XR Immersive Tech Inc.

Consolidated Financial Statements
Years ended December 31, 2023, and 2022

Expressed in Canadian dollars, except otherwise indicated

To the Shareholders of XR Immersive Tech Inc.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for Material Accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Audit Committee is composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management, and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board is also responsible for recommending the appointment of the Company's external auditors.

SRCO Professional Corporation Chartered Professional Accountants, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, the Board of Directors, Audit Committee and management to discuss their audit findings.

April 29, 2024

Shabeer Sinnalebbe	"Sheri Rempel"
CEO, Director	CFO

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of XR Immersive Tech Inc.

Opinion

We have audited the consolidated financial statements of XR Immersive Tech Inc. and its subsidiary (together the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficit, and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy and information (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRS).

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 Audits of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated 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.

Emphasis of Matter - Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2023, and had a working capital deficiency and an accumulated deficit at that date. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist 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 judgement, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Emphasis of Matter - Material Uncertainty Related to Going Concern* section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report.

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Independent Auditor's Report to the Shareholders of XR Immersive Tech Inc. *(continued)*

Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Goodwill and intangible assets impairment assessment In accordance with IAS 36 *Impairment of Assets,* management is required to test for impairment annually, or when facts and circumstances suggest it may be impaired. The Company's impairment test required management to make significant assumptions in determining the recoverable amount, such as revenue forecast, operating expenses, discount rate, and terminal growth rate.	We determined this as a key audit matter as it represented an area of significant risk of material misstatement given the magnitude of the goodwill and intangible assets and the high degree of estimation uncertainty in determining the recoverable amount. We considered this a key audit matter due to the judgments made by management in assessing the indications of impairment and developing the assumptions to determine the recoverable amounts. We performed the following procedures: ▪ Evaluated management's process and methodology; ▪ Tested the completeness and accuracy of data and, reasonableness of assumptions used in the Company's impairment assessment; ▪ Engaged our professional with specialized skills and knowledge in the field of valuation to evaluate the methodology and assumptions used; ▪ Performed sensitivity analyses over these assumptions to assess the impact on the recoverable amount of the goodwill and intangible assets; and ▪ Assessed the overall presentation and disclosure in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we 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.

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Independent Auditor's Report to the Shareholders of XR Immersive Tech Inc. *(continued)*

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 Audits of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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.

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Independent Auditor's Report to the Shareholders of XR Immersive Tech Inc. *(continued)*

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements *(continued)*

- 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or 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 Sameer Parekh.

SRCO Professional Corporation

Richmond Hill, Canada
April 29, 2024

CHARTERED PROFESSIONAL ACCOUNTANTS
Authorized to practice public accounting by the
Chartered Professional Accountants of Ontario

(Expressed in Canadian dollars, except as otherwise indicated)

	Note		As at December 31, 2023		As at December 31, 2022
ASSETS					
Current assets					
Cash and cash equivalents	3	$	196,319	$	270,681
Prepaids and other receivable			438		74,290
Government sales tax receivable			28,659		11,234
Inventory	5		-		44,028
			225,416		400,233
Non-current assets					
Investments	6		49,000		32,725
Equipment	8		-		5,456
Intangible assets	9		-		1,057,906
Goodwill	11		-		1,208,649
TOTAL ASSETS		**$**	**274,416**	**$**	**2,704,969**
LIABILITIES					
Current liabilities					
Trade and other payables	13	$	527,894	$	475,755
Accrued liabilities			334,134		19,350
Due to related parties	13		300,000		300,000
			1,162,028		795,105
Non-current liabilities					
CEBA loan	15		59,604		49,270
Contingent consideration	7		-		114,583
Due to parent	13		1,161,913		1,145,650
Convertible debenture	16		200,260		-
Deferred tax liability	18		-		300,409
Loan payable	14		3,630,063		3,078,647
TOTAL LIABILITIES			6,213,868		5,483,664
SHAREHOLDERS' DEFICIT					
Share capital	2,17		6,487,222		6,465,971
Reserve	17		2,503,211		1,802,596
Accumulated other comprehensive income			(5,367)		13,517
Accumulated deficit			(14,924,518)		(11,060,779)
TOTAL SHAREHOLDERS' DEFICIT			(5,939,452)		(2,778,695)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT		**$**	**274,416**	**$**	**2,704,969**

Nature of operations and going concern – Note 1

See accompanying notes to the consolidated financial statements.

(Expressed in Canadian dollars, except as otherwise indicated)

	Notes	Years ended December 31, 2023	2022
Revenue		$ 521,574	$ 1,195,195
Cost of revenue		16,627	413,572
		504,947	781,623
Expenses			
Amortization and depreciation	8,9,10	223,120	240,695
Consulting fees	13	192,835	712,161
Foreign exchange loss (gain)		1,889	(8,202)
General and administration	13	254,524	394,314
Interest and accretion	10,14,15,16	568,712	929,011
Management fees	13	-	200,000
Professional fees	13	460,517	383,145
Research and development	12	203,155	363,364
Salaries and wages	13	157,021	1,086,348
Sales and marketing		8,522	556,944
Share-based compensation	13,17	670,095	262,351
Total expenses		(2,740,390)	(5,120,131)
Other Items			
Change in fair value of investment	6	16,275	32,725
Finder's fee	7,16	-	(370,286)
Impairment of non-financial assets	9,11	(2,043,435)	(1,592,644)
Change of fair value of contingent consideration	7	114,583	180,750
Interest and other income	6	20,221	298,401
Write-down	5,8,10	-	(268,143)
		(1,892,356)	(1,719,197)
Net loss for the year		(4,127,799)	(6,057,705)
Current income tax	18	(36,349)	(26,647)
Deferred tax recovery	18	300,409	58,068
Net loss for the year after tax		(3,863,739)	(6,026,284)
Other Comprehensive loss			
Currency translation adjustment		18,884	13,517
Comprehensive loss for the year		(3,844,855)	(6,012,767)
Loss per share - basic and diluted	2,16	**$ (0.25)**	**$ (0.41)**
Weighted average number of common shares outstanding for the year - basic and diluted	2,16	**15,196,792**	**14,750,858**

See accompanying notes to the consolidated financial statements

(Expressed in Canadian dollars, except as otherwise indicated)

		Share Capital [1]		Reserve					
	Notes	Number of Shares	Amount	Contributed Surplus	Warrants	Total Reserve	Accumulated other comprehensive income	Deficit	Total
Balance at January 1, 2022		**12,675,152**	**$ 2,998,007**	**$ 287,415**	**$ 1,041,840**	**$ 1,329,255**	**$ -**	**$ (5,034,495)**	**$ (707,233)**
Shares issued on Synthesis acquisition	7,17	2,390,476	3,441,714	-	-	-	-	-	3,441,714
Share-based payments	17	125,000	26,250	236,101	-	236,101	-	-	262,351
Warrants issued on amended debt financing	14	-	-	237,240	-	237,240	-	-	237,240
Currency translation adjustment		-	-	-	-	-	13,517	-	13,517
Net loss for the year		-	-	-	-	-	-	(6,026,284)	(6,026,284)
Balance at December 31, 2022		**15,190,628**	**$ 6,465,971**	**$ 760,756**	**$ 1,041,840**	**$ 1,802,596**	**$ 13,517**	**$ (11,060,779)**	**$ (2,778,695)**
Share-based payments - Westdale loan	14,17	125,000	21,251	-	-	-	-	-	21,251
Share-based payments - options	17	-	-	648,844	-	648,844	-	-	648,844
Equity portion of convertible debenture	16	-	-	25,886	25,885	51,771	-	-	51,771
Currency translation adjustment		-	-	-	-	-	(18,884)	-	(18,884)
Net loss for the year		-	-	-	-	-	-	(3,863,739)	(3,863,739)
Balance at December 31, 2023		**15,315,628**	**$ 6,487,222**	**$ 1,435,486**	**$ 1,067,725**	**$ 2,503,211**	**$ (5,367)**	**$ (14,924,518)**	**$ (5,939,452)**

[1] Common share amounts have been retrospectively adjusted for all prior periods to reflect the Share Consolidation effected on November 8, 2023 (Note 2(c),16).

See accompanying notes to the consolidated financial statements

(Expressed in Canadian dollars, except as otherwise indicated)

		Years ended December 31, 2023	2022
Operating activities			
Net loss for the year		$ (3,863,739)	$ (6,026,284)
Adjustments for non-cash items:			
Interest and accretion		568,712	929,011
Deferred tax recovery		(300,409)	(58,068)
Amortization and depreciation		223,120	240,695
Foreign exchange loss (gain)		1,889	(8,202)
Gain on investment		(16,275)	(32,725)
Net Impairment of non-financial assets		2,043,435	1,592,644
Revaluation of contingent consideration		(114,583)	(180,750)
Finder's fee		-	370,286
Share-based compensation		670,095	262,351
Write-down		-	268,143
Changes in non-cash working capital items:			
Prepaids and other receivable		73,852	17,177
Government sales tax receivable		(17,425)	7,129
Government subsidy receivable		-	182,782
Inventory		-	(144,360)
Trade and other payables		161,624	344,549
Accrued liabilities		307,966	(296,938)
Deferred revenue		-	(91,174)
Net cash flows used in operating activities		(261,738)	(2,623,734)
Investing activities			
Purchase of equipment		-	(7,353)
Acquisition of Synthesis - cash acquired		-	271,333
Acquisition of Synthesis		-	(200,000)
Net cash flows provided by investing activities		-	63,980
Financing activities			
Proceeds from parent company		16,263	26,541
Net proceeds from convertible debentures		190,000	-
Interest on loan payable		-	(126,326)
Payments on lease liability		-	(16,092)
Net cash flows provided by (used in) financing activities		206,263	(115,877)
Effect of foreign exchange rates on cash and cash equivalents		(18,887)	13,517
Decrease in cash and cash equivalents		(74,362)	(2,662,114)
Cash and cash equivalents, beginning of the year		270,681	2,932,795
Cash and cash equivalents, end of the year		**$ 196,319**	**$ 270,681**
Supplemental non-cash activities:	Note		
Shares issued on acquisition	7	$ -	$ 3,071,429
Supplemental cash flow information:	Note		
Interest paid on loan payable	14	$ -	$ 126,326
Income taxes paid	18	$ 36,349	$ 26,206

See accompanying notes to the consolidated financial statements.

1. Nature of Operations and Going Concern

XR Immersive Tech Inc. (the “Company” or “XRI”) affected a name change on February 3, 2022. The Company is 54.10% owned by Victory Square Technologies Inc. (“Victory Square” or “VST”). The Company is a Virtual Reality (“VR”) location management and content licensing platform. The consolidated financial statements are comprised of financial statements of the Company and its wholly owned subsidiary Synthesis VR Inc. (Synthesis or “SVR”), a company existing pursuant to the Laws of the State of California.

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

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2023, the Company had a working capital deficit of $936,612 (December 31, 2022 – $394,872) and an accumulated deficit of $14,924,518 (December 31, 2022 – $11,060,779). The Company does not have sufficient cash to sustain operations for the next twelve months without additional financing. The continued operations of the Company are dependent upon its ability to generate future cash flows and/or obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company’s liabilities and commitments as they become due; however, they may not be at terms that are favorable to the Company. Although the Company has been successful in the past in raising funds to continue operations, there is no assurance it will be able to do so in the future. These factors indicate the existence of a material uncertainty that may cast significant doubt upon the Company’s ability to continue as a going concern. These consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern, and such adjustments could be material.

2. Material Accounting Policies

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

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") as applicable to the preparation of annual financial statements.

b) Principles of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary Synthesis VR Inc. from acquisition on January 4, 2022, which also has a December year-end.

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

c) Basis of Preparation

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

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

Business combinations

The Company uses the acquisition method to account for business combinations. This requires an entity to measure each identifiable asset and liability at fair value. The excess, if any, of the fair value of consideration over the fair value of the net identifiable assets acquired is recognized as goodwill. The purchase price allocation involves judgment with respect to the identification of intangible assets acquired and estimates of the fair value of the assets acquired and liabilities assumed, including pre-acquisition contingencies and contingent consideration. Changes in any of the assumptions or estimates used to identify intangible assets acquired, determine the fair value of acquired assets and liabilities assumed, including pre-acquisition contingencies or contingent consideration, could affect the amounts assigned to assets, liabilities and goodwill in the purchase price allocation. Transaction costs incurred in a business combination are expensed.

The Company considers certain acquisitions to be asset acquisitions, on the assumption that there are no identifiable businesses acquired in the transaction. There is judgment involved in the determination of whether the acquisition involves assets or entire businesses. Direct transaction costs incurred in the acquisition of an asset, or a group of assets generally are a component of the consideration transferred and are capitalized as a component of the cost of the assets acquired and liabilities assumed. Where contingent consideration is included in an asset acquisition, the Company has adopted a policy choice to record a liability for any expected variable payments at the time the obligating event or related activity that gives rise to the variability occurs. Changes in the fair value of the contingent consideration upon recognition are recognized in the consolidated statements of loss and comprehensive loss during the periods in which the obligating event occurs.

2. Material Accounting Policies (continued)

d) Use of Estimates and Judgements

Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. Goodwill is carried at cost less accumulated impairment losses. Refer to Note 11 for a description of the Company's annual impairment testing procedures.

The preparation of the consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of revenue and expenses for the periods presented and the carrying amounts of assets, and liabilities, and the disclosure of contingent liabilities, at the date of the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors, including expectations of future events believed to be reasonable, that are considered to be relevant, the results of which form the basis of the estimates made or judgement exercised that are not readily apparent from other sources. Actual results may differ from these estimates. Judgments and estimates are often interrelated. The Company's judgments and estimates are continually re-evaluated to ensure they remain appropriate. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

Significant areas requiring the use of estimates include the following:

Recognition and Valuation of Deferred Tax Assets
The recognition of deferred tax assets is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future or whether taxable temporary differences will reverse such that deferred tax assets can be utilized. Recognition therefore involves a degree of estimation and judgement regarding the future financial performance or the timing of the reversed deferred tax liabilities of the legal entity in which the deferred tax assets have been recognized.

Convertible Debt
The identification of convertible debt and conversion feature on debt are based on the interpretations of the substance of the contractual arrangement, and therefore require judgment from management. The separation of the components affects the initial recognition at issuance and the subsequent recognition of interest on the liability component. Critical estimates and assumptions used in the assessment of the fair value of the components are discussed in Note 16 and include the discount rate applied. Where equity-settled instruments are included in debt instruments, the amount allocated to reserve is based on the relative fair values of each instrument determined using the Black-Scholes Option Pricing Model on the date of the issuance.

Contingent Consideration
The valuation of contingent consideration is based on management's estimate of the likelihood of any expected variable payment with changes in the fair value of the contingent consideration upon recognition recognized in the consolidated statements of loss and comprehensive loss during the periods in which the obligating event occurs (Note 7).

Impairment of Non-Financial Assets
For the purposes of assessing impairment, the Company's assets are grouped and reviewed for impairment at the Cash Generating Unit ("CGU"), which is determined by management as equivalent to its operating segments. The Company currently identifies only one CGU, being the business and intangible properties of

SVR. Key assumptions used in impairment calculations include revenue growth rate, discount rate, and management expectations in the market.

2. Material Accounting Policies (continued)

d) Use of Estimates and Judgements (continued)

When there are indications that non-financial assets may be impaired, the Company is required to estimate their recoverable amounts. The recoverable amount is the greater of value in use and fair value less costs to sell. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Determining the value in use requires the Company to estimate expected future cash flow associated with the assets and a suitable discount rate in order to calculate the present value (refer to Note 11 for details of the impairment loss on goodwill).

Estimated Useful Life of Intangible Assets

The relative size of the Company's intangible assets makes the judgements surrounding the estimated useful lives critical to the Company's financial position and performance. The useful life of intangible assets relates to the future performance of the assets and management's judgement of the period over which economic benefit will be derived from the assets. The useful life is determined by management and is regularly reviewed for appropriateness. The amortization of the Company's finite-life intangible assets begins when the assets are available for use. The useful life is based on historical experience with similar development costs as well as anticipation of future events which may impact their life such as changes in technology.

Business combination

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair value. One of the most significant areas of judgement and estimation relates to the determination of the fair value of these assets and liabilities. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. Contingent consideration recorded at the acquisition date requires revaluation based on revised estimates of management at each reporting date.

Share-based payments

Equity-settled share-based payments made to employees are measured at the fair value of the instruments at the grant date and recognized in expense over the applicable vesting periods. Equity-settled share-based payments made to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued if it is determined that the fair value of the goods or services received cannot be reliably measured. Non-employee share-based payments are recognized in expense at the date the goods or services are received. The corresponding amount is recorded to share-based payment reserves. Share-based payment expense is reversed for unvested instruments when cancelled or expired. Upon the exercise of stock options at the applicable exercise price, the consideration received by the Company on the exercise is recorded in share capital and the related share-based payment reserve is transferred to share capital.

The fair value of options and warrants are determined using the Black-Scholes Option Pricing Model on the date of the grant, based on certain assumptions further discussed in Note 17. The fair value of restricted share units ("RSUs") is measured on the date of grant based on the closing price of the Company's common shares.

Judgments made by management in the application of IFRS that have a significant effect on the consolidated financial statements include the following:

2. Material Accounting Policies (continued)

d) Use of Estimates and Judgements (continued)

Going Concern

Management has applied judgments in the assessment of the Company's ability to continue as a going concern when preparing its consolidated financial statements. Management prepares the consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting year. Management considered a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing. As a result of the assessment, management concluded the going concern basis of accounting is appropriate based on its profit and cash flow forecasts and access to replacement financing for the next twelve months.

Business versus Asset Acquisition

Determining whether or not the January 4, 2022, share acquisition of SVR by XRI (Note 7) constituted a business combination or acquisition of assets. At acquisition, SVR had an application, a user base, and contracts with a number of customers as well as revenues. As such the acquisition was considered a business combination and the fair value of the consideration paid was allocated to the identifiable assets acquired with the remaining value allocated to goodwill.

Treatment of development costs

Costs to develop products are capitalized to the extent that the criteria are met for recognition as intangible assets in accordance with International Accounting Standards ("IAS") 38. Such criteria require that the product is technically and economically feasible, the Company has the intention and ability to use the asset, and that the asset will generate future benefits to the Company. Management assessed the capitalization of development costs based on the attributes of each development project, perceived user needs, industry trends and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is technically and economically feasible.

Fair value of financial assets

The estimation of fair value of investments in shares is inherently complex and requires making certain estimates and assumptions about future events. The inputs to determine the fair value are taken from observable markets where possible but, where they are unavailable, assumptions are required in establishing fair value. The fair value measurement for investment in shares is derived using level 3 inputs based on past experience and management's expectations of future changes.

e) Intangible Assets

Intangible assets are stated at cost, net of accumulated amortization. The intangible assets are amortized when they are available for use. Following initial recognition, the underlying assets are carried at cost, less accumulated amortization and accumulated impairment losses.

2. Material Accounting Policies (continued)

e) Intangible Assets (continued)

Evaluating whether or not costs incurred by the Company in developing software, applications and technology meet the criteria for capitalizing as intangible assets, recognition of which involves significant management judgement. Specifically, assessing whether the internally generated intangible assets can demonstrate the following during the development phase:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- It's intention to complete the intangible asset and use or sell it;
- It's ability to use or sell the asset;
- How the asset will generate probable future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

All research costs (Note 12) are expensed as incurred. Subsequent expenditures are capitalized only if it increases the future economic benefits embodied in an intangible asset. All other expenditures, including operating costs, are recognized in the consolidated statement of loss and comprehensive loss.

SVR acquired intangible assets

The intangible assets acquired in a business combination that qualify for separate recognition include trademark and developed technology, which are amortized on a straight-line basis over 5 and 6 years, respectively, and are tested for impairment annually.

f) Equipment

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation is calculated using the straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. The depreciation rates applicable to each category of equipment are as follows:

Class of property and equipment	Depreciation rate
Computer equipment	3 years
Furniture and other equipment	3 years

g) Financial Instruments

<u>(i) 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 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. Equity instruments that are held for trading are classified as FVTPL.

2. Material Accounting Policies (continued)

g) Financial Instruments (continued)

For other equity instruments, on the day of acquisition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. 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.

Financial instruments measured at amortized cost include cash and cash equivalents, other receivables, trade and other payables, accrued liabilities, due to parent, due to related parties, CEBA loan, convertible debenture, and loan payable including accrued interest.

Financial instruments measured at FVTPL include investments and contingent consideration.

(ii) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and are subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss and comprehensive loss in the year in which they arise.

Debt investments at FVTOCI

These assets are subsequently measured at fair value.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in the consolidated statements of loss and comprehensive loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to the consolidated statements of loss and comprehensive loss.

Equity investments at FVTOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in the consolidated statements of loss and comprehensive loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to the consolidated statements of loss and comprehensive loss.

(iii) 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 shall recognize in the consolidated statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the allowance at the reporting date to the amount that is required to be recognized.

2. Material Accounting Policies (continued)

h) Investments (continued)

(iv) 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.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. Gains and losses on derecognition are generally recognized in the consolidated statements of loss and comprehensive loss.

Investments which are classified as financial instruments under IFRS 9 are initially recorded at the fair value at the time of acquisition. Subsequent measurement depends on the classification of the financial instrument as noted above in Note 2(g).

For those investments in which the Company has significant influence the Company uses the equity method of accounting whereby an equity investment is initially recorded at cost and subsequently adjusted to reflect the investor’s share of the net profit or loss of the investee. Any distributions received from the investee company reduce the carrying amount of the investment.

The Company has determined that it had significant influence over Shape Immersive Entertainment Inc. (“Shape”) up to August 11, 2021, and accounted for the investment using the equity method.

After August 11, 2021, the investment was accounted at fair value, as the Company’s interest in Shape was diluted well below 20% and its voting equity was exchanged for non-voting shares. Fair value was recorded at a nominal amount based on management’s judgment that no reliable fair value measurement was readily available.

i) Foreign Currency Translation

These consolidated financial statements are presented in Canadian dollars. At the time of consolidation and financial reporting the following conversion methods are used:

Translation of Foreign Currency Transactions

At each consolidated statement of financial position date, foreign currency monetary items are translated to reflect the exchange rate at the statement of consolidated financial position date. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Exchange differences are recorded in the consolidated statement of loss and comprehensive loss.

2. Material Accounting Policies (continued)

Translation of Foreign Operations

The financial results and position of foreign operations whose functional currency is different from the Company's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date; and
- Income and expenses are translated at average exchange rates for the year.

Exchange differences arising on translation of foreign operations are recognized in other comprehensive income and recorded in the Company's foreign currency translation reserve in equity. These differences are recognized in the consolidated statements of loss and comprehensive loss in the period in which the operation is disposed.

j) Segments

The consolidated financial statements include one operating segment for the overall business. The operating results are regularly reviewed by the chief operating decision makers to determine decisions about resources and how they will be allocated to determine performance. At this time, management does not make decisions by revenue stream, but rather as an organization as a whole on a consolidated basis. Therefore, the consolidated financial statements are presented as one operating segment; XRI's customers are exclusively in Canada and the US markets and SVR's customers are in the US, Canadian, and international markets.

k) Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured using management's best estimate as to the outcomes, based on known facts, risks and uncertainties at the reporting date. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the asset associated with the contract.

l) Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current year 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 consolidated statements of loss and comprehensive loss.

2. Material Accounting Policies (continued)

l) Income Taxes (continued)

Current Income Tax (continued)

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 tax is recognized using the asset-liability method and calculated based on all temporary differences, at the consolidated statements of financial position date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Deferred 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, as applicable, based on the tax rates that have been enacted or substantively enacted at the reporting date. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2. Material Accounting Policies (continued)

m) Impairment of Non-Financial Assets

The carrying amount of the Company's non-financial assets is reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses (Note 11) are recognized in the consolidated statements of loss and comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The Company considers SVR to be a distinct cash-generating unit for which impairment of non-financial assets is performed at each reporting date.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

n) Revenue Recognition

Revenue from Contracts with Customers

IFRS 15 utilizes a methodical framework for entities to follow in order to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

The Company determines the amount of revenue to be recognized through application of the following steps:

- Identification of the contract, or contracts with a customer.
- Identification of the performance obligations in the contract.
- Determination of the transaction price.
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when or as the Company satisfies the performance obligations.

The Company, through its investment in subsidiary, generates its revenue from the following sources:

Revenue from Location-Based Virtual Reality ("LBVR")
SVR offers a platform that serves the LBVR segment. SVR charges LBVR operators' subscription fees that can be customized to the customers needs and are based on the access, utilization, and features available on SVR's platform and the content available therein. The platform allows for the use of content made available to SVR through game licenses with various developers. SVR acts as an agent in its revenue generating activity, recording revenue on a net basis by deducting the cost of content license fees from gross revenue. SVR has license agreements with licensors where the licensors grant SVR the right to use their license in exchange of percentage of gross revenue earned from LBVR customers.

2. Material Accounting Policies (continued)

n) Revenue recognition (continued)

Revenue from Location-Based Virtual Reality ("LBVR") (continued)

The licensors set the price of their content and maintain control over the content, while SVR bears no credit risk to pay developers should it not collect subscription and usage fees from its customers. SVR periodic subscription revenue is recognized as services are rendered, which generally coincides with monthly billings. Revenue related to content use is recognized at a point time, representing 21% of total revenue, when earned, which also generally is included in monthly billings.

Immersive Experiences Revenue

Revenue from providing immersive experiences is recognised in the accounting year in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting year as a proportion of the total services to be provided. This is determined based on the actual total costs spent relative to the expected total costs. Revenue is recognized as the performance obligation is satisfied, which is over a period of time.

Estimates of revenues, costs, or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the consolidated statements of loss and comprehensive loss in the year in which the circumstances that gave rise to the revision become known to management.

In the case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Company exceed the payment, a contract asset (receivable) is recognised. If the payments exceed the services rendered, a contract liability (deferred revenue) is recognized. Any known loss on the contract is recognized immediately.

Deferred revenue consists of customer consideration received in advance of the related performance obligation satisfied and revenue earned.

o) Leases

The Company assesses at inception of a contract, whether the contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether the customer has the following through the period of use:

1. The right to obtain substantially all of the economic benefits from use of the identified asset; and
2. The right to direct the use of the identified asset.

At the lease commencement date, the Company recognizes a right of use asset and a lease liability. The right of use asset is initially measured at cost. The cost of the right of use asset is comprised of the initial amount of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred by the Company, and an estimate of the costs to be incurred by the Company in dismantling and removing the underlying asset and restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

2. Material Accounting Policies (continued)

o) Leases (continued)

After the commencement date, the Company measures right of use assets related to property and equipment by applying the cost model, whereby the right of use asset is measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability. The right of use asset is depreciated using the straight-line method from the commencement date to the end of the lease term or the end of the estimated useful life of the right of use asset. The determination of the depreciation period is dependent on whether the Company expects that the ownership of the underlying asset will transfer to the Company by the end of the lease term or if the cost of the right of use asset reflects that the Company will exercise a purchase option.

The lease liability is initially measured at the present value of the lease payments not paid at the lease commencement date, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate, if the interest rate implicit in the lease cannot be readily determined. The lease payments included in the measurement of the lease liability comprise of fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, amounts expected to be payable by the Company under a residual value guarantee, the exercise price of a purchase option that the Company is reasonably certain to exercise, and payment of penalties for terminating the lease if the lease term reflects the Company exercising an option to terminate the lease. After the commencement date, the Company measures the lease liability at amortized cost using the effective interest method.

The Company remeasures the lease liability when there is a change in the lease term, a change in the Company's assessment of an option to purchase the underlying asset, a change in the Company's estimate of amounts expected to be payable under a residual value guarantee, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments. On remeasurement of the lease liability, a corresponding adjustment is made to the carrying amount of the right of use asset or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

The Company has elected to not recognize right of use assets and lease liabilities for short term leases and low value leases. Short-term leases are leases with a term of twelve months or less. Low value leases are leases where the underlying asset has a new value of $5,000 USD or less. The Company recognizes the lease payments associated with these leases as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

p) Government Grants

Loans received from government grants are recognized initially at fair value (Note 15), with the difference between the fair value of the loan based on prevailing market interest rates and the amount received recorded as a government grant gain in the consolidated statements of loss and comprehensive loss. Investment tax credits are recorded when the Company has complied with eligible requirements to receive the credit, using the cost reduction approach.

Investment tax credits related to eligible scientific research and experimental development ("SRED") expenditures are included in the consolidated statements of loss and comprehensive loss as a reduction of the expenses that they relate to. Investment tax credits related to the acquisition of property and equipment are deducted from the cost of the related assets, with any amortization calculated on the net amount, when received or when the Company has reasonable assurance that investment tax credits will be realized. The investment tax credits are subject to review and audit by the Canada Revenue Agency ("CRA").

2. Material Accounting Policies (continued)

p) Government Grants (continued)

Although the Company has used its best judgment and understanding of the related income tax legislation in determining the amounts and timing of investment tax credits, it is possible that the amounts could change by a material amount in the near term depending on a review and audit by the CRA.

q) Income (Loss) Per Share

Basic income (loss) per share is computed using the weighted average number of common shares outstanding during the year. The treasury stock method is used for the calculation of diluted income (loss) per share, whereby all "in the money" stock options and share purchase warrants are assumed to have been exercised at the beginning of the year and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the year. When a loss is incurred during the year, basic and diluted loss per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive.

r) Comprehensive Loss

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events, and circumstances from sources other than the Company's shareholders and includes items that are not included in the consolidated statement of net loss and comprehensive loss. For the years ended December 31, 2023, and 2022, the Company recognized cumulative translation adjustment as the only item in other comprehensive loss.

s) Inventory

The Company records inventory at the lower of cost and net realizable value. Costs include equipment, freight, duty, brokerage and non-recoverable taxes, and are assigned on a specific identification basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. An assessment is made of the net realizable value of inventory at each reporting period.

t) Loan Modifications

The Company accounts for loan modification based on an assessment of whether the modification is substantial or non-substantial using both quantitative and qualitative tests. Where a modification is determined to be non-substantial, modification accounting adjusts the existing liability with an adjustment to amortized cost recorded in profit and loss. Where a modification is determined to be substantial, extinguishment accounting is used with the existing liability derecognized, and a new liability recognized at fair value with any difference between consideration and carrying amount of the old debt recorded as a gain or loss.

u) Compound Financial Instruments

Compound financial instruments issued by the Company comprise convertible debentures (Note 16) that can be converted into common shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value. The liability component of compound financial instruments is initially recognised at the fair value of similar liability that does not have an equity conversion option. The equity component is initially recognised at the difference between fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

2. Material Accounting Policies (continued)

u) Compound Financial Instruments (continued)

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured. Interest related to the financial liability is recognised in profit or loss.

v) Share-based Payments

The Company maintains an equity incentive plan for its officers, directors, employees, and consultants with a maximum number of shares reserved for issuance under all equity-based compensation arrangements.

i) Share options are settled in equity. The fair value of share options granted is recognized as an expense over the vesting period using the graded vesting method with a corresponding increase in contributed surplus. The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using an appropriate option pricing model, taking into account the terms and conditions upon which the options were granted. At each reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest based on an estimate of the forfeiture rate.

ii) Each RSU represents an entitlement to one common share of the Company, upon vesting. RSUs provide the option of being settled in cash. The fair value of RSUs granted is recognized as an expense over the vesting period using the graded vesting method with a corresponding increase in share-based payment liability. The liability is re-measured to fair value at each reporting date and, upon redemption, at the Corporation's closing share price, with any changes in the fair value recognized in profit or loss. At each reporting date, the amount recognized as an expense is adjusted to reflect the actual number of RSUs that are expected to vest based on an estimate of the forfeiture rate. Upon redemption of the RSU, the liability is transferred to share capital.

w) Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

x) Warrants

The Company issues warrants from time to time which grant the holder the right to acquired one common share for each warrant at an exercise price and with an expiry date as per each warrant agreement.

y) New Currently Effective Requirements and Forthcoming Requirements

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ended December 30, 2023 and, accordingly, have not been applied in preparing these financial statements.

Lease Liability in a Sale and Leaseback. In September 2022, the IASB issued amendments to IFRS 16 – Leases ("IFRS 16") relating to sale leaseback transactions for seller-lessees. The amendment adds a requirement that measuring lease payments or revised lease payments shall not result in the recognition of a gain or loss that relates to the right-of-use asset retained by the seller-lessee. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The Company assessed the impact of the amendments and determined there to be no material impact on the consolidated financial statements.

2. Material Accounting Policies (continued)

y) New Currently Effective Requirements and Forthcoming Requirements (continued)

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements

Amendments to IAS 1 were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in June 2021. The amendments help entities provide accounting policy disclosures that are more useful to primary users of financial statements by:

- Replacing the requirement to disclose "significant" accounting policies under IAS 1 with a requirement to disclose "material" accounting policies. Under this, an accounting policy would be material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that primary users of general-purpose financial statements make on the basis of those financial statements.

- Providing guidance in IFRS Practice Statement 2 to explain and demonstrate the application of the four-step materiality process to accounting policy disclosures.

The amendments are effective for annual periods beginning on or after January 1, 2023. The impact of standards adopted on January 1, 2023 was considered insignificant. Additionally, for annual periods beginning on or after January 1, 2024, the AcSB recently amended IAS 1 regarding the presentation of current versus long-term liabilities by:

- Removing the requirement for a liability to be reported as current when a company does not have an unconditional right to defer settlement for at least 12 months after the reporting date. The Standard now requires that a right to defer settlement must exist at the reporting date and have substance.

Non-current Liabilities with Covenants

In October 2022, the IASB issued amendments to IAS 1 – Presentation of Financial Statements, which specifies that covenants whose compliance is assessed after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require disclosure of information about these covenants in the notes to the financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The Company assessed the impact of the amendments and determined there to be no material impact on the consolidated financial statements.

Supplier Finance Arrangements

In May 2023, the IASB issued amendments to IAS 7 – Statement of Cash Flows and IFRS 7 – Financial Instruments: Disclosures. The amendments add requirements to disclose information that allows users to assess how supplier finance arrangements affect an entity's liabilities, cash flows, and exposure to liquidity risk. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The Company assessed the impact of the amendments and determined there to be no material impact on the consolidated financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Amendments to IAS 8, issued in February 2021, introduces a new definition of "accounting estimates" to replace the definition of "change in accounting estimates" and also include clarification intended to help entities distinguish changes in accounting policies from changes in accounting estimates.

2. Material Accounting Policies (continued)

y) New Currently Effective Requirements and Forthcoming Requirements (continued)

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (continued)
The amendments are effective for annual periods beginning on or after January 1, 2023. The impact of standards adopted on January 1, 2023 was considered insignificant.

IAS 12 Income Taxes

Amendments to IAS 12, issued in May 2021, narrow the scope of the recognition exemption to require an entity to recognize deferred tax on initial recognition of particular transactions, to the extent that transaction gives rise to equal taxable and deductible temporary differences. These amendments apply to transactions for which an entity recognizes both an asset and liability, for example leases and decommissioning liabilities. The amendments are effective for annual periods beginning on or after January 1, 2023.

Lack of Exchangeability

In August 2023, the IASB issued amendments to IAS 21 – The Effects of Changes in Foreign Exchange Rates in relation to Lack of Exchangeability. The amendments require entities to apply a consistent approach in assessing whether a currency can be exchanged into another currency, and in determining the exchange rate to use and the disclosures to provide when it cannot. These amendments are effective for annual reporting periods beginning on or after January 1, 2025, with early adoption permitted. The Company assessed the impact of the amendments and determined there to be no material impact on the consolidated financial statements.

New standards, interpretations and amendments not adopted are not expected to have a material impact on the Company’s consolidated financial statements.

3. Cash and Cash Equivalents

As at December 31, 2023, the cash balance of $196,319 (December 31, 2022 - $270,681) was comprised entirely of cash held in operating accounts and balances held on payment processing platforms.

4. Prepaids and Other Receivable

Prepaid and other receivable consisted primarily of the refund of provincial interactive digital media tax credit and refund interest in the amount of $55,734 (2023: Nil) for eligible salaries and wages expended during the taxation year ended December 31, 2021. The refund was received during the year ended December 31, 2023 (2022: Nil).

5. Inventory

During the year ended December 31, 2022, the Company successfully started to deliver and launched the first of its UNCONTAINED VR attractions. For the year ended December 31, 2022, inventory related to UNCONTAINED was written down to $44,028 resulting in a $244,349 write-down. On February 2, 2023, the Company executed a sales agreement whereby it sold all equipment and inventory to a former employee for $49,484, being consideration equal to the balance owed to its former landlord under a terminated lease agreement of $38,924 and $10,560 in other payables.

The consideration was allocated to inventory and equipment based on the relative net book values at year end, $5,456 to equipment (Note 8) and $44,028 to inventory. Simultaneously, the Company executed a settlement agreement with its former landlord whereby the consideration received on the sales agreement was paid to the landlord to extinguish all debts (Note 10). The carrying value of inventory at December 31, 2023 is $Nil (2022 - $44,028).

(Expressed in Canadian dollars, except as otherwise indicated)

6. Investments

On May 4, 2022, AlphaGen Intelligence Corp. (formerly Alpha Metaverse Technologies Inc.) (“Alpha”) (CSE:AIC), a company traded on the CSE, completed the acquisition of 100% of the issued and outstanding share capital of Shape, a private entity. On closing of the acquisition, XRI received 700,000 Class A common shares of Alpha, of which 630,000 were restricted in escrow with scheduled release in equal instalments through January 4, 2024. The fair value gain of the investment for the year ended December 31, 2023, is $16,275 (2022 – $32,725) resulting in a fair value of $49,000 as at December 31, 2023. Included in interest and other income of $20,221 (2022 – 298,401) is an amount of $20,000 (2022 - $5,000) of payments received during the year ended 2023, defined in the Alpha acquisition as additional cash consideration, being the payment of $500,000 total to the Shape shareholders in aggregate, based on each shareholder’s pro rata interest, of which XRI held 5%.

7. Acquisition

On January 4, 2022, the Company completed its acquisition of the all the issued and outstanding shares of Synthesis for aggregate consideration of $4,800,000 payable as follows: (i) $150,000 in cash with on the date of closing, (ii) $50,000 payable by January 31, 2022, and a further $300,000 payable upon the completion of certain milestones related to rounds of financings; and (iii) common shares of XRI with an aggregate value of $4,300,000 at a deemed price per share equal to the market price of XRI’s shares minus permitted discounts per policies of the CSE with a minimum price per share of $0.35, which such shares shall be subject to contractual escrow subject to CSE mandated hold periods. In addition, subject to applicable laws and the policies of the CSE, XRI may issue additional shares with an aggregate value of up to $5,000,000 upon the achievement of certain mutually agreed upon performance milestones. In connection with the transaction, XRI also paid a finder’s fee by the issuance of 342,857 common shares at a fair market value of $370,285, reported in Finder’s fee expense. The total number of shares issued in connection with the acquisition was 2,390,476 with a fair value of $3,441,714.

The acquisition was treated as a business combination and accordingly, the fair value of consideration in excess of the fair value of the identifiable assets and liabilities acquired was recognized as goodwill, as follows:

		Acquisition of Synthesis VR Inc.
Fair value of consideration		
Common shares of XRI (Note 16)	$	3,071,429
Cash paid on closing		200,000
Cash payable on future financing (Note 13)		294,311
Contingent consideration		295,333
	$	3,861,073
Assets and liabilities acquired		
Cash and cash equilvalents acquired	$	271,333
Net working capital acquired		(134,103)
Deferred income tax liability		(358,477)
Trademark (Note 9)		288,485
Developed Technology (Note 9)		992,542
Goodwill (Note 11)		2,801,293
	$	3,861,073

(Expressed in Canadian dollars, except as otherwise indicated)

7. Acquisition (continued)

As at December 31, 2023, the fair value of the contingent consideration was assessed to be nil as the performance targets for revenue generation as specified in the acquisition agreement were not met (Note 11). The change in fair value of the contingent consideration was recognized immediately in the consolidated statement of loss and comprehensive loss.

8. Equipment

As at December 31, 2022, computer and furniture and other equipment was written down to $5,456 (2023: Nil) as the Company recognized $30,092 (2023: Nil) in write-down expense on the consolidated statement of loss and comprehensive loss for the year ended December 31, 2022. The net realizable value is based on an allocation of an asset sale that occurred during the year ended December 31, 2023 (Note 5).

	Computer Equipment	Furniture and Other Equipment	Total
Cost			
Balance, January 1, 2022	$ 32,755	$ 22,107	$ 54,862
Additions	4,880	2,473	7,353
Write-off	(32,179)	(24,580)	(56,759)
Balance, December 31, 2022	$ 5,456	$ -	$ 5,456
Accumulated depreciation			
Balance, January 1, 2022	$ 18,472	$ 3,884	$ 22,356
Depreciation	2,751	1,583	4,334
Write-off	(21,223)	(5,467)	(26,690)
Balance, December 31, 2022	$ -	$ -	$ -
Net book value, December 31, 2022	5,456	-	5,456
Disposition (Note 5)	(5,456)	-	(5,456)
Net book value, December 31, 2023	$ -	$ -	$ -

9. Intangible Assets

Intangible assets at December 31, 2023 and 2022 consist of the following:

	Trademark	Developed Technology	Total
Cost			
Balance, January 1, 2022	$ -	$ -	$ -
Additions (Note 7)	288,485	992,542	1,281,027
Balance, December 31, 2023 and 2022	$ 288,485	$ 992,542	$ 1,281,027
Accumulated amortization			
Balance, January 1, 2022	$ -	$ -	$ -
Amortization of intangible assets	57,697	165,424	223,121
Balance, December 31, 2022	$ 57,697	$ 165,424	$ 223,121
Amortization of intangible assets	57,697	165,423	223,120
Balance, December 31, 2023	$ 115,394	$ 330,847	$ 446,241
Net book value, December 31, 2022	$ 230,788	$ 827,118	$ 1,057,906
Impairment (Note 11)	$ (173,091)	$ (661,695)	$ (834,786)
Net book value, December 31, 2023	$ -	$ -	$ -

(Expressed in Canadian dollars, except as otherwise indicated)

10. Right-of-Use Asset and Lease Obligation

The Company had a right-of-use asset and lease obligation related to a lease of office premises for its legacy business operations. During the year ended December 31, 2022, the Company defaulted on its lease payments and vacated the premises. During the year ended December 31, 2023, the Company reached a settlement agreement with its landlord to extinguish all remaining debt owing. As a result of the default and settlement agreement, the right-of-use asset and related lease liability were derecognized with the net gain of $6,299 representing the difference between the right-of-use asset net book value of $31,719 and the lease liability carrying value of $38,017 netted in write-down expense in the year ended December 31, 2022 (2023: Nil).

Right-of-use asset		
Balance, January 1, 2022	$	45,312
Amortization		(13,593)
Derecognition		(31,719)
Balance, December 31, 2023 and 2022	$	-

Lease liability		
Balance, January 1, 2022	$	33,822
Interest expense		6,310
Lease payment		(16,092)
Derecognition		(38,017)
Balance, December 31, 2023 and 2022	$	-

11. Goodwill

Goodwill was recognized in the acquisition of SVR (Note 7) and represents the expected synergies from combining the operations of the acquired companies with those of the acquiring Company, revenue growth, future market development and customer relations. These benefits are not recognized separately from goodwill since the resulting economic impact cannot be measured reliably. Goodwill is non-deductible for tax purposes. For the purpose of annual impairment testing, goodwill is allocated to the operating segments, or CGUs, expected to benefit from the synergies of the business combinations in which the goodwill arises as set out below, and is compared to its recoverable value. The Company has identified SVR as its own CGU for the purposes of goodwill impairment testing:

Balance, January 1, 2022	$	-
Additions (Note 7)		2,801,293
Impairment		(1,592,644)
Balance, December 31, 2022		1,208,649
Impairment		(1,208,649)
Balance, December 31, 2023	$	-

The Company tests CGU for impairment, including goodwill and intangible assets, annually, as applicable, or more frequently if there are indications that a CGU may be impaired. The recoverable amount of a CGU is the higher of the CGU's fair value less cost of disposal ("FVLCD") and its value-in-use. FVLCD is determined based on an implied enterprise value calculation using a market capitalization approach. Value-in-use is calculated using a discounted cash flow analysis based on detailed forecasts provided by management to estimate enterprise value.

(Expressed in Canadian dollars, except as otherwise indicated)

11. Goodwill (continued)

The Company recognized an impairment loss for the year ended December 31, 2023, because revenue targets were not achieved due the inability of the business to meet its initial projections since acquisition, ongoing cash loses, and other internal and external indicators. The impairment on the SVR CGU is based on the excess of the carrying value of the acquired assets over the calculated recoverable amount using a value-in-use calculation. Key assumptions used in the impairment calculation were revenue growth rates and the discount rate of 2.5% and 27% to 31%, respectively. A +/- 1% change in the inputs used in the calculation of the recoverable amount would have resulted in the same entire full impairment charge.

12. Research and Development

During the year ended December 31, 2023, the Company incurred $202,455 (2022 - $Nil) on game content to be owned by the Company.

During the year ended December 31, 2022, development of the Company's UNCONTAINED project continued with a prototype composed of both intangible software as well as a customized shipping container with hardware fixtures. Research and development costs of $700 (December 31, 2022 – $363,364) were expensed as incurred as the expenditures did not meet the capitalization criteria for intangible asset(s). The prototype was launched with the first customer experience occurring during the year ended December 31, 2022. The UNCONTAINED project was wound down resulting in the liquidation of the inventory (Note 5).

13. Related Party Transactions and Balances

During the year ended December 31, 2023, and 2022, the Company entered into the following transactions with related parties:

		December 31, 2023		December 31, 2022
CEO compensation included in wages expense [1]	$	150,000	$	90,000
Management fee expense to Parent Company	$	-	$	200,000
Professional fees for accounting, CFO, and corporate secretarial services recorded to company controlled by CFO	$	90,000	$	112,987
Consulting fees paid to Director [1]	$	152,796	$	120,000
General & administrative fees paid to company controlled by Director	$	102,523	$	63,719
Share based compensation to related parties	$	63,989	$	69,437

[1] CEO and Director were appointed August 16, 2022. The comparatives include compensation for the entire year. The CEO's compensation was also included in consulting expense in the comparative year.

Related Party Balances

At December 31, 2023, the Company owes $194,510 (December 31, 2022 - $87,644) to related parties, included in trade and other payables of which $12,500 (2022 - $Nil) is due to key management personnel. The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

Cumulative loans and advances from VST, amounting to $1,161,913 (2022: 1,145,650) presented as due to parent on the consolidated statement of financial position, are unsecured, non-interest bearing and matures on December 31, 2025. The amount is presented as a long-term liability on the consolidated statement of financial position.

(Expressed in Canadian dollars, except as otherwise indicated)

13. Related Party Transactions and Balances (continued)

Related Party Loans

The amount due to former owners of SVR, $300,000 (2022 - $300,000) presented in current liabilities as due to related parties on the consolidated statement of financial position, arose as a component of the acquisition of SVR and the Initial Purchase Price's Cash Consideration on First and Second Financing Payments (Note 7). The amount is undiscounted and remains unpaid as of the consolidated financial statement date.

14. Loan Payable

On December 17, 2021, the Company entered into a bullet loan agreement ("Westdale loan") for a principal amount of $3,000,000, maturing on the earliest of 180 days from the closing date and either a financing or business combination transaction. The loan bore interest at a rate of 12% per annum. As an inducement to the lender, 333,333 lender warrants were issued at an exercise price of $3.12 for a period of 4 years. Further, the loan is secured by a General Security Agreement over all of the Company's assets and property.

On August 31, 2022, the loan agreement was amended to extend the maturity date to August 31, 2024. The Company paid $72,986 in monthly interest through May 2022, but defaulted on the June, July, and August payments. The interest rate effective June 1, 2022, was increased to 15% from 12%, with interest accruing and payable on August 31, 2023. From September 1, 2023, until the maturity date, interest is payable monthly on the first Business Day of the month. In addition, in the amended agreement, the exercise price of the 333,333 lender warrants was changed from $3.12 per common share to $0.48 per common share. As an additional inducement for the lender to close the loan amendment agreement, the Company agreed to issue 500,000 RSUs, with 25% vesting on December 13, 2022, and the remainder vesting at 25% every 12 months (Note 17). No gain or loss was recorded as the amendment occurred subsequent to the original maturity date.

Interest expense, accretion expense and the amortization of debt costs are being recognized over the loan period, with a total of $551,416 being recognized as interest and accretion expense during the year ended December 31, 2023 (December 31, 2022 - $475,592). Accrued interest payable as at December 31, 2023, is $712,500 (December 31, 2022 - $262,500), of which $450,000 is accrued interest from the current year (December 31, 2022 - $262,500).

Balance, December 31, 2022	$	3,078,647
Interest and accretion		551,416
Balance, December 31, 2023	$	3,630,063

Balance, January 1, 2022	$	2,560,172
Equity portion allocated to reserve		(237,240)
Amortization of transaction costs, accretion, and interest		755,715
Balance, December 31, 2022	$	3,078,647

Westdale management has confirmed in writing that the lender will not demand repayment through August 31, 2025. Consequently, the balance is presented as a non-current liability.

(Expressed in Canadian dollars, except as otherwise indicated)

15. CEBA

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

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

For the year ended December 31, 2023, the Company recognized accretion on the CEBA loan of $10,335 (December 31, 2022 - $8,542) for an ending balance of $59,604 (December 31, 2022 - $49,270).

16. Convertible Debenture

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

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

Balance, January 1, 2023	$	-
Debt issued		250,000
Amount allocated to equity		(51,771)
Interest accretion		2,031
Balance, December 31, 2023		200,260
Less: Current portion		-
Balance, December 31, 2023	$	200,260

(Expressed in Canadian dollars, except as otherwise indicated)

17. Share Capital

Authorized Share Capital

Unlimited common shares without par value.

Issued Share Capital

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

At December 31, 2023, there were 15,315,628 common shares outstanding (December 31, 2022 – 15,190,628).

Shares issued during the year ended December 31, 2023

On December 13, 2023, the Company issued 125,000 Restricted Share Units ("RSUs") to the lender of the Westdale loan payable (Note 14). The fair value of the RSUs on the date of issuance was $21,251 and is recorded in share-based compensation expense.

Shares issued during the year ended December 31, 2022

The Company issued 2,047,619 common shares with a fair market value of $3,071,429 in relation to the acquisition of Synthesis (Note 7). In addition, there were 342,857 common shares issued as a finder's fee with a fair market value of $370,285 reported in finder's fee expense.

The Company issued 125,000 RSUs connection with the Amended Loan agreement (Note 14). The fair value of the RSUs on the date of issuance was $26,250 and is recorded in share-based compensation expense.

Fair market value of the equity issued was determined by reference to the closing share price of the Company on the date of issuance.

Reserve

Contributed surplus

The contributed surplus reserve includes items recognized as share-based payments expense.

Warrants

The warrant reserve records the fair value of warrants issued as part of financing transactions and for services.

Warrants

Warrant continuity for the year ended December 31, 2023 and 2022 was as follows:

	Consultant Warrants	Performance Warrants	Broker Warrants	Subscription Receipts Warrants	Lender Warrants	Finder Warrants	Convertible Debenture Warrants	Total
Balance, December 31, 2022 and 2021	266,667	100,000	23,983	565,536	333,333	161,055	-	1,450,575
Expired	(266,667)	(100,000)	(23,983)	(565,536)	-	-	-	(956,186)
Issued	-	-	-	-	-	-	989,237	989,237
Balance, December 31, 2023	-	-	-	-	333,333	161,055	989,237	1,483,626

(Expressed in Canadian dollars, except as otherwise indicated)

17. Share Capital (continued)

Warrants (continued)

The warrants outstanding as at December 31, 2023 are as follows:

Warrant	Exercise Price	Number of Shares Issuable upon Exercise	Weighted Average Remaining Contractual Life (Years)	Expiry Date
Lender Warrants	$0.48	333,333	1.96	December 17, 2025
Finder Warrants	$3.12	161,055	1.96	December 17, 2025
Convertible Debenture Warrants	$0.15	989,237	2.84	November 2, 2026
		1,483,626		

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

Stock Options

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

On January 27, 2023, the Company granted 98,572 stock options to two consultants exercisable at $0.60 and expiring on January 27, 2025. The grant date fair value was $22,219 and the options vested immediately.

As of December 31, 2023, a total of 306,902 (December 31, 2022 – 282,493) stock options have vested. Total share-based compensation recorded for the year ended December 31, 2023, in relation to the vested stock options was $626,625 (December 31, 2022 - $236,101).

The Company has estimated a 0% forfeiture rate in 2023 and 2022. The following weighted average assumptions were used in calculating the fair value of stock options granted using the Black-Scholes Option Pricing Model:

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

The options outstanding at December 31, 2023, are as follows:

Exercise Price	Number of Shares Issuable	Exercisable	Weighted Average Remaining Contractual Life (Years)	Expiry Date
$1.50	266,667	208,331	2.33	May 1, 2026
$0.60	98,572	98,572	1.08	January 27, 2025
	365,239	306,903		

(Expressed in Canadian dollars, except as otherwise indicated)

17. Share Capital (continued)

Stock Options (continued)

Stock options continuity for the year ended December 31, 2023 and 2022, was as follows:

	Number of options
Balance, January 1, 2022	1,233,333
Cancelled	(522,500)
Balance, December 31, 2022	710,833
Granted	98,571
Cancelled	(444,165)
Balance, December 31, 2023	**365,239**

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

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

		December 31, 2023		**December 31, 2022**
Stock-based compensation for options vested	$	648,844	$	236,101
RSU issued to lender		21,251		26,250
Stock-based compensation	$	670,095	$	262,351

Restricted Share Units

In accordance with a loan amendment (Note 14), the Company issued 500,000 RSUs, with 25% vesting on December 13, 2022, and the remainder vesting at 25% every 12 months. For the year ended December 31, 2023, 125,000 RSUs (December 31, 2022 – 125,000 RSUs) vested with a fair value of $21,251 (December 31, 2022 - $26,250) included in share-based compensation. As at December 31, 2023, 250,000 RSUs remain unvested.

(Expressed in Canadian dollars, except as otherwise indicated)

18. Income Taxes

The following tables reconciles the expected income tax recovery at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of loss and comprehensive loss for the years ended December 31, 2023, and 2022.

		December 31, 2023		December 31, 2022
Loss before income tax	$	(4,127,799)	$	(6,057,705)
Tax rate		27%		27%
Expected income tax recovery		(1,114,506)		(1,635,580)
Increase (decrease) in income tax recovery resulting from:				
Non-deductible items and other		726,654		543,481
Change in deferred tax asset not recognized		87,443		1,034,031
Total income tax (recovery)	$	(300,409)	$	(58,068)

		December 31, 2023		December 31, 2022
Non-capital losses (Canada)	$	(2,730)	$	1,773,543
True up on non-capital losses		-		-
Intangible assets		300,409		(300,409)
Other		(1,639)		-
		296,040		1,473,134
Deferred tax asset not recognized		(296,040)		(1,773,543)
Deferred tax (liability)	$	-	$	(300,409)

The Company has non-capital loss carryforwards which may be carried forward to apply against future year income tax subject to the final determination by taxation authorities, expiring in the following years:

Year of expiry		**Total**
2037	$	-
2038		-
2039		-
2040		-
2041		3,215,215
2042		3,866,466
2043		1,060,953
Total	**$**	**8,142,634**

SVR paid $36,349 in US Federal and State income taxes in 2023 (December 31, 2022 - $26,206) taxation year. The comparative amount is included in the net working capital acquired in the SVR acquisition transaction (Note 7).

(Expressed in Canadian dollars, except as otherwise indicated)

19. Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument-related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts and payment platforms. The cash is deposited in bank accounts in Canada and the US and industry leading payment processing platforms. As most of the Company's cash is held by two banks and two platforms there is a concentration of credit risk. This risk is managed by using banks and platforms that are a high credit quality financial institutions as determined by rating agencies. Credit risk on cash is assessed as low.

b) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. All loans bear a fixed rate of interest, while all the financial assets are either non-interest earning or short-term in nature. The Company is not exposed to significant interest rate risks.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

Historically, the Company's main source of funding has been loans from its parent company. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. Liquidity risk is assessed as high.

Contractual Obligations As at December 31, 2023	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**After 5 years**
Trade and other payables and accrued liabilities	$ 862,028	$ 862,028	$ -	$ -	$ -
Loan payable	3,712,500	-	3,712,500	-	-
Due to related party	300,000	300,000	-	-	-
Convertible debentures	250,000	-	250,000	-	-
Due to parent	1,161,913	-	1,161,913	-	-
CEBA Loans and interest	69,000	-	69,000	-	-
Total Contractual Obligations	$ 6,355,441	$ 1,162,028	$ 5,193,413	$ -	$ -

19. Financial Risk Management (continued)

d) foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company does not actively hedge its exposure to fluctuations in foreign exchange rates. The Company is exposed to a moderate level of foreign exchange risk.

e) Fair value

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. However, considerable judgment is required to develop certain of these estimates. Accordingly, these estimated values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of each class of financial instruments are discussed below.

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

20. Capital Management

The Company manages its cash as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its technology and products and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account. The Company will require capital resources to carry its plans and operations through its current operating year. The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year.