

SPARQ SYSTEMS INC.

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023

(Expressed in Canadian dollars)

The accompanying unaudited condensed interim financial statements for the three months ended March 31, 2024 and 2023 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company. In accordance with National Instrument 51-102 *Continuous Disclosure Obligations* of the Canadian Securities Administrators, the Company herewith discloses that the accompanying unaudited condensed interim financial statements have not been reviewed by an auditor.

SPARQ SYSTEMS INC.
UNAUDITED CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

As at:	Note	March 31, 2024	December 31, 2023
		\$	\$
Assets			
Current Assets			
Cash and cash equivalents		402,608	287,832
Accounts and other amounts receivable	4	190,403	164,091
Inventory	5	3,446,361	3,437,942
Prepaid expenses and deposits		74,931	83,011
Total current assets		4,114,303	3,972,876
Property, plant and equipment	6	389,735	418,961
Total assets		4,504,038	4,391,837
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		2,107,383	1,795,772
Lease liability – current portion	8	28,844	27,887
Derivative liability	7	59,649	59,649
Loan payable	7	1,172,396	454,849
Total current liabilities		3,368,272	2,338,157
Lease liability	8	30,087	37,667
Total liabilities		3,398,359	2,375,824
Shareholders' Equity			
Share Capital	9	26,462,308	26,462,308
Contributed Surplus	9,11	6,613,045	6,577,322
Deficit		(31,969,674)	(31,023,617)
Total shareholders' equity		1,105,679	2,016,013
Total liabilities and shareholders' equity		4,504,038	4,391,837

Going concern (Note 2(e))
Commitments and contingencies (Note 13)
Subsequent events (Note 16)

Approved on behalf of the Board of Directors:

“Praveen Jain”, Director

“Nishith Goel”, Director

SPARQ SYSTEMS INC.

**UNAUDITED CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023**

(Expressed in Canadian dollars)

	Note	2024	2023
		\$	\$
Revenue		2,566	-
Cost of sales	5	(9,316)	(36,480)
Gross margin		(6,750)	(36,480)
Expenses			
Research and development		281,593	312,074
Sales and marketing		19,277	19,306
General and administration		556,251	509,241
Depreciation of property and equipment	6	32,252	15,195
Stock-based compensation	11	35,723	74,376
Total expenses		925,096	930,192
Loss before other income (expenses)		(931,846)	(999,672)
Other income (expense)			
Interest and accretion	7,8	(50,947)	-
Interest income		564	29,134
Foreign exchange gain (loss)		36,172	(1,708)
		(14,211)	27,426
Net loss and comprehensive loss for the period		(946,057)	(939,246)
Basic and diluted loss per share		(0.01)	(0.01)
Weighted average shares outstanding	10	82,444,752	82,444,752

SPARQ SYSTEMS INC.

**UNAUDITED CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023**

(Expressed in Canadian dollars)

	Note	Number of Shares	Common Shares \$	Contributed Surplus \$	Warrants \$	Deficit \$	Total \$
Balance, December 31, 2022		82,444,752	26,462,308	2,298,658	3,946,176	(26,256,257)	6,450,885
Stock-based compensation	11	-	-	74,376	-	-	74,376
Net loss for the period		-	-	-	-	(939,246)	(939,246)
Balance, March 31, 2023		82,444,752	26,462,308	2,373,034	3,946,176	(27,195,503)	5,586,015
Balance, December 31, 2023		82,444,752	26,462,308	6,577,322	-	(31,023,617)	2,016,013
Stock-based compensation	11	-	-	35,723	-	-	35,723
Net loss for the period		-	-	-	-	(946,057)	(946,057)
Balance, March 31, 2024		82,444,752	26,462,308	6,613,045	-	(31,969,674)	1,105,679

The accompanying notes are an integral part of these financial statements

SPARQ SYSTEMS INC.
UNAUDITED CONDENSED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023

(Expressed in Canadian dollars)

	Note	2024	2023
		\$	\$
Operating activities:			
Net loss for the period		(946,057)	(939,246)
Items not involving cash			
Depreciation expense	6	32,252	15,195
Interest and accretion	7,8	50,947	-
Stock-based compensation	11	35,724	74,376
Changes in non-cash working capital:			
Accounts and other amounts receivable		(26,312)	220,035
Inventory		(8,419)	(486,448)
Prepaid expenses and deposits		8,081	(27,070)
Accounts payable and accrued liabilities		311,608	(494,037)
Cash flow used in operating activities		(542,176)	(1,637,195)
Investing activities			
Acquisition of equipment	6	(3,025)	(25,279)
Cash flow used in investing activities		(3,025)	(25,279)
Financing activities:			
Loan proceeds	7	668,750	-
Lease payments		(8,773)	-
Cash flow from financing activities		659,977	-
Net increase (decrease) in cash and cash equivalents		114,776	(1,662,474)
Cash and cash equivalents at beginning of the period		287,832	4,587,527
Cash and cash equivalents at end of the period		402,608	2,925,053

The accompanying notes are an integral part of these financial statements

SPARQ SYSTEMS INC.
NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023

(Expressed in Canadian dollars)

1. Nature of business

SPARQ Systems Inc. (formerly SPARQ Corp.) (the “**Company**”) was incorporated under the *Business Corporations Act* (Ontario) on November 13, 2018. On December 31, 2021, the Company completed its qualifying transaction pursuant to the rules of the TSX Venture Exchange (the “**Qualifying Transaction**”), resulting in a reverse takeover of the Company by SPARQ Systems Inc. (“**SPARQ**”). The Qualifying Transaction was completed by way of a three-cornered amalgamation (the “**Amalgamation**”) pursuant to which, among other things, (i) SPARQ amalgamated with a wholly-owned subsidiary of the Company, incorporated for the purposes of the Amalgamation, pursuant to the provisions of the *Business Corporations Act* (Ontario), and (ii) all of the outstanding common shares in the capital of SPARQ (the “**SPARQ Shares**”) were cancelled and, in consideration therefor, the holders thereof received post-consolidation common shares in the capital of the Company on a 1:1 basis.

Prior to the completion of the Qualifying Transaction, the Company changed its name to “SPARQ Corp.” and consolidated its common shares on a 1.25:1 basis (the “**Consolidation**”). In addition, SPARQ completed a consolidation of the SPARQ Shares on a 10.8085146:1 basis.

On January 1, 2023, the Company completed a short-form vertical amalgamation with SPARQ pursuant to the *Business Corporations Act* (Ontario) (the “**Vertical Amalgamation**”). Upon completion of the Vertical Amalgamation, the Company changed its name from “SPARQ Corp.” to “SPARQ Systems Inc.”

The Company designs and manufactures next generation single-phase microinverters for residential and commercial solar electric applications. The Company has developed a proprietary photovoltaic (“**PV**”) solution called the Quad; the Quad inverter optimizes four PV modules with a single microinverter, simplifying design and installation, and lowering cost for solar power installations when compared to existing market offerings.

The address of the Company’s registered and head office is 945 Princess Street, Box 212, Kingston, Ontario K7L 0E9. The common shares are listed for trading on the TSX Venture Exchange under the symbol “SPRQ”.

The common shares are also quoted for trading on the OTCQX Best Market under the symbol “SPRQF”.

2. Basis of presentation and measurement

a) Statement of compliance

These condensed interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (“**IFRS**”) and its interpretations adopted by the International Accounting Standards Board and in accordance with IAS 34, Interim Financial Reporting. These condensed interim financial statements were authorized for issue by the Board of Directors of the Company on May 28, 2024.

b) Basis of presentation

These condensed interim financial statements have been prepared on a historical cost basis except for certain financial instruments and share-based compensation transactions which have been measured at fair value.

c) Functional and presentation currency

The functional currency of the Company is determined using the currency of the primary economic environment in which each entity operates. The functional and presentation currency of the Company is the Canadian dollar.

d) Going concern assumption

These condensed interim financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal

SPARQ SYSTEMS INC.
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course of business. As at March 31, 2024, the Company had a deficit of \$31,969,674 (December 31, 2023 - \$31,023,617) and, for the three months ended March 31, 2024, incurred a net loss of \$946,057 (2023 - \$939,246) and negative cash flows from operating activities of \$542,176 (2023 - \$1,637,195). The Company has used debt and equity financing from both related and unrelated sources to supplement its operations and will continue to be reliant on additional debt and/or equity financing in order to fully develop its business plan.

Although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding will be available in the future or available under terms acceptable to the Company, or that the Company will be able to generate sufficient returns from operations.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities and commitments when due is dependent on the Company generating revenue and debt and/or equity financing sufficient to fund its cash flow needs.

These circumstances indicate the existence of material uncertainty that casts significant doubt on the ability of the Company to meet its business plan and its obligations as they come due, and accordingly the appropriateness of the use of the accounting principles applicable to a going concern.

These condensed interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these condensed interim financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported expenses and the classifications used in the statement of financial position. Such differences in amounts could be material.

3. Material accounting policies

These condensed interim financial statements reflect the accounting policies described in Note 3 to the audited financial statements for the year ended December 31, 2023 and accordingly, should be read in conjunction with such audited financial statements and the notes thereto.

New accounting standards

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods commencing on or after January 1, 2024. Many are not applicable or do not have a significant impact to the Company and have been excluded.

Standards, amendments and interpretations not yet effective

IFRS 10 – Consolidated Financial Statements (“**IFRS 10**”) and IAS 28 – Investments in Associates and Joint Ventures (“**IAS 28**”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. This change will not have a material impact on the condensed interim financial statements.

4. Accounts receivable

	March 31, 2024	December 31, 2023
Accounts receivable	\$ 159,082	\$ 146,400
Sales tax receivable	31,321	17,691
	\$ 190,403	\$ 164,091

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5. Inventory

	March 31, 2024	December 31, 2023
Finished goods	\$ 1,634,642	\$ 1,684,665
Raw materials	2,028,079	2,002,047
	3,662,721	3,686,712
Provision	(216,360)	(248,770)
	\$ 3,446,361	\$ 3,437,942

During the three months ended March 31, 2024, inventory provision related to obsolescence of \$9,316 has been expensed within cost of sales (2023 - \$36,480).

6. Property and equipment

	Equipment	Furniture and fixtures	Computer equipment	Computer software	Leasehold improvements	Right of use asset	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance, December 31, 2022	516,442	27,027	71,034	8,850	23,154	-	646,507
Additions	278,069	-	4,370	11,740	-	76,109	370,288
Balance, December 31, 2023	794,511	27,027	75,404	20,590	23,154	76,109	1,016,795
Additions	-	-	-	3,025	-	-	3,025
Balance, March 31, 2024	794,511	27,027	75,404	23,615	23,154	76,109	1,019,820
Accumulated depreciation							
Balance, December 31, 2022	394,010	24,863	59,582	8,433	1,142	-	488,030
Depreciation	72,660	440	5,821	5,842	12,765	12,276	109,804
Balance, December 31, 2023	466,670	25,303	65,403	14,275	13,907	12,276	597,834
Depreciation	20,913	110	1,427	1,846	590	7,365	32,251
Balance, March 31, 2024	487,583	25,413	66,830	16,121	14,497	19,641	630,085
Net book value							
Balance, December 31, 2023	327,841	1,724	10,001	6,315	9,247	63,833	418,961
Balance, March 31, 2024	306,928	1,614	8,574	7,494	8,657	56,468	389,735

7. Loans

On November 27, 2023, the Company entered into an unsecured loan agreement with an arm's length party for a principal amount of \$500,000 (the "**November 2023 Loan**"). The November 2023 Loan bears interest at a rate of 12% per annum and the principal and accrued interest on the November 2023 Loan are payable on the later of: (i) May 27, 2024; and (ii) the date on which the Company completes an equity or debt financing. The proceeds of the November 2023 Loan were used for the Company's working capital requirements and other general corporate purposes.

In connection with the November 2023 Loan, the lender was issued warrants to purchase up to 1,000,000 common shares (each, a "**Bonus Warrant**"). Each Bonus Warrant entitles the holder to purchase one (1) common share in the capital of the Company at a price per share equal to the greater of: (i) \$0.15; and (ii) the closing trading price of the common shares on the first date that the Company announces a proposed equity or debt financing (see note 16). The Bonus Warrants are exercisable for a period of one year from the date of their issuance. The Bonus Warrants were considered a cost of issuance. The conversion feature of the Bonus Warrants meets the definition

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of a derivative liability instrument because the conversion rate is variable and therefore does not meet the fixed-for-foxed criteria outlined under IFRS. As a result, the conversion feature is required to be recorded as a derivative liability at fair value and marked-to-market each period with the changes in fair value each period being charged or credited to income. The Bonus Warrants were allocated an estimated fair value of \$59,649 using the Monte Carlo pricing model.

Number of Warrants Outstanding and Exercisable	Share Price (\$)	Risk-free Rate	Expiry Date	Volatility	Weighted Average Remaining Life (years)
1,000,000	0.15	5%	November 27, 2024	113%	0.92

During the three months ended March 31, 2024, the Company received an additional \$668,750 in loans (together with the November 2023 Loan, the “Loans”) with the same terms and conditions as the November 2023 Loan.

During the three months ended March 31, 2024, interest and accretion charged on the Loans was \$48,797.

8. Lease liability

Balance, December 31, 2022	\$ -
Additions	76,109
Lease interest	4,067
Lease payments	(14,622)
Balance, December 31, 2023	65,554
Lease interest	2,150
Lease payments	(8,773)
Balance, March 31, 2024	\$ 58,931
Allocated as:	
Current	\$ 28,844
Long Term	\$ 30,087

On August 1, 2023, the Company entered into a 31 month lease for office space. The term of the lease will expire on February 27, 2026, with no further options to renew at the current terms. Under the lease, the Company is required to pay a monthly base rent of \$2,924. At the commencement of the lease, the lease liability was measured at the present value of the lease payments that were not paid at that date. The lease payments are discounted using an interest rate of 13.57%, which was estimated to be Company’s incremental borrowing rate in Canada.

9. Share capital

Authorized

An unlimited number of common shares.

Issued

As at March 31, 2024, 82,444,752 common shares were issued and outstanding.

As at March 31, 2024, an aggregate of 13,218,188 (March 31, 2023 – 26,436,376) common shares are subject to the value escrow agreement dated December 31, 2021 and Nil (March 31, 2023 – 214,000) common shares subject to the CPC escrow agreement dated July 12, 2019. In accordance with the value escrow agreement, 10% of the common shares were released from escrow on the date of the final bulletin of the TSX Venture Exchange, and then 15% released every 6 months. In accordance with the CPC escrow agreement, 25% of the common shares were released from escrow on the date of the final bulletin of the TSX Venture Exchange, and then 25% released every 6 months.

SPARQ SYSTEMS INC.
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Warrants

	Number of Warrants	Weighted average exercise price
	#	\$
Balance, December 31, 2022	20,000,000	0.75
Expired	(20,000,000)	(0.75)
Granted (7)	1,000,000	0.15
Balance, December 31, 2023 and March 31, 2024	1,000,000	0.15

10. Loss per share

Loss per share is calculated by dividing loss by the weighted average number of common shares outstanding during the year. In computing diluted earnings per share, an adjustment is made for the dilutive effect of outstanding Options, warrants and other convertible instruments. In periods where a net loss is reported all outstanding Options, warrants and other convertible instruments are excluded from the calculation of diluted loss per share, as they are all anti-dilutive.

11. Stock-based compensation

The Company has an omnibus equity incentive plan (the “**Omnibus Plan**”) which provides for a wide range of incentive awards, including Options, **DSUs**, restricted share units (“**RSUs**”), performance share units (“**PSUs**”) and other share-based awards (“**Other Share-Based Awards**”, and together with Options, DSUs, RSUs, PSUs, “**Awards**”) to attract, retain and motivate Employees, Directors, Officers and Consultants of the Company (as such terms are defined in the Omnibus Plan). The Omnibus Plan is a “rolling up to 10% and fixed up to 10%” Security Based Compensation Plan, as defined in Policy 4.4 - Security Based Compensation of the TSXV. The Omnibus Plan is a: (a) “rolling” plan pursuant to which the number of common shares that are issuable pursuant to the exercise of Options granted under the Omnibus Plan shall not exceed 10% of the issued and outstanding common shares as at the date of any Option grant; and (b) “fixed” plan under which the number of common shares that are issuable pursuant to all Awards other than Options granted under the Omnibus Plan and under any other security based compensation arrangement, in aggregate is a maximum of 8,244,475 common shares, in each case, subject to adjustment as provided in the Omnibus Plan and any subsequent amendment to the Omnibus Plan. Shareholders approved the initial adoption of the Omnibus Plan at the Company’s annual and special meeting held on June 1, 2022. The Omnibus Plan replaced the Company’s rolling stock option plan (the “**Legacy Plan**”).

The following details all Options and DSUs granted under the Omnibus Plan during the three months ended March 31, 2024 and the year ended December 31, 2023. No RSUs, PSUs or Other Share-Based Awards have been issued as of the date hereof.

Stock options

	Number of Options	Weighted average exercise price
	#	\$
Balance, December 31, 2022	6,312,000	0.47
Granted (i)	180,000	0.18
Balance, December 31, 2023 and March 31, 2024	6,492,000	0.46

The underlying expected stock price volatility for the calculation of the fair value of the Options is based on historical data of similar companies, as the Company has limited historical data itself on which it could be based. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the Options.

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The Options have various vesting terms. In total, \$35,723 (2023 – \$74,376) of stock-based compensation expense relating to Options was included in the statements of loss and comprehensive loss for the three months ended March 31, 2024 and credited to contributed surplus.

As at March 31, 2024 the Company had the following Options outstanding:

Number of Options Outstanding	Exercise Price (\$'s)	Expiry Date	Number of Options Exercisable	Weighted Average Remaining Life (years)
112,000	0.25	8/9/2029	112,000	5.36
5,025,000	0.50	12/31/2026	5,025,000	2.75
275,000	0.50	02/24/2027	275,000	2.90
400,000	0.385	11/22/2027	141,665	3.65
500,000	0.285	12/01/2027	125,000	3.67
30,000	0.18	04/20/2027	12,500	3.06
150,000	0.18	04/20/2028	26,250	4.06
6,492,000			5,717,415	2.97

The weighted average exercise of the Options is \$0.46 (December 31, 2023 - \$0.46).

DSUs

Under the Omnibus Plan, the Company will redeem vested DSUs, subject to earlier expiration or cancellation in accordance with the Omnibus Plan by either (in the sole discretion of the board of directors of the Company): (i) issuing common shares from treasury; (ii) delivering common shares acquired on the open market; (iii) making a lump sum payment equal to the value of the issuable number of common shares; or (iv) any combination thereof. On the date of grant, the DSUs are recognized at their fair value based on the price of the common shares on that date.

On November 30, 2023, 550,817 DSUs were granted to employees of the Company. The DSUs vest on November 30, 2024. On the date of grant the DSUs had a fair value of \$0.11 per DSU and are being expensed over their vesting period. As at December 31, 2023, all 550,817 DSUs were issued and outstanding. In total, \$5,050 of stock-based compensation expense relating to DSUs was included in the statements of loss and comprehensive loss for the three months ended March 31, 2024 and credited to contributed surplus.

12. Related party transactions

- (a) During the three months ended March 31, 2024, the Company was charged \$75,000 (March 31, 2023 - \$75,000) for consulting services provided by PE Consultants Inc., an entity which is controlled by Praveen Jain, the Chief Executive Officer of the Company. These expenses have been recorded in research and development and general and administrative expenses. As at March 31, 2024, \$206,500 (December 31, 2023 – \$131,500) of this amount is included in accounts payable and accrued liabilities.
- (b) During the three months ended March 31, 2024, the Company was charged \$9,000 (March 31, 2023 - \$9,000) for consulting services provided by CFO Advantage Inc., an entity which is controlled by Kyle Appleby, the Chief Financial Officer of the Company. These expenses have been recorded in general and administrative expenses. As at March 31, 2024, \$31,170 (December 31, 2023 – \$22,170) of this amount is included in accounts payable and accrued liabilities.
- (c) On June 16, 2022, the Company signed a manufacturing agreement (the “**Manufacturing Agreement**”) with Ti-Lane Precision Electronic Company Limited (“**Ti-Lane**”) to manufacture turn-key Q1200 microinverters for the Company on a high volume basis at Ti-Lane’s facility based in Guangdong Province, China. The Manufacturing Agreement has an initial term of three years and will automatically renew for additional one year terms after expiration of the initial term unless terminated earlier by either the Company or Ti-Lane. Ti-Lane is a shareholder in the Company and is controlled by Baojun (Robbie) Luo, one of the Company’s directors. During the three months ended March 31, 2024, the Company was charged \$354,369 (March 31, 2023 - \$3,410) by Ti-Lane. As at March 31, 2024, \$834,175 (December 31, 2023 - \$700,346) of this amount is included in accounts payable and accrued liabilities.

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- (d) Transactions with related parties are incurred during the course of normal operations and initially recorded at fair value. Key management includes directors and officers of the Company. Compensation awarded to key management was comprised of the following for the three months ended March 31, 2024 and 2023:

		2024		2023
Short-term compensation	\$	84,000	\$	84,000
Share-based payments		-		46,902
Total	\$	84,000	\$	130,902

13. Commitments and contingencies

Commitments

On July 31, 2013, the Company entered into a licensing agreement (the “**PARTEQ Agreement**”) with PARTEQ Research and Development Innovations for commercial rights to certain power generation, conversion, and switching technologies used in its products. Pursuant to the terms of the PARTEQ Agreement, the Company is obligated to pay 1% of specified net sales generated from the sale of products using the licensed technology.

Contingencies

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As at March 31, 2024 and December 31, 2023, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company’s operations. There are also no proceedings in which any of the Company’s directors, officers or affiliates is an adverse party or has a material interest adverse to the Company’s interest.

14. Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Company mitigates these risks by assessing, monitoring and approving the Company’s risk management processes:

a) Credit risk

Credit risk is the risk of a potential loss to the Company if one party of a financial instrument fails to meet its contractual obligations. The maximum credit exposure as at March 31, 2024 and December 31, 2023 relates to the carrying amount of cash and cash equivalents, accounts receivable, investment tax credit recoverable, and government assistance receivable. To reduce credit risk, all significant cash balances are placed with major financial institutions and accounts receivable, investment tax credit receivable and government assistance receivable is due from the Government of Canada and therefore credit risk is low.

The Company provides credit to its customers in the normal course of its operations. It carries out, on a continuing basis, credit checks on its clients and maintains provisions for contingent credit losses which, once they materialize, are consistent with management’s forecasts. The maximum exposure to credit risk is the carrying value of the accounts receivable. The Company does not normally require a guarantee. As at March 31, 2024, 84% of the Company’s accounts receivables were comprised of outstanding balances from customers (December 31, 2023- 89%).

The Company’s expected credit loss allowance is estimated using historical loss information, current industry conditions and payment practices, as well as reasonable and supportable forecasts of future economic conditions. Credit risk is assessed based on days outstanding and utilizes both internal credit assessments and publicly available credit information. As a result, the allowance reflects anticipated effects caused by recent market deterioration. As at March 31, 2024, the current expected credit loss allowance was \$Nil (December 31, 2023 - \$Nil).

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b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the effective management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity at all times to settle obligations and liabilities when due. The Company has the following contractual obligations:

	Less than 1 year	1 to 3 years	Total	Carrying
	\$	\$	\$	value
Accounts payable and accrued liabilities	2,107,383	-	916,156	916,156
Lease liability	28,844	38,414	67,258	58,931
Loans payable	1,198,750	-	1,198,750	1,172,396
March 31, 2024	3,334,977	38,414	2,182,164	2,147,483

	Less than 1 year	1 to 3 years	Total	Carrying
	\$	\$	\$	value
Accounts payable and accrued liabilities	1,795,772	-	1,795,772	1,795,772
Lease liability	35,091	40,940	76,031	65,554
Loans payable	530,000	-	530,000	454,849
December 31, 2023	2,360,863	40,940	2,401,803	2,316,175

c) Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The loan payable provides for a fixed annual interest rate and therefore exposes the Company to the risk of fair value variation due to interest rate variation because this financial asset is recognized at amortized cost. The other financial assets and liabilities of the Company do not represent interest risk because they do not bear interest. The Company does not use financial derivatives to decrease its exposure to interest risk.

d) Foreign exchange risk

The Company is exposed to foreign exchange risk from various currencies, primarily the US dollar. Foreign exchange risk arises from sales and purchase transactions as well as recognized financial assets and liabilities that are denominated in a currency other than the Canadian dollar, which is the functional currency of the Company.

The Company's primary objective in managing its foreign exchange risk is to preserve sales values and cash flows and reduce variations in performance. Although management monitors exposure to such fluctuations, it does not employ any external hedging strategies to counteract the foreign currency fluctuations.

The following amounts were denominated in foreign currency:

	Currency	December 31, 2023	March 31, 2024
Cash	US Dollar	\$ 53,573	\$ 4,946
Accounts Receivable	US Dollar	\$ 110,684	\$ 85,096
Accounts Payable	US Dollar	\$ 560,962	\$ 827,999

On March 31, 2024, an increase of 1% in the value of the US dollar will result in a gain of \$494 (December 31, 2023 - \$535) in the value of cash, \$850 (December 31, 2023 - \$1,106) in accounts receivable and loss of \$8,279 (December 31, 2023 - \$5,609) in accounts payable. Similarly, a decrease of 1% in the value of the US dollar will have similar effects but in opposite direction.

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(Expressed in Canadian dollars)

15. Capital management

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders. The Company considers the items included in shareholders' equity of \$1,105,679 as capital as at March 31, 2024 (December 31, 2023 - \$2,016,013). The Company manages the capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the Company's business. To secure the additional capital necessary to pursue these plans, the Company intends to raise additional funds through equity or debt financing. The Company is not subject to any capital requirements imposed by a regulator.

16. Subsequent events

On April 17, 2024, the Company received an unsecured loan of \$250,000 from a certain third party lender (the "**2024 Loan**"). The 2024 Loan bears interest at a rate of 12% per annum and the principal and any accrued interest on the 2024 Loan are payable on the later of: (i) May 27, 2024; and (ii) the date on which the Company completes an equity or debt financing.

On May 6, 2024, in accordance with the terms of the Bonus Warrants, the exercise price of each Bonus Warrant was deemed to be \$0.405 per share, as this was the Market Price (as defined in the policies of the TSXV) on the first date prior to the Company announcing a proposed financing.