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ARway Corporation (formerly 1000259749 Ontario Ltd.)

Financial Statements

For the year ended August 31, 2023
and the period from July 15, 2022 (incorporation) to August 31, 2022

(Expressed in Canadian dollars)

SATURNA GROUP
CHARTERED PROFESSIONAL ACCOUNTANTS LLP

Suite 1605, 1166 Alberni Street
Vancouver, BC Canada V6E 3Z3

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ARway Corporation (formerly 1000259749 Ontario Limited)

Opinion

We have audited the financial statements of ARway Corporation (formerly 1000259749 Ontario Limited) (the "Company"), which comprise the statements of financial position as at August 31, 2023 and 2022, and the statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the year ended August 31, 2023 and period from July 15, 2022 (date of incorporation) to August 31, 2022, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2023 and 2022, and its financial performance and its cash flows for the year ended August 31, 2023 and period from July 15, 2022 (date of incorporation) to August 31, 2022, in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company has a net loss and incurred negative cash flow from operations during the year ended August 31, 2023 and, as at that date, the Company has an accumulated deficit of $8,154,678. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended August 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessment of impairment of intangible assets – refer to Notes 4 and 7 to the financial statements

Key Audit Matter Description

We considered this as a key audit matter due to (i) the significance of the intangible assets balance and (ii) the high degree of subjectivity in performing audit procedures related to the assumptions used by management in its assessment of impairment.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures to evaluate the appropriateness of management's assessment of impairment of the intangible assets, included the following, among others:

- Reviewed the impairment analysis prepared by management;
- Reviewed any documentation available which supports the basis for the assumptions used by management; and
- Engaged an independent valuations expert to evaluate management's assessment of impairment of the intangible assets.

Other Information
Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter of when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lonny Wong.

Saturna Group LLP

Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

December 21, 2023

ARWAY CORPORATION (formerly 1000259749 Ontario Ltd.)
Statements of Financial Position
(Expressed in Canadian dollars)

	Note	**August 31, 2023**	August 31, 2022
		$	$
ASSETS			
Current			
Cash and cash equivalents	5	**281,172**	1
Receivables		**24,045**	-
Prepaid expenses and deposits	6	**33,727**	-
Total current assets		**338,944**	1
Equipment		**5,177**	-
Total assets		**344,121**	1
LIABILITIES			
Current			
Accounts payable and accrued liabilities	8, 10	**152,593**	-
Deferred revenue		**9,765**	-
Total liabilities		**162,358**	-
SHAREHOLDERS' EQUITY			
Share capital	9	**7,068,214**	1
Share proceeds receivable	9	**(30,510)**	-
Reserves	9	**1,298,737**	-
Deficit		**(8,154,678)**	-
Total shareholders' equity		**181,763**	1
Total liabilities and shareholders' equity		**344,121**	1

Nature of operations and going concern (Note 1)

Approved and authorized for issuance on behalf of the Board of Directors:

/s/ "Evan Gappelberg"	*/s/ "Belinda Tyldesley"*
Director	Director

The accompanying notes are an integral part of these financial statements.

ARWAY CORPORATION. (formerly 1000259749 Ontario Ltd.)
Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars, except for number of shares)

	Note	**Year ended August 31, 2023**	Period from July 15, 2022 (incorporation) to August 31, 2022
		$	$
Revenue	10	**59,725**	-
Operating expenses			
Amortization	7	**1,388,889**	-
Depreciation		**1,362**	-
General and administrative	10, 11(a)	**677,559**	-
Impairment of intangible assets	7	**3,611,111**	-
Research and development	11(b)	**391,746**	-
Sales and marketing	11(c)	**801,937**	-
Share-based compensation	9(f)	**1,298,737**	-
Total operating expenses		**8,171,341**	-
Loss from operations		**(8,111,616)**	
Other income (expense)			
Interest income		**14,835**	-
Loss on sales of shares	9(d)	**(57,897)**	-
Total other income (expense)		**(43,062)**	-
Net loss and comprehensive loss for the period		**(8,154,678)**	-
Net loss per share			
Basic and diluted		**(0.36)**	-
Weighted average number of common shares			
Basic and diluted		**22,748,463**	100

The accompanying notes are an integral part of these financial statements.

ARWAY CORPORATION (formerly 1000259749 Ontario Ltd.)
Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended August 31, 2023	Period from July 15, 2022 (incorporation) to August 31, 2022
	$	$
Operating activities:		
Net loss for the period	**(8,154,678)**	-
Items not affecting cash:		
Amortization	**1,388,889**	-
Depreciation	**1,362**	-
Impairment of intangible assets	**3,611,111**	-
Loss on sale of shares	**57,897**	-
Share-based compensation	**1,298,737**	-
Changes in non-cash working capital:		
Receivables	**(24,045)**	-
Prepaid expenses and deposits	**(33,727)**	-
Accounts payable and accrued liabilities	**152,593**	-
Deferred revenue	**9,765**	-
Cash used in operating activities	**(1,692,096)**	**-**
Investing activities:		
Purchase of equipment	**(6,539)**	-
Cash used in investing activities	**(6,539)**	**-**
Financing activities:		
Proceeds from private placement	**1,657,351**	-
Proceeds from exercise of warrants	**164,162**	-
Proceeds from employee pay program	**158,293**	1
Cash provided by financing activities	**1,979,806**	1
Change in cash and cash equivalents	**281,171**	1
Cash and cash equivalents, beginning of period	**1**	-
Cash and cash equivalents, end of period	**281,172**	1
Non-cash investing and financing activities:		
Shares issued to acquire intangible assets	**5,000,000**	-
Supplemental cash flow information:		
Interest received	**14,835**	-

The accompanying notes are an integral part of these financial statements.

ARWAY CORPORATION (formerly 1000259749 Ontario Ltd.)
Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars, except for number of shares)

	Common shares	Share capital	Share proceeds receivable	Reserves	Deficit	Total shareholders' equity
	#	$	$	$	$	$
Balance, July 15 (incorporation) and August 31, 2022	100	1	-	-	-	1
Shares issued for purchase of intangible assets	19,999,898	5,000,000	-	-	-	5,000,000
Shares issued in private placement	6,629,554	1,657,351	-	-	-	1,657,351
Shares issued from exercise of warrants	330,000	164,162	-	-	-	164,162
Shares issued for employee pay program	218,318	246,700	(30,510)	-	-	216,190
Share-based compensation	-	-	-	1,298,737	-	1,298,737
Net loss for the year	-	-	-	-	(8,154,678)	(8,154,678)
Balance, August 31, 2023	**27,177,870**	**7,037,704**	**(30,510)**	**1,298,737**	**(8,154,678)**	**181,763**

The accompanying notes are an integral part of these financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

ARway Corporation (formerly 1000259749 Ontario Limited) (the "Company") develops and operates intellectual property which includes the ARway application. ARway is a mobile app, all-in one no code real-world Metaverse creation tool, with self-generating augmented reality ("AR") mapping solutions for consumers and brands alike. The Company was incorporated under the Business Corporations Act (Ontario) on July 15, 2022 and is a recent spin out of Nextech3D.ai Corp. ("Nextech"), a Metaverse company and leading provider of AR solutions. The Company's registered and head office is located at PO Box 64039 RPO Royal Bank Plaza, Toronto, Ontario, M5J 2T6.

The Company's shares trade in Canada on the Canadian Securities Exchange ("CSE") under the trading symbol "ARWY", on the OTC Pink Sheet Open Market under the trading symbol "ARWYF", and on the Frankfurt Stock Exchange under the trading symbol "FSE: E65".

a) Going concern

These financial statements for the periods ended August 31, 2023 and 2022 have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for at least the next twelve months. During the year ended August 31, 2023, the Company has a net loss and incurred negative cash flow from operations. As at August 31, 2023, the Company has Company has an accumulated deficit of $8,154,678. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing through debt or equity. 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, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors may cast significant doubt on the Company's ability to continue as a going concern. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. BASIS OF PREPARATION

a) Statement of compliance

These financial statements were approved by the Board of Directors and authorized for issue on December 21, 2023.

These financial statements have been prepared in accordance 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").

b) Basis of presentation

These financial statements have been prepared on a historical cost basis.

c) Functional and presentation currency

These financial statements are presented in Canadian dollars, except when otherwise indicated. The functional currency is the currency of the primary economic environment in which an entity operates.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Foreign currency translation

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rate of exchange at the reporting date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Foreign exchange gains and losses arising on translation are included in the statement of loss.

c) Intangible assets

Intangible assets are recognized and measured at cost. Intangible assets with finite useful lives are amortized using the straight-line method over the useful life of the asset. The Company conducts an annual assessment of the residual balances, useful lives, and amortization methods being used for intangible assets and any changes arising from the assessment are applied by the Company prospectively. The Company amortizes intangible assets over 3 years.

d) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If indicators exist, then the asset's recoverable amount is estimated. The recoverable amounts of the following types of intangible assets are measured annually, whether or not there is any indication that it may be impaired:

- an intangible asset with an indefinite useful life;
- an intangible asset not yet available for use; and
- goodwill recognized in a business combination.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

e) Financial instruments

<u>Classification</u>

The Company classifies its financial instruments in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI"), or at amortized cost. The Company determines the classification of its financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

<u>Measurement</u>

Financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition. Other financial liabilities are de-recognized when the obligations are discharged, cancelled, or expired. In cases where the fair value option is chosen for financial liabilities, the part of a fair value change relating to an entity's own credit risk is recorded in other comprehensive income rather than the statement of loss, unless this creates an accounting mismatch.

Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

A single expected credit loss model is used for calculating impairment for financial assets, which is based on changes in credit quality since initial recognition.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If, at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses.

The Company will recognize in the statement of loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

For the Company's trade receivables, the simplified approach for determining expected credit losses is used under IFRS 9 *Financial Instruments*, which requires the Company to determine the lifetime expected losses for all its trade receivables. The lifetime expected credit loss provision for the Company's trade receivables is based on historical default rates and other relevant forward-looking information.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statement of loss.

f) Share-based payments

The Company grants stock options to purchase common shares of the Company as well as equity instruments representing common shares to directors, officers, employees, and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee, including directors of the Company. The fair value of the stock options granted is measured at grant date and each tranche is recognized on a graded basis over the vesting period. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At the end of each reporting period, the amount recognized as an expense for unvested options is adjusted to reflect the number of the options that are expected to vest. If the options are forfeited subsequent to vesting or expire, the amount recorded to the reserves is transferred to deficit.

Where equity instruments are granted to parties other than employees, they are recorded by reference to the fair value of the services received. If the fair value of the services received cannot be reliably estimated, the Company measures the services received by reference to the fair value of the equity instruments granted, measured at the date the counterparty renders service.

All equity-settled share-based payments are reflected in share-based payment reserve, unless exercised. Upon exercise, shares are issued from treasury and the amount reflected in share-based payment reserve is credited to share capital, adjusted for any consideration paid.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Income taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in the statement of operations. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the statement of financial position method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

h) Revenue recognition

The Company recognizes revenue in accordance with IFRS 15, *Revenue from Contracts with Customers*. Revenue represents the fair value on consideration received or receivable from customers for goods and services provided by the Company, net of discounts and sales taxes. The Company generates revenue from the sale of its software application and recognizes revenue on a systematic basis.

Renewable software licenses

The Company sells software licenses on a specified term basis, with customer held options for renewal where the proceeds are considered to relate to the right to use the asset over the license period therefore revenue is recognized over that period. If it is determined that the license is not distinct from other performance obligations, revenue is recognized over time as the customer simultaneously receives and consumes the benefit.

Technology services

For virtual events and technology services, the Company evaluates these arrangements to determine the appropriate unit of accounting (performance obligation) for revenue recognition purposes based on whether the service is distinct from some or all of the other services in the arrangement. A 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 service is separately identifiable from other promises in the contractual arrangement with the customer. Non-distinct services are combined with other services until they are distinct as a bundle and therefore form a single performance obligation. Recognition of revenue from contracts for virtual events and technology services is recognized over time based on the progress towards satisfying performance obligations.

i) Contract assets

Contract asset represents the revenue which has not been billed but are expected to be billed and collected from customers for provision of services to date and is valued at estimated net realizable value. Billings in excess of time value incurred on work in progress, for which future services will be provided, are recognized as contract liabilities.

j) Deferred and unbilled revenue

The timing of revenue recognition often differs from contract payment schedules, resulting in revenue that has been earned but not billed. These amounts are included in unbilled revenue within receivables. Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of deferred revenue.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Company does not adjust any of the transaction prices for the time value of money.

k) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to equity shareholders of the Company by the weighted average number of common shares issued and outstanding during the period. Diluted loss per share is calculated by adjusting the loss attributable to equity shareholders and the weighted average number of common shares outstanding for the effects of all potentially dilutive common shares. The calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

l) Research and development costs

Research costs are charged to operations as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable, and the Company intends to or has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use and borrowing costs on qualifying assets. Other development expenditure is recognized in the statement of loss as incurred.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these financial statements requires management to exercise significant judgments in applying the Company's accounting policies and make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Estimates and assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual future outcomes could differ from present estimates and assumptions, which may require material adjustments to the Company's financial statements. Revisions to accounting estimates are accounted for prospectively.

Significant estimates and judgments exercised by management in applying the Company's accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

<u>Going concern presentation</u>

These 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 for the foreseeable future. The assessment of the Company's ability to source future operations and continue as a going concern involves judgement. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. If the going concern assumption is not appropriate for the financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported revenue and the expenses and the statement of financial position classifications used.

<u>Accounting estimates</u>

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

<u>Carrying value and recoverability intangible assets</u>

In assessing the Company's intangible assets for impairment, the Company determines the recoverable amount of intangible assets based on various economic factors and market conditions as well as internal management projections. Impairment is calculated based on the amount by which carrying amount exceeds recoverable amount. Estimates and assumptions used in the determination of recoverable amount may materially impact the carrying amount of intangible assets.

(Expressed in Canadian dollars, except where noted)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Research and development costs

Research costs are recognized as an expense when incurred but development costs may be capitalized as intangible assets if certain conditions are met as described in IAS 38 *Intangible Assets*. Management has determined that development costs do not meet the conditions for capitalization under IAS 38 and all research and development costs have been expensed.

Share-based payments

Management is required to make several estimates when determining the fair value of the payments resulting from share-based transactions, including the forfeiture rate and expected life of the instruments.

5. CASH AND CASH EQUIVALENTS

As at August 31, 2023, the Company holds a cashable Guaranteed Investment Certificate with an interest rate of 4.25% in the amount of $100,000 (2022 - $nil).

6. PREPAID EXPENSES AND DEPOSITS

A summary of the Company's prepaid expenses is as follows:

	2023	2022
	$	$
Investor relations	**20,697**	-
Deposit	**13,030**	-
	33,727	-

7. INTANGIBLE ASSETS

A summary of the Company's intangible assets is as follows:

	$
Cost	
Balance, August 31, 2022	-
Acquisition	5,000,000
Balance, August 31, 2023	**5,000,000**
Accumulated amortization and impairment	
Balance, August 31, 2022	-
Amortization	1,388,889
Impairment	3,611,111
Balance, August 31, 2023	**5,000,000**
Carrying amount	
Balance, August 31, 2022	-
Balance, August 31, 2023	**-**

On October 27, 2022, Nextech completed the spin out of ARway Corp. whereby Nextech transferred intellectual property and technology assets related to the ARway platform to the Company in exchange for the issuance of 19,999,898 common shares with a fair value of $5,000,000.

The carrying amounts of the intangible intellectual property and technology assets have been reduced to their recoverable amounts through recognition of an impairment loss of $3,611,111. This loss has been included in operating expenses in the statement of loss.

(Expressed in Canadian dollars, except where noted)

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

A summary of the Company's accounts payable and accrued liabilities is as follows:

	2023	2022
	$	$
Accounts payable	**147,595**	-
Accrued liabilities	**4,998**	-
	152,593	-

9. SHARE CAPITAL

a) Authorized

The authorized share capital of the Company is an unlimited number of common shares.

b) Issued share capital

As at August 31, 2023, 27,177,870 common shares were issued and outstanding (2022 – 100).

c) Share issuances

During the year ended August 31, 2023:

- On October 25, 2022, the Company issued 19,999,898 common shares with a fair value of $5,000,000 to Nextech in exchange for intangible assets (Note 7).
- On October 25, 2022, the Company issued 6,629,554 units for proceeds of $1,657,351 as part of the private placement related to the spinout of the Company from Nextech. Each unit consisted of one common share and one warrant exercisable at $0.50 per common share expiring on October 25, 2025. Applying the residual method, the proceeds were fully allocated to share capital.
- The Company issued 218,318 common shares upon the exercise of 218,318 warrants related to the employee pay program (Note 9(d)). Of the shares issued, 191,318 common shares were sold for proceeds of $158,293, resulting in a loss on sale of shares of $87,897 and recognition of share proceeds receivable of $30,510.
- The Company issued 330,000 common shares for proceeds $164,162 upon the exercise of warrants.

During the period from July 15, 2022 (incorporation) to August 31, 2022:

- On July 15, 2022, upon incorporation, the Company issued 100 common shares with a price of $0.01 and fair value of $1.

d) Employee pay program

On July 26, 2023, the Company introduced a share-based employee pay program ("employee pay program") for the purpose of maintaining a sustainable cash position by allowing the Company to pay for services through the issuance and sale of the Company's shares. Through this program, the Company is allowed to issue warrants, with a specified exercise price, to its employees. The warrants convert to common shares pursuant to services being completed by employees. A third-party program administrator subsequently completes the sale of the common shares, and the proceeds are used to facilitate cash disbursements in connection with employee services rendered. The employees are guaranteed an amount equal to the maximum of (i) value of shares measured at exercise price (the "cost of shares") and (ii) the proceeds from the sale of shares.

The Company does not recognize the warrants issued to the employees. Recognition occurs only when the warrants are exercised, with the Company then recording an increase in share capital. When the shares are sold for less than the cost of shares, the Company will compensate the employees for the shortfall and recognize a loss on the sale of shares.

During the year ended August 31 2023, as part of the employee pay program, the Company issued 1,559,556 warrants to its employees. Each warrant has an exercise price of $1.13 per common share until January 25, 2026. As at August 31, 2023, 218,318 warrants have been converted into common shares, of which 27,000 common shares remained unsold. During the year ended August 31, 2023, the Company recognized a loss on sale of shares of $57,897.

(Expressed in Canadian dollars, except where noted)

9. SHARE CAPITAL (continued)

e) Warrants

A summary of the Company's warrant activity is as follows:

	Number of warrants	Weighted average exercise price
		$
Balance, July 15,2022 (incorporation) and August 31, 2022	-	-
Issued	8,189,110	0.62
Exercised	(548,318)	0.75
Balance, August 31, 2023	**7,640,792**	**0.61**

A summary of the Company's outstanding warrants is as follows:

Date of expiry	Number of warrants	Weighted average exercise price	Weighted average remaining life
		$	Years
October 25, 2025	6,299,554	0.50	2.15
January 25, 2026	1,341,238	1.13	2.41
	7,640,792	**0.61**	**2.20**

f) Stock options

A summary of the Company's stock option activity is as follows:

	Number of stock options	Weighted average exercise price
		$
Balance, July 15, 2022 (incorporation) and August 31, 2022	-	-
Granted	2,805,000	0.92
Cancelled	(195,000)	0.99
Balance, August 31, 2023	**2,610,000**	**0.91**

A summary of the Company's stock options outstanding as at August 31, 2023, is as follows:

Date of expiry	Number of options outstanding	Number of options exercisable	Weighted average exercise price	Weighted average remaining life
			$	Years
November 3, 2025	2,610,000	672,000	0.91	2.18

During the year ended August 31, 2023, the Company granted 2,805,000 stock options with a fair value of $2,198,420, of which $1,298,737 (2022 - $nil) was recognized as share-based compensation. Out of the total share-based compensation, $359,111 (2022 - $nil) was for the vested options granted to officers and directors of the Company.

(Expressed in Canadian dollars, except where noted)

9. SHARE CAPITAL (continued)

f) Stock options (continued)

A summary of the Company's assumptions used in the Black-Scholes option pricing model for stock options granted during the year ended August 31, 2023 is as follows:

	2023
Risk-free rate	**3.82%**
Expected life	**3 years**
Expected volatility	**150%**
Dividend yield	**0%**
Forfeiture rate	**0%**
Fair value per option	**$0.75**

10. RELATED PARTY TRANSACTIONS AND BALANCES

The Company considers the executive officers and directors as the key management of the Company. During the year ended August 31, 2023, the Company incurred $93,849 (2022 - $nil) in remuneration to management personnel including those persons having the authority and responsibility for the planning, directing, and controlling of the activities of the Company.

Related party agreements

On July 13, 2023, the Company entered into an intellectual property license agreement with Nextech, which is a major shareholder of the Company. As full consideration for the rights granted under this agreement, Nextech will pay an annual royalty fee of $500,000 payable in monthly installments of $41,667. After Nextech has earned $500,000 in revenue generated from the use of the licensed intellectual property, a royalty equal to 10% of all revenue generated thereafter from the use of such property will be payable. During the year ended August 31, 2023, the Company received $41,667 (2022 - $nil) in fees as part of revenue.

On October 25, 2022, the Company entered into a management agreement with Nextech. The contract stipulates that a management fee of up to $100,000 per month will be paid to Nextech for consulting services, which consists of services performed by executive officers, technology consultants, and shared services such as, finance, human resources, and sales operations. The monthly amount represents the Company's portion of shared expenses with Nextech based on fair market rates. During the year ended August 31, 2023, the Company paid $300,000 (2022 - $nil) in fees as part of general and administrative.

A summary of the Company's related party transactions for the years ended August 31, 2023 and 2022 is as follows:

	2023	2022
	$	$
Revenue (representing 69.8% of total revenue)	**41,667**	-
Management fees and remuneration for services	**393,849**	-

As at August 31, 2023, accounts payable and accrued liabilities included $63,174 (2022 - $nil) in respect of the services rendered. These are non-interest bearing with standard payment terms.

(Expressed in Canadian dollars, except where noted)

11. EXPENSES BY NATURE

The Company presents operating expenses by function with the exception of amortization, depreciation, and impairment. The following presents operating expenses by nature:

a) General and administrative

A summary of the Company's general and administrative costs for the periods ended August 31, 2023 and 2022 is as follows:

	2023	2022
	$	$
Compliance fees	34,321	-
Consulting fees	85,198	-
Management fees and remuneration for services (Note 10)	393,849	-
Office, general, and other	41,795	-
Computer, software, and maintenance	23,575	-
Professional fees	71,304	-
Rent	27,517	
	677,559	-

b) Research and development

A summary of the Company's research and development costs for the periods ended August 31, 2023 and 2022 is as follows

	2023	2022
	$	$
Consulting fees	252,146	-
Salaries, wages, and commissions	139,600	-
	391,746	-

c) Sales and marketing

A summary of the Company's sales and marketing costs for the periods ended August 31, 2023 and 2022 is as follows:

	2023	2022
	$	$
Advertising	107,778	-
Investor relations	293,992	-
Salaries, wages, and commissions	400,167	-
	801,937	-

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

As at August 31, 2023, the Company's financial assets and liabilities were classified as amortized cost.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The carrying values of cash and cash equivalents, receivables (except GST receivable), and accounts payable and accrued liabilities approximate, their fair values because of their short-term nature.

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty fails to meet an obligation under contract. Credit risk exposure arises with respect to the Company's cash and cash equivalents. The risk exposure is limited because the Company places its instruments in banks of high credit worthiness within Canada.

b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's main source of cash resources is through equity financing. The Company's financial obligations are limited to its current liabilities which have contractual maturities of less than one year.

c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has assessed that interest rate risk is low for the financial assets as most investments are made in highly liquid instruments.

d) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in the foreign exchange rates. Foreign currency risk exposure arises with respect to some of the Company's cash and cash equivalents, receivables, and accounts payable and accrued liabilities denominated in a foreign currency. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar could affect the Company's results of operations, financial position, or cash flows. Assuming all other variables constant, an increase or a decrease of 10% of the U.S. dollar against the Canadian dollar would impact the Company by $20,652 during the year ended August 31, 2023. The Company had no hedging agreements in place with respect to foreign exchange rates.

13. CAPITAL MANAGEMENT

The Company's definition of capital includes equity, comprising share capital, reserves and accumulated deficit. The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. As at August 31, 2023, the Company had shareholders' equity of $181,763 (2022 - $1).

The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management and consultants to sustain future development of the business. The Company obtains funding primarily through equity issuance. Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable given the relative size of the Company. There were no changes to the Company's approach to capital management during the year ended August 31, 2023.

As at August 31, 2023, the Company was not subject to any externally imposed capital requirements.

(Expressed in Canadian dollars, except where noted)

14. INCOME TAXES

Income tax expense differs from the amount that would result by applying the combined Canadian federal and provincial income tax rates to net loss before income taxes. The statutory rate in Canada was 26.5% for the year ended August 31, 2023 (2022 – 26.5%).

A summary of the Company's reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2023	2022
	$	$
Net loss for the period	(8,154,678)	-
Income tax recovery at statutory rates	(2,161,000)	-
Non-deductible expenditures	344,200	-
Change in unrecognized deferred income tax assets	1,816,800	-
Income tax recovery	-	-

A summary of the Company's significant components of deferred income tax assets and liabilities are as follows:

	2023	2022
	$	$
Non-capital losses	558,200	-
Property and equipment	(200)	-
Intangible assets	1,258,800	-
	1,816,800	-
Unrecognized deferred income tax asset	(1,816,800)	-
Net deferred income tax asset	-	-

A summary of the Company's significant components of temporary differences, unused tax credits and unused tax losses that have not been included on the statement of financial position are as follows:

	2023	2022
	$	$
Temporary differences		
Non-capital loss (1)	2,106,500	-
Equipment (2)	(600)	-
Intangible assets (2)	4,750,000	-

(1) As at August 31, 2023, the temporary difference has an expiry date of 2043.
(2) The temporary difference has no expiry date.

Tax attributes are subject to review, and potential adjustment, by tax authorities.