total</u>
	<u>Less than 1 year</u>	<u>2 - 3 years</u>	<u>After 3 years</u>	
Trade and other payables	\$ 1,033,909	\$ -	\$ -	\$ 1,033,909
Lease obligation	12,938	-	-	12,938
Government loans (undiscounted)	441,368	-	\$ -	441,368
	<u>\$ 1,488,215</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,488,215</u>

**Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the nine-month periods ended September 30, 2023 and 2022**

21 Financial instruments and risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk:

- **Foreign currency risk** arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Company's primary exposure with respect to foreign currencies is from United States dollar denominated cash, trade and other receivables, and trade and other payables. As at September 30, 2023, a 1% change in the foreign exchange rates would result in a \$896 impact to the financial statements (2022 - \$50).
- **Interest rate risk** is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk as at September 30, 2023 and 2022 because all of its indebtedness is at fixed rates.
- **Other price risk** is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to other price risk as at September 30, 2023 and 2022.

Fair values

The carrying values of cash, trade and other receivables excluding HST, trade and other payables excluding HST, and lease obligations are considered representative of their respective fair values due to the short-term period to maturity. The government loans approximate their fair value as the interest and discount rates are consistent with the current rates offered by the Company for its loans with similar terms. The Company does not use derivative financial instruments to manage this risk.

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest-level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

- **Level 1** – Unadjusted quoted prices as at the measurement date for identical assets or liabilities in active markets.
- **Level 2** – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- **Level 3** – Significant unobservable inputs that are supported by little or no market activity. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. During the nine-month period, there were no transfers of amounts between levels. The fair value of derivative and warrant liabilities and HTC government loan are determined using level 3 inputs.

MyndTec Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the nine-month periods ended September 30, 2023 and 2022

21 Financial instruments and risk management (continued)

Financial instruments measured at fair value using level 3 inputs:

	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value
Derivative liabilities	Probability weighted discounted cash flow (note 11)	- Discount rate - Expected timing and probability of qualified transaction	An increase in the probably or earlier expected date of Qualified Financing would increase the fair value of the derivative liability.
Warrant liabilities	Black Scholes (note 13)	- Share price - Volatility	An increase in share price or volatility would increase the fair value of the warrant liabilities.
HTC government loan	Discounted cash flows (note 10)	- Discount rate - Expected timing of repayments based on revenue forecast	An increase revenue growth or decrease in discount rate would increase the fair value of the HTC government loan.

22 Segmented information

The Company reports segment information based on internal reports used by the chief operating decision maker (“CODM”) to make operating and resource decisions and to assess performance. The CODM is the Chief Executive Officer.

The Company has revenues from sales in Canada and from Canada to the United States and has one operating segment which includes income related to its MyndMove device and a variation of that device, called MyndSearch, which has been modified for research purposes. The two types of revenue that are earned from MyndMove include: (1) treatment fees, from treatment clinics that use the Company’s MyndMove devices and (2) product sales, which are revenues from the sale of MyndMove or MyndSearch devices to clinics or research institutions and the sale of treatment supplies.

All treatment devices are located in Canada, except for six devices located in the United States, and all sales of devices have occurred in Canada. Revenue by geographical location and by services and products delivered were as follows:

	<u>September 30</u>	
	<u>2023</u>	<u>2022</u>
Revenue by geographic location of customers		
Canada	\$ 81,006	\$ 65,340
Non-Canadian	34,900	123,841
	<u>\$ 115,906</u>	<u>\$ 189,181</u>
Revenue by services and products delivered		
Treatment fees	\$ 54,550	\$ 110,960
Product sales	61,158	78,023
Other	198	198
	<u>\$ 115,906</u>	<u>\$ 189,181</u>

MyndTec Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the nine-month periods ended September 30, 2023 and 2022

23 Subsequent events

November 2023 Private Placement

On November 3, 2023, the Company closed a non-brokered private placement, with an existing shareholder, of 184,280 Units, at \$0.75 per Unit, for a total subscription price of \$138,210. Each Unit was comprised of one common share and one warrant. The warrants have an exercise price of \$0.90 per warrant and expire on November 3, 2026. Pursuant to this financing, the Company is required to make a \$16,950 pre-payment of the deferred payment agreement (note 7), which it has not made.